

Tech

A Checkered Future. With car start-ups growing, taxis are having a bumpy ride

By Katy Steinmetz

ON A JUNE MORNING IN LOS ANGELES, more than 100 cabbies rallied their cars around city hall, looping the 27-story granite building in a horn-honking protest against what they called “high-tech bandit cabs.” The day before, the city had issued a cease-and-desist letter to three start-up firms that provide ride-sharing services—nonprofessional drivers, linked by smartphone apps, who will chauffeur you in their personal cars at prices that undercut local cabs. “It’s making us nervous,” one driver told a local TV reporter. “They come and steal our fares through these apps.”

Steal? Perhaps we should use a more polite term: *disrupt*. The transportation ecosystem, long dominated by the traditional taxi, is on the road to disruption, a byway powered by technology, funded by venture capitalists and permitted by the zeitgeist of open-minded consumers. “Today you really don’t need to go to a taxi stand,” says Ray Mundy, a professor at the University of Missouri at St. Louis who travels across the U.S. analyzing cab markets. Instead, people can use smartphones to summon high-end

black cars, locals who give lifts for “donations” or people willing to lend out cars that would otherwise sit in a driveway.

These unconventional businesses have also unsettled regulators, who have struggled to keep up with new services that don’t jibe with old policies. Established taxi and limo companies have responded by lobbying officials and going to court to keep the start-ups out of their towns. Mundy says the old-line taxis will be “seriously threatened” if they don’t rethink the way they operate.

Car-service start-ups are benefiting from near perfect market conditions. More than 50% of Americans have smartphones enabled with GPS and apps that can process credit cards. Fewer young people are getting driver’s licenses. Climate-change hawks are discouraging private ownership of cars. And taxi services have developed a less-than-shining reputation in many places. At its worst, the cabbie stereotype is of a surly man in a sooty car who jabbers on the phone, demands cash payment and takes you the long way

to jack up the fare. Of the roughly 8,000 complaints made to New York City’s taxi and limousine commission through May this year, more than 60% involve driver behavior, including their being discourteous or refusing to accept a credit card. That’s in addition to the 20% of complaints that were about unsafe driving.

This is why customer service has been a main selling point for companies like Uber, a three-year-old outfit best known for delivering tony sedans on demand. Users can watch cars approach in real time through the app as a timer counts down the ETA. Drivers are likely to open the door and provide bottles of water; they are unlikely to quibble about second stops or raise a phone to their ear. On July 15, Uber announced another consumer-focused innovation: fare splitting, which allows customers to share the bill on separate credit cards. The total might be twice cab fare, but there’s a premium on convenience. In places like Washington, many taxis still aren’t outfitted with credit-card terminals. (D.C.’s upgrade is scheduled to be completed later this year.)

Just getting a car to show up and open its doors can be a big improvement. Taxi drivers in some places, including Miami, are allowed to reject fares, Mundy explains. Their right to do so is part of their being an independent contractor, an arrangement typical

in the industry. About 20% of the New York complaints were about refused pickups.

Companies like Lyft—a target of L.A.’s cease-and-desist letter, along with Sidecar and Uber’s year-old ride-sharing-esque service uberX—are trying to take advantage of that bad behavior to deliver higher-quality, even fun service. Lyft drivers attach a giant pink mustache to their grilles and greet riders with a fist bump. Passengers are invited to sit in the front seat, and at the end of the ride, Lyft calculates a “donation,” which is typically 20% cheaper than cab fare. “All these little things added together create this social experience,” says co-founder John Zimmer. An operating principle at Lyft, which launched last year and is now providing 30,000 rides per week in cities such as San Diego, is that ride sharing connects interesting community members who wouldn’t have met otherwise.

The modern willingness to interact with strangers, driven by social media, is key for many of these start-ups. People rent out their homes to strangers on Airbnb. They sell furniture to strangers on Craigslist. That makes people more comfortable with businesses like RelayRides, which helps car owners rent out personal vehicles. The other feature that creates trust and gives the new guys an advantage over old-fashioned cabs is a feedback and

rating system. A cab company might get complaints about a driver and have no recourse until that cabbie’s lease is up, Mundy says. But a company like Uber—which asks users to rate their experience on a five-star system—can act immediately on the basis of poor feedback.

The big barriers to entry for start-ups are the legal snarls. Susan Shaheen, a co-director at the Transportation Sustainability Research Center in Berkeley, Calif., says policy problems typically boil down to safety, insurance and taxation. The car-service world “was moving slow and steady. Now it’s very fast, and the lines are blurring,” she says. “I have confidence that policymakers are going to look at this carefully and try to not stifle innovation. But it’s difficult.”

In the meantime, some cities will keep banning new services. A restraining order against e-hailing apps like Uber, pushed by New York’s dial-a-car companies, was just lifted in June. On July 19, Uber organized ice cream delivery services in cities like Portland, Ore., where it’s not allowed to operate, to raise awareness. CEO Travis Kalanick likes to say that it’s easier for the company to do business in Paris than Colorado, because Parisian officials aren’t being pressured by “a backward taxi industry.”

Some cabdrivers and companies have

started to adapt, creating their own apps or partnering with appmakers that funnel them business. And this fall in New York City, where 23% of all American taxi and limo businesses are based, according to IBISWorld, officials plan to introduce a “Taxi of Tomorrow”—a new vehicle that’s all about improving the customer’s ride. (Taxi owners sued to stop it.)

The Nissan NV200 gives passengers their own climate-control system, USB ports for charging electronics and a big glass roof for watching the skyline breeze by. Taxi commissioner David Yassky hopes riders will be able to summon the boxy cabs through a variety of e-hailing apps too. “Technological innovation is a good thing. That’s the simple bottom line of it,” he says. Though New York lacks a system for rating drivers that officials can use for oversight, Yassky says he’s open to the idea.

So far, these are the exceptions. Like the nervous cabbie in L.A., many taxi companies are fighting to preserve the status quo. But if competition gets stiff enough, priorities may change. “A good part of this industry needs to be able to clean its act up a lot faster than it has in the past,” Mundy says. “But it’s going to improve as a result of some of these threats the industry is fighting right now.” Note to taxi industry: Step on it or be left at the curb. ■

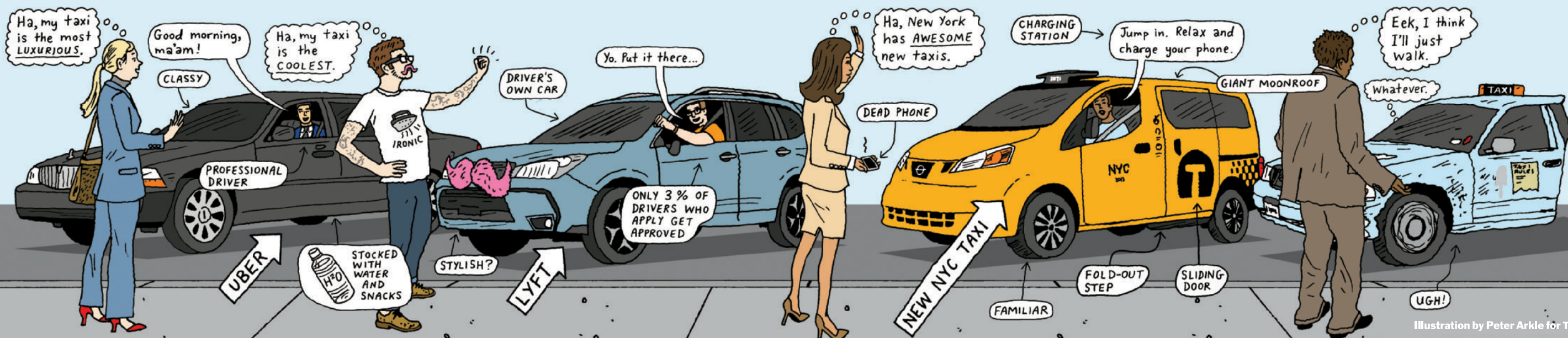


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