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Uber: need a Lyft?

The choice for the two taxi companies is between marrying or killing each other

Are Uber and Lyft trying to kill each other, or quarrelling like lovers as they head for a union? The bickering is shrill: last week, they launched carpooling offerings on the same day. This week each accused the other of clogging up their networks with fake ride requests. On Tuesday, Uber said some Lyft investors would like to sell the company to Uber.

Perhaps Uber should call a truce and buy its rival. With a valuation of $18bn after raising $1.6bn from investors, Uber could afford it. Lyft is thought to be valued at $700m and its revenues are roughly a tenth of Uber's. (Lyft operates only in the US; Uber operates worldwide.) Their battle is costly, as each slashes prices and offers cash incentives to lure drivers and passengers away from the other. In San Francisco, Uber is losing money on every ride due to passenger discounts. Lyft has been appealing to drivers by waiving its 20 per cent commission on fares.

But buying Lyft would not offer Uber insurance against other upstarts. Smaller rivals such as Sidecar and Hailo offer similar services; Uber competes with clones on all six of the continents on which it operates. In a technological sense, barriers to entry are low. The taxi – sorry, ridesharing – industry has a strong network effect: having the most passengers and the most drivers makes a company much more attractive to the next driver or passenger to come along. But the ridesharing wars show how clones can force first movers to burn lots of capital recruiting and retaining drivers and passengers. But Uber has more cash than any of its rivals. Lyft has raised only a fifth of the capital of Uber and it will soon have to reimpose commission charges. For Uber, the choice between marrying or killing Lyft is simple. Which is cheaper? A merger might be more economic in the short term but would be a false economy if it encourages the other clones.

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