The Real Story Behind Uber's Exit from Southeast Asia

Uber, Grab and Go-Jek embody emerging strategies in international platform competition.

Competition among ride-sharing companies is intensifying in Southeast Asia, a region where the growth of smartphone use is among the fastest in the world and the number of smartphone owners could exceed **400 million** by 2020.

Since Uber, the first car-hailing app, began disrupting taxi and transport services around the world, Southeast Asian rivals such as Grab and Go-Jek have risen to compete with it.

In March this year, Uber announced that it was selling its Southeast Asia business to Grab. On the surface it looked like Grab won and Uber lost, and that a fierce rivalry would emerge between Grab and Go-Jek, Indonesia's first unicorn.

My new case study, **"Grab vs. Uber vs. Go-Jek"**, delves deeper into this story. In their pursuit of profit and market share, these digital companies have adopted different strategies illustrating the emergent methods of international platform expansion, a topic researchers haven't fully explored yet. Below I detail these strategies and their implications.

Preventing the market from tipping

Uber was among the first ride-sharing apps in the world. With an eye on global expansion, the firm sought to exploit its innovative app in Southeast Asia. It did so in a "plug and play" fashion, doing little to adapt its app and Western-centric business model for regional markets.

Until 2015, Uber focused on securing the dominant position in the major countries of Southeast Asia. Yet over the next two years, its strategy changed dramatically: As Grab became prominent, Uber split its focus by expanding rapidly outside of Asia. Its strategy shifted from winning at all costs to maintaining its position as a major player that would neither gain nor lose market share in Southeast Asia.

Indeed, Uber seemed to invest just enough to prevent rivals like Grab from tipping the market to their platform. Platform competition can be harsh with network effects driving possible 'winner-take-all' dynamics, as Uber knew well from competing with Lyft in the United States and Didi in China. In Southeast Asia, Uber soon found itself in the 'challenger' position. Rather than compete too fiercely in a few markets, it continued to expand strategically by matching Grab's market entries in Myanmar and Cambodia. If Uber could prevent Grab from running away with these new markets, it could count itself a success by generating a real option should a consolidation ever occur.

Expanding aggressively

Grab launched in Malaysia in 2012, a year before Uber did in Singapore. Having also launched in Singapore in 2013, Grab partnered with taxi companies to quickly expand its fleet. Grab's strategy focused on fast international expansion across Southeast Asia. The company concentrated efforts on rapid user growth with localised versions of its ride-sharing app.

In 2013 and 2014, Grab entered the Philippines, Thailand, Vietnam and Indonesia, each time beating Uber by a few months. Its aggressive use of consumer promotions and provider incentives, however, drained much of the **US$85.3 million** that it had raised. To continue its growth, Grab drew US$250 million in funding from Softbank in a relatively early large-scale investment.

Over the next few years, Grab grew aggressively and kept experimenting with localised product enhancements and services. In Vietnam for instance, Grab developed a bicycle-hailing service and in more matured markets, it offered GrabPay, an e-wallet service.

Grab's executives also took on massive investment to support expansion. With US$4 billion in new funding, Grab overtook Uber as the leader in a region where Uber spent just US$700 million. Grab returned to capital markets frequently, suggesting that its strong expansion strategy entailed unpredictable and growing funding needs.

With its acquisition of Uber's business, Grab introduced a variety of new services and further regional expansion plans. There are also some reports of promotion cuts and price increases, which may indicate that reduced competition has created an opportunity for profit growth.

In June, Grab said Toyota would **invest** US$1 billion in the company, helping it expand its rental car fleet in the region. In August, it announced it had secured an additional US$1 billion in funding from multiple investors.

Launching a national super app

Founded in 2010 in Indonesia, Go-Jek leveraged an existing network of motorcycle drivers for ride-sharing, food-delivery and courier services, and linked them up with a ride-sharing app à la Uber. What differed from Uber, though, was an early focus on becoming a super app giving access to a variety of interconnected services, based on a common financial infrastructure, the Go-Pay digital wallet. Like the Alipay and WeChat super apps in China, Go-Jek leveraged the large Indonesian population and outsized opportunity to provide various services solving difficult local problems. From 2015, Go-Jek expanded across Indonesia and started adding services such as shopping, massage, beauty and cosmetics, house cleaning and ticketing.

As a homegrown company, Go-Jek's focus on Indonesia drew the support of the government and the people. It enabled it to become the country's dominant player despite price wars with Uber and Grab. Unlike its rivals which tended to focus on ride-sharing or a few other ancillary services, Go-Jek grew faster thanks to its super app and required less investment and internal cash flow along the way.

Although investment in Go-Jek has been significant, including **US$2.1 billion** from primarily American and Singaporean investors, Go-Jek fundraised less than Grab, choosing mostly to leverage its operating revenue and debt. It made itself an integral part of Indonesians' lives with a wide array of innovative services – including auto repairs, mobile payments and even a non-bank digital wallet. Today, it owns half of Indonesia's ride-hailing **market** and 95 per cent of the country's food delivery business, according to its CEO Nadiem Makarim.

After Uber left Southeast Asia, Go-Jek decided to expand across the region. It chose to focus on countries like Vietnam whose transportation challenges resemble Indonesia's and where its super app could thrive. Intending to give autonomy to local management, Go-Jek has started operating in Vietnam under the Go-Viet brand. Plans to open in Thailand, Singapore and the Philippines are not far behind.

Pros and cons of different strategies

Being a pioneer and world leader in the ride-sharing business did not enable Uber to easily quash the competition in Southeast Asia. Success relies upon achieving network effects and scale in each country. The size of the opportunity inspired massive investment, with a few local rivals like Grab and Go-Jek offering strong competition in specific markets.

Uber's response was reasonable – it invested just enough to prevent these well-funded local players from tipping its markets. By doing so, Uber maximised the value of its business with the minimum investment. When consolidation came, Uber was able to secure a large percentage of Grab's equity – reportedly 27.5 percent – in exchange for exiting the market. Arguably, Uber learnt the lesson in China, where it exited the market with 17.7 percent of Didi's business. Thus, Uber will benefit from the Asian ride-sharing market growth long into the future.

Grab, for its part, chose to expand swiftly and aggressively across Southeast Asia. To achieve market dominance in individual countries, Grab spent heavily on advertising, promotions and incentives, as well as on the localisation of its services. To support its future growth, Grab has secured billions of dollars in funding, but at the cost of greatly diluting the founders' equity in the company.

Unlike Uber and Grab, Go-Jek has focused on fast growth in its home market and achieved dominance by providing a wide range of innovative services catering to everyday needs via a single super app. It is also expanding internationally (in Vietnam), positioning itself as a local company overseas.

So who won?

The real winner in this story is arguably SoftBank, which has significant stakes in both Uber and Grab. Famous for taking a very long view of his investments, Softbank CEO Masayoshi Son has acquired large equity positions in Uber, Grab, China's Didi, Brazil's 99 and India's Ola ride-sharing services. Forcing market consolidation is a logical consequence of common ownership, and reports of price increases by the remaining company are perhaps not surprising. Of course, regulators in Singapore, Malaysia and the Philippines have expressed concerns over the possibility of a Grab monopoly.

Go-Jek could now become a thorn in Grab's side, especially after absorbing billions in funding from Google, KKR and Temasek, among others. It's likely that Go-Jek's entry into Vietnam, Singapore and other Southeast Asian markets will result in competitive pricing once more.

While increasingly popular, ride sharing is still far from ubiquitous in Southeast Asia and the story is likely to be further complicated by the entry of more global players. The fight for international platform dominance continues to heat up.

Jason Davis *is an Associate Professor of Entrepreneurship and Family Enterprise at INSEAD. He is an expert on digital transformation and innovation in large enterprises and start-up strategies in digital platform ecosystems.*

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