STATE OF THE CITY

Is the end of metered taxi fares good for cabbies and commuters?

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Cabbies who spoke to *The Edge Singapore* say UberFLASH and JustGrab's fares are generally 20% to 30% lower than metered fares

BY **BENJAMIN CHER & TRINITY CHUA**

Melissa Lim uses a ride-hailing app on her smartphone to book a private-hire car as often as 10 times a week. And, she almost never takes a metered taxi. In fact, even when there is an empty taxi right in front of her, she does not climb in because of the sheer convenience offered by ride-hailing apps when it comes to making payments. "It is more convenient when my transactions are all done via a credit card linked to my [bank] account. I do not have to worry if I have sufficient cash for the ride or if the taxi accepts card payment," says Lim.

It is no wonder that taxi drivers are abandoning their cabs in droves to rent private cars, hoping to pick up more passengers with ride-hailing platforms Uber and Grab. At least 3,000 cabbies have switched their taxis for a private car in the last six months of 2017. As at end-2017, there were 68,083 rental cars in Singapore, versus only 23,140 taxis, according to data from the Land Transport Authority.

With this shift, former cabbies are effectively giving up earning an income from metered fares and accepting the "dynamic pricing" model of the ride-hailing platforms. When passengers request a private-hire car via ride-hailing apps, they are quoted a fare by an algorithm that is based on the supply of cars and demand for rides at that point in time. While the fare for a particular ride is fixed before it begins, fares for the same ride can vary widely depending on a mind-boggling array of factors. For instance, fares from the CBD to Buona Vista could be as low as $8 during non-peak hours, but more than $26 during a downpour.

Now, as the taxi companies themselves forge partnerships with the ride-hailing platforms, they are adopting a similar fare model. On Jan 19, Uber and **ComfortDelGro Corp** launched UberFLASH, a new dynamic pricing service that matches riders with drivers, promising fares that are 5% to 10% lower than UberX. This is similar to Grab's dynamic pricing service JustGrab, which offers fares that are 10% lower than its private cars. JustGrab is available to Trans-Cab, Premier, Prime, HDT and SMRT taxis. Both Grab and Uber also allow passengers to book a normal metered ride in a taxi, but this is apparently not very popular.

Riders who spoke to *The Edge Singapore* are mostly in favour of dynamic pricing, because the fare is quoted before the ride begins and the fare can be much cheaper than metered fares. "It's the ease and comfort of knowing [how much] to pay for the ride and you don't have to worry about other factors [that may affect your ride]," says Ashikin Hashim, founder of sports site Futbolita. In fact, Grab saw a 30% rise in taxi bookings within a month of launching JustGrab.

On the other hand, some taxi drivers are not excited about the new system. While it might be easier to get passengers, it ultimately results in them earning less money, they say. "I won't use [dynamic pricing] because the price is just too low, unless [the] MRT [breaks down] or there is a flood," says taxi driver Ong Soon Heng, who has driven a ComfortDelGro cab for the last 20 years. About 30% of ComfortDelGro drivers who signed up for the service are not using it, according to local media reports.

Things are not much better for drivers on Grab's platform. HDT cabbie Henry Tan says his income has fallen 20%, even after accepting 20% more jobs every day. "If you refuse to accept [dynamic fare] rides, you may be penalised by the platform," he says, "These fares are designed for private cars, not taxis, which are subject to [more stringent] regulations such as higher insurance cost." Cabbies who spoke to *The Edge Singapore* say UberFLASH and JustGrab's fares are generally 20% to 30% lower than metered fares.

Ironically, the private car drivers are just as unhappy now that taxis are part of the dynamic pricing system. "The surge pricing period has gotten shorter [with more drivers on the road]," says Kurinawan Raymond Massie, a private car driver who uses both Grab and Uber. "Surge pricing used to be from 5pm to 9pm, but [there are] only sporadic surges after 7pm now. For instance, fares used to be about $25 from CBD to Yishun, but now during peak hours it can be as low as $18."

Is a dynamic market price the right way to set prices for taxi rides? How does it improve the efficiency of the transport system? And, does it leave commuters as well as drivers better off? Or, does it only benefit Grab and Uber?

More cars, more options

Dynamic pricing is used in several industries as a means to maximise revenue. Hotels and airlines, for instance, charge more during some months of the year and less during others. Their objective is to keep their rooms and seats as full as possible at all times.

"The basic assumption is that companies try to maximise revenue by charging different customers different prices," says Terence Fan, assistant professor of strategic management at the Singapore Management University. "This means that during non-peak periods, companies can lower the prices to stimulate demand, and during peak periods, companies can increase prices to more efficiently allocate scarce capacity." Historically, dynamic pricing has helped increase seats sold on airlines from 65% to 90%.

In the taxi and hire-car sector, dynamic pricing is touted as a means of making more drivers available during periods of strong demand for the convenience of riders. For instance, Uber claims that dynamic pricing is necessary to ensure low waiting times for riders. "Dynamic pricing has helped ensure adequate driver supply to meet rider demand, leading to what we call better 'reliability'. This is why the average estimated arrival time [for an Uber ride] in Singapore is below five minutes," says Uber in an email response to *The Edge Singapore*.

Grab says the aim of dynamic pricing is to offer attractive fares to both drivers and riders. It takes into account factors such as GrabRewards membership, trip distance and time of booking. "A team of economists, data scientists and engineers work together, doing more than 10 million calculations a minute, to consider all of these variables and recommend the final fare that you see on your Grab app," says Ditesh Gathani, Grab's head of engineering. "We are experimenting with integrating publicly available data, including the arrival times of other transport services such as ferries, weather patterns that could affect demand and travel patterns on different days of the week, to better anticipate demand and make sure there's sufficient supply of vehicles on the roads."

Walter Theseira, a professor of economics at the Singapore University of Social Sciences, thinks that both Grab and Uber are constantly tweaking their pricing algorithms and experimenting with different formulas. "I wouldn't be surprised if they used some predictive [models] of what supply and demand would be like based on the time of the day," he says, "It is more of an art than a science."

On the face of it, the dynamic pricing model promoted by Grab and Uber has been a success, in terms of putting more drivers on the road and getting more people to their destinations. The number of taxis on the road peaked in 2014 at over 28,000. The combined number of private-hire vehicles and cabs today is over 50,000.

"We have to think about the counterfactual where dynamic pricing is absent," says Yang Nan, assistant professor of the department of strategy and policy at the National University of Singapore's (NUS) business school. "Years ago when we didn't have private-hire vehicles and real-time dynamic pricing, it was more difficult to find a taxi during rush hour, rainy days and Sunday afternoons."

It also appears that Grab and Uber have put more choices in the hands of consumers. "In the past, consumers will not pass up a more expensive taxi because they don't know if a cheaper taxi will come by later," says Theseira. "Now, you can compare Grab and Uber prices within 10 seconds."

Yet, it remains to be seen how this will work out over the longer term. "Much of this growth is subsidised. Grab and Uber are likely losing money in the Singapore market — so we don't know if they are pumping money or they found an efficient solution to private transport," Theseira says. Grab is reportedly not yet profitable in the Singapore market, and Uber recently had to quash rumours that it is

GRAB

Ditesh: We are experimenting with integrating publicly available data to better anticipate demand

Ng: Dynamic pricing stirs up more demand, so there will be more jobs in the system

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