

# Due with the pros and cons of

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Due to the constantly growing number of users on Lyft and other rideshare platforms, such as Uber, there are less passengers for taxi drivers to transport.

In an interview on CNBC's "Closing Bell", co-founder John Zimmer reported that Lyft is "the fastest growing ride-share company in the United States right now" reaching over a million users weekly (Zimmer; as cited by Lenzo & Wang, 2016). The influence that taxi drivers used to have on the transportation business is taken over by ridesharing platforms. In large cities, taxi medallions are even declining in price as a result of people requesting rides from ridesharing companies instead of taxicabs (Helling & Ajma, 2008). Though this growth in the number of user could directly affect local taxi drivers, this paper aims to answer the following question: to what extent does Lyft influence the taxi industry? The research method that will be used to answer the question is literature review. In the first few sections this paper will explain the use of Lyft briefly and its business model with a closer look on the issue at hand. This paper then follows with a section on the sharing economy as a whole and background on ridesharing. Furthermore, this paper will continue with the pros and cons of Lyft and the taxi industry followed by a preliminary conclusion.

Lastly this paper will give possible future researches with hypotheses that can be done to improve the problem closing with an official conclusion. Lyft is an on-demand ridesharing transportation company based in California but also a service of Zimride; a long-distance ridesharing company that was founded by Logan Green and John in 2007. Five years after Zimride was founded, Green and Zimmer launched the Lyft mobile app ("Lyft," n. d.). The <https://assignbuster.com/due-with-the-pros-and-cons-of/>

number of Lyft users kept growing ever since to the point where Lyft is being used all around the United States.

The main idea of Lyft is to get passengers to their destination at a low cost. To be able to use Lyft, an individual must download the Lyft app on an iOS or Android-based phone and sign up with a valid phone number and a valid payment method (e. g.

, credit card, Google Wallet, PayPal, Apple Pay). Within the app, users can request a ride from a nearby driver and once the request is accepted, the driver's profile appears with not only photos of the driver, the car, and license plate number, but also the driver's rating by past passengers. When the ride is over, the passenger can rate the driver and also gets the opportunity to leave a tip, which will also be billed to the passenger's account ("Lyft," n. d.).

The founders of Lyft started with a simple pipeline business called Zimride. These types of businesses create value based on the classic value-chain model: they have a linear control over series of activities (Van Alstyne, Parker, & Choudary, 2016). Zimmer and Green's initial business plan was to offer carpooling services to students who were traveling from the airport to the university and vice versa. In that case, the founders could be considered the producers and the students could be the consumers. That is significantly similar to the system in the taxi industry.

When Zimride started getting bigger, the founders decided to digitalize their business and that's when Lyft was created; a digital ridesharing platform business. Platform businesses' most important assets are information and

interactions. Unlike pipeline businesses, this type of business brings producers and consumers together for high-value exchanges (Van Alstyne et al., 2016). According to Van Alstyne et al.

(2016), even though there are still many pure pipeline businesses that are highly competitive, “ when platforms enter the same marketplace, the platforms virtually always win”. This is one of the reasons of how Lyft and other ridesharing companies, such as Uber became dominant in the taxi industry. The sharing economy, which is also known as collaborative consumption (CC), is an online peer-to-peer-based service where producers and consumers can buy, sell, or share goods and services. The sharing economy is considered as an umbrella concept that surrounds many developments of information and communication technologies (ICT), such as CC (Hamari, Sjöklint, & Ukkonen, 2015). Under the Umbrella Company Concept, current and emerging firms enter the desired market indirectly through a virtual subsidiary company (Reineke, n. d.).

The sharing economy also supports the idea that the goods and services are shared through an online platform. This idea is possible by virtue of the growth of the web and the development of ICT. A few infamous examples of online platforms are open source software repositories (SourceForge and Github), collaborative online encyclopedias (Wikipedia), content sharing sites (Youtube, Instagram), peer-to-peer file sharing (The Pirate Bay), and peer-to-peer financing for instance microloans (Kiva) and crowdfunding services (Kickstarter) (Hamari et al., 2015). CC is not only viewed as consumption but also as an “ activity where both the contribution and use of resources are

intertwined through peer-to-peer networks”, mainstream media defined CC as an “ economic model based on sharing, swapping, trading, or renting products and services, enabling access over ownership” (Botsman, 2013; as cited by Hamari et al.,). Collaborative consumption could be viewed from different perspective; e.

g. sharing, borrowing, charity, and second-hand markets (Hamari et al., 2015). This paper will be focusing on the sharing section of the CC, specifically ridesharing. Ridesharing is a method of transportation where individual travelers share a vehicle and the travel expenses of a trip with another individual with the same travel route and time schedule. Travel expenses could include costs of gas, toll, and parking fees. According to Agatz, Erera, Savelsbergh, & Wang (2012), ridesharing is a combination of the flexibility and speed of a personal car and the low travel costs of the subways and trains. Ridesharing has many advantages for both the drivers and the passengers, society, and the environment.

Ridesharing is a method of transportation that has a long history with different coordination methods, amongst which unorganized and organized ridesharing. Unorganized ridesharing includes sharing of a ride with family, colleagues, and friends. Agatz et al. (2012) also recognizes hitchhiking and taxi rides as an unorganized method of ridesharing but with a less personal relationship.

On the other hand, an organized ridesharing is a ridesharing method that is organized and controlled by agencies. These agencies provide ride-matching possibilities for individual travelers and drivers (Agatz et al., 2012). As was

stated in the previous paragraph, ridesharing platforms such as Lyft has many advantages for both the driver and the passengers, but it also has advantages for society and the environment. One advantage of Lyft is that it reduces traffic due to the fact that it allows individual passengers that has the same destination and time schedules, to share a ride. This ridesharing reduces the number of cars in a city which reduces traffic and makes the roads safer (Cici, Markopoulou, Frias-Martinez, & Laoutaris, 2014). A report published with Lyft's economic impact in 2017 shows that, in 2017 alone, almost a quarter million of Lyft's users stopped using a personal car, due to the possibility of sharing a ride. About fifty percent of the users reported that they started driving their own car less and using the app more and one quarter of the users on the platform does not find the use of a personal car to be important anymore due to the ridesharing opportunities (Etherington, 2018).

A study in Madrid made by (Cici et al., 2014) shows that the amount of traffic that can be reduced by ridesharing depends on the preferences of the individual user and the driver; if an individual is inclined to share a ride with other users that live and work close to them, traffic can be reduced by 59%; if the time schedule of the user is limited to a maximum delay of 10 minutes, it drops the potential traffic reduction to 24%. If it is also possible for the drivers to pick up other passengers along the way, the benefit increases to 53%. If users wish to share a ride only with their " friends" on ridesharing platform, the possibility of ride-sharing becomes insignificant. With users who are willing to share a ride with friends of friends on the platform, the overall reduction is up to 31% (Cici et al., 2014).

Online ridesharing systems also reduces the information asymmetry that exists in the unregulated taxicab market. Due to the fact that the price of a ride between the origin and the passengers' destination is not known in advanced, drivers can influence the final price by charging a higher fare or purposefully taking a longer route to bump up the mile counter (Cetin & Deakin, 2017). On the contrary, online ridesharing platforms such as Lyft not only lets the driver and passenger know the fare beforehand, but it also gives the passengers the ability to track the route of the ride. This way both the driver and the passenger will receive the same information. Lyft may be good for the environment because it reduces traffic, however, this ridesharing company is polluting the environment in other ways. Examples of the types of pollution are congestion, carbon emissions, and transportation equity issues.

Henao (2017) discussed that there is a “ theoretical saturation point” where drivers would circulate an area without passengers due to the higher ridesourcing supply compared to its demand. When there are more drivers than there are passengers, ridesourcing drivers will have to drive around hoping to get a request from a nearby passenger. This can cause unnecessary vehicle miles traveled, congestion, environmental issues, and other problems.

Another example of how Lyft pollutes the environment is that with ridesourcing, drivers incur additional miles – before the passengers are picked up and after they are dropped off – which is more miles than the passenger would have actually driven for that trip. These extra miles pollute

the environment with congestion and carbon emissions (Henao, 2017).

There are many requirements for a driver to get a taxicab license. Unlike licensed taxi drivers, individuals that offer ridesharing services do not have to purchase medallions, take special licensing exams, or own commercial insurance (Malhorta & Van Alstyne, 2014). To become a Lyft driver according to the company's official website, an individual must be at least 21, own an iPhone or Android, have a social security number, and an in-state driver's license of at least one year. In addition to that, the driver will also undergo a national and country background check. To become a taxicab driver, most states require an individual to do a fingerprint background check and earn a chauffeur license. To get this license they must meet the states required minimum age, agree to do a background check, have a clean driving history, apply for commercial driver's license, and complete on-the-job trainings ("Becoming a chauffeur," n.

d.). In some cities with a regulated cab market, the driver must also own a regulated medallion. Taxi drivers undergo trainings and background checks for the safety of society and the driver himself. Due to Lyft's simple application process, their drivers are less skilled than taxi drivers (McGregor, Brown, & Glöss, n. d.).

Ridesharing apps such as Lyft pose as a threat to the taxi providers, regulators, and users due to the fact that the aspects of an entire industry – such as pricing, discrimination, and work allocation – is transferred to the software controller. Lyft also only matches drivers to passengers who are visible on their app. Due to the fact that taxi drivers do not have a Lyft



account or do not fit the preferred driver profile, and therefore are not visible on Lyft's app, they lose many potential rides (McGregor et al., n. d.). Having less passengers can lead to taxi drivers losing their jobs or even switching to a ridesharing company.

Both Lyft and the taxi industry has their own implications when it comes to the chauffeur business; Lyft reduces the number of cars in traffic, reduces the waiting time for both the driver and the passenger, and also lessens the asymmetric information that exists in the taxi industry; the taxi industry on the other hand has an existing market with trained professionals with their own system of pricing. The oxford dictionary defined the sharing economy as “ an economic system in which assets or services are shared between private individuals, either free or for a fee, typically by means of the Internet” (14. oxford). With this definition at hand, this paper concludes that Lyft is part of the sharing economy and also contributes to it for the reason that the users use this platform to buy, sell, and share ride services (Hamari et al., 2015). A research done by Beer, Brakewood, Rahman and Viscardi (2017) stated that driver-related regulations included requirements to do background checks, driver's licenses, vehicle registrations, special licenses, and external vehicle displays.

The company-related regulations included restrictions on the number of ride-hailing vehicles operating in a specific area, they should also provide a list of drivers to the city and share trip data with the city”. Lyft does not violate any of these restrictions except for the special licenses that are needed. As was said in previous paragraphs, there are few requirements to become a Lyft

driver compared to taxicab drivers. Due to the fact that Lyft drivers only need an in-state driver's license of at least one year old, can be dangerous for the passengers, traffic, and the driver himself for the reason that having a driver's license for only one year is not sufficient to be considered a chauffeur ("Becoming a chauffeur," n. d.).

Possible future research that can be done is to research what impact digitalizing pipeline taxi companies will have on the taxi industry and on hail-riding as a whole. If the taxi industry gets digitalized, potential asymmetric information can be reduced. One of the problems at hand is that taxi drivers are more informed about the fares and routes of the rides (McGregor, n. d.).

By introducing an app similar to Lyft and Uber in the sense that the driver's profile and fares is visible beforehand. A GPS system integrated in the app would also avoid extra costs due to detouring. Another possible future research would be to implement the regulation that every ride-hailing company must do a fingerprint background check on all their drivers. Even though this type of background check is more thorough, ride-hailing companies refuse to undergo that type of background check because it is burdensome and discourages applicant to sign up.

(HARTFIELDS-JACKSON, 2016) All things considered, Lyft impacts the taxi industry to the extent that Lyft is more technological based compared the taxi industry. Classical pipeline businesses in the taxi industry do not stand a chance against growing ridesharing platforms such as Lyft. These ridesharing companies also causes an increase in the unemployment rate of taxi drivers.

The conclusion of this paper has limitations due to the fact it is based primarily on secondary data rather than primary data.