

Taxi apps could transform global transport models

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In June, taxi drivers in many major cities staged protests against Uber, the global leader in taxi apps, which allow people to call taxis driven by unlicensed operators using personal vehicles. Due to their lower overheads and the absence of regulation, taxi apps such as Uber, Hailo, Lyft and Get Taxi are able to undercut traditional taxi companies. The protests signalled the arrival of a new digital platform that threatens to transform inner-city transportation, which has seen little innovation over the last 100 years.



Taxi drivers protest against transportation network companies in Sacramento, California (Reuters/Max Whittaker)

What next

The taxi disputes that are unfolding globally are set to have an important effect on the way transport systems evolve in major cities in the age of smartphones. Although Uber has experienced bans in Brussels and in some Asian cities, most have taken a tolerant stance. The new business model is likely to expand to other transport systems.

Analysis

In London, the Hackney carriage (or black cab) dates back to 1620. These carriages had a reputation for overcharging and held a monopoly in Central London before the arrival of horse drawn buses.

In order to protect passengers during the 1851 Great Exhibition, authorities introduced regulations to fix fares and set standards for monitoring cabs. It is the successors to these regulations (the use of meters and completion of 'The Knowledge') that black cab drivers in London claim make taxi app operators illegal due to their non-compliance. Uber and others claim that technology, such as GPS, makes such regulations obsolete.

Key complaints by taxi firms opposing the digital disrupters have been based on issues such as trust, safety and insurance. Uber services are rated by their users and drivers are certified based on character referencing without any regulatory body's involvement. Uber, in fact, claims not to be a taxi company, but only facilitating informational exchanges between self-employed drivers and those wishing for rides.

EU Digital Agenda Commissioner Neely Kroes has indicated a preference for 'light touch' regulation and suggested that any new rules should not be designed to protect an existing industry.

Taxi app market growth

Uber is expanding into Asia and already operates in 20 cities in the region. There are signs that a battle similar to other digital marketplaces such as books, film and music could unfold.

Due to low barriers to market entry, many competitors are entering the market. Get Taxi has 4,000 London taxi drivers using its app and 10 million users in 24 cities worldwide. The additional demand being created by cab-hailing apps and the growing population in the global largest cities also means there is enough room for several players to compete.

Impact

- Since its launch, Uber has expanded into 149 cities in 41 countries and is currently valued at 18 billion dollars.
- Protests will only help expand Uber's market share, by generating free publicity.
- The company is just one of several tech firms on the cusp of disrupting transport markets.

Low barriers to market entry are aiding new entrants

However, new digital platforms usually favour first movers due to the network effects. The more passengers that use Uber's apps to find rides, the more drivers are likely to be attracted to its service.

Meanwhile, less time spent waiting between fares allows drivers to accept lower prices and still turn profits due to higher volume. This draws even more users to the apps and creates a new business model, changing the traditional industry approach. After nearly five years, network effects are now apparent in the cities where Uber has been operating the longest.

Increased convenience and lower prices means that people are now summoning taxi rides in situations where they would not have done before the introduction of apps and smartphones. This could potentially lead to reduced car ownership in large cities.

Alternative models in Asian markets

In some Asian markets where prices are already low, Uber has repositioned its app as a high-end luxury service, which has proven successful in Hong Kong and South Korea. In China, which has some of the most congested cities in the world, the two leading Internet firms, Alibaba and Tencent, are using taxi apps as strategic tools to fight for ancillary market penetration (see US/INT: Tech firms may challenge asset managers - July 2, 2014).

Tencent's Didi Dache ('Honk Honk Taxi') and Alibaba's Kuadi Dache ('Fast Taxi') are used to gather consumer data to target the smart phone owners with advertisements for products and services (see INTERNATIONAL: Financial tech disrupts business models - May 27, 2014).

Alibaba and Tencent are using taxi apps as strategic tools

The GPS, navigational and mapping software in smartphones also provides potential advertisers with an advantage in terms of locational targeting of messages. This is one reason for Google Ventures' 258 million dollar investment in Uber's recent 1.2 billion capital funding round.

Transport revolution?

In Helsinki, a Finnish entrepreneur is launching a program that would provide residents with an on-demand commuter service operable from a smartphone app. The plan is to create a real-time marketplace for customers who can choose which transport provider they wish to use, including public and private transportation options. The providers' services are distilled into an app through which a customer plans the route.

This could result in a service ecosystem which companies and commuters can enter at any time. Mobility would be sold as a service and commuters could purchase mobility plans according to their needs.

This would have knock-on effects for the automotive sector if (a question not yet answered) no major crime or incident involving Uber or a competitor leads to new regulation that eliminates its competitive advantage or creates a stigma which cools consumer sentiment.