How to level playing field for potential rivals to Grab

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Uber’s proposed sale of its Southeast 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 become accustomed to frequent discount codes on top of already low fares—ranging from S$0.99 to S$1.99—and fierce price competition between Uber and Grab. 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 fares.

Many are hoping that in the absence of Uber, there will be fewer forces that will keep a post-merger Grab’s prices in check. But how will TaxiCo now have more power to integrate with the ride-hailing platforms through services like JustGrab and Uber Flash. 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 Grab-assigned jobs instead. Other public transport 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; however, 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 emerging soon? Yes, we are aware of the fact that Byde and Go-Jek are rolling out their competing ride-hailing services to be sold in the Southeast 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 in 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 the pool of users results 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 Bye 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 has shrunk considerably. Despite the Chinese market’s huge revenue potential, it still took over 10 years for a major entrant, Meituan, to compete with DiDi. To dominate its position, Grab is likely to make it difficult for its users to switch to a competing 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 new drivers for on-riding Grab. On top of that, drivers are further discouraged from changing platforms if they have to comply with minimum weekly acceptance rates, which may prevent them from switching to other platforms on their own.

How should our regulators respond to this conundrum? In our opinion, the merger should not be commenced in its current form. Commentators have suggested that allowing the merger would leave an antitrust case 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 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 Southeast Asia. The rationale for exiting the market is quite understandable—Uber has been said to have lost almost US$200 million ($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 compromise its proprietary technology to match ComfortDelGro’s 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 other firm, such as ComfortDelGro, to use Uber’s technology to compete with Grab in the ride-hailing market?

If investment 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 fair structure and not increase base fares.

But committing to fares charged to riders is insufficient, as the dynamic pricing of prices depending on relative supply and demand will be maintained even if taxes are indirectly through surcharges during peak periods.

A commitment by Grab to maintain its commission charged to the drivers on 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 consumers will allow both parties 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. One hopes that these newcomers are given the opportunity to prove themselves, regardless of whether they ultimately succeed in doing so.

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