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A STUDY OF SURGE PRICING BY UBER AND OLA LEGAL IN INDIA

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ABSTRACT:

Every other day in India, there is a new start up offering efficient cab service to the citizens operating in urban and rural lifestyles. This raises a question that is India going through a possible 'Taxi Revolution'? In this paper, an attempt has been made to do comparative study of two of such taxi aggregators that have radically changed the way "the great Indian middle class" commutes daily- OLA and UBER. Currently, both OLA and UBER cabs are following the strategy of expanding their operations and building customer base in key metropolitan cities across India. The motive is to increase market share and achieve economies of scale and at the same time providing customer satisfaction. This article seeks to understand the dynamics of India's taxi market by studying various factors like the pricing, market share, revenue models, etc. The paper is qualitative in nature and based on secondary data collected from different sources.

KEYWORDS: OLA, UBER, Cab Service, Startups, India's Taxi Market, Surge Pricing.

INTRODUCTION:

Taxi aggregators like Uber and Ola revolutionized the taxi service system through technology. While these services are extremely popular, their surge pricing systems have invited controversy around the world.

India seems to be going through a probable "Taxi" revolution. Every other day, there is a new start up offering efficient and economical cab service to the citizens operating urban and rural lifestyles. Travelling within the city has always been a curse for many individuals, especially for those living in crowded cities like Delhi, Mumbai, Bangalore, etc. While the local trains emerge as an alternative to shelling out cash for fuel and waiting in bumper-to bumper traffic in cosmopolitan Mumbai, the danger of travelling by these trains is innumerable. The distances in

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Bangalore crush the spirit out of anyone who loves to drive while the traffic makes driving your own vehicle in the city terrible. Ola Cabs is a taxi service that was started in 2010 in Mumbai to solve the city's transport setback.

ANI Technologies Pvt. Ltd., functioning under the trade name Ola, is an Indian online transportation network company. Founded as an online cab aggregator in Mumbai, Ola is now based in Bangalore. As of September 2015, it was valued at $5 billion. Ola cabs has completely revolutionized the way India travels, and is favorite with almost everyone, given its convenience, efficiency and how it allowed us to save the daily arguments and haggling with the auto and cab drivers who refuse to go by the meter. Founded on 3rd December 2010 by Bhavish Aggarwal (currently CEO) and Ankit Bhati, Ola, as of 2014, had expanded to a network of more than 200,000 cars across 100 cities. In November 2014, it expanded to incorporate autos on-trial basis in Bangalore. Post the trial phase, Ola Auto has expanded to other cities as well like Delhi, Pune, Chennai and Hyderabad and Kolkata starting December 2014 while in December 2015, Ola expanded its auto services in Chandigarh, Indore, Jaipur and Guwahati, Visakhapatnam. Ola Cabs acquired Bangalore based cab service Taxi For Sure for about $200 million in March 2015. From the 25th of June 2015, Ola users have gained access to Taxi For Sure cabs via the Ola mobile application. By November 2015, to strengthen its new bus-shuttle service, Ola had acquired Geotagg as well, a trip-planning applications company, for an undisclosed sum. Ola provides different types of cab services to its customers ranging from economic to luxury travel. The cabs can be reserved through a mobile application. It supports both cash and cashless payment options with Ola money. Ola claims to clock an average of more than 150,000 bookings per day and commands 60% of the market share in India. In November 2014, Ola also started on-demand auto rickshaw service through its mobile application in Bangalore, Pune and few other cities in India.

REVIEW OF LITERATURE:

Surge pricing is a system where when the demand for taxis exceeds supply, and then the rates to be charged go higher. The taxi aggregators say that this system uses simple economics to meet the increased demand — the increase in prices will attract more drivers to the area, and as a result, the increased demand can be met. Once the demand and supply is balanced, prices will

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go back to normal. The surge pricing systems used by aggregators leads to higher charges during certain times, such as peak hours, holidays, events, etc.

Total Fare = Base fare + Fare per minute + Fare per km after the base distance

While aggregators state that surge pricing benefits the customers through a greater number of taxis, customers are far from happy. The primary reason for this is the absolute lack of transparency about the basis on which surge pricing is started, how the multiplier increases, etc. At times, the rates could go up as high as 50 times the normal rate. This system was particularly criticized for its use during tragedies like the Sydney hostage crisis and Hurricane Sandy. In addition to customers, drivers were also reported to be unhappy with the situation, since many would drive down to the location of surge pricing, but within a few minutes, the surge pricing would have stopped.

Since their introduction, these companies have been at loggerheads with various governments and courts, mostly for non-compliance with existing taxi regulations. Protests also came from traditional taxis service providers, who demanded a level playing field with the, until then, unregulated aggregators. Now many nations have introduced or have begun to introduce specific regulations for aggregators. In India, Karnataka and Delhi are the only states to have specifically prohibited surge pricing. Other states are in the process of drafting regulations.

Surge pricing, according to Uber, comes into effect "when the taxi demand is higher than drivers around you." The company claims that the surge pricing ensures that more taxis ply on the roads and helps meeting the increased demand.

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UBER:

Headquartered in San Francisco, California, Uber Technologies Inc. is an American worldwide online transportation network company. Founded as UberCab by Garrett Camp, the founder of Stumble Upon, and Travis Kalanick in 2009, it develops, markets and operates the Uber application, allowing consumers with smartphones to submit a trip request, which the software program automatically sends to the Uber driver nearest to the consumer, alerting the driver to the location of the customer. As of August 2016, Uber provided its cab services in over 66 countries and 545 cities worldwide. The Uber application automatically calculates the fare and transfers the payment to the driver. Since its launch, many other companies have replicated Uber‟s business model, a trend that has come to be referred as "Uberification". The legality of Uber has been challenged by the government and other taxi companies, who allege that ithiresdrivers who are not licensed to drive taxicabs which is unsafe and illegal. Also, some taxi driver unions have called Uber drivers "pirate taxis". However it is now common for taxi drivers to as well to work for Uber; especially during "surge" periods when they have high chances of earning multiple times what they would have under the taxi umbrella. The company received $200,000 in seed funding in 2009. In additional funding, Uber raised $1.25 million in 2010. Following a beta launch in summer of 2010, Uber's services and mobile application officially launched in San Francisco in the year 2011. Initially, Ryan Graves was appointed as CEO, however, Kalanick replaced him in the role later that year and Graves stepped down to become the company's COO. By the end of 2011, Uber had raised $44.5 million in funding and in the same year, the company changed its name from UberCab to Uber.

Advisory by the Ministry of Road Transport and Highways: In India, the Ministry of Road Transport and Highways issued an Advisory to the State Governments in October 2015, recommending that they lay down the terms for the regulation of aggregators. On the issue of fares, the advisory stated that the State Governments could notify the maximum fares to be charged.

The advisory also gave importance to transparency, and recommended that the rider should be provided with information on the distance and time travelled, the amount to be paid, and on completion of the trip, must receive an electronic receipt. Thus, while the State Governments have been given the freedom to draft regulations and set fares as they deem fit, clearly the aim

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is to remove the disparity between aggregators and traditional taxi services. If corresponding regulations are imposed, then surge pricing cannot lead to fares beyond the maximum permissible amount.

Karnataka: India saw its first specific aggregator regulations in the form of Karnataka's new On-Demand Transportation Technology Aggregators Rules, 2016. These rules mandate that the aggregators must charge the rates fixed by the Karnataka government. Since no lower limit is fixed, it appears that taxi drivers can charge a rate as low as they please. While surge pricing is not specifically banned, it appears that it can be implemented provided it does not exceed the prescribed fare. However, the show-cause notice to Ola makes it clear that surge pricing is not permitted. A violation of this rule can result in the license being suspended or revoked.

Delhi: In Delhi, aggregators were asked to register under the existing Radio Taxi Scheme, 2006. This scheme fixes the rates to be charged, allowing the taxi operator to charge less than the rate, and increase rates by 25% at night (11pm to 5am). During the recently implemented Odd-Even Scheme in Delhi this year, the Delhi government made it clear that surge pricing was illegal, and threatened strict action against violators. Thus while aggregators can charge lower rates, they cannot implement surge pricing.

Maharashtra: In Maharashtra, draft regulations have been framed in the form of the City Taxi Scheme, 2015, to deal with aggregators. These rules state that the aggregator must charge fares as prescribed by the Maharashtra government. The fare will be decided by the government based on the cost of the vehicle or its engine capacity. It appears that the rules will not allow even a lower fare to be charged, leave alone using surge pricing. The exact fee prescribed will have to be charged, similar to traditional taxi services.

West Bengal: The most aggregator friendly regulations were those issued in Kolkata through a temporary Order by the Office of the Commissioner of Police, Bidhanagar. This order was issued for a period from January to March, 2015. All that this order said with respect to fares was that the amount to be paid must be conveyed to the customer via an e-mail or SMS.

No further restrictions were imposed on the amount to be charged, nor was anything said on whether surge pricing was legitimate, giving aggregators complete freedom to decide their

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rates. This Order, though lauded by the taxi aggregators as the 'right' way to regulate them, is the exception, and not the rule.

PRE- UBER / OLA SCENARIO:

Before the entry of Ola and Uber, intra-city taxi services in major metropolitan cities in India were ordinary non-a/c black & yellow taxis, cool cabs, few a/c radio taxis and large number of 3-wheeler auto rickshaws. In Mumbai there were about 45,000 black & yellow non a/c taxis and about 100,000 three-wheeler auto-rickshaws operating. There were about 8,000 air-conditioned taxis operational. The fares of all these taxis and auto rickshaws were regulated by the state transport regulator in each state and all these taxis and autos were required to display these fares on the Meters. The mechanical meters meant to display fare payable were not re-calibrated since 1978 and after every revision in the taxi/auto fares, the Tariff Card used to be issued by the Transport Authority to indicate the revised fare by reading it in conjunction with the mechanical meter for the distance travelled. Somewhere in and around 2013, the typical mechanical Meters installed on taxis and autos - which were prone for manipulation, rigging and thereby excess charging - were replaced by Electronic Meters at the insistence of Mumbai Grahak Panchayat, the leading consumer body from Mumbai. The Government's decision to replace the mechanical meters with installation of Electronic meters on taxis & autos was also challenged by the drivers' Unions right up to Supreme Court, but in vain. The owners/drivers of black & yellow taxis / autos were unionized and used to often dictate the terms on the transport regulators in the matter of fixation of taxi/auto fares on the strength of their organized unit. Negotiations for revision in fares were often preceded by strikes of taxis/autos with a view to pressurize the government and the transport regulator for more favourable and beneficial fare revision. Seldom had the government or the regulatory authority found it appropriate to hear the views of the passengers / consumers, with exception of Mumbai where Mumbai Grahak Panchayat used to represent the passenger interest before the transport regulator. As such, the general scenario before the entry of Uber & Ola can be summed up as follows:

- Taxi/auto fares used to be unreasonably high.
- The services offered by taxi/auto drivers were far from satisfactory.

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- Rampant Cherry-picking of the long-distance passengers & blatant refusals of passengers for short distances,
- Poor maintenance of the vehicles,
- Rigging / Manipulation of the Meters to overcharge the passengers,
- Rude and arrogant behavior of the drivers,
- Abusing the collective bargaining strength of drivers to go on strikes to force Transport Regulator to succumb to their unreasonable demands for fare hike and other concessions in traffic offences.

Thus, with the above scenario, the passengers were on a lookout for a better and more economical option for their transport needs.

CONCLUSION:

India's major attractiveness lies in its market size and increased purchasing power resulting in uplifting lifestyles. On the other hand Indian consumers are smart, very demanding and highly price-sensitive with no brand loyalty; managing such market is not an easy task. Companies need to constantly be on their toes and keep designing new packages and offers to allure the customers for long which at times result in a lot of cash burn. Therefore, it would not be that easy for both the companies Ola and Uber to operate in such an environment. They have to optimize their costs at all levels; need to be more customer-centric & target oriented; highly innovative; resistant to pressure from the regulatory authorities and above all keep delighting their customers as „customer is the king".

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