

Ride Sharing: A Good Choice for Entrepreneurs?

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Introduction

Austin Freeman had been teaching middle school math in Nashville, Tennessee for more than twenty years. He loved teaching math. It allowed him to earn a decent living while making a positive contribution to society. However, the compensation and work environment were not ideal. He was getting tired of the stress and bureaucracy that went with being a school teacher. While searching for alternative means of employment, Austin began driving part-time for Uber, a ride-sharing company. The concept was simple: a driver uses his or her own car to take passengers around town for a fee.

Austin enjoyed driving part-time after school and on weekends. During the summer break, he drove more hours and treated driving as more of a full-time job. Austin wondered if ride-sharing would be a good alternative to his full-time job and if it would provide sufficient and steady income for him to live.

As he returned to teach school in the fall of 2015, Austin was increasingly dissatisfied with his teaching job. In a move that surprised everyone, including himself, Austin decided to quit his job and start driving for Uber full-time. He turned in his resignation effective December 2015. He was committed to start driving full-time beginning in December. A few weeks later, Austin saw his longtime friend, Professor Colin Green, a business professor at a local university. Dr. Green expressed his concern about Colin's recent career change. They agreed to meet later for coffee, so Austin could reassure him and explain the rationale behind his decision.

The Meeting

Colin: "Austin, how long have you been driving for Uber? Do you enjoy it?"

Austin: "I started driving for Uber about a year ago. In fact, I started driving part-time after school and on weekends. I decided to quit teaching and go full-time about two weeks ago. I really enjoy driving and have met lots of great people. It's been really great for me."

- Colin: “Really? Good for you. Would this be a good part-time job for students who need extra money for school?”
- Austin: “Driving for Uber is a great part-time job. You can work when you want to and you get paid every week. In a city like Nashville, there are always sporting events, concerts, and tourists...and all those people need rides. If you have a car and you like meeting people, then this may be a great job alternative. If your students are professional and give good customer service, then they will do well.”
- Colin: “Austin, I am concerned about your quitting your teaching job and driving full-time. Will you be ok?”
- Austin: “I was miserable in my job. Since I have made this decision, my stress level has gone down. I can work as much as I want, so I’ll be ok!”
- Colin: “Thanks for the info today. I’ll definitely suggest driving to students. Could I give your information to students interested in driving for Uber?”
- Austin: “Sure, here’s my card. Call me and I’ll be happy to answer any questions they might have. I’m glad to reconnect!”

Ride Sharing as A Driver

Colin had not thought about rideshare driving as a job possibility for someone in need of a part-time job until the conversation with Austin. After doing a bit of research, he found the following requirements to be an Uber driver:

- At least 21 years old
- Four-door car, less than 10 years old
- Car title in the driver’s name
- Proof of insurance
- Background check
- iPhone or Android smartphone
- Good driver rating

Colin also found Uber’s published fare schedule for Nashville. Each city can have different price schedules based on the overall demand for rides and the drivers in the area. Table 1 shows Nashville’s fare schedule for December, 2015.

The more Colin investigated driving for Uber, the more it seemed like a good alternative for Austin and for students wanting a part-time job. In addition, Colin thought driving for Uber might be a good way to defray some of the expenses related to owning a car. Colin estimated that a student who wanted a part-time job could earn enough money to pay his or her car-related expenses and earn roughly \$100 per week in extra spending money. The idea of letting a car “earn its keep” by directly contributing to earnings would probably be appealing to many college students.

Table 1: UberX Fare Schedule

Nashville, TN as of 12/1/15	
Base Fare	\$1.00
Per Minute Fee	\$0.12
Per Mile Fee	\$0.93
Cancellation Fee	\$5.00
Service Fee	\$1.45
Minimum Fare	\$5.00

(UberEstimate.com, 2016)

As Colin examined the Uber fare schedule for Nashville, he jotted down a few figures he knew would be relevant in determining whether driving for Uber would actually be profitable for a typical student. He assumed a typical student might have a car payment of \$300 and car insurance of \$250 each month. He looked up Austin's car and found it had estimated fuel efficiency of 23 miles per gallon in the city and 34 on the highway. He also found the average cost of regular unleaded gasoline to be \$2.25 per gallon in December 2015. Finally, he assumed that the typical college student was in the 15% federal income tax bracket.

Though Colin had the Uber fare schedule, he was still unsure of how fares were actually computed. Colin thought Austin could provide clarification, and he wanted to know how full-time driving was working for him, so he called Austin to ask if they could meet again for coffee.

Colin: "Austin, just to check with real data, could you walk me through a driver's earnings based on the fare schedule?"

Austin: "Yes, here are the basics: passengers pay the total fare plus the Uber service fee of \$1.45. Drivers receive 80% of the total fare and nothing from the service fee. Also, the minimum cost to the passenger is always \$5.00.

Austin grabbed a napkin off the table and scribbled the following formulas down:

$$\text{Passenger Cost} = \$1.00 + (\text{minutes} * \$0.12) + (\text{miles} * \$0.93) + \$1.45 \text{ Service Fee}$$

$$\text{Driver Revenue} = (\$1.00 + (\text{minutes} * \$0.12) + (\text{miles} * \$0.93)) * 80\%$$

Austin: "Let me walk you through an actual drive. The Uber driver app has all the data and I'm happy to show you. I picked up a passenger in the morning rush hour and drove 3.21 miles from pickup to drop-off. The ride took 11 minutes and 10 seconds. The passenger paid a total of \$6.78 and I received \$4.26. Here is the breakdown." [The information from Austin is summarized as Table 2].

Colin: "Oh, that makes sense to me."

Austin: “Absolutely. On the Uber driver app, it always shows the driver payout and not the passenger cost. I just ignore the service fee and my revenue is the 80% of the total fare.”

Table 2: UberX Payout Example

For a 11 minute 10 second ride for 3.21 miles)			
	Passenger Cost (Total Fare + Service Fee)	Driver Revenue (Total Fare x 80%)	Uber Revenue (Total Fare x 20%) + Service Fee
Base Fare \$1.00	\$1.00		
Per Minute (11.1667 x \$0.12)	\$1.34		
Per Mile (3.21 x \$0.93)	\$2.99		
Total Fare	\$5.33	\$4.26	\$1.07
Service Fee \$1.45	\$1.45		\$1.45
Total	\$6.78	\$4.26	\$2.52

Colin: “What’s the deal with surge pricing? How does that work?”

Austin: “When the demand for rides is high, the prices will surge to from 1.2 to up to 3.0 times the normal fares. It usually happens for a short period of time in select areas of town because of special events like rush hour or late night rides. Those rides are more profitable. You can’t plan for them, but they are nice to get.”

Colin: “Another question. How can you account for the cost of gasoline and maintenance with the additional miles on your car?”

Austin: “Good question. I’ve taken rides myself with other Uber drivers and I always ask how they keep up with their miles. Several drivers act like they don’t keep up with their mileage at all. They are missing lots of tax deductions!”

“Here’s what I have learned. Uber only keeps up with the miles and minutes on a given trip. What I have found is my actual miles between rides are about 50% more than the Uber miles only, so keeping up with those miles is very beneficial for tax purposes. For example, on a recent Saturday, I drove for a total of eight hours and made \$114.29. I drove 115 miles for Uber rides, but my total mileage for the day was 170. All 170 of those miles are tax deductible. I keep up with my mileage through an app on my phone. I’ll write out a list for you of all my important expenses. Your students’ expenses will probably be similar.” [This information is summarized as Table 3].

Colin: “This is great information. I hope students consider this alternative instead of a job at the mall for \$10.50 per hour. One more question, what is an average week like for you?”

Austin: “Since I started driving full-time, I average from 50-55 hours per week. I usually drive about 6 hours daily during the first half of the week and about 10 hours per day on Thursday, Friday, and Saturday. I also average about 950 miles driven each week. But, I can take any day off that I want without asking a boss. I usually work in the morning and evening rush hours and sometimes the nights and late nights for sporting events, concerts, and the bar crowd.

I average about \$650-\$725 in net pay each week. It really helps to be in a city that has lots of sporting events, concerts, and tourists. I pay attention to the schedule of games, concerts, and conventions and when they occur. Lots of people want rides before and after these events.”

Colin: “Thanks so much for the great info. I really appreciate your time and I’m sure many will find this information useful.”

Austin: “You’re very welcome. Oh, one more thing, one of the great advantages that I could see in driving for Uber, especially for a college student, is you get to meet some really interesting people. I drive business people to work or to the airport all the time. In fact, I had a CEO of a publicly-traded healthcare company in my car recently for a 25-minute ride to the airport. We had a great conversation. Not all rides are that memorable, but it does happen. I found that successful people respect hard work. For students, it could lead to a job interview or a career opportunity!

Colin: That is a great plus. I wish some of my more entrepreneurial students could see those opportunities and take advantage of them.”

Colin was impressed by Austin and his decision. It did seem that Austin was making a comparable income and that he was happy. Many of Colin’s students, or any person looking for additional income, might benefit from learning about ride-sharing.

Table 3: Costs of Driving

Cost	Austin's Notes
Gas and Maintenance	1. IRS Standard Mileage Rate (Recommended) Keep a mileage log (IRS, 2015) \$0.54 deduction per mile for 2016
	2. Actual Costs (Instead of the standard mileage) Keep receipts for gas, oil changes, tires, maintenance, and depreciation
Car Insurance	Business vehicle expense—you will need to update your insurance to include ride sharing on your policy; there are insurance companies willing to do this
Cell Phone	Need a smartphone with lots of data
Car Washes	Keep your car clean inside and out
SiriusXM	Satellite radio \$15 per month (optional)
MileIQ	Mileage app for the phone \$5.99 monthly or \$60 annually. Highly recommended!
Itemize	I use this app to keep up with my expenses. It costs \$4.99 monthly. This is really helpful me, but maybe you don't need it.

References

Internal Revenue Service. (2015). 2016 Standard Mileage Rates for Business, Medical and Moving Announced. <https://www.irs.gov/uac/newsroom/2016-standard-mileage-rates-for-business-medical-and-moving-announced>

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