Lyft forgoes global expansion in favor of US market domination

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Lyft has walked back years of promises about a global expansion, and instead the car-booking company is doubling down on the U.S. market, hoping to beat its biggest foe here at home.

"There is absolutely no reason why it can't match Uber in the U.S.," said Sam Hamadeh, founder and CEO of PrivCo, a financial research firm on private companies. "They have the luxury of being able to win at home as a minnow rather than a whale."

As Uber continues its quest for world domination, with service in 58 countries and counting, Lyft still has no definitive plans for international expansion, the company told the San Jose Mercury News, and can not give a time frame for when it might start putting its pink-moustached cars on the road in another country.

That's a major about-face from early 2013, when the San Francisco-based startup announced plans to expand across the globe by the end of the following year. Lyft reiterated those plans in 2014, and again in March, saying it would make its first overseas expansion in 2015, adding 100 cities. Now, more than halfway into the year, Lyft has a very different motto: Forget Istanbul and Beijing; it wants to own Chicago and Los Angeles.

Lyft's decision to dial back earlier promises is the result of pressure from investors, insufficient cash reserves and the desire to further distinguish itself from Uber, the gorilla of ride-booking companies, say analysts, investors and industry experts.

And, they say, it may be the smartest strategy in Lyft's playbook.

"The only advantage of going international is just to be bigger," said Dan Sperling, a professor at the University of California, Davis and founding director of the university's Institute of Transportation Studies. "I think it's absolutely sensible to stay focused on the U.S. market. It does mean it will be a smaller company, but the profitability will be just as much."

Indeed, the most profitable markets for ride-booking companies are, for the near future, all in the U.S. With Uber focused on its battles in France, where its presence has ignited violent riots, and South Korea, where its CEO faces criminal charges, Lyft could oust its competitor in some U.S. cities. And it won't burn through cash fighting legal battles overseas, where it could very well get beaten by local car-booking companies anyway.

"We think that this hyperlocal strategy is the way to expand Lyft," said Rex Tibbens, Lyft's new chief operating officer and one of six executives hired in recent months. "It's a very expensive proposition to try to be in every country before you figure out what that country needs. You can't go launching in other countries for the sake of launching in other countries and burning investor capital."

With a fresh round of funding from activist investor Carl Icahn, who in May put up $100 million, the company is building operations centers in cities across the country and establishing relationships with local officials and businesses, Tibbens said. Operations in each city will be overseen by a local manager, rather than from Lyft's San Francisco headquarters, Tibbens said. The company currently has 10 of these managers and expects to have up to 30 by the end of the year; it operates in more than 60 cities.

Through its U.S.-focused strategy, Lyft is building out its carpooling service Lyft Line in major cities across the country. So far, it's in four. In San Francisco, more than half of all Lyft rides are done though the Line service, which picks up several passengers along a route for a nominal cost, and more than 30 percent of all rides in New York use the carpool feature, the company said.

Lyft's domestic focus represents an unorthodox approach for any company selling a consumer product or service, and highlights the unique challenges facing the new tech-driven transportation sector. Traditionally, consumer companies are eager to enter booming overseas markets such as China and India. But in transportation, each country, state and city has its own laws, so Uber and Lyft must essentially start a new business each time they enter a new area, molding that business to whatever agreement they strike with the local government. Each city, then, becomes a battle zone where a company has to use precious resources to fight the entrenched taxi industry and opposing regulators.

"If you take a look at Uber, they are fighting localized battles in almost every country that they are involved in and one reason that they have to keep raising capital is to fight these battles," said Aswath Damodaran, a professor of finance at New York University Stern School of Business. "Not only does it suck up financial resources but it can be distracting."

Lyft may not have fully appreciated the cost and complexity of going international when it first made those promises, analysts say.

"I think there is no question that there is some egg on their face," Hamadeh said. "They had high hopes. But now they are thinking, 'Let's look at our reality, and our reality is our competitor is worth 20 times what we're worth and can outspend us overseas.' It makes sense that they have to focus locally."

San Francisco-based Uber is worth $41 billion and its market cap is expected to reach at least $50 billion after closing another funding round. The company has raised $4.6 billion, more than any other private VC-backed company. Lyft, by comparison, is worth $2.5 billion and has raised about $1 billion.

Lyft's investors, too, have influenced the U.S.-focused strategy. The company's last two funding rounds have included Asian-based investors that have a better view of the challenges of eastward expansion and, in some cases, investments in rival services overseas. Alibaba joined a $250 million round for Lyft and is also a big backer of China's leading ride-booking company.

If or when Lyft does finally go global, many expect the company's first overseas launch will be London. A group of Lyft employees visited the city last fall.

But Tibbens said that won't happen until "we feel like we're at a point we've gone deep enough here in the U.S."

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