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One possible modification from the Competition Commission of Singapore to Uber's proposed sale to Grab, the writers say, would be to require Uber to divest some of its assets to another firm other than Grab. This would maintain significant competitive pressure on Grab in the ride-hailing market. PHOTO: REUTERS

How to level playing field for potential rivals to Grab

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For The Straits Times

Uber's proposed sale of its South-east Asian business to rival Grab has fuelled much discussion on its implications for the transport landscape in Singapore. We believe that the merger will have an adverse impact on competition in the industry, hurting both consumer riders and drivers.

Over the years, riders have been accustomed to frequent discount codes on top of already low fares – reaping the benefits of fierce price competition between Uber and Grab. As both platforms had very similar product offerings, and because most riders were not particularly loyal to either platform, neck-and-neck price competition was the only logical market outcome. With its competitor becoming part of itself, a post-merger Grab has every incentive to raise its prices.

Many are hoping that in the absence of Uber, there will be other forces that will keep a post-merger Grab's prices in check. But how so? Taxis have now have been well integrated with the ride-hailing platforms through services like JustGrab and UberFlash. If Grab raises its fares, we can expect many more taxi drivers to turn down street-hail passengers (perhaps by flashing a "busy" sign) to take up Grab-assigned jobs instead. Other public transit options offer cheaper alternatives, but they will be poor substitutes for point-to-point on-demand transit.

We agree that some riders will switch to alternative transport methods if they consider that Grab's prices are too high; so there will be some constraint on Grab's pricing strategy. But such a forced switch is already a loss of consumer welfare.

Will there be other ride-hailing platforms entering Singapore soon? Yes, we are aware of the fact that Ryde and Go-Jek are rolling out competing ride-hailing services across the South-east Asian region. Will they be successful in challenging Grab? Perhaps not.

A distinctive feature that defines platforms like Uber and Grab is the fact that they operate as a "two-sided" market, that is, taking potential riders' requests and matching them to drivers. Unlike many traditional businesses whereby firms handle production and face consumers on one side, the success of two-sided platforms crucially relies on large numbers of users from both sides.

To put it another way, the more drivers and riders a particular ride-hailing platform has, the more efficient it becomes – the larger numbers result in shorter waiting times for both drivers and riders.

A rider is more likely to use Grab when more drivers work for Grab; and the same applies for a driver when more riders sign up with Grab. This feature means that a new entrant like Ryde or Go-Jek starts off with a major disadvantage because of its much lower number of users as compared with Grab, which makes it difficult for the entrant to reach a scale that is big enough to challenge Grab.

In China, Didi acquired Uber back in 2016. Since Uber's departure, Didi has reduced its rider promotions and driver bonuses, and the number of available cars on the road shrank considerably. Despite the Chinese market's huge revenue potential, it still took over $1^1/_2$ years for a major entrant, Meituan, to compete with Didi.

From its dominant position, Grab is likely to make it difficult for its users to switch to a competitor platform. One might think switching costs to be low for both riders and drivers – one simply has to install another competing platform to compare prices and fees. However, drivers and consumers may very well be disincentivised to switch by existing loyalty schemes that reward driving for or riding with Grab.

On top of that, drivers are further discouraged from changing platforms if they have to fulfil minimum weekly acceptance rates, which may prevent them from switching to other platforms on the fly.

How should our regulators respond to this conundrum?

In our opinion, the merger should not be countenanced in its current form. Commentators have suggested that disallowing the merger would leave an ultimatum to Grab – to scrap the deal or to leave the local market.

We believe that such a binary distinction presents a false dichotomy. Under the Competition Act, the Competition Commission of Singapore (CCS) is empowered to issue directions to the merging parties to modify the agreement in a way that sufficiently addresses the competition concerns.

One such possible modification would be to require Uber to divest some of its assets to another firm other than Grab. This would maintain significant competitive pressure on Grab in the ride-hailing market.

Uber is, of course, free to make a business decision as to whether it should continue to operate in South-east Asia. The rationale for exiting the market is quite understandable – Uber has been said to have lost almost US$200 million (S$262 million) a year in an expensive battle with Grab for market dominance.

Indeed, there may be alternative credible bidders for Uber's assets in the ride-hailing market. Last December, Uber and ComfortDelGro proposed a collaboration that would integrate the operations of Uber and ComfortDelGro's smartphone mobile applications. Uber was willing to use its proprietary technology to match ComfortDelGro taxi drivers with potential consumers.

Given the competitive pressure exerted by Grab, it is difficult to see how the proposed alliance would give rise to competition concerns more serious than the proposed acquisition of Uber's assets by Grab. Would it be possible for some of its assets to be sold to ComfortDelGro, or another firm which would be able to use Uber's technology to compete with Grab in the ride-hailing market?

If divestment is not feasible, the CCS may wish to consider commitments that may address the competition concerns raised by the proposed merger. Thus far, the response by Grab has suggested that it is open to such commitments. In particular, Grab has announced that it proposes to maintain its fare structure and not increase base fares.

But committing to fares charged to riders is difficult, as the dynamic structure of pricing depending on relative supply and demand will allow Grab to increase fares indirectly through surcharges during peak periods.

A commitment by Grab to maintain its commission charged to the drivers for driving on the platform will be more sustainable.

Similarly, a commitment by Grab to remove its loyalty incentive schemes with respect to both its drivers and customers will allow both groups to switch to competing platforms with greater ease.

Regulators often speak of creating a level-playing field for firms to compete on the merits of their products.

While a post-merger Grab would enjoy a massive head start with its large number of users, history has shown that incumbent firms which rest on their laurels are often replaced by eager and innovative newcomers.

Our hope is that these newcomers are given the opportunity to prove themselves, regardless of whether they ultimately succeed in doing so.

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