Case Study: Uber vs. Grab

Uber's hurdles in its path to internationalisation in Southeast Asia

Introduction

Uber, the innovative ride-hailing platform founded in 2009 by Travis Kalanick, Oscar Salazar, and Garrett Camp, embarked on a mission to revolutionize the transportation industry. With a vision of providing convenient and affordable transportation services through a mobile app, Uber rapidly expanded its operations globally, including Southeast Asia. This case study delves into Uber's path to internationalization and its subsequent encounter with a formidable competitor, Grab. Additionally, it will highlight Grab's localization strategies and its emergence as a dominant player in the Southeast Asian market.

Content

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Uber’s Story and Path to Internationalization

A short introduction to Uber

Uber, founded in 2009 by Travis Kalanick, Oscar Salazar and Garrett Camp in San Francisco, aimed to revolutionize the transportation industry through its innovative ride-hailing platform. The company quickly expanded its operations globally, including Southeast Asia, driven by the vision of providing convenient and affordable transportation services using a mobile app.

Uber began its expansion from San Francisco to New York and other parts of the US until in 2011 it internationalised to Paris, its first expansion outside the US, followed by London and Amsterdam in 2012. By October 2012, Uber expands to 20 locations; in 2013 this accelerates including countries such as Italy, Germany, China, India, and Russia and also marking its first African presence in Johannesburg, Pretoria and Cape Town.

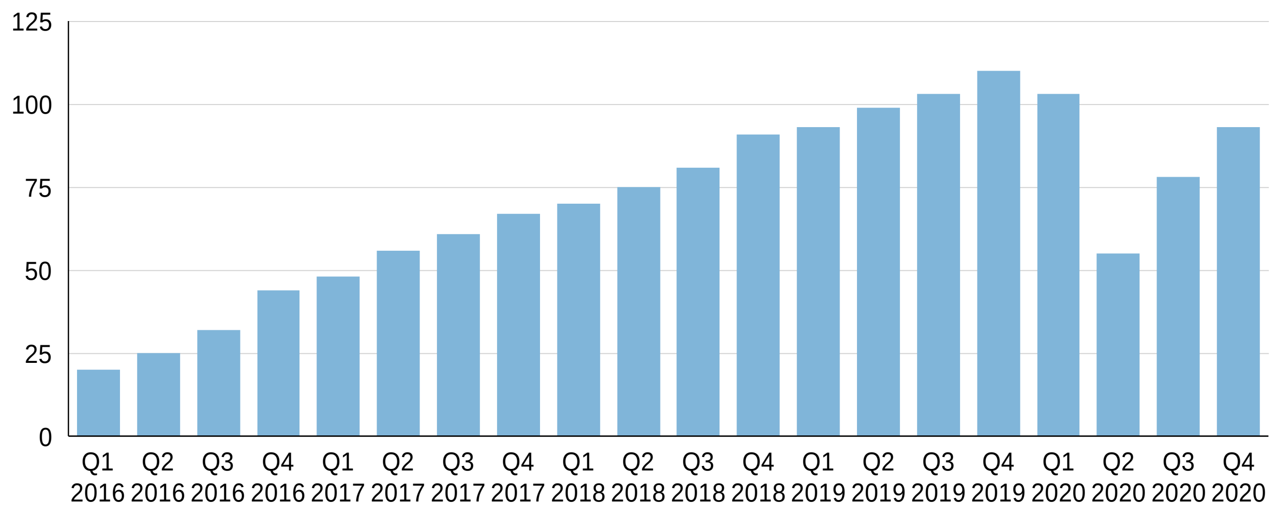
As of 2023, Uber operated in over 600 cities across 72+ countries, making it one of the world's largest ride-hailing platforms serving more than 93 million monthly active platform consumers worldwide (see Figure 1) and around 14 million trips daily. Uber later made its way into food delivery services, micro-mobility systems (bikes and scooters) as well as peer-to-peer ride systems, it has a valuation of around $62 billion as of 2022 and its stock since going public in May 2019 is one of the best performing on the NYSE.

Grab enters the game

But Uber’s fast growth through its’ plug and play fashion was soon to be inhibited. While Uber’s co-founders were gearing up to launch in 2009, a cadre of young Asian entrepreneurs-to-be entered the MBA program at Harvard Business School. This resulted in two ride-sharing start-ups that evolved very differently to their American counterparts, one of which being Grab.

In 2011, Anthony Tang and Han Hooi Ling won a $25k Harvard Business Plan award for their ride-hailing business idea called Grab. But things weren’t as easy at the beginning. Although Uber had a proven track record of success, its Asian counterpart had major issues in securing investment – Grab's journey started with humble beginnings and a compelling vision. Initially, Grab faced significant challenges in securing investments, with only two investors showing interest, one of whom happened to be Anthony Tang's own mother. The founders, Anthony Tang and Ling, were determined to create a ride-hailing service that would address the needs of Malaysians,

Figure 1 - Uber YoY Growth



Source: https://startuptalky.com/uber-story/

providing safe and affordable transportation options.

To kickstart their business, Tang and Ling took a hands-on approach. They hit the streets, visiting popular social spots like bars, clubs, and local hangouts, as well as airports, to personally recruit drivers. Their relentless efforts paid off, as they successfully built a strong and dedicated community of drivers and customers.

Through their grassroots approach, Tang and Ling were able to establish Grab as a trusted and reliable transportation platform. They prioritized the safety and affordability of their services, resonating with the needs and aspirations of the Malaysian population. This commitment to providing a convenient and accessible ride-hailing service helped Grab gain traction and create a formidable presence in the market. Grab is now one of the dominating ride-hailing apps in the Southeast Asian market and finalized its IPO in 2021 – getting there took hard work though and much can be learnt from its competition to Uber and its path to success.

Southeast Asia – an attractive market?

Most of the large players in the field of ridesharing focussed on western countries such as the US and Europe, where individual countries are more attractive than the US and consumers are open to digital platforms. The past five years have led Southeast Asia and its 641 million consumers to catch up through an internet and mobile revolution allowing for the emergence of mobile-based platforms. Whilst only 51% of these consumers are active internet users, Southeast Asia is one of the fastest growing emerging smartphone markets (see Figure 2), which presents untapped potential for companies such as Uber and Grab.

Uber vs Grab – a timeline

From its Malaysian headquarters, Grab had launched in Singapore and Malaysia, a year before Uber's launch in Asia. This gave Grab a head start and gave it the unique opportunity to gather data on the Southeast Asian market ahead of Uber. By partnering with local taxi companies, it managed to quickly build a up a fleet of cars and focussed on offering hyper-local, friendly, and accommodating service from the beginning through localized transport and payments. With its hyperlocal strategy, Grab intended to become the dominant player in Southeast Asia but strayed away from markets beyond this.

Network effects as well as in-depth analysis of local areas allowed Grab to expand across Southeast Asia including including Malaysia, Singapore, Indonesia, Thailand, Vietnam, the Philippines, Myanmar, and Cambodia.

Its localised adaptations were described by Arul Kumaravel, vice president of engineering, as follows:

> *"Our technology plays an important role in identifying areas where transportation and congestion can be improved. The data enables us to continuously offer services that effectively fulfil a specific need in each city for the right price."*

Figure 2 - Digital Population ASEAN-6 2018

in mio. people	Indonesia	Thailand	Malaysia	Philippines	Vietnam	Singapore
Population	265,4	69,1	31,8	105,7	96,0	5,8
Internet users	132,7	57,0	25,1	67,0	64,0	4,8
Social media users	130,0	51,0	24,0	67,0	55,0	4,8
Mobile users	177,9	55,6	21,6	61,0	70,0	4,7
Mobile social users	120,0	46,0	22,0	62,0	50,0	4,3

Source: Aseanup.com

With the arrival of Uber in Southeast Asia, Grab faced a formidable challenger. At first glance, it seemed like a potential threat that could spell the end for Grab. Uber had a reputation for dominating the competition and was a globally recognized and trusted brand among consumers. Moreover, Uber had achieved significant success worldwide by implementing a standardized approach to its operations.

Applying its tried-and-tested strategy, Uber entered the Southeast Asian market, aiming to replicate its global triumphs. The company leveraged its established brand image and operational model, intending to swiftly capture the market without intending to localise its offering. This approach implied that Uber believed in the efficacy of its standardized approach and expected it to work seamlessly in Southeast Asia as well.

Up until 2015, Uber’s main priority was to establish itself as the dominant player in major Southeast Asian countries. However, instead of acclimating to their consumer climate, they maintained their global strategy as they had everywhere else, especially when it came to payment preferences.

Whilst Grab managed to establish itself in the major Southeast Asian markets, Uber faced battles across China, India and its home market in the US. Uber’s plan was to establish a presence in each country without dedicating more resources and time to gain market share as long as this wasn’t absolutely necessary. However, Grab soon reached the tipping-point of network-based competition by aggressively targeting regions Uber had yet to enter. Always one to six months ahead of Uber, Grab managed to enter Vietnam, Thailand, the Philippines and Indonesia through localized promotions and incentives to both customers and providers.

This battle against Uber meant major losses in most markets for Grab, depleting most of its cash reserves of $85.3 million raised in the past three series (A, B, C). Only a Series D funding from Softbank of $250 million made it possible for Grab to continue this aggressive market penetration which led to it gaining 13 million drivers and providing services to millions of customers throughout the region.

The peak of the battle: Uber’s exit

Despite CEO Dara Khosrowshahi's prior commitment to aggressive investment in the region, this head-on-head race eventually led to Uber's sudden exit from eight countries in Southeast Asia, leaving has left regulators, drivers, riders, and employees feeling disappointed and disrespected. This decision reflects the pressure Khosrowshahi faces from Uber's board and major investors, such as SoftBank, to address the company's substantial losses ahead of an anticipated initial public offering. On March 26th 2018, Uber announced it was selling its Southeast Asian business to Grab for a 27.5% stake an a seat on Grab’s board. Both parties insisted on the business decision being independent,

The way in which the exit plan was executed demonstrates the challenges Khosrowshahi was confronted when balancing Uber's boldness with a more considerate approach. Uber portrayed the sale of its operations to Grab, its chief rival in the region, as an inevitable outcome. The Uber app was slated to be shut down within two weeks, with customers instructed to download the Grab app and drivers encouraged to switch allegiance. Uber's 500 employees in the region were immediately laid off without any assurance of potential employment opportunities at Grab. Additionally, regulators were informed that the deal could not be reversed, even if they expressed objections to Grab's dominant position in the ride-hailing market.

This change in strategy reflects the complexities Uber faced in the region, as competition intensified, and Grab emerged as a strong competitor. The decision to shift focus and eventually exit Southeast Asia was a response to the challenging market dynamics and the need to address Uber's financial performance on a global scale.

A deep dive into Grab's localization strategy

Grab's success can be attributed to its strategic approach, combining rapid multinational growth with a deep understanding of each market's nuances and regulations. One key area where Grab excelled was in cracking open the valuable market of payments and financial services in each country it entered. Compared to Uber's home market, the United States, where 79% of people have a credit or charge card, over half of people in Southeast Asia do not have a bank account. In some areas, less than 5% of the population has access to a credit card (Graph 1). By allowing passengers to pay by cash from day one, Grab took advantage of Uber's mistake. The later launched feature GrabPay allowed for both payments through traditional banking services but also top ups at local corner stores for passengers without an online banking facility.

Unlike Uber, Grab positioned itself as a partner to local taxi drivers and fleet owners, presenting a platform that could help them find fares more efficiently. Grab catered to customers by accepting cash payments, which was preferred by many in Southeast Asia and was not offered by Uber. The company emphasized safety and reliability, addressing the concerns of passengers who were previously hesitant to use traditional taxis. Recognizing the need for immediate cash for many drivers, Grab initially provided weekly payouts and later introduced its GrabPay app, enabling drivers to receive payment immediately after completing a ride.

Additionally, Grab actively courted local investors and hired local staff, setting itself apart from Uber's reliance on American funding and imported employees. This approach proved beneficial as local investors played a vital role in securing ridesharing and payment licenses. For example, Grab's partnership with a government-linked fund in Singapore provided early capital and access to the lucrative market. Grab also relocated its headquarters to Singapore, gaining access to a talented workforce. The company sought investment from wealthy conglomerate families, leveraging such relationships to secure advantageous arrangements, such as prime pickup lanes at luxury hotels owned by the Shangri-La chain.

Uber underestimated the preference for cash transactions and the underserved banking population in Southeast Asia. Grab, on the other hand, recognized this need and integrated cash transfers into its app from the outset, offering a payment option that resonated with local consumers. By catering to localized payment habits, Grab was able to engage customers effectively and differentiate itself from competitors.

Grab's ability to adapt to the unique challenges of Southeast Asia was further evident in the introduction of GrabBike, a motorcycle taxi service tailored to Vietnam's congested traffic conditions. This innovation provided convenience for passengers and increased earning opportunities for drivers. Other adaptations include GrabTukTuk and GrabRemorque, referring to popular three-wheeled taxis in Cambodia.

Figure 3 - Payment preferences US vs Vietnam

Source: Oneskyapp.com

As Grab expanded, it continued to fine-tune its services to align with the cultures and needs of different Southeast Asian countries. GrabPay, initially developed to facilitate driver payments, evolved into one of the most popular e-wallets in the region, enabling consumers to make in-store and online payments. The company diversified its offerings, incorporating food and package delivery services, introducing health insurance deductions from ride payments, and implementing loyalty programs to reward users.

The success story of Grab demonstrates the importance of localization when entering new markets. Understanding how customers interact with digital services and tailoring solutions to address their specific needs are crucial factors for business adoption. Moreover, localized payment options play a significant role in winning over customers, as providing familiar and preferred payment methods increases the likelihood of success.

Grab's achievements can be attributed to its ability to adapt, localize, and innovate in response to the Southeast Asian market's distinctive characteristics. By forging partnerships, understanding customer preferences, and evolving its services, Grab emerged as a David against Uber's Goliath, capturing the trust and loyalty of consumers in the region.

The key to success: Enabled by Grab’s super-app

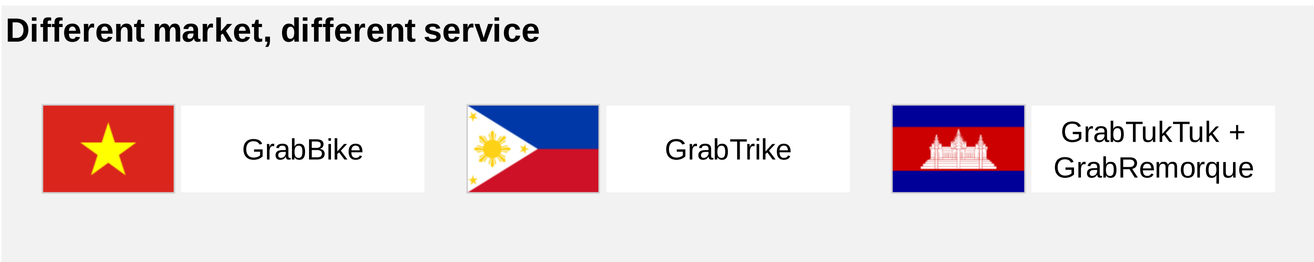
Grab has since expanded its reach beyond Uber's traditional ride-sharing model. Unlike Uber, which primarily focused on ride-sharing and limited delivery services, Grab has adopted a super app approach, bundling a wide range of services under one platform. This strategy has proven to be more innovative and financially successful, surpassing the offerings of their American competitors.

The concept of a super app refers to a technological marketplace that houses multiple services within a single application. For instance, the same app that allows users to hail a taxi can also offer additional services such as food delivery, health insurance, ticket bookings, and even loans. This comprehensive approach aims to provide users with convenience and a one-stop solution for their various needs.

When Uber entered the Southeast Asian market in 2013, its app solely focused on ridesharing and only accepted credit card payments. In contrast, Grab launched in 2012 in Kuala Lumpur, Malaysia, with a scalable and app-based model from the beginning. Within its first year, Grab expanded to Manila and Singapore, and it continued to add urban markets thereafter. Currently, Grab operates in nearly 300 metro areas across eight of the ten ASEAN countries. These metro areas vary in size, ranging from large cities like Bangkok and Ho Chi Minh City to regional hubs with populations in the 100,000 to 500,000 range, such as Ben Tre in Vietnam and Tawau in Malaysia.

Grab’s success can be attributed to its ability to diversify and expand their service offerings beyond ridesharing. By integrating multiple services into a single platform, it created a comprehensive ecosystem that caters to the evolving needs of consumers in Southeast Asia. This approach has propelled it ahead of traditional ride-sharing apps, positioning it as a leader in the region's rapidly growing technology and services sector.

Figure 4 - Grab's local name adaptions



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