CASE

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FROM UBER EATS TO CORNERSHOP: THE REPOSITIONING OF UBER IN THE BRAZILIAN MARKET

Da Uber Eats ao Cornershop: O reposicionamento da Uber no mercado brasileiro

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ABSTRACT

This teaching case examines the start, development, and closure of the activities of Uber Eats, Uber Technologies Inc.'s online food delivery service in Brazil. During its five years of operation in the country, the company faced challenges such as intense competition, the delivery workers' social movement for labor rights, and political and legal decisions that influenced its relationship with workers. The case assesses the strategic-operational challenges associated with repositioning the brand, currently focused on the supermarket delivery sector, after the acquisition of Cornershop.

Keywords: Uber Eats, Cornershop, digital platforms, competition, delivery.

RESUMO

A chegada, o desenvolvimento e o encerramento no Brasil das atividades da Uber Eats, serviço on-line de delivery de comida da Uber Technologies Inc., são analisados neste caso de ensino. Ao longo de cinco anos no País, ao mesmo tempo que a empresa operou sob uma intensa competição, a plataforma também teve que lidar com o movimento social de luta por direitos trabalhistas dos entregadores e as consequentes decisões políticas e jurídicas que afetaram a relação empresa-trabalhador. O caso avalia os desafios estratégico-operacionais do reposicionamento da marca, agora mais segmentada no setor de supermercados, com a aquisição do Cornershop.

Palavras-chave: Uber Eats, Cornershop, plataformas digitais, concorrência, delivery.

This teaching case was developed based on data from secondary sources. Some events and dilemmas included here are fictional, and the elements of this case do not reflect the company's position or opinion. The authors declare that there are no conflicts of interest and that they have not received any financial support to develop this research.

INTRODUCTION

The year 2020 witnessed one of the worst pandemics in history. At first, with no vaccines or treatments available, the only effective way to contain the virus's dissemination, according to doctors and scientists, was social distancing. Thus, the limitation on the movement of people directly affected the global economy and various business models. In this context, the technology multinational Uber Technologies Inc. was affected in three aspects: 1) with the restriction of circulation, the number of trips through the company's ride-hailing services fell; 2) while staying at home, people started to use the company's food ordering and delivery platform ("Uber Eats"). According to Uber's Quarterly Earnings Report for 2020, Uber Eats' revenues outperformed ride-hailing services' revenues in the year; finally, 3) social issues were more exposed during the health crisis, leading to a greater intensity of workers' movements in the fight for their rights.

Amidst the health crisis, Uber Brazil witnessed a 37% growth in orders using Uber Eats throughout 2020. However, this growth was not sufficient to make the company more competitive in the Brazilian food delivery market, which was dominated by strong competition. Thus, even though Uber Eats has proven to be an excellent business for the company on a global scale, its late entry into the Brazilian market created a less favorable environment for the development and expansion of its operations. In light of this situation, the Executive President of Uber Technologies Inc., Dara Khosrowshahi, and the General Director for Brazil Operations, Silvia Penna, had to make decisions regarding the company's new direction in the country.

Drawing from her extensive knowledge of the Brazilian reality, Penna cautioned Khosrowshahi that to achieve growth similar to what had occurred in the rest of the world, Uber Eats needed to increase its market share. To attain this, a substantial branding effort would be required, involving significant investments in partnerships with restaurants and delivery workers, as well as discount policies to attract and retain end consumers. This approach closely resembled the strategy executed by its main competitors, IFood and Rappi. However, the pivotal question remained: would this marketing and investment effort be justified?

On the other hand, the Executive President told Silvia Penna that he was uncertain whether the board of directors would support such a significant investment in a sector still heavily dominated by competition. Dara thought, however, that a potential repositioning of the Eats option for supermarket delivery might make more sense than persisting with older products that held limited appeal for the company. This was partly due to the fact that the Executive President was responsible for acquiring the Latin American Cornershop, which was acquired partially in 2019 and entirely in 2021. Uber saw in Cornershop the opportunity to expand its delivery business, particularly in regions challenging to penetrate, such as Latin America. By integrating Cornershop into the Uber app, the goal was to grow in a space where competition was more fragmented. Thus, as of mid-2021, Penna remained uncertain about the future of Uber Eats.

Although the plans for the country included investments to promote Cornershop, a considerable effort should be put into making the brand – already operating in the Brazilian market – better known.

Another crucial factor in this decision-making process was the enactment of Federal Law 14297 (Annex 1) on January 5, 2022. This legislation introduced rules aimed at safeguarding the rights of delivery workers operating through technology applications. It included provisions that significantly increased the operational costs of these platforms. For instance, it required platforms to provide insurance, financial assistance, personal protective equipment, and other social security-related items to delivery workers. This legislation emerged as a response to a social movement that questioned the practices of Uber and other delivery platforms during that time. The movement gained momentum with an event known as the "Breque dos Apps" (or "hit the brakes on the apps"). This movement was led by a rising class of delivery workers who organized multiple strikes across all Latin American countries, demanding more stringent regulation of labor laws for the sector. In this context, Federal Law 14297 (2022) significantly expedited the discontinuation of Uber's food delivery service in Brazil. The day after its promulgation, Silvia Penna announced to the press that Uber Eats would no longer be available in the country after March 7, 2022.

UBER'S CREATION AND EXPANSION

In 2008, Garret Camp and Travis Kalanick had the idea of creating a smartphone app offering luxury transportation after experiencing difficulties in finding a taxi during a snowstorm one night in Paris. In 2009, the two friends launched Uber in the city of San Francisco, California. However, the first rides using the Uber app only occurred in 2010 and were initially limited to San Francisco. Shortly thereafter, the company decided to expand internationally, and by 2011, it was already operating in Paris, where the entrepreneurs had initially conceived the business.

Between 2012 and 2015, the company's expansion intensified, and at the end of 2015, Uber already operated in 60 countries and 330 cities. At the same time as it expanded to other regions, Uber also increased its portfolio of services, including new modes of transport. In 2015 the company launched UberEats for meal delivery in Chicago, New York, and Los Angeles.

According to its executives, Uber does not provide transportation for people (through Uber Black or other models) or food (through Uber Eats). The company positions itself as a platform that connects those seeking a service with those capable of providing it. Consequently, Uber Eats serves as the platform that connects consumers with restaurants and links these two stakeholders with delivery workers.

Restaurants can register for free on the Uber Eats application or website, where they can upload their menus. Consumers can then browse these menus on the app and place their orders. Subsequently, a delivery worker, typically a freelance motorcyclist or bicyclist, retrieves the order from the restaurant and delivers it to the consumer.

Restaurants registered on Uber Eats have the option to request additional services. For instance, they can arrange for a professional photo session to enhance menu promotion on the app and social media, costing approximately BRL 500.00. Additionally, they can choose

to receive Uber Eats-branded packaging bags, with pricing dependent on the quantity ordered. Lastly, the platform levies a fee per order, which may reach up to 30% of the total purchase price.

A crucial stakeholder in this process is the delivery worker. Dara Khosrowshahi explains that Uber maintains no employment relationship with these workers. They do not receive a fixed salary but rather earn income based on a predefined algorithmic formula. This formula encompasses delivery and collection fees, order bonuses, and regional bonuses. These bonuses serve as incentives that Uber has implemented to maximize the number of deliveries that workers complete within specific time periods, covering various regions of a city.

As a result of the company's assertion that it does not have an employer-employee relationship with delivery drivers, Uber is not obligated to provide a range of rights and navigate the various legal labor regulations in the countries where it operates. Consequently, the cost of the company's operations in a given country remains considerably lower than if a formal employment relationship were legally recognized, requiring the establishment of employment contracts.

THE BRAZILIAN MARKET

Uber started its operations in Brazil in 2014 with its ride-hailing service, Uber Black. Over the course of 2014 to 2022, the company introduced 50 other service options in the country. One of these services was Uber Eats, which was launched in 2016. In contrast to Uber Black, which introduced innovation to the transportation service industry and established itself as a market leader, Uber Eats entered a market already dominated by competitors. IFood, for instance, had been operating in the country since 2011.

Indeed, IFood maintained its dominance in the food delivery market even years after the entry of Uber Eats (2016) and the Latin American service Rappi (2018). According to data from Measurable AI (2021), between 2020 and 2021, IFood held more than 80% of the app-based delivery market. Uber Eats secured the second position with an average market share of 12%, followed by Rappi with an average market share of 3% during that period.

IFood's competitors accused the company of engaging in unfair competition practices. In September 2020, Rappi filed a complaint with the Brazilian Administrative Council for Economic Defense (CADE), alleging that IFood had leveraged its dominant market position to enter into exclusive agreements with restaurants, thereby limiting competition. In pursuit of a more equitable and competitive market environment, Silvia Penna included Uber as a third party with a vested interest in the complaint. She contended that IFood's practices hindered the expansion of other companies in the food delivery segment across various Brazilian locations.

In 2020, CADE imposed a preventive measure against IFood, which prohibited the company from entering into new exclusivity agreements while the investigation was ongoing, although it was allowed to maintain previously established contracts. According to CADE, IFood leveraged its pioneering position, market dominance, and exclusivity contracts, posing a threat to fair competition. Additionally, the council concluded that the exclusivity agreements were signed

with restaurants serving as "decoys" for customers on the platforms, compelling consumers to use the IFood app exclusively if they wished to contact their preferred establishments.

However, despite being subject to CADE's preventive measures, IFood defied the council's instructions and continued to enter into exclusivity contracts with restaurants. As a result, the platform's dominance over the delivery market in Brazil persisted, and the resolution of the complaint remained pending (as of the last check in May 2022).

Conversely, starting in March 2020 with the onset of the COVID-19 pandemic, there was a significant surge in demand for delivery services in Brazil. According to a study by the startup Mobilis, spending by Brazilians on food delivery apps increased by 149% during the first year of the pandemic. However, Uber Eats' growth did not mirror this substantial increase; it grew by only 37%, whereas IFood experienced a growth rate of 172%, and Rappi grew by 121%, further reducing Uber Eats' market share.

In this context, although CADE's decision could foster competitiveness and market competition, the outcomes did not align with the company's expectations. Concurrently, while Uber Eats did experience an increase in sales during the pandemic, the disparity in volume was insufficient for it to outpace its competitors. Consequently, Silvia Penna did not foresee favorable prospects for the continued operation of Uber Eats in the country.

CLOSURE OF UBER EATS ACTIVITIES IN BRAZIL

On January 6, 2022, Uber announced a significant shift in its portfolio in Brazil. It entailed discontinuing the operations of Uber Eats on March 7, 2022, after five years of operation. Concurrently, the company unveiled plans to expand Cornershop, another application recently acquired by Uber, focusing exclusively on grocery deliveries from supermarkets and specialized convenience stores.

This strategic move, led by Silvia Penna and her team, was predicated on the belief that the supermarket segment posed a different scenario compared to the restaurant sector. Unlike the latter, where exclusivity agreements had created an environment of high competition and possible monopolies, the supermarket segment involved large, traditional retail groups like *Carrefour* and *Pão de Açúcar*. These entities did not feel compelled by exclusivity agreements, in stark contrast to small restaurants and their chains. The bargaining power of supermarket groups significantly exceeded that of restaurants, primarily due to differences in size.

Uber's Cornershop service is already available in numerous cities in Brazil, primarily in state capitals and metropolitan areas. Over 600 partners participate in these cities, including major supermarkets and small convenience stores. However, access to this service currently requires using the dedicated Cornershop app, which will soon be integrated into the Uber ride-hailing app, akin to the approach taken with Uber Eats and Uber Flash.

Furthermore, this decision to partially close operations is not a first for the company. Similar actions were observed in other markets. In 2019, Uber Eats exited the Austrian and

South Korean markets. Then, in 2020, it announced its departure from the Czech Republic, Peru, Egypt, the United Arab Emirates, Saudi Arabia, Romania, Uruguay, Bangladesh, and India. Forbes Magazine reported these exits, citing competition as the primary driver of these decisions. Dara Khosrowshahi believed that the best strategy was to invest exclusively in markets where the company ranked among the two largest players in the segment.

In Brazil, despite being one of the two largest competitors until before the pandemic, Uber did not hold a significant market share, given IFood's dominant position with an 80% market share, which left little room for growth for other players. In contrast, the American market, where Uber Eats also ranks second among delivery companies, displays a more evenly distributed market share. According to Statista (2021), DoorDash holds 55% of the sector, while second place holds 22%, and third place (Grubhub) holds 17%.

Beyond facing competition-related challenges, the decision to cease Uber Eats' activities in Brazil came soon after the enactment of Federal Law 14297. This law mandated that delivery app companies provide insurance coverage for workers during the COVID-19 pandemic. The legislation stipulated that platforms must: a) offer insurance for delivery workers covering personal accidents, disability (permanent or temporary), and death; b) provide financial assistance in cases of worker infection with the coronavirus; and c) furnish personal protective equipment like masks, alcohol gel, and other sanitizing materials for workers. Non-compliance with the law would result in penalties, ranging from warnings to fines of BRL 5,000 per violation.

This Brazilian standard was a response to a broader movement led by delivery workers, which gained momentum through demonstrations known as the "Breque dos Apps" or "hit the brakes on the apps." These protests comprised a series of strikes by delivery workers throughout Latin America during the pandemic, as they sought to secure labor rights. Their demands included access to resting areas, meals, and restroom facilities, fair compensation, adherence to constitutional limits on working hours, and an end to arbitrary blocks based on app scoring systems, which often left workers with their sole or primary source of income in jeopardy.

Progressive recognition of the rights of app delivery workers resulted in increased expenses that platforms were unwilling to bear. Uber, under its assertion of being a mere "connection between those seeking a service and those who can provide it," aimed to distance itself from the costs associated with worker welfare. Consequently, advocating for labor rights for delivery workers represented not only an increase in costs but also a challenge to the modus operandi of digital platforms.

DILEMMAS AND STRATEGIC-OPERATIONAL CHALLENGES FOR THE FUTURE

The closure of Uber Eats operations and the shift towards the Cornershop model between 2021 and 2022 marked a pivotal moment for Uber in Brazil. During this period, Silvia Penna faced a new challenge: ensuring the success of Cornershop in a segment where Uber Eats had previously faltered. Penna and her team needed to reexamine the factors that had led to the failure and

closure of Uber's restaurant delivery operations and analyze them from the perspective of the supermarket segment.

However, Penna was aware that this was not a pioneering venture into the supermarket sector. Established competitors such as Rappi and IFood also invested in and expanded their supermarket operations. In a significant move, IFood acquired SiteMercado in 2020, while Rappi had already initiated projects like Avocado and Merqueo. Additionally, these two platforms were not Uber's sole rivals, as even before the pandemic, supermarket chains like *Pão de Açúcar Mais* and *Carrefour Entrega* had entered the online shopping and supermarket delivery market. Furthermore, new entrants were continually emerging, including Supermercado Now, Daki, and James Delivery. This surge in competition was driven by the significant growth of the online shopping and supermarket delivery segment, which had increased by at least 30% in the first six months of the pandemic due to social distancing measures, as reported by the National Commission of Store Managers.

Given the numerous players in the supermarket delivery segment, it was evident that this challenge was not easier than that Uber Eats had encountered. Nonetheless, the diversification of competition had more evenly distributed the market share among various stakeholders. In this context, Penna believed that Cornershop could carve out a significant presence with an effective marketing campaign. Despite the pressure from Dara and the company's headquarters in the United States, Silvia had a unique opportunity – a second chance. She recognized, however, that the same mistakes made with Uber Eats could not be repeated. Their focus now had to be on the competitive and dynamic landscape surrounding them, enabling Cornershop to develop strategies to distinguish it from the competition and attract customers and partners.

ANNEX 1. LAW 14297

LAW 14297, JANUARY 5, 2022

Provides for measures to guarantee protection to delivery workers offering services via delivery app company during the public health emergency resulting from the coronavirus responsible for COVID-19.

THE PRESIDENT OF THE REPUBLIC

I hereby make public that the National Congress decrees and I sanction the following law:

Art. 1 This Law provides for measures to guarantee protection to delivery workers offering services via delivery app company during the public health emergency declared in Brazil resulting from the coronavirus responsible for COVID-19.

Paragraph 1. The measures provided for in this law must be ensured until the declaration of the end of the Public Health Emergency of National Importance (Espin) due to human infection by the coronavirus Sars-CoV-2.

Art. 2 This law considers:

I – delivery application company: company whose main activity is intermediation, through an electronic platform, between the supplier of delivery products and services and consumers;

II – delivery worker: a person who works providing pick-up and delivery services for products and services contracted through the electronic delivery application platform.

Art. 3 The delivery app company must take out accident insurance, without a deductible, for the benefit of the delivery worker registered with it, exclusively for accidents occurring during the period of collection and delivery of products and services. It must cover, obligatorily, personal accidents, permanent or temporary disability, and death.

Paragraph 1. If the delivery worker provides services for more than one delivery app company, the compensation, in the event of an accident, will be paid by the insurance contracted by the company for which the delivery worker was providing the service at the time of the accident.

Art. 4 The delivery app company must provide the delivery worker who is on leave due to infection with the coronavirus responsible for COVID-19 with financial assistance for 15 (fifteen) days, which can be extended for a further 2 (two) periods of 15 (fifteen) days, upon presentation of the receipt or medical report referred to in Paragraph 2 of this article.

Paragraph 1. The financial assistance provided for in the caput of this article must be calculated according to the average of the last 3 (three) monthly payments received by the delivery worker.

Paragraph 2. The granting of financial assistance provided for in the caput of this article is conditional on presenting proof of a positive result for COVID-19 – obtained through an RT-PCR exam – or a medical report that attests to a condition resulting from COVID-19 that justifies the removal.

Art. 5 The delivery app company must provide the delivery worker with information about the risks of the coronavirus responsible for COVID-19 and the necessary precautions to prevent contagion and the spread of the disease.

Paragraph 1. It will be up to the delivery app company to provide masks and alcohol gel or other sanitizing material to delivery workers for personal protection during deliveries.

Paragraph 2. Compliance with the provisions of Paragraph 1 of this article by the delivery app company may be done through transfer or reimbursement of expenses incurred by the delivery worker.

Paragraph 3 (VETOED).

Art. 6 The company providing the product or service must:

I - (VETOED);

II - allow the delivery worker to use the sanitary facilities of their establishment; and

III - guarantee the delivery worker's access to drinking water.

Art. 7 The delivery app company and the company providing the product or service must primarily adopt online payment methods.

Paragraph 1. (VETOED).

Art. 8 The contract or registration agreement signed between the delivery app company and the delivery worker must expressly state the cases of blocking, suspension, or deletion of the delivery worker's account from the app.

Paragraph 1. The application of account deletion provided for in the caput of this article will be preceded by prior communication, at least 3 (three) business days in advance. It will be accompanied by the reasons that motivated it, which must be duly substantiated, preserving the security and the privacy of the app's user.

Paragraph 2. The deadline set out in Paragraph 1 of this article does not apply to cases of threat to the security and integrity of the app, suppliers, and consumers due to suspicion of committing a criminal offense provided for in current legislation.

Art. 9 Failure to comply with this law by the delivery app company or by the company that uses delivery services implies, under the terms defined in the regulation:

I - the application of a formal warning; and

II - the payment of an administrative fine of R$ 5,000.00 (five thousand reais) per infraction committed in case of recurrence.

Art. 10 The benefits and concepts provided in this law cannot be used as an argument to prove the legal nature of the relationship between delivery workers and the delivery app company.

Art. 11. This Law comes into force on the date of its publication.

Brasília, January 5, 2022; 201st of Independence and 134th of the Republic.

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