

## Thriving in African Cities: The Imperative of Business Model Innovation

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**Abstract:** The literature often explains the ability of firms to thrive in different geographical environments in terms of the competitiveness of such environments. Whereas there is considerable evidence to support this view, there is also evidence to suggest that more and more firms are venturing into such environments and doing relatively well in the face of typical emerging market conditions. Using Uber in Lagos, Nigeria as an illustrative case study, we explore the role of business model innovation in facilitating firm success in emerging economies. Building on a formidable value proposition, firms will thrive when they look beyond standardized global competitiveness indices as we know them, and embrace the imperative of experimentation through business model innovation. We also find that business model innovation should be conceived of, not just as a tool of competitive strategy, but a tool to defend the firm's value proposition in different markets.

**Key words:** business model innovation; competitiveness; emerging economies; Uber

**JEL codes:** M160

### 1. Introduction

Extant literature often explains the ability of firms to thrive in different geographical environments in terms of the availability of the right structures and institutions to support economic activity otherwise defined as competitiveness, and there is considerable evidence to support this view (Lee & Peterson, 2000; Hult, 2002; Cantwell, Dunning & Lundan, 2010; Du & Banwo, 2015; Kotabe & Kothari, 2016).

Since the World Economic Forum (WEF) began publishing its competitiveness reports in 2004, African countries have consistently featured amongst the least competitive nations (except for Mauritius that has been listed among the top 50 for a few years now, and South Africa that only just made the list in the 2016 report). Despite these apparently unfavourable conditions of business, Financial Times reported a surge in FDI into Africa in 2015<sup>1</sup>, suggesting at least viable economic conditions. In this paper, we seek to understand possible drivers of "firm success" for international businesses in the context of emerging economies, in the light of consistently low ranking on the global competitiveness scale. We use the term firm success broadly to mean that the firm is able to appropriate at least a fair share of the value it creates with stakeholders, or meet its set performance targets.

Following Peng, Sun, Pinkham, and Chen (2009), we define an International Business not in terms of the limited scope of the traditional multinational enterprise, but rather as any business that operates across

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<sup>1</sup> <https://www.ft.com/content/79ee41b6-fd84-11e4-b824-00144feabdc0?mhq5j=e1>, accessed 14/07/2017.

international boundaries. Using Uber in Nigeria as an illustrative case study, we draw on the business model concept to motivate our study, recognizing that business models tend to integrate factors external to the firm with the capabilities of the focal firm in an “activity system” (Zott & Amit, 2010), to explain firm performance.

We conclude that for international businesses to take advantage of opportunities, and thrive despite the competitiveness or lack thereof of emerging markets, they need to look beyond standardized global competitiveness indices as we know them and embrace the imperative of experimentation through business model innovation. This suggests the need for more agile operations and a certain level of comfort with risk and uncertainty. By this study, we hope to contribute to extant research by drawing attention to the role of the international firm in facilitating its own success despite the prevailing environment of business, in contrast to existing international business literature that appears focused on factors outside the control of the firm as the key determinants of firm success.

## **2. From Business Model to Business Model Innovation**

The term “business model” was first used in an academic article in 1957 (Bellman, Clark, Malcolm, Craft, & Ricciardi, 1957), and its use indicated an “intrinsic” connection “with a representation of reality, a simulation of the real world through a model” (DaSilva & Trkman, 2013, p. 2). Since then, the concept scarcely appeared in any literature until the 1990s when interest rose steeply (Zott, Amit, & Massa, 2011) apparently with the advent of technology based firms and e-business, and spread to other industries including marketing, management, banking, ICT and so on. According to DaSilva & Trkman, “business models seemed to be the answer for explaining how innovative undertakings dealing with technology or any other form of unclear but potentially profitable concepts, foreign to the logic of traditional industries, were materialized in business terms” (2013, p. 2).

Despite the considerable interest the concept has garnered, reflected in the volume of research (both academic and practitioner) into it, including several major reviews of the literature (notably Wirtz, Pistoia, Ullrich, & Göttel, 2016; Schneider & Spieth, 2013; Zott et al., 2011), the concept has no unified definition. However, Zott et al. (2011) in a review of the literature since the 1990s, find that there are several common themes. First the business model concept seems to have evolved as a new unit of analysis distinct from the product, firm, industry, or network. They note that while it is centred on a focal firm, its boundaries extend beyond the firm. Secondly, “business models emphasize a system-level, holistic approach to explaining how firms ‘do business’”. Thirdly, the activities of a focal firm and its partners are central to the “various conceptualizations of business models that have been proposed”; and fourthly, the business model concept is geared towards providing an explanation for the way firms create value as well as how they appropriate it.

This and similar reviews suggest that there is some convergence in the ideas of various authors around what business models are (Foss & Saebi, 2017). That convergence is thought to be reflected in Teece’s definition of a business model as the “design or architecture of the value creation, delivery and capture mechanisms” (2010, p. 172). Teece (2010) further unpacks this as the articulation of “the logic, the data and other evidence that support a value proposition for the customer, and a viable structure of revenues and costs for the enterprise delivering that value”. In other words, it represents on one hand, an articulation of the firm’s ideas around what constitutes value to the customer and how the firm delivers that value, and on the other, how the firm makes money from or captures some of that value. Thus, a good business model tells a “good story” not only in the narrative around the connections between its different components, but a story that culminates in how the focal firm is able to, simply

put, make money (Magretta, 2002).

More recently, attention has shifted from business models to business model innovation (BMI). Not surprisingly, definitions of BMI are as varied as the authors attempting to define it, and as confusing as definitions of business models were (Christensen, Bartman T., & Van Bever, 2016). Existing definitions suggests that business model innovation could be anything from a change in a component or more of the BM, to a change in its very architecture, or even a change in the entire system that defines the introduction of a product or service to the market (Abdelkafi, Makhotin, & Posselt, 2013; Santos, Spector, & Van der Heyden, 2009; Gambardella & McGahan, 2010). In their recent review of the literature, Foss and Saebi (2017) attempt to harmonize the various conceptualizations in the literature by defining BMI as “designed, novel, and nontrivial changes to the key elements of a firm’s business model and/or the architecture linking these elements”. That it is “designed” suggests intentionality on the part of top management, “novelty” implies it was not simply imitated from competitors, and the condition of “non-triviality” is to preclude the inclusion of ‘minor’ changes. It is this last condition that makes the definition somewhat ambiguous as there is no necessary rule to determine what is or is not a trivial change.

Thinking about business models as an activity system, we understand that the various parts of the system are interdependent. This suggests that a change in one component of the system is likely to affect the functioning of the entire system. It is the extent to which this change affects the functioning of the system that we argue, should define whether a change is considered trivial or not. We therefore propose that in the context of a BMI a nontrivial change implies a change that can have a considerable impact on the ability of the BM to create, deliver and or capture a reasonable portion of the value that is created.

Given the foregoing therefore, in the rest of this paper, we explore business model innovation in the context of Uber Nigeria. Drawing from interview data (for Uber Nigeria) as well as publicly available sources of information we interrogate Uber’s BM in Nigeria. We seek to understand the impact of the peculiarities of the environment of business in Nigeria on Uber’s “generic” business model and its response to it.

Our goal is to glean useful insights into how international businesses might leverage an innovative mindset or orientation for firm success in an emerging market context like Nigeria, beyond the availability of formal structures and institutions that are traditionally deemed to define the ability of firms to thrive in these contexts.

### **3. Research Design**

Using qualitative case study methodology, and Uber Lagos as an illustrative case study, we sought to understand how business models and business model innovation might define the ability of firms to succeed in African cities. We also used data from published sources to explore Uber’s activities in more developed economies and investigate the similarities and differences with its business model in Lagos primarily (with occasional reference to Abuja, Nigeria) to understand what variations exist and what drives those variations.

The primary means of data collection was face-to-face interviews and our respondents included key Uber officials in Nigeria, partners and drivers. We interviewed 11 respondents provided by Uber, 4 other drivers and one partner. 2 of our respondents were part of the senior team of Uber in Nigeria — the General Manager at the time as well as the Operations Coordinator. The others were drivers and partners. The initial 11 interviews took place in the Uber office in the Ikoyi area of Lagos.

The interviews began with introductions on both sides. The main questions revolved around their experience on the Uber platform including why they signed up to work with Uber, their earnings, work hours, relations with

Uber, safety and security, and the future. The questions for the Uber officials were focused on understanding Uber operations in Nigeria. All interviews were transcribed before they were analyzed (Table 1).

**Table 1 Interview Analysis Table**

Total number of interviews	15
Uber representatives	2
Drivers	10
Partner-Drivers	3
Male-Female drivers	13-2
Average length of interviews	45 minutes
Shortest interview	30minutes
Longest interview	90 minutes
Shortest length of time a driver had been on the Uber system prior to interview	4 months
Longest length of time a driver had been on the Uber system prior to interview	22 months
Average length of time on Uber system	9 months
Drivers' level of education	Primary school certificate – University degree

### 3.1 The Context of the Study — The City of Lagos

The city of Lagos is situated in the South-West region of Nigeria — the most populous country in Africa. Lagos state is often described as the commercial nerve centre of the country and has an estimated population of about 13<sup>2</sup> or 17<sup>3</sup> million people. Like any over-populated urban cities, public transportation in Lagos is grossly inadequate. The rail network in Nigeria, which spans 3,505 km, and should provide an alternative to road travel, is underdeveloped and incapable of mass transportation, thus increasing the pressure and dependency on the derelict 193,200 km road network. “While only 65% are paved, poor maintenance has left others in bad condition” (David-West, 2016), leading to frequent traffic congestion on most routes. This congestion is exacerbated by the fact that provisions for public transportation in the state are largely inadequate despite recent efforts by the state government to revamp transport services.

Public transportation in Lagos is largely provided by privately run buses whose fares and activities are barely regulated by the government and are hardly a comfortable mode of transportation for the working class. In the early 2000s, a new set of transportation companies registered with the Lagos state government sprung up giving individuals the opportunity to register under their brand to offer taxi services. These companies provided the vehicles and hired drivers to drive them. The cars were fitted with tracking devices and were colour coded to differentiate them from the competition. They were also metered so that customers no longer needed to haggle to get the fares they wanted. However, they were seen as being for the upper middle class since they were typically air-conditioned new cars, a major departure from the old marked taxis that preceded them, and of course commensurately more expensive. Accessing rides with them was by telephone, but the wait times could often be long since they only operated in limited locations. Some examples included the Red Cab, Yellow Cab, Metro taxi, E-taxi, and so on. However, providing intra-urban transport service in Nigeria took a new turn with the arrival of Uber in March 2014.

<sup>2</sup> CIA world Fact Book.

<sup>3</sup> Lagos Central Bureau of Statistics, 2015.

### 3.2 Uber — The Company

The history of Uber is well known. Uber was first launched in San Francisco in 2009 but the idea was conceived in Paris at the Le Web Conference of that year, where co-founders Travis Kalanick and Gareth Camp wanted to be driven in a limousine to their hotels after the conference, but realized such an arrangement would require pre-booking. The duo sought to bridge that gap with a platform that facilitated instant booking and access to executive car hire services, but later realized it was probably more valuable to have such services more widely available.

Uber develops, markets and operates the Uber App, which connects riders with partner drivers. Driven by the mission statement “transportation as reliable as running water, everywhere, for everyone”, and the tag line “everyone’s private driver”, the Wall Street Journal reports that Uber reached a valuation of about \$50 billion in 2015, reaching the mark faster than Facebook.

In the first quarter of 2015, Uber gained an average of 46 percent market share across the United States (Forbes, 2015)<sup>4</sup>. Currently with over one billion connections, Uber is present in over 600 cities across all the continents of the world and counting as the company is always looking for new cities to launch. Uber launched in Africa in 2012 starting with Johannesburg, then Cape town and Durban, all South African cities. In 2014, Uber launched in Lagos, and in March 2016, Abuja, Nigeria’s political capital, became the 400th city to be added to Uber’s global list of cities.

Much of Uber’s success around the world has been attributed to its business model which revolves around connecting partner drivers with riders in an efficient and thus cheaper way in comparison with traditional taxi services. Uber owns no vehicles, but tracks all rides connected on the Uber platform and charges a percentage commission on those rides. While Uber remains fundamentally a cab-hailing app around the world, there are variations to its operations in different countries as defined by constraints posed by government regulation, challenges from competition, and even payment systems. Thus while, Uber has not been without challenges in its foray into different geographical environments, it appears to have been largely successful, judging by the number and diversity of cities where it currently operates. Initial data suggests that its ability to adapt to diverse conditions may have been responsible for its success. We explore this further in the following sections under the four elements of business model framework developed by Christensen et al. (2016). We begin by providing an overview of Uber operations in Nigeria with specific focus on Lagos. We then go on to explain each aspect of the framework and enumerate our findings under each heading.

### 3.3 Uber in Lagos

In March 2014, Uber launched its cab-hailing app business in Lagos. The attraction to Lagos as to many other cities was its commercial potential, particularly its population. According to a previous General Manager of Uber in Lagos,

“...when we look at a continent like Africa and a country like Nigeria, the state of Lagos alone is a force to reckon with, arguably the most populated city in Africa.”

Our respondents were reluctant to disclose Uber’s performance in Nigeria in terms of revenue or number of partners on the platform. It suffices to say however, that at the end of 2015, Uber had created 1000 of what they describe as “economic opportunities” and had a goal of 3000 of such “economic opportunities” for the end of the

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<sup>4</sup> <https://www.forbes.com/sites/andrewbender/2015/04/10/ubers-astounding-rise-overtaking-taxis-in-key-markets/#198e50af43d8>.

following year. Uber Lagos exceeded this goal by another 1000 by the end of 2016. Economic opportunities refer to the number of cars on the road running the Uber app and providing the required services; and as the Uber GM pointed out, that figure excludes ancillary businesses that support the Uber business such as car wash services and auto-mechanics.

In the 16th month of operating in Lagos, Uber had done more trips than in the same period of launching in London. Uber GM explains it thus:

“...basically, two things to take away — the launch of data and Smartphone penetration in these economies and the need for people to get around in those cities. As we go into new markets, we find that new markets are growing quicker and catching up with older ones. The business is getting smarter and quicker”.

In the next few sections, we will present our findings using Christensen et al. (2016) four elements BM framework and highlight aspects of the business model unique to the Nigerian environment (and similar contexts).

### **3.4 The Value Proposition**

The first element of the framework is the value proposition. Christensen et al. (2016) describe the value proposition as an offering that helps customers get the “job” done. The “job” here refers to “a fundamental problem in a given situation that needs a solution” (Johnson, Christensen, & Kagermann, 2008, p. 52). Uber’s value proposition is the same around the world — transportation at the touch of a button. Or as Uber Nigeria’s GM puts it “push a button and get a ride”. In this, Uber plays the role of a “network orchestrator” (Libert, Libert B., Wind Y., & Fenley, 2014) by connecting drivers to riders that need to get to a destination via its network. This value proposition involves at least two dimensions — efficiency and availability.

First, taxi services become more efficient to the extent that they are provided on demand and in a timely fashion; Uber Lagos aims to ensure that Uber taxis are 2 minutes from riders that need them. With the Uber App, customers can tell when the ride will arrive, see the name and a photo of the driver, tell the car plate number as well as watch it arrive in real time using a feature on the Uber App. Prior to Uber, in Lagos, taxi services were accessed by voice calls, text messaging or email. There are typically no guarantees of wait times and there were no sophisticated (or otherwise) security features either for the driver or the rider.

Secondly, Uber also deploys “surge pricing” — a pricing algorithm that is aimed at encouraging more drivers to get on the road during periods of high demand in order to ensure availability of the service to riders. At rush hour for example, rides are priced a certain percentage higher than the regular fare. The idea is to encourage more drivers to be in particular locations to meet increased demand since their earnings become correspondingly higher. Uber App works the same in every city where Uber operates, giving riders a seamless experience wherever they are in the world if Uber services are available there.

### **3.5 Resources**

Resources refer to people, money, technology and so on, required to deliver on the value proposition (Christensen et al., 2016). Uber’s key resources in Nigeria include its people, brand, office facilities and the Uber App. Perhaps the most critical of these resources is the Uber App. The App is central to Uber’s ability to deliver on its value proposition.

“The App is global, everything’s the same, there is nothing modified or adjusted for Nigeria. The App will work in any city or country that Uber is operating in...” — Operations Coordinator

Potential Uber customers/riders install the App on their smartphones and register on the Uber network with their names and debit/credit card details. With the App, using GPS technology, riders can request a ride at the

touch of a button. The App automatically assigns the next available Uber taxi to the rider (depending on the category of taxi requested); the rider receives the name, head shot, vehicle and contact details of the driver as well as the driver's estimated time of arrival. The rider is also able to track the trip from the moment when the ride is accepted, till the end of the journey.

From the point of view of security of the rider, receiving the driver's details ahead helps the rider match the details to the cab when it arrives. When the rider arrives at the desired destination, the trip is completed and the rider as well as the driver receive information about the details of the journey including how long it took, how many kilometres the trip was, and what the total fare was. The rider also gets to rate the driver and the driver gets to rate the rider. Uber takes these ratings very seriously, so drivers engage various tactics to ensure the rider is satisfied.

Uber runs a very lean organization across Africa and the world, both in terms of people and physical resources. When Uber first launched in Nigeria it had one office that served as its corporate headquarters where all administrative activities took place; it was also the operations centre. Uber's Greenlight Hub was the second office in the city of Lagos. At least three activities went on in the Greenlight Hub: Partner interactions and support, drivers screening and psychometric testing, and partner-driver matchmaking (this will be explained further in the following section). While Lagos has its own operations team, the corporate roles were seated across different regions in Africa. For example, Uber's Manager for Public Policy for East and West Africa sat in Kenya while the administrative tasks such as Communications Lead for Africa sat in South Africa.

"We are a very lean team, that's why we are able to organize so quickly; and we run on technology. We have a mega-region, regions and sub regions...Each GM (of the sub-regions) has a representative partner in HR, Legal, Policy and Communications. We could be seated anywhere. All we need is to get the best hands to do the job." — Former GM, Nigeria (WA)

Another important resource Uber leverages in Nigeria is its brand. While most of the drivers said they had never heard of Uber before the cab hailing App was launched in Lagos, one of the factors that determine where Uber launches, is the Uber rider footprints in any city.

"...specifically, we look at how many times riders have opened their App in a new city." — Operations Coordinator

In addition, Uber's typical local riders are middle class people who have heard of, or used Uber in other cities. The brand also inspired confidence in some partners:

"At a time, we considered partnering with a company called Afro-taxi, they approached us but we didn't partner with them because Uber has the largest network, and the largest client base. Afro is an indigenous company, while Uber is international; Uber has an advantage as it is well known within and outside Nigeria, people are more comfortable to ride with Uber." — Partner-driver

On one hand, partners were confident that the Uber brand worked for them to attract riders; on the other hand, they believed that Uber will keep to its contractual obligations regarding revenue sharing since the company had a valuable brand to protect.

### **3.6 Processes**

"Processes" refer to how the organization converts inputs to finished products or services (Christensen et al., 2016). In 2016 as a result of the Nigerian Central Bank's revised monetary policy on foreign transactions, Uber experienced what was perhaps its most daunting challenge up till that time, when customers could no longer pay

with their Naira denominated debit cards. Uber responded by introducing the cash payment option. Many more rides were completed on the Uber platform when the cash option was introduced because not only did it resolve the challenge posed by the CBN policy, it also addressed the trust gap — some local Uber riders were apparently uncomfortable about entering their card details on the platform of a previously unknown foreign organization. While the default on the App remained card payment, riders could now choose to pay with cash before they requested a ride. Other significant changes occurred because of the forex limitations:

“Initially, a rider is billed in local currency and settles in foreign currency, but that doesn’t happen anymore in Nigeria. How will the banks settle in dollars if there are no dollars? You see that won’t quite work. Now in Nigeria, everything is done in local currency.”

Uber takes service quality very seriously. When Uber first came to Nigeria, Partners could only sign on to the Uber system with 2010 model cars and above. However, recognizing the increasing cost of cars, as a result of the spike in the rate of foreign exchange, Uber reviewed its requirements. The cars however had to be in good working condition and kept tidy; Uber drivers also had to be very courteous. These are thought to have a direct impact on their rating. In Lagos, they are expected to maintain a rating not less than 4.4 from the riders, or the App would automatically deactivate their account.

Perhaps one of the most distinguishing features of the Uber model in Nigeria is the fact that partners are more often than not, not drivers.

“The Nigerian market is very different ... compared with the UK and USA, the cars are not owned by the drivers...People that can afford the cars have jobs, people that cannot, offer to drive for those that can afford it.” — Operations coordinator

Nigeria has a large pool of unemployed/under-employed young people. Many of the drivers we interviewed were University graduates who signed onto the Uber platform either because they did not find jobs or were employed in jobs that did not remunerate them adequately. So, while in many developed cities, Uber only dealt with partner-drivers, in Nigeria Uber plays the additional role of connecting drivers with partners who have signed their cars up on the Uber platform, when they do not have their own drivers. These drivers then agree terms and conditions of their engagements with these partners. Generally, partners were expected to pay the drivers at least 20% of the weekly revenue.

### **3.7 Profit Formula**

According to the Christensen et al. (2016) framework, the profit formula refers to a firm’s “assets & fixed cost structure, and the margins & velocity required to cover them”. In other words, what does it cost the firm to defend the value proposition and how does it earn from it? Perhaps one of the most well-known facts about Uber is that it owns none of the cars or vehicles used on its platform. This is clearly in line with Uber’s “self-definition” as a technology/software company. Its costs therefore include staff and other administrative expenses, property lease, launch and marketing expenses, software applications and the hardware that house them, and the network infrastructure.

In line with its lean organizational model, at the time of this study, Uber Lagos had 5 permanent staff and 12 others employed on temporary contracts. The former had both country and regional responsibilities around Marketing, Operations, Policy and Legal while the 12 contract employees worked on general support responsibilities. The two properties in Lagos where Uber ran its Lagos operations (as well as one in the city of Abuja) were on lease, so Uber also owned no property in Nigeria.

Another aspect of Uber's fixed cost profile is its marketing expenses. Uber uses social media and emails extensively to create and maintain awareness. In 2016, Uber engaged Red Media, a leading marketing communication agency in Nigeria, to lead its PR communications efforts in Nigeria and Ghana. Uber also sponsors events and offers free and discounted rides especially for first time riders and existing riders in exchange for inviting the latter to the platform.

The Uber App, is perhaps the firm's most valuable asset as it is at the core of its ability to deliver on its value proposition. The Uber App is the same in Lagos as it is in the over 600 other cities the firm currently operates in; as a result, Uber is able to leverage that asset across the several cities where it is present. Its technology infrastructure includes its network connectivity infrastructure since the entire system rides on internet connectivity, as well as the computers that house the App and other supporting software.

In terms of margins and velocity required to cover its costs and earn, it is not clear in absolute terms, how much Uber Lagos needs to earn to cover these expenses and make a profit. However, in 2016, the goal was 3,000 economic opportunities and it exceeded this goal by another 1,000 by the end of that year. Uber gets paid a percentage of all rides for providing the platform that connects these drivers with riders. When Uber launched in Nigeria, it took 20% of the total earnings from rides. However, when it reached an undisclosed threshold, the margin rose to 25%. According to Uber's Operations Coordinator in Lagos,

"It is about meeting the global standard within Uber. We launched with 20% and later moved to 25%; but in the case of Abuja, we launched with 25%."

Uber also earns using its 'surge pricing' algorithm. With the surge pricing algorithm, fare rates automatically increase when the demand in a particular area is higher than the number of drivers available. In this way drivers know what areas to position themselves to be guaranteed rides, improving the efficiency of the system and earnings for the driver and Uber.

From all of the foregoing, we find that Uber Lagos' business model in Nigeria has evolved over the last three and half years in response to the various challenges it has faced. In the following sections, we discuss these findings in the light of the BMI concept and insights into what makes it work.

#### **4. Discussion & Conclusion**

In an earlier section, following Foss and Saebi (2017), we defined BMI as "designed, novel, and nontrivial changes to the key elements of a firm's business model and/or the architecture linking these elements". We explicated the non-triviality condition to imply a change that can have a considerable impact on the ability of the BM to create, deliver and or capture a reasonable portion of the value that is created by its activities. In the rest of this section, we discuss the main aspects of the Uber business model that were altered and what drove the changes. We also discuss the implications of our findings.

Innovation around Uber's business model in Nigeria has occurred in essentially one dimension of the Christensen et al. (2016) framework — processes; that is, the mechanisms by which the firm "converts inputs to finished products", specifically, the use of cash payments rather than card payments, and the inclusion of drivers to the value chain (as compared with partner-drivers alone in more advanced economies). While several conceptualizations of the BMI concept have focused on BMI as a strategic framework focused on outdoing the competition, or responding to competitive pressures, the case of Uber in Lagos seems to suggest, that perhaps another valuable way to conceptualize BMI, especially in the dynamic context of an emerging economy, is the

potential it has to “defend” the firm’s value proposition.

The Uber case, as does the literature, suggests that the sustainability of any business lies first in the identification of a compelling customer value proposition, reflected in the precision with which the product/service meets the need of, and creates value for the customer (Johnson et al., 2008). Given the dire shortage of decent and affordable transportation within the city of Lagos, especially for the working class, as well as the cost of hiring a personal driver to navigate the often-congested roads of Lagos, Uber was poised to be an instant success in Lagos, in terms of its definition as a cab-hailing App that could be available at the press of a button. However, the fundamental idea had to be adaptable to the nuances of the Nigerian environment, not necessarily in terms of competitive pressures, but rather in its malleability for responding to external threats that are the characteristics of an emerging economy.

Only a few months into Uber’s launch in Lagos, regulatory changes from the nation’s apex financial institution made it difficult for the banks to honour transactions in foreign currency, using users’ naira denominated cards as they had previously done. Uber responded by announcing that drivers will now accept cash payments, making Lagos one of the first cities (including India and Kenya) where Uber accepted cash. The response was better than Uber could have expected. Not only were current customers now able to continue to use the service, many more rides were completed than before cash payment became an option.

Anecdotal evidence suggests that there seemed to have been an issue of trust which had prevented potential users from inputting their card details on the platform previously. This is corroborated by a study into PoS adoption and Usage<sup>5</sup> in Lagos. According to the study, while about 70% of adults in Lagos owned debit cards, only about 36% cite card/PoS as their preferred non-cash payment method and 44.6% of non-users believe that improving security features on PoS could attract them to start using debit/credit cards. So not only did the cash “experiment” resolve the challenges brought on by regulatory issues, it also addressed the hitherto unknown trust issue. As a corollary, introducing the cash option allowed Uber to reach a demographic that they had been otherwise unable to reach.

One of the characteristics of an emerging economy is the limited availability of reliable market data that may have indicated earlier that trust could be an issue. In such an environment, organizations must embrace the imperative of experimentation with the view to aligning their value proposition with the customer segments they hope to serve, rather than relying on standardized data that are not imbued with the context of such data.

The second major change to the Uber model in the Lagos market was the introduction of drivers. There are three categories of people that are registered on the Uber platform apart from the riders — partners, partner-drivers and drivers. Unlike many other Uber cities, especially in the more developed economies, there are very few “partner-drivers” on the Uber platform. As the operations coordinator explained, the people that can afford the cars have regular jobs, and supplement their income with Uber. On the other hand, the people that cannot afford the cars sign up to work as drivers for the former. Uber orchestrates these connections by making room for both drivers and partners to sign up on the platform, and connecting partners that do not have their own drivers to the drivers that sign up. Uber also conducts extensive background checks before accepting drivers on the platform.

Some authors have argued that one of the major drivers of Uber’s success around the world is a depressed labour market (Isaac, 2014). It is the latter condition that facilitated a model in Lagos where there is a saturation of

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<sup>5</sup> NIBSS-PoS Adoption and Usage: A Study on Lagos State, 10 April, 2015.

drivers as compared with partners-drivers. Many of the drivers we interviewed were university graduates that were either unemployed or underemployed. Signing up on the Uber platform was a way to make a decent living. Hence on one hand, Uber is able to contribute to the local economy via the provision of what it describes as “economic opportunities”. On the other hand, it is positioned to as it were, evade the responsibilities that would ordinarily accrue if the drivers were on its pay roll as employees would be in a traditional business thereby reducing its cost of doing business. With its business model, Uber has taken full advantage of the shift in the age of security to the age of flexibility (Kalleberg, 2000).

In conclusion, for businesses to take advantage of opportunities, and thrive despite the competitiveness or lack thereof of emerging markets, they need to look beyond standardized global competitiveness indices as we know them and embrace the imperative of experimentation through business model innovation. This suggests the need for more agility in operations and a considerable level of comfort with risk and uncertainty. Business Model Innovation in the context of emerging markets needs to be seen, not just as a tool of competitive strategy, but perhaps more so as a mechanism for defending a firm’s value proposition in these contexts.

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