In recent days, since its PR troubles, there has been much discussion as to why Uber seems to be so aggressive. Reasons range from being inept , to the challenges of fighting politics against taxi regulations
to a claim that Uber's market
has a “winner take all” nature
. It is this last one that is of particular interest because it suggests that Uber has to fight hard against competitors like Lyft or it will lose. It also suggests that Uber's US$20 billion-odd valuation is based on beliefs that it will win, and win big.

I am not sure that this is really the case. Despite the name "Uber" connoting, "one Uber to rule them all", the theory underlying the notion of winner take all is rather special and is far from being proven in cases like this.

So let's review the "winner take all" theory. Here is the logic of Ben Thompson, who writes the popular blog, Stratechery : suppose that Uber has the majority of riders; that means that more drivers will serve Uber customers; more drivers mean that Uber's service level will improve (that is, there are more cars available, more quickly); and that better service drives Uber to have even more riders and the cycle continue.

However, what is a virtuous cycle for Uber, Thompson claims, is a vicious cycle for Lyft.

Put that way, the effects seem to make sense. But the simple story ignores price (although Thompson does discuss it). He argues that perhaps consumers will be "sticky" in the sense that they will adopt one service, and will choose the one that offers the best trade-off around the ease of getting a ride and the price of that ride.

If the larger service is trying to grab the entire rider market, then it can match price with the smaller one and still win (because its "product" is of higher quality). But there will come a point where that extra share isn't worth it relative to its ability to price its product higher without losing "sticky" customers who derive value from their greater driver availability. This suggests an end to that dynamic and probably an end well before Uber has 100% of the rider market.

Even accepting this, price is a double edged sword. The lower Uber’s price and the more other drivers are on Uber, the less incentive an additional driver has to join them rather than Lyft. To a driver, fewer competitors on the same platform means more profit. You’ll find a ride more quickly and so there will be less downtime. The point here is that having lots of drivers available means lots of drivers go without rides - which is bad news for drivers.

So while there may be forces that could pull riders to coordinate on one platform, the very same forces must push drivers to move towards the smaller platform.

This assumes, of course, that drivers are sticky or exclusive to one platform. For taxis and limos, Uber is it for the moment. So what we are talking about is UberX versus Lyft. But, in the absence of either contractual exclusivity or incentive payments that give you exclusivity by proxy, a given driver has an incentive to be available on both networks and to accept the first ride that comes along. In this situation, whether a driver is available on UberX or Lyft is irrelevant in the aggregate. Both systems will have precisely the same availability.

And in this case, size will not matter for consumers in terms of their choice of platform… only price. And on that score, neither platform can profit from having a lower price than the other as this will, in effect, reduce their pool of available drivers.

Thus, when you sort through the equilibrium effects of all this (as economists are wont to do) we reach the conclusion that Uber and Lyft aren’t fighting for drivers at all but are competing for customers. That is, of course, unless there are moves towards exclusivity or, for that matter, other things that make drivers more likely to favor one platform over the other. I suspect that is still to come.

I should also add that I am not at all sure Thompson’s customer “stickiness” assumption is right. The one thing taxi apps have done is make signing up and using them easy. For instance, it is far easier for an Uber user to check Lyft if a ride isn’t available than it is for a Starbucks drinker to pop down to Dunkin Donuts when the queue is too long. Given that, as I argue above, availability may look the same on both platforms in the long-run, then the consumer’s decision will all come down to price.

My point here is that there is a ton of innovation going on. But, fundamentally, the market is

about the riders (demand) and drivers (supply) with the platforms as intermediaries.

And this may well be a market where the edges win and the intermediaries can capture value by competing *in* the market and having better service quality and not by competing *for* the market and a long-term monopoly bottleneck that they hope to get with it.

*Joshua Gans does not work for, consult to, own shares in or receive funding from any company or organisation that would benefit from this article, and has no relevant affiliations.*

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