

Ola Consolidating to Dominate the Cab Hiring Market

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Introduction

Ola had been acquiring companies over diversified fields to strengthen its position in the taxi rental market. Ola acquired Taxi For Sure (TFS), one of its biggest competitors, on March 1st 2015 for an amount of \$200 million, the biggest ever acquisition in the car rental industry. Following suit, in November 2015, Ola acquired Geotagg, a trip planning company, for an undisclosed amount. Again, on March 21st 2016, Ola acquired Qarth a mobile payment start-up company.

Despite the acquisitions made by Ola, a new investor planning to buy stocks of Ola or a current investor thinking of expansion of investment might face the dilemma of the situation. A series of questions for which they might seek the answers to would be:

Has acquisition by Ola turned out favourable or finding a niche market to head on guerrilla-like Uber is appropriate in the current situation? Will the expansion strategy adopted by Ola turn out to be successful? Will the synergies expected from the deals be

realised? Is Ola ready to face the market crunch of rival Uber?

The carpooling/rental market had been experiencing unprecedented growth globally. The industry generated total revenue of \$74,149.3m globally in 2016¹ which indicates a CAGR (Cumulative Average Growth Rate) jump of 5.7% from 2012 to 2016. The growth is due to the rapid development of worldwide travel and tourism industry with parallel innovations and impetus from the telecommunication industry, IT industry and technology driven market. Though the industry worldwide is blooming, the markets of the USA alone contribute 46.5% share of the revenue of the industry, while Europe accounts for 24.1% and Asia-Pacific for just 20.6%². The global players in this industry include Uber, Lyft, Car2go, Zipcar, Autolib,

¹PRNewswire (May 15th 2017), "Car Rental Global Industry grew to \$74,149.3m in 2016 and is expected to grow further by 2021", <http://www.prnewswire.com/news-releases/car-rental-global-industry-grew-to-741493m-in-2016-and-is-expected-to-grow-further-by-2021-300457879.html>

²PRNewswire (May 15th 2017), "Car Rental Global Industry grew to \$74,149.3m in 2016 and is expected to grow further by 2021", <http://www.prnewswire.com/news-releases/car-rental-global-industry-grew-to-741493m-in-2016-and-is-expected-to-grow-further-by-2021-300457879.html>

Drive Now, Hertz Corporation, GoGet, Getaround, Mobility Carsharing, Orix, Relay Rides, WhipCar, and Zoomcar.

Though the e-commerce industry in India is still young, the taxi service sector is undergoing extraordinary growth. However, despite the increase in sales and increase in market valuation, these companies are incurring huge losses. Ola is the market leader in this segment³ and prioritizes market share over profitability. Realising the fact that customer is the key to success; Ola has been targeting technology affluent start-ups to strengthen its hold on the market and maintain its position as the market leader. Integration has been the most important strategy for all firms and shutting down acquired firms has been a tradition in Indian e-commerce sector. For example, Flipkart shutdown electronics retailer Letsbuy in three months after acquisition and Snapdeal closed sports and fitness equipment retailer Sports Buy in two months.

Company Details of Ola

Ola has emerged as India's first and largest cab booking service provider. Ola was founded in January 2011, by two IIT Bombay graduates, Bhavish Aggarwal (current CEO) and Ankit Bhati (now CTO). In the beginning, its operations were limited to

Mumbai. In 2017 with its headquarters in Bengaluru, it has a presence across 102 cities in India with over 450,000 cabs (on hired/pooling) to serve customers. Ola is the largest aggregator of cabs; it does not operate its fleet but provides cab service by integrating services along with a list of small operators and single vehicle owners. **Exhibit-I** shows the company model of Ola.

Prior to this endeavour, Bhavish Aggarwal ran an online holiday and tour planning service. Realising the amount of potential a cab booking business could have, he came up with the idea of starting an online cab service. In December 2010 he along with Ankit Bhati started OlaCabs. Ola was the first taxi aggregator service to offer Android, iPhone and Windows application in India that not only helped in booking a cab but also helped customers track their cab on their mobile phone till it reached them. Ola's offerings on its platform currently range from affordable air-conditioned cabs in the Ola Micro range to the superior luxury offering in Ola Lux range as well as localised offerings like the ubiquitous Auto-rickshaws to Shuttle buses for daily commute.

Ola integrates car transportation within the city onto a technology platform, ensuring convenient, transparent and quick service for the customers and driver partners. Customers can access Ola through their mobile

³ALOK SONI (March 2nd 2015), "It's official. Ola acquires TaxiForSure for \$200 million", <https://yourstory.com/2015/03/ola-acquires-taxiforsure/>

application or through their customer service centre. Ola's GPS enabled mobile application helps the driver receive booking requests from customers in the vicinity and navigate to the customer's pickup point with utmost ease. Such cutting-edge technology also enables crunching intense analytics including demand and traffic heat-maps, usage behaviour, potholes and speed data for the entire city.

Ola's business model

Ola cabs envision providing hassle free, reliable and technology efficient car rental service to the public. To achieve this Ola has a focused approach on planned growth by providing customers with customised services according to the needs of the local market. They target a specific audience and provide services that suit the needs of the public. Ola's business model is similar to Snapdeal and Flipkart, which follow a marketplace model. Here the firms only provide the market for buyers and sellers to exchange services for a cost. Ola partners with any licensed cab owner to provide cab service at the customer's doorsteps. Ola does not operate its own fleet of cars but provides technologically enhanced services over the licensed car owners. Cab owners benefit from the Olacabs network and technology platform that helps them service customers and improve their income through better inventory utilisation. Ola also works with

leading car manufacturers and financial institutions to help drivers buy their own cars at huge discounts and access to affordable repayment schemes, thereby nurturing micro-entrepreneurship.

Investors

Since its inception, OlaCabs has raised funds from SoftBank Corp and other investors. Bhavesh and Ankit received their funding in April 2011 from two Angel investors to the amount of \$0.33 million. With this amount, they started the business by collaborating with a number of taxi drivers, instead of buying and renting their own cars. They introduced technology in the taxi rental business where the customer could book cars within a short notice either over the telephone through their call centres or through the mobile-based application. Ola received its second round of funding from Tiger Global for an amount of five million dollars. The total funding received by Ola amounts to \$1.3 billion by the end of 2015 (see **Exhibit-II**), making it the third most valued venture-backed company in e-commerce sector after Flipkart and Snapdeal. Ola used all the funding to expand into new cities and diversify into new business areas to lead the cab rental market in India⁴.

⁴The Economic Times (April 17th 2015), "Ola becomes third-most valuable venture-backed company after raising Rs 2,500 crore", <http://economictimes.indiatimes.com/small-biz/startups/ola-becomes-third-most-valuable-venture-backed-company-after-raising-rs-2500-crore/articleshow/46951513.cms>

Acquisitions by Ola

Ola has been acquiring companies to strengthen its position in the taxi rental market (see **Exhibit-III**). Ola acquired Taxi For Sure on March 1st 2015 for an amount of \$200 million. With this acquisition, the online taxi rental market had only three key players, Ola-Taxi For Sure, Uber and Meru cabs along with some new emerging players like Easy cabs, Mega cabs. This was the first major acquisition in the taxi rental space in India. The same year in November Ola acquired Geotagg for an undisclosed amount. Geotagg was a trip planning company that monitors the traffic of a city and provides customers with accurate arrival time and travel time of public transportation services. In March 21st 2016, Ola acquired Qarth a mobile payment start-up company. This acquisition was an attempt by Ola to strengthen its own mobile wallet application that was launched in November 2015.

Ola had acquired three companies all from different domains. The details of the deals are listed below.

Acquisition of TaxiForSure(TFS)

Ola acquired TFS on 1st March 2015 by paying \$200 million in cash plus stock for the deal. TFS was founded on 1st June 2011 by Aprameya Radhakrishna and G Raghunandan in Bangalore. It was similar to Ola as an

aggregator of car rental services portal but compared to Ola's entrepreneur driven model ,it followed an operator driven model. After the deal, Ola and TFS continued to run as separate business entities without any change in its HR structure and corporate culture. The only change occurred at the Board level, when Arvind Singhal from Ola took over the charge of COO (Chief Operating Officer) of TFS.

In the post-acquisition situation, TFS's co-founders, Raghunandan and Aprameya Radhakrishna took home \$35 million (Rupees 220 crore) in cash and 1% of Ola stock. According to a report in The Times of India Business, "the share swap ratio is 88:12 (88 TFS shares for 12 Ola shares) along with about a 30% cash component. The net dilution for Ola is approximately 7%. Both the founders, who owned about 25% stake in TFS, will step down from the company after serving in an advisory role for the next three months"⁵.

Ola was funded by Tiger Global, Matrix Partners, Sequoia Capital, Steadview Capital and later by Softbank over its four rounds of fund-raising. Investors in TFS were Accel Partners, Bessemer Venture Partners and Helion Venture Partners. With this

⁵ TNN(March 3rd 2015), "Olacabs buys Bengaluru rival TFSfor Rs 1,260 crore", <http://timesofindia.indiatimes.com/business/india-business/Olacabs-buys-Bengaluru-rival-TFS-for-Rs-1260-crore/articleshow/46438072.cms>

acquisition, investors in TFS rolled over their stock into Ola⁶.

Ola was already a market leader in the transportation sector in India but the market was still open to new entrants. In 2015, only 5% of the taxi market was being managed by organized sector such as Ola, Uber, and Meru while the majority taxi transportation services were rendered by widespread private unorganized taxi owners and drivers. Thus, consolidation with another taxi rental service, TFS, a small but significant rival of Ola, was a smart move to increase its market share. In 2015, Olawas running with 100,000 vehicles and a valuation close to one billion dollars, while TFS had 15,000 vehicles on its platform. TFS was operating in 47 cities and targeted the economy class customers with its reasonable short distance taxi charge. Further, Ola was a driver driven model (it collaborates with drivers owning a single vehicle) while TFS followed an operator-led model (pools resources from operators running a fleet of taxis for hire). Therefore, for Ola this acquisition was straight forward- it would not only increase its base, in terms of both number of cabs and operation across a number of cities, but it would also strengthen its leadership position in the taxi rental segment.

While the owners and the customers would benefit what about the investors of TFS? Would they gain anything out of this deal? Were the Stockholders of TFS the losers in this deal? Or was it a win-win situation for both the firms?

Ola also gained new investors in Accel Partners, Bessemer Venture Partners and Helion Venture Partners (investors of TFS). For TFS, this deal was expected to infuse new funds into its operation and investors of TFS would gain the preferred stocks of Ola. This was because TFS was short of funds and was facing challenges to raise new funds. Being unable to raise funds and facing steep competition from Ola in the market, promoters of TFS realised selling out was the best option. Though TFS approached both Uber and Ola for a possible agreement, it was Ola that finally acquired TFS on March 1st 2015.

Major Challenges. Prior to the deal, Ola had agreed that both the start-ups would continue to work as separate entities. There would be no change in leadership, and all the 17000 employees of TFS would continue to work as before. Both the companies would also continue to be available for their respective applications. However, contrary to its promise, Ola slowly started integrating TFS; more specifically, integrating product, technology and engineering team so that it

⁶ Business Standard(March 3rd 2015), "Ola acquires TaxiForSure in \$200-mn deal", http://www.business-standard.com/article/companies/ola-cabs-acquires-taxiforsure-in-200-mn-deal-business-standard-news-115030200354_1.html

could provide better services to customers and also address customer grievances. A lot of senior management quit their jobs because of lack of operational freedom, instability in organisation and difference in work culture as depicted in **Exhibit IV**.

Post-merger situation: With the acquisition of TaxiForSure, Ola became the biggest taxi aggregator start-up in India. Within six months of the acquisition, Ola was able to achieve a valuation of \$5 billion, almost five times larger, of what it was earlier. This milestone was because of the \$500 million funds it raised from SoftBank, Tiger Global Management, DST Global and others. Ola integrated TFS services on its own web application so that it would help both increase their respective userbases. With growing threat from Uber, transferring most of the assets of TFS to Ola was inevitable. According to Ola, keeping both the companies going was a burden while integrating primary assets such as drivers, customers and some staff would help the company focus on its core competencies. After shifting all of TFS cabs to its own micro range, Ola clearly intended to divert all resource from TFS. Finally, on August 2016 Ola shutdown TFS and fired 700 employees so as to cut its operational costs after having completed the integration process⁷.

⁷The Economic Times (August 17th 2016), "Ola lays off 700 employees, shuts down TaxiForSure business", <http://economictimes.indiatimes.com/small->

Acquisition of Geotagg

On 11th November 2015, Ola acquired Geotagg, an intelligent transportation planning company, for an undisclosed amount. Geotagg was started in 2014 by two IIT-Madras graduates Akhilesh Koppineni and Krishna Chaitanya. It was a technology-driven platform that enabled the user to avoid traffic jams during peak hours and address situations of vehicle overtaking and vehicles taking detours. Geotagg offered solutions for tracking, predicting, routeing and scheduling of vehicles for passengers and transport agencies. Post-acquisition, Geotagg continued to operate as a separate entity while providing a technology platform to Ola app.

Expectations from the acquisition: In September 2015, Ola had about 60% -70% of the market share in the taxi rental over mobile app service, far ahead of its rival Uber⁸. Therefore, Ola was aiming to target the public transportation through bus services that about 70 million people in India used for their daily travel. Ola planned to tap this sector by setting up its intra-city bus shuttle services by 21st September 2016. Ola planned to invest \$50 million in launching its shuttle services in Delhi-NCR (National Capital Region) with 500 shuttles across 100 routes to transport

biz/startups/ola-lays-off-700-employees-shuts-down-taxiforsure-business/articleshow/53730971.cms

⁸Dr. Ruchi Shukla, Dr. Ashish Chandra & Ms. Himanshi Jain, "OLA VS UBER: The Battle of Dominance", IOSR Journal of Business and Management, ISSN: 2278-487X, p-ISSN: 2319-7668PP 73-78, www.iosrjournals.org

10,000 people safely to their destination⁹. Acquiring Geotagg would help Ola strengthen its technology base to enable re-scheduling vehicles for traffic avoidance. Further, with the support of Geotagg, Ola would also be able to access passenger information system, so that it could provide hassle-free booking service, real time tracking and optimised travel routes to customers.

Acquisition of Qarth

In its third acquisition, Ola acquired Qarth Technologies on 21st March 2016 for an undisclosed amount. Qarth was a start-up company for mobile payments started by Abhinav Srivastava and Prerit Srivastava incubated out of IIT Madras in 2012. It was an application based software development company that facilitated multi-bank payment service across mobile phones. Because of its IMPS (Immediate Payment service) based mobile application, it supported inter-bank payments by providing payment gateway to any individual or merchant having an IMPS enabled bank accounts in India.

Expectations from the acquisition: In November 2015, Ola entered the e-payment space across mobile platforms by launching its own application, Ola Money. Mobile payment platforms like Paytm, Mobikwik and Free Charge were gaining importance in the

market (SMAC platform). In such a scenario introducing its own mobile wallet was expected to help Ola improve customer convenience in paying for taxi fares. With its own dedicated application, Ola Money allowed users to transfer money and recharge mobile phones. Qarth had successfully launched X-pay, an application that was integrated with around 26 banks in India, providing those who have accounts at these banks to use the application to make “one-touch” mobile payments or money transfers. Ola found that a significant amount of money was being kept in its wallet, Ola Money. Hence it was the right time to acquire Qarth whose technology would help Ola expand their payment services beyond rides such as Lenskart, Oyo rooms, Zooper and others. Pallav Singh, head of Ola Money had said, "With the acquisition of Qarth, we are also making significant technology investments to build forward-looking digital payment solutions for the ecosystem". Post-acquisition, the team of Qarth, including its co-founders, Abhinav Srivastava and Prerit Srivastava joined Ola Money.

Ola's Competitive Set

Ola faced competition from a lot of players in its sector as mentioned in the earlier section. The Indian taxi market constituted both organised and unorganised sector, each having a sizable market share in the industry (see **Exhibit-V**). Ola aimed at integrating

⁹ Financial Express (January 12th 2016), "Ola cabs begins its shuttle service in Bengaluru; govt calls it illegal", <http://www.financialexpress.com/industry/ola-cabs-begins-its-shuttle-service-in-bengaluru-govt-calls-it-illegal/192403/>

three services: car rental, technology platform, and e-payment format.

The organised sector could again be categorised into taxi aggregators, taxi affiliates and radio taxis. Ola functioned as taxi aggregator with Uber and BookMyCab as its nearest rivals. Apart from them, Ola also shared the cab rental market such as Meru Cabs, Mega Cabs and others (see **Exhibit-VI**).

Though Ola was the market leader, Uber had turned out to be its biggest competitor. Both Ola and Uber were following the strategy of extending their operations and customer base. Ola was pursuing a consolidation strategy for funds while Uber was funded from its worldwide operations (giant guerrilla). The scenario in 2017, for both the companies is shown in **Exhibit-VII**. However, it can be seen that Ola was lagging behind by a \$5 billion valuation compared to Uber's valuation pegged at \$62.5 billion. Further, Ola raised \$1.3 billion compared to Uber's \$3.5 billion (having committed only \$1 billion in Indian operations). Both Ola and Uber worked on a familiar model of offering huge discounts and incentives on rides to attract more customers and taxi drivers respectively. The incentives and discounts were based on demand in each city while they charged a 25 per cent fixed commission for every ride from the driver.

Way forward for Ola

Many start-ups have been downsizing to conserve funds and simultaneously cutting down costs of operations. Such an action is inevitable in the light of the fact that the e-commerce sector is faced a slowdown in funding. On similar lines, Ola shut down TFS after 18 months of the acquisition. With this action and removal of about 700 employees, Ola managed to save Rs 30 crores a month.

Ola could then focus on its core fleet of taxis, to set up for the upcoming battle against Uber. For Ola, technology had always been the key behind any acquisition. Acquisition of TFS was a strategic move because consolidation of TFS would not only help Ola strengthen its market position but also act as a defensive measure to counter the competitors in the online transportation sector.

Acquiring Geotagg was another smart move as buses have been the most popular mode of transportation and Geotagg would provide the technology for tracking urban traffic issues and rescheduling routes to avoid congested roads.

As another tactical move, Ola acquired Qarth, a mobile recharge platform that would support the technology driven e-payment solutions Ola Money can contribute to in creasing its sales.

With Uber exiting from China and turning its focus to India, the stage was set for the taxi sector to witness some stiff price war and escalated competition. While it was difficult to predict the eventual winners in this battle at this stage, one could expect more consolidation in the online transportation sector.

Suggested Assignment Questions

- I. What do you think was Ola's intention to acquire Taxi For Sure? Explain?
- II. What is the role played by investors in this deal?
- III. How do you think Ola's acquisition strategy would help it in the market?
- IV. Discuss the motives behind closing down Taxi For Sure?

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Exhibits

Exhibit-I: Company model of Ola Cabs



Source: <http://knowstartup.com/2015/10/canvazify/> (Accessed date: January 3rd, 2017)

Exhibit-II: Total Funding received by Ola

Series	Date	Amount	Investor
Initial	April 2011	\$0.33 million	Angel Investors: Anupam Mittal, Rehan Yar Khan
Round 1	April 2012	\$5 million	Tiger Global
Round 2	November 2013	\$20 million	Matrix Partners
Round 3	July 2014	\$41.5 million	Sequoia Capital, Steadview Capital
Round 4	October 2014	\$210 million	SoftBank Capital
Round 5	April 2015	\$400 million	DST Global
Round 6	November 2015	\$500 million	Baillie Gifford
Round 7	December 2015	\$57.3 million	The Vanguard Group
Round 8	February 2017	\$330 million	SoftBank Capital
Round 9	May 2017	\$104.4 million	Falcon Edge Capital

Source: <https://www.owler.com/iaApp/142235/olacabs-company-profile> (Accessed date: May 28th, 2017)

Exhibit-III: Acquisitions by Ola

Date	Target Company	Amount
March 2 nd 2015	TaxiForSure	\$200 million
November 11 th 2015	Geotagg	Undisclosed
March 21 st 2016	Qarth	Undisclosed

Source: <https://www.crunchbase.com/organization/ani-technologies#/entity> (Accessed date: December 28th, 2016)

Exhibit-IV: Senior Management Exits from TaxiForSure

NAME	DESIGNATION
Amitava Ghosh	Chief Technology Officer
T.N Hari	Chief People Officer
Amol Palit	Engineering Head
Ganesh Venkataraman	Chief Financial Officer
Randeep Singh	Chief Marketing Officer
Nitin Pulyani	Product Management Head

Source: ET tech (July 15th 2015), TaxiForSure CEO Arvind Singhal resigns amid massive senior management exodus", <http://tech.economictimes.indiatimes.com/news/people/taxiforsure-ceo-arvind-singhal-resigns-amid-massive-senior-management-exodus/48000157> (Accessed date: December 29th, 2016)

Exhibit-V: Indian Taxi Market

	Type	Competitors
Taxi Aggregator	The company integrates taxi services across various taxi operators	Ola, Uber, BookMyCab
Taxi Affiliator	The company affiliates with several taxi owners	Savaari, TaxiGuide, Cab24x7
Radio Taxis	The company is registered under Radio Taxi Scheme	Meru Cabs, Mega Cabs, Easy Cabs
Unorganized Sector	Several individual taxi owners or taxi operators	Private Taxis, Taxi Operators, Individual Drivers

Source: compiled by author from various sources

Exhibit-VI: Ola's Competitive Set

Company	No. of Employees	Total Funding	Revenue
Ola	2308	\$1.3 B	\$63.8 M
Meru	330	\$75 M	\$27 M
Uber	2912	\$1 B	\$9 B
Mega Cabs	110	NA	\$7.2 M
TFS	562	\$44 M	\$12.2 M
Savaari	106	\$5.36 M	\$7.5 M
mGaadi	35	Undisclosed	< \$1 M

Exhibit-VII: Comparison table of Ola and Uber

Exhibit-VI: Ola's Competitive Set

Company	No. of Employees	Total Funding	Revenue
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Criteria	Ola	Uber
Launch	2011	2013
Valuation	\$5 billion	\$62.5 billion
Funds raised	\$1.3 billion	\$1 billion
No. of cities covered	102	26
No. of drivers	550,000	350,000
Market share	50%	26%
No. of employees	8000	300

Source: Forbes (September 21st 2016), "It's Uber Vs. Ola For The Battle Of Supremacy In The Indian Market", <http://www.forbes.com/sites/krnkashyap/2016/09/21/its-uber-vs-ola-for-the-battle-of-supremacy-in-the-indian-market/#52b4a5a6cd21> (Accessed date: December 29th, 2016).