

TRANSCRIPT

Hailo, No Match for Uber

Michael Madsen:

Hi, I'm Michael Madsen, International Liaison Partner for BDO Canada. Welcome to Bored At The Airport With Mike. This show is about doing business globally, whether your business has international presence, it's considering an international expansion, or if you're in the middle of revising your expansion plan, then this show is for you.

Michael Madsen:

It took London based taxi finding app, Hailo less than a year and a half to decide it wasn't up for a rumble with entrenched competitors, Uber and Lyft. This is their story.

Narrator:

Hailo was a British technology platform that matched taxi drivers and passengers through its mobile phone application. Unlike competitors, Uber and ridesharing app Lyft, the London bay startup partnered with existing taxi services. Founded in London in 2011, the Hailo taxi service was available in 16 sittings. By May, 2013, hailo had enabled more than 3 million rides for passengers from over 30,000 registered taxi drivers. Then they decided to expand into the US and Canada.

Clip:

No waving of the arms. Two taps of a finger is all it takes to hail a taxi virtually. Hailo is shaking up the local taxi scene, cutting out the dispatch center to connect drivers with passengers directly. Toronto was the UK based company's first entrance into North America and use of the free app is spreading.

Clip:

It shows you all of the taxi cabs immediately around you. And as you drill out, you get a little bit further, you can start to see the army of taxi cabs that we have across the city of Toronto.

Narrator:

Ismael Oneh, an independent owner and operator of his taxi discusses the issues he experienced with Chicago's taxi system.

Clip:

You have to work almost every day. You can't really leave the job because you bought the medallion. If we eliminate the corruption and also extremely regulated rules and regulations out of taxi industry, I think every driver can do better.

Narrator:

It was clear that the antiquated taxi system in cities across North America was ripe for an innovative new approach. Hailo's launch into the US was backed by approximately \$77 million in investment from big name venture capital groups, including Sir Richard Branson. When Hailo arrived in New York in early 2013, it was expected to take the country's largest taxi market by storm, with the rest of the US not far behind. Hailo's US launch was highly anticipated. The company had already gained impressive traction in the UK with 2.5 million passengers and the promise of a \$100 million revenue run rate. An investment from New York's most prominent venture firm certainly helped. Union Square Ventures led a \$30 million investment in Hailo, as it arrived in New York. Another round of investment followed to the tune of \$17 million, which placed Hailo's value at over \$140 million.

Clip:

Welcome to the New York offices of Hailo.

Narrator:

With fresh capital, Hailo opened an office in New York's Soho neighborhood and hired dozens of employees, including Tom Barr, the former Head of Starbucks, the timing seemed right. Union Square Ventures, Hailo investment came right around the time that Uber, Get Taxi and other similar car hire mobile services entered a legal battle with New York's entrenched delivery car industry over whether E-hail apps would be legal in the city.

Clip:

Uber has been facing pushback against governments. It's not just New York City, it's all over the country. Just a few days ago, you had an issue in Fort Lauderdale where you have the government going, you know what? You have to do a lot of different licenses and a government background check. And Uber said, this is too much regulation.

It's a battle between free markets and government. You have Uber saying all these rules and regulations don't make sense for us and they just don't want to play nice. They're not asking permission, they're just going in. And then you have issues where, there's a bit of a reality to this. When you have the taxi commission, a long, old monopoly, they got friends in government just like unions.

Yeah. And so Uber's just coming in blazing strong, and there's going to be pushback.

Narrator:

Having raised over \$100 million, Hailo didn't exactly appear to be short of cash. But at the time, it's US counterparts, Uber and Lyft were raising significantly more and using it to fund aggressive marketing campaigns. Uber valued at just over \$60 billion raised in excess of \$6.6 billion, while Lyft reportedly spent \$96 million on marketing in the first half of 2015 alone.

The taxi and car service industry in the US is estimated at \$5 billion in annual revenue. Tokyo's alone is around \$25 billion. According to the report published by Allied Market Research, the global taxi market is expected to hit \$120.89 billion by 2027. Less than two years after it arrived in the US, Hailo shut down its operations in Washington, Chicago, Boston, Toronto, and Montreal.

Narrator:

Apps present possibilities beyond mere transit, including selling things in the cab, location based advertising and coordinating other person to person transactions in real time. But there's something else going on here. Taxi apps give us a glimpse of a future in which everything is in real time. Imagine attaching a moving dot on a map to every pizza delivery driver and FedEx package. As a challenger brand, you need to create differentiation. And in this sector, differentiation is required for both the supply side, the drivers and the demand side, the end customers. From a product perspective, the taxi market sees no sustainable feature differentiation, which left Hailo as the challenger. Hailo ended up merging with MyTaxi in 2017 in a deal that created Europe's largest E-hailing company with 100,000 drivers and 6.2 million registered users.

Michael Madsen:

Joining me on this episode is Peter Matutat, National Technology Leader, and a partner at BDO Canada. Peter specializes in emerging technology companies and for the past two decades, he has dealt with both public and private tech companies. Peter, welcome back to the program.

Peter Matutat:

Thank you, Mike. Happy to be here.

Michael Madsen:

Why do you think Hailo was unable to crack the North American market?

Peter Matutat:

A lot of factors at play that I think combine together. For one thing, when you go into another market, you can't assume that every market is the same and the taxi business is a very clear example of that. I mean, you know Michael, from your travels around the world and your line of work, the taxi business is a lot different, different countries in terms of how they interact. And the UK is probably one of the most different and the founders of Hailo included UK cab drivers. They knew that market really well. They knew that system really well, specifically they knew the black cabs that are predominant in London and England, and they were able to build their relationships with those cab drivers. But their knowledge of North America, I don't think was as strong. London black cabs are a lot different than the cabs you see in Toronto or in the US.

And I think ultimately for Hailo, they wanted to work with the taxi companies and against Uber and Lyft. That was the dynamic that was at play back then, remember this was close to ten years ago. And so they wanted to provide a software to the taxi companies that would help them ultimately compete with Uber and Lyft. I think one of the factors was the US tax companies at that point. I'm not sure they were totally ready, willing, and able to partner with Hailo and make that happen. I don't think their idea was terrible. An app to help licensed taxis compete against the unlicensed didn't make sense, but I think it was just going to be a challenge for how they were going to get enough of those cabs and cab companies ultimately on board to be successful.

Peter Matutat:

When they talk about their experience in the US, one of the theories was in terms of why they weren't successful in Manhattan, is they try to work with the common yellow cabs that you see all over the place in Manhattan. But the issue is you see yellow cabs all over the place in Manhattan. So you often don't need to get an app to get them because they're all over the place, they're ubiquitous, but then those cabs don't eat Hailo because they're already super busy because they've got lots of passengers. Fundamentally though, one of the key contributors was they really knew their home market really well, just didn't translate easily enough into the foreign markets, especially in North America.

Michael Madsen:

So Hailo pulled out of North America because it was too difficult and expensive to compete. Regulations you referred to are different in every jurisdiction. It must be overwhelming to a tech company looking at global expansion. Practically, how can a company keep track of all the rules and regulations in the different countries they're looking to expand into?

Peter Matutat:

Couple of things to keep in mind when you're expanding. And I always say, first off, is make sure you have a market in a foreign jurisdiction before you go too far into the rules. The last thing you want to do is invest in a first class compliance system and have a lot of structure in place for compliance if ultimately you're not going to have a lot of volume or sales there. Then you really want to make sure that you are meeting all your requirements. Compliance is not exciting, but it's very important. And ultimately as I've seen too many times to count, tech companies, most of them are eventually going to sell or do some sort of transaction in the future and there's no bigger gating factor to not being compliant with the basic rules of a jurisdiction.

Peter Matutat:

You got to make sure you're filing your income taxes. You got to make sure you're doing your sales taxes, got to make sure all that stuff is being taken care of because ultimately, it's just going to harm you at the end of the day. Now to ultimately do that, that's when you need to make sure that you're engaging the right experts to make sure that's being taken care of. So if you're going to a foreign jurisdiction, make sure you've got a partner on the legal side, a partner on the accounting side and the tax side that's taken care of. Your back office needs to make sure that's being taken care of. And you need to have experts, if you're in a certain industry, the taxi cab business for Hailo had certain industry

requirements. You want to make sure you have a local industry expert before you go into a foreign market.

Michael Madsen:

Peter, what are some of the other things a tech company should consider before expanding globally?

Peter Matutat:

You want to understand the why? Why are you going to the jurisdictions? Where you want to get to? Make sure you're scaling, knowing that it's going to take a lot of potential effort from the leadership team. You can't multiply yourself. You want to make sure that it can scale and it's not going to be a distraction and it fits in with your overall and where you're getting.

If you are an American company and you're looking to expand into a smaller country, you want to say, okay, well how much resource do I really want to be putting into that? And you want to allocate your resources appropriately. Counter to that, if you're a caning company going to the US market, you want to put a lot of attention on that because that's obviously going to have a big increase on your overall results. So you want to be able to balance things out and make sure you're focusing your attention appropriately as you're going internationally.

Peter Matutat:

As well, you want to make sure the international expansion doesn't become too much of a distraction. And that's where I go back to the extent that you can centralize activities and keep them in your home country that aren't core to the success in that jurisdiction, you want to do that. And you want to be very careful with how many resources you do set up in those jurisdictions. Because you don't want to set up an accounting department for no reason and all the other aspects that go with it, because with more people come more distractions and limit your flexibility in the future if that jurisdiction doesn't ultimately turn out for you. So you want to be very careful in terms of understanding what is the minimum footprint I really need to have in that country to be successful and to execute on my goals and to properly scale.

Michael Madsen:

We hear rags to riches stories about tech companies growing from humble beginnings to global success. What is the common thread of the companies that have enjoyed that kind of success?

Peter Matutat:

First, you have to have a good idea. Then you have to have good people, and then you have to have great execution. Any company that's been successful always has those three things that fall into play. You have ultimately have to have a good product, a good idea, a good concept. You need the people, and you need the people to execute it. And if you don't have those three things, you're just not going to be successful. Those are the basic elements you need in order to really reach that unicorn status as we talk about is the threshold that a lot of companies want to get to at least get to that billion-dollar valuation stage. Those are some of the key elements that you ultimately need. And once you have those three things, then you got to make sure you make the right decisions, don't get distracted along the way. Make sure you're focused on where you want to get to. Pivot as you need to do so.

Michael Madsen:

What are the strategies that you and your team deploy to help companies succeed with their expansion plans?

Peter Matutat:

When you're expanding, you want to make sure you got focus, and you're not distracted. So it's great to let BDO take care of your back office needs. We'll take care of your payroll, your taxes, your bookkeeping, workers comp, sales taxes. You want to make sure that's all done. And we have a lot of clients when they move into a geography and they just have us run their finance department for the

first two years. It limits their investment, their people management, creates flexibility. You focus on the value. Let us focus on the details in the back office and take care of all that stuff for at least the first couple years. And then after that, see how things are going in that jurisdiction and if you want to take some of it in-house.

Peter Matutat:

And the good thing about BDOs, we have offices all over the world. People are selling all over the world, and I can tell you something's happening in the tech space is tech developers are also being used all over the world too. We're seeing a lot more tech development now taking place in Latin America, Asia, all over. BDO has offices everywhere, and we can help you with all your needs and all those jurisdictions.

Michael Madsen:

Thanks again, Peter. Peter Matutat, National Technology Leader and a partner at BDO Canada.

Peter Matutat:

Thank you.

Michael Madsen:

Thanks for being part of Board at the Airport with Mike I'm Mike Madsen. If you like this episode, subscribe to our podcast and connect with us on our LinkedIn group page. Bored at the airport.

Narrator:

On our next episode...

Clip:

Majority of the stuff that Home Depot sells are made in China, and the same kind of products are available in these smaller stores are ready for negotiation. Very hard to go to Home Depot and pay much higher price. No negotiation .

Narrator:

We'll explore what happened when Mattel, Norwegian Cruise Line and Home Depot attempted to expand into China without fully understanding the Chinese culture.

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Clip:

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