

Big Yellow Comeback? Flywheel Raises \$12 Million To Help Taxis Battle Uber

With Uber having raised more than \$1 billion and rival Lyft having picked up hundreds of million as well, a \$12 million investment in an app to help the taxi industry compete might not seem like much. But to CEO Rakesh Mathur, who recently took the reins at Flywheel, it should be more than enough. Unlike Lyft and Uber, Mathur believes his company has something of an unfair advantage: the taxis are already out there on the streets looking for customers. What Flywheel does is help them find those customers and vice versa. The combination has proved popular since launching in San Francisco, where 80 percent of taxis are now running the app. With the new funding Flywheel plans to expand across the U.S.

Mathur believes the company's opportunity is quite large. He says that while Uber's growth has been impressive, the long-run opportunity for the taxi industry is a strong one and that this isn't a winner-take-all market. "The thing about transportation is that its all about getting the supply you want when you want it," Mathur said, likening it to flying multiple different airlines depending on who has the best schedule or flies to where you are going. "It's all about getting from Point A to Point B."

And interestingly, he believes what people pay isn't critical. "Transportation totally is not price sensitive. When you need it price is not the important consideration," Mathur noted. He drew a comparison to Uber's surge pricing, which can cause fares to be several times the norm during inclement weather or high demand periods like New Year's Eve. That's especially important given that Uber and Lyft have been undercutting traditional taxi services, often significantly, at least on their base fares: "The other guy's model is when I don't want a car it's cheap; when I do want a car it's super expensive."

Flywheel charges taxi drivers 10% of the fare they book and riders pay a \$1 fee. As with Uber, billing goes through the app, making it similarly convenient to using one of the alternatives. He says historically taxi companies haven't had much concern what happens once they put drivers behind the wheel. "The traditional model of the fleets has been that of rental car companies," explaining that worrying about whether drivers made a good income after paying for a car for the day or month wasn't very important. "That fundamentally causes all the problems: What do I care what you do with the car once I rent it to you?"

But things have changed with the new competitors. Drivers aren't happy if they pay a \$200 fee to rent a taxi only to make \$100. And that's where apps like Flywheel can help. By bringing in the customers more quickly, driver incomes should rise, Mathur said, and so those facing tough competition are eager to sign up with Flywheel.

While it's easy to be skeptical of his confidence, it's worth mentioning Mathur doesn't need to be doing this. He sold a company called Jungle to Amazon back in the 1990s and hasn't had to work since. Jeff Bezos told him then: "Have fun, work hard, make history. Two out of three's

not an option.” Mathur subsequently started five more companies in the past 10 years, four of which have had exits, one is a still-going messaging firm in India. “I’ve retired many times and failed at retiring many times,” he said.

So when he says he’s excited about the opportunity at Flywheel, it’s hard not to at least give him some benefit of the doubt. He believes there’s “a very high probability ... of taking [Flywheel] from a small scale to a large scale very quickly.” Clearly, investors do too. TCW, Rockport Capital and Shasta Ventures funded this round, with full understanding of the competitive landscape.

Importantly, Flywheel has some interesting economics the competition doesn’t. It builds the platform which sits there passively waiting for drivers to take advantage *when they need it*. So if demand for street hails of taxis is already high, Flywheel can sit idle, perhaps not earning much — but also not costing much. Then, if the weather turns ice cold and people need a cab but want to wait inside, they open the app and order one and the drivers, not seeing many folks standing on the icy streets are responding in kind. Flywheel is now ringing up profits and helping both sides find each other. Of course, Uber and Lyft do this too, although often at much higher prices. Because taxis are regulated, they become the low-cost option at those moments.

Mathur also likes Flywheel’s chances to help drivers who drop off people they’ve picked up at airports find a new customer nearby to perhaps take back to the airport or to a downtown, historically a tricky challenge for taxis to handle. He believes his company’s app can help close the gap on Uber and that the regulatory preference taxis have with respect to airport operations in most cities is a long-term plus for Flywheel. The last few years have been about the taxi alternatives using technology and upgraded service to erode the traditional cab business. Mathur says the \$15 billion taxi business is still the market leader and with his app is poised to stay there.