ECONOMY

Uber made a big change to how it prices trips. It might be the real secret to the company's turnaround.

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Education Images

Jun 25, 2025, 12:31 PM AKDT

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- Uber's upfront pricing strategy could have powered its financial turnaround, a new study found.
- The report said the approach had come at the expense of ride-hailing drivers' pay.
- It said Uber was adept at "price discrimination." Uber called the findings "a tired, misleading story."

A new study suggests that Uber pulled off quite a feat — raising fares, lowering driver pay, and increasing profits — with a subtle change in pricing.

The analysis, which is based on a trove of data from a single driver, offers some insight into a strategy that the researchers say explains the company's financial turnaround.

In 2022, Uber moved away from a formula based largely on the length of a trip and started rolling out what it calls "upfront pricing," which gives a price to riders and potential earnings to drivers before they accept a trip. Behind the scenes, Uber's algorithms use a variety of factors, not just the length of the trip and demand, to determine rider prices and driver earnings.

CEO Dara Khosrowshahi has touted upfront pricing's ability to offer specific prices based on the company's data and AI analysis.

"Anyone can price based on time and distance," he said during a quarterly earnings call in late 2023. "We'll be able to price out that trip and match it to a particular driver based on a bigger dataset than anyone else in the world."

These days, upfront pricing is standard in most parts of the US and many of Uber's international markets. The strategy may be the secret ingredient behind Uber's 300% stock rally over the past three years, a new study indicates.

Upfront pricing has been "enabling the company to raise rider fares and cut driver pay on billions of rideshare trips, systematically, selectively, and opaquely," Len Sherman, an executive in residence and adjunct professor at Columbia Business School, wrote in the report released Monday.

The study, which is based on about seven years of trip data from one driver, found that changes to fares and driver pay could vary by trip. Sherman's report said that Uber had come close to being a master of what economists call "price discrimination," or determining the exact maximum that riders are willing to pay — or the exact minimum that a driver is willing to accept — for a trip. The term doesn't refer to discrimination based on race, sex, or other personal characteristics, but rather discrimination based on a person's needs and desires in a particular situation.

It's a concept that economists have talked about in introductory economics courses for decades, but it was largely theoretical, Sherman told Business Insider in an interview.

"They cracked the nut," Sherman said. "They have the data and the algorithms and the machine learning to come closer to being able to do that than anyone else."

Since implementing upfront pricing, Uber's stock price has risen nearly fourfold from a low of about 40% below its initial public offering price. In 2023, for the first time in its history, Uber reported an annual profit. The performance rally helped Khosrowshahi secure the option to buy about $130 million in additional Uber stock early last year, as part of an incentive plan.

In a statement at the end of Sherman's report, Uber said its upfront pricing strategy was "designed it be transparent and fair for both riders and drivers." The company also said its pricing algorithms "do not use information about an individual rider or driver's personal characteristics."

In a statement to BI, an Uber spokesperson called Sherman's findings "a tired, misleading story."

Sherman's study used data directly from Uber

When Uber first launched, the compensation model used a rate card, with pay based on the length of trips. Under upfront pricing, drivers' earnings have plummeted, even as the costs of working as a ride-hailing driver, such as gas and car maintenance, have increased, the study found.

Many of Sherman's findings come from an analysis of one driver's trip data — information that Uber allows drivers to download. The information includes details about how much the driver got paid, how much Uber charged the rider, and how long each trip was.

The worker whose data Sherman used was described as a "power driver." The study examined just under 25,000 trips that this driver completed while working close to full time for Uber between 2018 and February 2025.

The driver saw pay cuts starting in September 2022, around the time Uber rolled out upfront pricing, the study found. Over the preceding two years, many drivers had seen their pay increase while driving during the pandemic, the report said.

"We've seen this kind of narrative before — one driver's data and a lot of speculation spun into a sweeping indictment," an Uber spokesperson said. "The facts are simpler: upfront pricing is designed to increase clarity for both riders and drivers, not to manipulate them."

If Uber can apply these methods to one driver, Sherman said, it has an incentive to do the same across a wide swath of its contractors.

"The question, therefore, isn't whether our profiled driver is truly representative of all US drivers," Sherman wrote, "but rather, given Uber's massive profit improvement revealed by our analysis, why wouldn't Uber seek to exploit the same levers across its entire pool of over one million drivers in the US?"

One Uber driver in New York state told BI he used to get more than 50% of fares when he drove for Uber.

Since Uber introduced upfront pricing in his area, though, he has seen his cut — and, usually, his total pay from trips — fall, usually to less than 30% of the total fare. The driver shared screenshots and notes of payouts from his recent trips.

The gap between what riders pay and what he makes becomes apparent when he strikes up conversations in his car. "They'll tell you that they paid Uber $60, and you're lucky if you get $20," the driver told BI.

Upfront pricing appears to have grown Uber's share of fares

One of the clearest pieces of evidence for Uber's use of price discrimination came when Sherman compared his driver's rides from 2019 with those from 2024.

In 2019, almost all of the driver's trips — 98% — had predictable pay based on distance, travel time, and any surge pricing that was in effect at the time.

By 2024, though, that number had dropped to 77%, a sign that Uber had given itself "considerable wiggle room to maximize profits by adjusting prices and pay on every trip," Sherman wrote. The analysis focused on the driver's actual earnings and wasn't affected by fees, such as airport pickup fees, that drivers sometimes incur but Uber reimburses, Sherman said.

Perhaps the biggest financial impact of Uber's upfront pricing, the study suggests, is on the percentage of each fare that the company claims — a metric known as "take rate." Uber doesn't regularly report its take rate in earnings. Sherman estimated it by comparing the rider price per mile in the data with the driver's pay.

When upfront pricing began in 2022, the rides that Sherman's driver took had a take rate of about 32%. By the end of 2024, the take rate stood at about 42%. On some trips that Sherman examined, Uber took more than 50% of the fare. Sherman determined that the lack of transparency around pricing with the new model could have allowed Uber to increase take rates.

How much Uber takes from each fare is a frequent topic of discussion for ride-hailing drivers and their passengers.

"Drivers are obsessed with it," Sherman said.

Determining how they're splitting a fare with Uber is an important factor for ride-hailing drivers who are deciding whether the job is worth it, said Sergio Avedian, an Uber driver who's a senior contributor to The Rideshare Guy, a gig driver advocacy blog and YouTube channel.

"There is no other math," he said.

Uber's upfront pricing also raised fares for short trips that the driver took, Sherman found. Longer trips, meanwhile, became a comparatively good deal for riders, which could have spurred riders to use Uber for longer trips instead of only quick hops around town, he said.

"Uber's upfront pricing policy thus unlocked a trifecta of profit improvement: higher margins applied to higher-priced trips plus a shift to longer, more profitable trips," the report said.

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