Business Management IA Commentary - Standard Level

Should Lyft expand their services to outside North America as a strategy to compete against Uber?

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Introduction

Lyft is a ride-hailing company based in San Francisco, California that had 30.7 million riders and 1.9 million drivers in 2018 (USSEC). They consistently focus on improving “people’s lives with the world’s best transportation” by operating in more than 300 markets in the US and Canada (USSEC). According to Vox, Lyft- which was founded in 2012- is now globally positioned second in the ride-hailing market. As of May 2018, Lyft controls “a third of the U.S. market, and more than 50 percent in some cities” (De Vynck). Although Uber’s revenues grew from October 2017 to October 2018, Lyft surpassed them by almost double with a revenue growth of 32%, due to a culmination of many promotional methods such as their “exclusive marketing partnerships” and “outdoor advertising” (USSEC).

Due to Lyft’s rapidly increasing share in the ride-hailing market, they became “available to over 95% of the U.S. population, as well as in select cities in Canada” (USSEC). However, only operating in saturated markets has its limitations; one being that Lyft doesn’t have a chance competing against Uber, especially since Uber operates in more than 70 countries (Motavalli). If Lyft were to expand their services to other countries, they could dethrone the ride-hailing market leader. Therefore, it is worthwhile to investigate:

> **Should Lyft expand their services to outside North America as a strategy to compete against Uber?**

Analysis and Discussion of Findings

Ansoff's Matrix

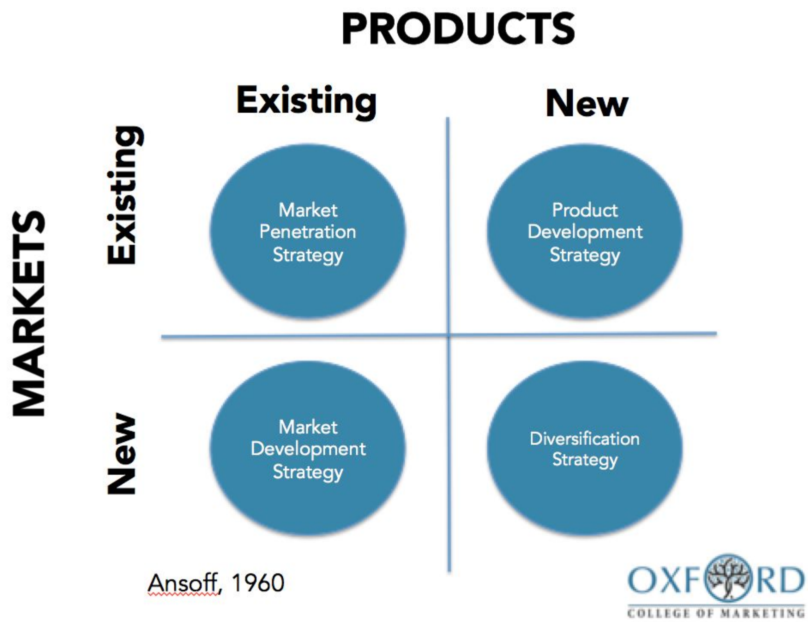

Figure 1 Ansoff's Matrix

Source: Oxford: College of Marketing. *Using The Ansoff Matrix To Develop Marketing Strategy*. 2019, https://blog.oxfordcollegeofmarketing.com/wp-content/uploads/2016/08/Screen-Shot-2016-08-01-at-14.58.05.png.

Ansoff's Matrix is an analytical tool that can be used to assess a business' strategic options for growth and identify the level of risk, this can be used to find the risk involved with expanding internationally. Since this commentary is considering whether Lyft should expand their services to outside North America, this would come under market development because Lyft would be entering a new market with an existing product. Market development is associated with a fairly high amount of risk. To reduce this risk, Lyft's successful expansion to the Canadian market could be evaluated to suggest how this could be applied to other international markets.

Lyft was able to successfully expand to the Canadian market in 2017, as they were able to recruit "10,000 active drivers in [their] first five months in Toronto" (De Vynck). Lyft's successful expansion is due to their investment in their promotional strategy. By "working with major events such as the Toronto Marathon" (De Vynck) and the "Pride On! Campaign" (USSEC), Lyft was able to boost its brand awareness "at locally relevant times" (USSEC). Furthermore, Lyft uses billboards in key markets to "build unaided awareness" (USSEC). Not only that but Lyft produces "original content with a range of partners to help showcase [their] brand" (USSEC). The Undercover Lyft series works with celebrities like "Shaquille O'Neal, Danica Patrick, Chance the Rapper" (USSEC), etc. This series was able to receive "more than 170 million views and more than 850 million social media impressions" (USSEC). Lyft also used below-the-line promotion like giving "generous bonuses and referral awards" (De Vynck) to drivers in Canada. Since expanding internationally has a high risk associated with it, Lyft can use their successful promotional method- which worked when entering the Canadian market- to reduce the risk involved in expanding internationally.

However, Canada's culture is very similar to the US and this could mean that their success in entering the Canadian market might not be transferable to other international markets. This suggests that solely focusing on their promotion strategy might not be the most cost-effective investment for some international markets. The above-the-line promotion also has very high costs and this makes it harder to enter new markets as this requires a lot of investment. As such, it is important for Lyft to review their financial situation and evaluate what other companies have done to enter the new markets.

Uber has had its share of successes and failures when expanding internationally and Lyft can look at these to ensure that their attempt at expanding internationally is a success. After 5 years of attempting to gain control of the Asian market, Uber's "assets, offices and drivers [are] now under the control of its rivals" (Ng). Uber's expansion strategy "involved scaling up rapidly and getting as many users and subscribers" (Ng) as possible. However, they weren't working as closely with regulators and this resulted in them encountering a few difficulties. Furthermore, Uber started to lose “its monopoly as copycat apps cropped up” (Ng). The Southeast Asian ride-hailing company, Grab, started out wanting “to provide safe and convenient taxi services in Malaysia and the rest of the region” (Ng). Grab was able to take Uber out of the Southeast Asian market by carving “out a niche for itself, focusing on local needs and cultures” (Ng). Uber wasn’t able to understand the different market segments and instead focused on their mass marketing style. For example, Uber didn’t recognise “that many Southeast Asian cities had monstrous traffic jams” (Ng). Uber "was [also] falling behind in foreign markets" (Ng) due to "being dogged by scandals" (Ng) and the protesting of many taxi companies. By looking at Uber's expansion failure, Lyft can learn from Uber's mistakes to make sure that there are no unnecessary risks when they are internationally expanding.

A way to reduce this risk is by doing a market-extension merger, which is when a company merges with another company that sells the same product but in a different market. This could help Lyft give a different insight into the potential market that they might have overlooked. In the New Economy Summit 2018 in Tokyo, John Zimmer- co-founder and president of Lyft- stated that they “would love to be in Japan, and we also will be looking at that possibility” (Russell). Japan is a potential market that Lyft can exploit, as it has “Rakuten, the country’s dominant e-commerce service, as an investor since 2015” (Russell) and many ride-hailing companies like “JapanTaxi, which recently raised $69 million from Toyota” (Russell). Another potential company that Lyft can merge with is “Line, Japan’s top messaging app which has offered taxi services for a few years” (Russel). By doing a market-extension merger, Lyft will be able to reduce the risk associated with expanding internationally as well as being able to focus on local needs and cultures, which Uber wasn't able to do.

However, Lyft should begin doing market-extension mergers in countries where Uber's presence has yet to be established. While Japan is a potential market, Uber has already been "conducting "promising" meetings with taxi companies aimed at boosting Uber's licensed taxi product in the market" (Russell). This could pose a problem for Lyft as they won't be able to have the first-movers advantage and Uber could saturate the market before Lyft even has the chance to enter. Not only that but due to Uber's dominance of the ride-hailing market and their global presence, it will be harder for Lyft to do a market-extension merger in many of their potential markets compared to Uber.

Financial Ratio Analysis

Ratio analysis is used to look at Lyft's current financial position. Since expanding internationally has a high cost of investment associated with it, it is essential for Lyft to make sure that they are in the right financial position to begin considering an international expansion. These are the ratios used:

$$Gross\ Profit\ Margin\ = \frac{Gross\ Profit}{Sales\ Revenue} \times 100$$

$$Net\ Profit\ Margin\ = \frac{Net\ Profit\ before\ interest\ and\ tax}{Sales\ Revenue} \times 100$$

$$Current\ Ratio\ = \frac{Current\ Assets}{Current\ Liabilities}$$

$$Acid\ Test\ Ratio\ = \frac{Current\ Asset - Stock}{Current\ Liabilities}$$

Lyft's Profitability Data at the end of each year ($000, except for percentages)								
Year	Sales Revenue	% Increase/ Decrease from Prior Year	Gross Profit	% Increase/Decrease from Prior Year	Gross Profit Margin (%)	Net Profit before interest and tax	% Increase/Decrease from Prior Year	Net Profit Margin (%)
2016	343,298	---	64,287	---	18.7	**-692,603**	---	**-201.7**
2017	1,059,881	308.7	400,348	622.8	37.8	**-708,272**	102.3	**-66.8**
2018	2,156,616	203.5	913,216	228.1	42.3	**-977,711**	138.1	**-45.3**

Table 1: Lyft's Profitability Data

Source: United States Securities and Exchange Commission (USSEC). *Form S-1 Registration Statement (Lyft, Inc.)*. United States Securities and Exchange Commission, Washington, D.C, 2019.

Lyft's Liquidity Data at the end of each year					
Year	Current Assets	Current Liabilities	Current Ratio	Stock	Acid Test Ratio
2017	2,563,695	696,818	3.68:1	0	3.68:1
2018	2,320,442	1,448,819	1.60:1	0	1.60:1

Table 2: Lyft's Liquidity Data

Source: United States Securities and Exchange Commission (USSEC). *Form S-1 Registration Statement (Lyft, Inc.)*. United States Securities and Exchange Commission, Washington, D.C, 2019.

Over the 3 years in Table 1, Lyft was able to increase their sales revenue by 628.2%. However, despite Lyft's improvement in sales revenue and gross profit, their NPM is still negative and this suggests that their total costs are too high compared to their sales revenue. Over the 3 years, Lyft was able to reduce their losses by 156.4% by improving their sales revenue. Furthermore, in Table 2, Lyft was able to improve their current ratio from 3.68:1 in 2017 to 1.60:1 in 2018. However, their current ratio is now slightly below the ideal value as the ideal value is 2:1. Since Lyft is currently operating at a loss, they shouldn't consider expanding internationally until they have finished expanding and building a strong presence in the US and Canada and they are starting to make a profit. Due to the high risk associated with expanding into international markets, Lyft needs to start making a profit first before considering the expansion as expanding into international markets requires a lot of investment.

Conclusion

At Lyft's current financial position, they shouldn't expand internationally mainly because they are still operating at a loss and entering a new market requires a lot of investment. This outweighs the benefits of expanding internationally as Lyft can't be certain that their expansion will succeed as they could lose to other ride-hailing companies, just like what happened to Uber. Currently, Lyft should mainly focus on making sure that they are consistently making high profits as this would allow them to internationally expand with a lower risk. Lyft might consider international expansion in the future once their financial position is more secure. Lyft could also consider doing a market-extension merger with local companies in the potential international market. This would help them give an advantage in the potential international market as the local company would have more knowledge about the specific needs and wants of the market than Lyft, which will reduce the level of risk involved.

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