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RAPID CHANGES LEAVE OLD OLIGOPOLY EXPOSED

What next for ride-sharing services and the taxi industry?

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Whether one thinks it has been for the better or for the worse, the entry of ride-sharing services such as Uber and Grab into Singapore's on-demand, private-hire passenger transport market has been a tremendous disruption. With more than 5 per cent of their fleets idle, taxi companies are scrambling to adapt their business models to attract driver-hirers and passengers.

Idle taxis incur heavy fixed costs in parking, maintenance and depreciation. According to some estimates, each unrented taxi requires about seven rented ones to cover the cost, which means that, on average, 40 per cent of the taxi fleet in Singapore contributes no profit to the taxi companies' bottom lines.

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Change will be welcomed by many drivers and passengers. For years, the taxi industry has displayed many oligopolistic traits. Taxi fares were deregulated in 1998 by the Ministry of Transport, and the market was further liberalised in 2003 to encourage new companies to inject much needed competition. However, the market has been dominated by ComfortDelGro (operating under the Comfort and CityCab brands), which as of December 2016 had a combined fleet of 16,821 taxis, or almost two-thirds of the 27,534 total. As a result of ComfortDelGro's dominance and despite the deregulated nature of the market, both taxi fares and the daily rental rates of other taxi companies have tended to mirror that of the market leader.

Another oligopolistic trait of the taxi market in Singapore was the insensitivity of commuter demand to changes in fare price. Time-based surcharges were implemented to induce more drivers onto the roads, and were not thought to reduce travel demand in any significant way. Given the astronomical cost of owning a car in Singapore and the dearth of public transport options after midnight, post-midnight travellers had few options but to rely on taxis whatever the surcharge. Those who needed to travel during peak hours similarly had to bear with paying surcharges. Peculiarly, there are more hours with surcharges than without, making the concept of a "base fare" counterintuitive.

The equilibrium in Singapore's taxi market has been upset by the entry of Uber and Grab, with their novel use of technology to match drivers to passengers.

By law, private rental cars in Singapore are not allowed to pick up street hails, and are allowed to accept only pre-arranged bookings. However, the ubiquity of the smartphone has compressed the time needed between requesting a car and having that request matched to a driver. This compression has narrowed the practical difference between a street hail and a booking, and has enabled private rental cars to compete effectively with taxis. These new ride-sharing services also offer additional advantages to passengers such as cashless payment modes, electronic receipts, the ability to rate drivers and automatic car-pooling for cheaper rides.

For the drivers, the inability to pick up street hails using rental cars is made up for by significantly cheaper rentals, and the added flexibility of using the vehicles for personal travel, including to destinations outside Singapore. Drivers also receive incentives for operating during peak hours or for hitting trip targets, adding to their income.

Going by the rising number of idle taxis, and the explosion in the number of rental cars in Singapore from 18,847 in 2014 to 51,336 in 2016, it is clear that many drivers and commuters find the proposition offered by ride-sharing companies compelling.

Most tellingly, some taxi drivers

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now complain that fare surcharges are reducing travel demand rather than enhancing driver income, which indicates that the taxi companies' oligopoly on the private-hire transport market has been broken.

Long used to making incremental changes, taxi companies are now forced to rapidly adapt their business models, especially to attract drivers for their idle vehicles. Trans-Cab has slashed the daily rentals on some models by as much as a third, SMRT has introduced hourly rentals, and ComfortDelGro has just launched a "flexi-rental" scheme that cuts rental in exchange for revenue sharing. This proliferation of business models shows that the taxi market has regained something that has been absent for a while: Real competition.

For passengers, this renewed competition between the taxi companies has yet to translate to cheaper fares or significantly better rides, and it will be interesting to observe if the taxi companies have an effective strategy to attract and retain more commuters.

Despite their disruptive impact, it is not yet obvious that either Uber or Grab will be able to survive in the long term in Singapore and elsewhere. Both companies have been furiously burning cash on passenger fare promotions and driver incentives that have been going on for many months.



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Both companies hope to win the war of attrition in a winner-takes-all market. For them, rapid global expansion has also stretched their resources and tested their ability to defend many markets simultaneously.

Neither company publishes financial statements, but some estimates show that the average Uber passenger pays for only 41 per cent of the actual cost of a trip, and despite exiting the cut-throat Chinese market, Uber still lost more than US$800 million (S$1.13 billion) in the third quarter of 2016.

As for Grab, it recently announced that it would spend US$700 million in Indonesia alone over the next four years to implement its "Grab 4 Indonesia" 2020 master plan.

Having taught passengers to be price-sensitive, both companies are themselves vulnerable to other firms with even more financial muscle — for example, the Chinese ride-sharing companies.

In the end, it may turn out that the Singapore market is indeed too small to accommodate multiple ride-sharing services in addition to a number of taxi companies, especially if the incumbent firms figure out an effective counter-strategy.

Regardless of whether ride-sharing services survive in their current form here, one thing is for sure: Their impact on Singapore's taxi market will be indelible.