

Zimride Creates a Carpooling Blue Ocean

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In 2011, the taxi market in San Francisco was ready for disruption. The city had just increased fare rates by 22% and was slow in releasing medallion permits to increase supply. Zimride had proven traction with its long-distance carpool model. In 2012, Zimride launched Lyft, an innovative short-distance carpool service that matched eager customers with enthusiastic drivers and took government regulators by surprise. This study will analyze Zimride using the Blue Ocean Strategy frameworks and will address the strategic propositions, value innovation, non-customers conversions, strategy execution, and barriers to imitation that were leveraged to create a blue ocean.

The Problem

The taxi market in San Francisco is highly competitive and has problems on both the supply and demand side. On the supply side, there is a high cost and limited supply of taxi medallions, the city controls fare rates, and customer acquisition is cumbersome and inefficient. On the demand side, riders have difficulty securing a taxi, fares are the third highest in the country, most drivers demand cash payments to avoid a 5% credit card transaction fee, and alternatives such as buses are not as convenient.

The Value - Profit - People Propositions

80 percent of seats in private cars are empty. Zimride's long-distance carpool service has already saved people \$100 million.¹ In 2012, Zimride launched Lyft to extend this value proposition to short-distance rides. Customers use a smartphone app to request rides from private citizens who are driving their own cars. Payment is a suggested donation via a credit card on file and the prices are competitive or cheaper than a taxi. Zimride makes revenue by taking a 20 percent fee. The value, profit, people propositions for Lyft are clear, aligned and even have a compelling tagline: offer people a simple inexpensive way to get around town from friendly people driving their own cars and take a 20 percent commission from each ride.

Value Innovation: Lower Cost Structure, Create Buyer Utility

By simultaneously raising value and lowering costs, Zimride has created a blue ocean in the transportation sector. The existing options in the transportation market included public transportation, taxis, or Uber (an on-demand car service for luxury cars powered by a mobile

¹ *Meet Lyft, A Startup Trying To Change San Francisco's Decades-Old Transportation System* <http://www.businessinsider.com/lyft-ride-sharing-john-zimmer-2012-9>, accessed 1/31/2013

application). Taxis are regulated by the city, which limits the supply and determines the fare rates. As categorized by Path Six of the Blue Ocean Strategy framework, Zimride recognized the rising lifestyle trend of the sharing economy (which includes companies such as Airbnb and Getaround) and saw an opportunity for car owners to earn money. Zimride understood that there was a blue ocean of demand for budget-conscious people who wanted the convenience of Uber without the luxury prices.

The Four Actions Framework can be applied to Zimride to demonstrate how it created value innovation by lowering the cost structure and increasing buyer utility. Figure 1 (below) shows Zimride’s strategic values in an Eliminate-Reduce-Raise-Create Grid.

Figure 1
Eliminate-Reduce-Raise-Create Grid: Zimride’s Lyft

Eliminate metered fares	Raise on-demand easy payment safety
Reduce professional drivers	Create community

Eliminate

Zimride eliminates metered fares by using a donation-based smartphone model. This strategy reduces the cost of installing metering hardware and software into each car and gets newly approved drivers working for them even sooner. Buyer value increases because the customer is empowered to determine what a fair market price is for the ride.

Reduce

Zimride reduces the investment on professional drivers. This tactic lowers the costs of employing full-time drivers, managing a car fleet, and buying medallions from the city. At the same time, Zimride captures a supply market of private citizen drivers who want to make extra money with their own cars.

Raise

Zimride invests in safety with measures that exceed the industry requirements.² Drivers and their cars need to go through criminal and Department of Motor Vehicle background checks,

² *After Fining Them, California Regulator Decides To Evaluate Ride-Sharing Services Like Lyft And SideCar*
<http://techcrunch.com/2012/12/20/cpuc-lyft-sidecar/>, accessed 02/02/2013

tests, and training. Zimride also offers a \$1 million excess liability insurance in case of an accident. Since no other carpool service offers insurance coverage, and instead require drivers to carry their own coverage, this is a distinguishing value proposition for riders. Riders and drivers recognize that the company cares and invests in the community's safety. This creates brand loyalty.

Zimride raises investment in on-demand service by enabling riders to hail a ride electronically. Drivers and riders are connected more efficiently, reducing customer acquisition costs. This eliminates the expenses of human dispatchers and drivers searching for customers on the street. The buyer value is raised because customers are able to secure a car designated for them and no longer have to deal with other customers poaching their ride.

Zimride raises investment in easy payments. Transactions are cashless and tip is included in the suggested donation. Buyer value is increased because riders determine a fair price, there is no longer an unpleasant conversation about a tip, and payment is a simple approval via smartphone.

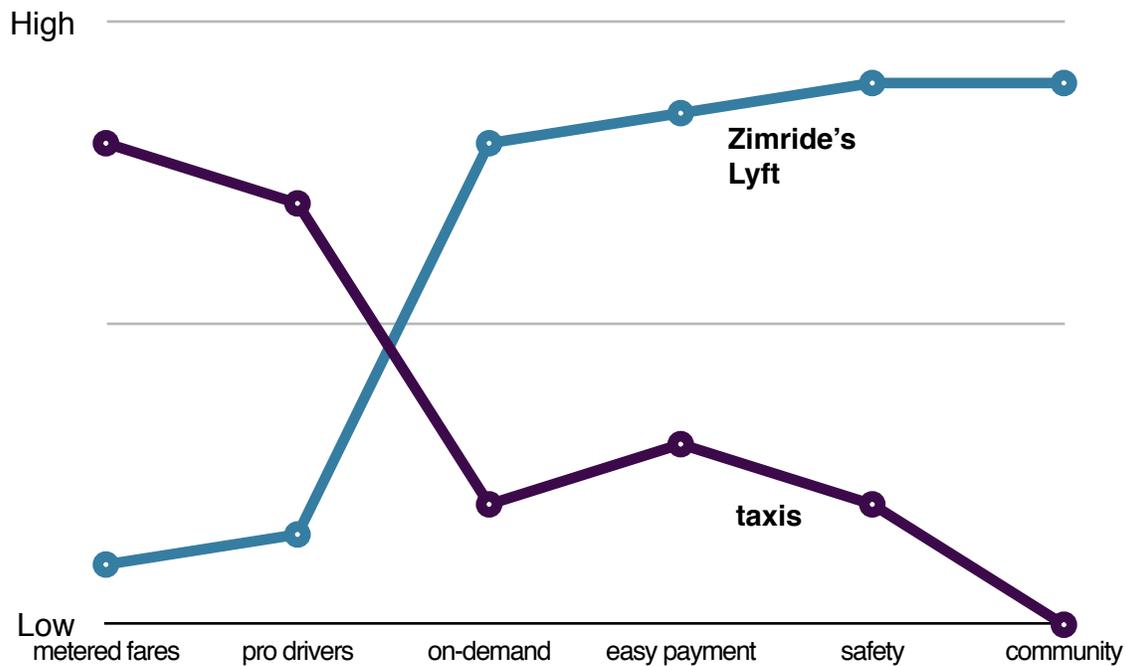
Create

Zimride created a new value with a reputation-based community. Drivers and riders give each other ratings. This creates trust and enables both drivers and rider to make informed decisions about offering and accepting rides to specific individuals.

The community transcends online ratings and into real life. The co-founder of Zimride, John Zimmer, said that when hiring drivers, they "try to find aspirational, friendly people, and when you take a ride with a person, you think *hey, that could be me.*"³ Drivers welcome riders with a fist bump and sometimes bottled water or a morning cup of coffee. Riders feel as if they are getting a ride from a friend, creating a fun experience of camaraderie. The furry pink mustaches, which adorn each Lyft car, create a recognizable identity and are a low-cost marketing tool for this community. This investment in people creates a friendlier, more familiar relationship during a ride which is not found in other transportation options.

³ *Lyft's Focus On Community And The Story Behind The Pink Mustache*
<http://techcrunch.com/2012/09/17/lyfts-focus-on-community-and-the-story-behind-the-pink-mustache/>, accessed 1/31/2013

Figure 2: The Strategy Canvas of Zimride's Lyft



By stripping away over-valued elements that over-serve customers and focusing on what is most valued by its target market, Zimride has discovered a market with new demand. Figure 2 (above) shows taxis as a strategic reference and shows the current state of play. The value curves of Lyft and taxis do not move together or even converge. This shows that Zimride is not competing with taxis. The canvas illustrates that Zimride focuses on simplifying transactions with smartphone technology and creating a community. Even though these values seem contradictory, they are not. Lyft is a technology-driven tool that is empowering people to have physical social interactions.

It is worth noting that the factor with the widest value difference between taxis and Zimride is community, one of Zimride's biggest differentiators that underpins its people proposition. The value curve shape shows how Zimride acts upon the factors listed in the ERRC grid to diverge from the existing market and create a blue ocean. The lack of a zig-zag shape in the value curve signals that Zimride has a focused and coherent strategy.

Converting non-customers

Zimride is able to mitigate risk by capturing customers from all three tiers of non-customers. The first-tier non-customers are people who use taxi occasionally but are not happy with the experience or the prices. They seek a better alternative to the conventional taxi experience. The second-tier non-customers are those who never use taxis and luxury cars because they are too expensive or they have other reasons for rejecting taxis; perhaps they perceive walking

and public transportation as suitable alternatives. A rising customer demographic consist of people who used to choose not to go out in the first place. These non-customer are financially conservative and would forego an outing because of the cost.⁴ Zimride was able to capture non-customers in the first and second tiers by offering lower prices, friendly drivers, the ability to give feedback easily, and an economical ride that is more convenient than public transportation. The third tier consists of every other non-customer. Until it was offered, they did not know that they wanted a safe and friendly private car experience with an easy cashless transaction. The price point and convenience of on-demand and easy-payment are the overlapping commonalities that has enabled Zimride to maximize customer acquisition across all tiers.

Strategy sequence

The sequence of designing and executing a blue ocean strategy is critical to success. At each step, the strategy team must validate the compelling offer *before* it determines the price that will attract the mass of target buyers *before* it determines whether the cost structure aligns with the target cost *before* it addresses the adoption hurdles.

Validate offering

In addition to having a handful of test drivers in the first few months, Zimride validated the Lyft offering with its preceding product that offered long-distance carpool service. The top management actively used the product in a way that is similarly prescribed in *Blue Ocean Strategy's* Visual Exploration step. John Zimmer, Zimride's co-founder, moved from New York City to Palo Alto, CA in July 2008 by using Zimride to carpool across America.⁵ This hands-on experience has enabled the management to understand the strengths and weaknesses of its offering.

Validate pricing

Zimride's pricing is unique because it is a suggested donation and the rider ultimately determines how much she or he pays. This means that pricing is constantly being validated. However, the average ride costs \$10 and the company says that riders can expect to pay 20-30% less than a cab fare,⁶ which has been critical in capturing non-customers.

⁴ Ibid

⁵ John Zimmer Crunchbase Profile <http://www.crunchbase.com/person/john-zimmer>, accessed 1/21/2013

⁶ Car-sharing service Lyft goes public, adds Android app <http://gigaom.com/2012/08/23/car-sharing-service-lyft-goes-public-adds-android-app/>, accessed 2/2/2013

Align Cost Structure with Target Cost

Zimride aligns cost structure with target cost in two ways: in operations and by changing the pricing model of the industry. The smart-phone based transactions streamlines operations to electronically connect people, make payments, and offer feedback. Eliminating metered fares and using a donation-based pricing enables Zimride to undercut taxi fares significantly and attract budget-conscious customers who previously rejected taxis.

Adoption Hurdles

The adoption hurdles that Zimride is overcoming are political, cognitive, and motivational. The first adoption hurdle is in public policy. When Lyft launched, Zimride moved into a unregulated sector of transportation. At first, the California government responded with cease-and-desist letters and citations. Zimride began working with the state government to find a balance between public safety and innovation. Now, California is re-evaluating the laws to determine how they can create new frameworks to legitimize ride-sharing services.⁷ In this case, it was with a government commission – not an influential person – that Zimride exerted tipping point leadership. This newly-created support of the California Public Utilities Commission will help establish Zimride as a legitimate service and capture the mass market.

The second hurdle is cognitive. It is a challenge to convince people that offering and accepting rides with strangers is safe and legitimate. Zimride addresses this hurdle by making safety a high priority. In addition to the user-contributed reputation system, the company conducts a criminal background check, a DMV record check, and offers a liability insurance policy. These actions create a consumer and employee trust. As a result, Lyft reached tens of thousands of users in the first few months and currently has a wait list of drivers wanting to be Lyft employees.

The third hurdle is motivating employees. Zimride has found success by emphasizing a community culture. Zimride makes a point to hire friendly drivers who enjoy meeting new people. The drivers have self-created an online discussion forum where they exchange stories and personal strategies on customer success. This camaraderie is in contrast to taxi culture in which drivers are actively competing for riders.⁸ The pink mustaches on all Lyft cars are a symbol that unite the community. It reminds everyone that it is a fun, casual culture.

⁷ *After Fining Them, California Regulator Decides To Evaluate Ride-Sharing Services Like Lyft And SideCar*
<http://techcrunch.com/2012/12/20/cpuc-lyft-sidecar/>, accessed 02/02/2013

⁸ This is here for fun as a depiction of competition in the taxi market. It is relevant since comedy is rooted in real life. *Louie Cab Wars*: http://www.dailymotion.com/video/xj5ovx_louie-cab-wars_fun#.UQ2Jclp2Hcl

Imitators

Lyft appears to have started as an imitator but actually created a blue ocean. In 2010, Uber broke into a blue ocean, validating the business model of on-demand luxury transportation powered by mobile applications and proving that aspects of government-regulation could be circumvented. However, software is easy to duplicate quickly, thus creating lower barriers to entry. In 2011, imitators arrived — including Lyft, Sidecar, and Taxi Magic — to capture the newly-discovered demand. At first, Zimride was a Settler from the PMS Map. It copied the success of the smartphone-based model that Uber proved. However, Zimride quickly distinguished its carpool-based values and converted to a Pioneer. Zimride has reinvented transportation and is even getting policy makers to update laws so that it can continue operations.⁹ However, with policy barriers removed, this blue ocean is quickly turning red. Uber has responded in head-to-head competition by offering multiple price tiers including options with lower rates and less luxury. Most recently, Uber announced that it will be offering a ride-share option. Although Uber was first, it is now an imitator because it is trying to address the low price point market. Rather than seeking a new blue ocean with new values and differentiators, Uber has chosen to take the conventional strategic approach of under-cutting fares and insisting that their operation is more cost-efficient.¹⁰ However, Uber lacks the casual, friendly community. This may impede Uber from competing in the ride-share market. Hitherto, Uber's experience is about sleek luxury and rarely involves chatting with the driver. Existing Uber riders may not react well to the casual nature of ride-sharing so moving into this red ocean will dilute its brand and obfuscate the company's focus.

San Francisco taxi companies are responding by adding credit card readers in the backseats, dispatching cabs by GPS, and even encouraging cab drivers to be more friendly.¹¹ However, with non-competitive fixed fares, taxis cannot attract the more budget-minded riders that prefer Lyft.

Zimride changed the landscape of transportation when it introduced carpooling to the masses as an alternative to taxis. It has created value innovation in both its operations and offerings and attracted customers who were previously dismissed as irrelevant. Its most distinguishing

⁹After Fining Them, California Regulator Decides To Evaluate Ride-Sharing Services Like Lyft And SideCar <http://techcrunch.com/2012/12/20/cpuc-lyft-sidecar/>, accessed 1/31/2013

¹⁰ It's On. Uber Will Soon Go Up Against Lyft And SideCar With A Ride-Sharing Service Of Its Own <http://techcrunch.com/2013/01/31/uber-ride-share/>, accessed 1/31/2013

¹¹ Lyft for riders is a downer for SF taxis <http://www.sfgate.com/bayarea/nevius/article/Lyft-for-riders-is-a-downer-for-SF-taxis-3842622.php>, accessed 1/18/2013

factor will be the hardest to imitate: the people proposition that is rooted in the friendly community of drivers and riders. For now, this loyalty to the community will help stave off competitors and will help keep Zimride in its blue ocean.