SERVICE PRICING CHALLENGES ON SHARED PLATFORM: UBER INDIA VS DIDI CHUXING

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Abstract:
One of the major outcomes of digitalization has been the advent of Platform based business models which are covered under the larger ambit of sharing economy. As resources in the digital age is being shared and focus of these new age companies are on building a new kind of business models, pricing becomes the key. Especially, service pricing and how the same will hold forth here in shared economy. The paper is an attempt to look at two contrast markets, China and India and to assess how the pricing is managed on shared platforms. For Didi Chuxing in China and Uber in India, the context of service pricing and how regulated versus unregulated markets operate. A conceptual framework at the end gives a possible direction to understand the dimension of service pricing in emerging markets.

Keywords: sharing economy, platform economics, two-sided markets, service pricing.

1. Introduction

Digitalization and rapid advances have impacted business in many ways. One, it has created new business models, second new revenue models and third it has changed the approach to doing conventional business too, from a functional and operational sense. Functional more from product perspective and operational from service (process) perspective. As the new norms of business got established after 2008 global meltdown, one of the new formats that emerged was sharing of resources based conducting business. It was convenient and suitable to share resources for conducting business on the back of digitalization. This was also the time Platform Economy (Evans 2005) also came in as a concept. Often used intermittently Platform economy and Shared Economy conveyed a sense of complementarity. Yet, they have different orientation in terms of looking at conducting business. Platform evolved from transaction-based models where digitally enabled buyers and sellers congregate to transact on the platform; either as B2B or B2C or C2C or C2G or G2C or G2G or G2B or B2G. Eventually, they all

normalized and made way for new generation companies like Amazon or Uber or Baidu or Alibaba.

The context of sharing economy further evolved during the global financial and economic crisis of 2008. The context of "sharing economy" and "collaborative consumption" proposed using market intelligence forces to foster a more collaborative and sustainable society. Bike sharing, or car sharing are examples of such sustainable model. Even P2P platforms, renting rooms, sharing gadgets or even swapping clothes all fell under the purview of sharing. These activities were conducted on a platform. Wikipedia defines the "(…) *sharing economy* (aka the share economy, the shared economy, the mesh or the collaborative economy) refers to economic and social systems that enable shared access to goods, services, data and talent.

The form or context of delivery may change but use of information technology for empowering individual, corporations, non-profits and government with information is the basic premise. This further enables distribution, sharing and reuse of excess capacity in goods and services. A common premise is that when information about goods is shared, the value of those goods increases, for the business, for individuals, and for the community (…)". The basic premise of sharing economy is based on three key differentiators: product service systems (PSS), redistribution market and collaborative lifestyle (Botsman and Rogers 2010).

A drill machine can be bought, or a consumer can avoid buying it or they can buy a secondhand drill or can rent it or hire someone to drill or can share with someone who has a drill. For each of these, there are multiple options in terms of companies who cater. The same logic applies for a car too; buy a used car (cars24.com), rent a car at a car-rental company (zoomcar), or hire on-demand (UberX), or rent a car from a private individual (Relayrides).

Therefore, sharing economy is generally defined as the peer-to-peer-based activity of obtaining, giving, or sharing the access to goods and services, coordinated through community-based online services" (Hamari et al., 2015, p.1). Other names proposed are (Chandler, 2016) are gig economy, platform economy, access economy, and collaborative consumption too. But the basic premise is about interoperability and increasing return on adoption with information remaining a public good (Frenken et al., 2017).

With modified approach to business revenue models change too and service pricing issues become critical to consider. Service pricing has traditionally remained competitive because of the intangibility clause attached to it (Lovelock, C.H. 1996 Indounas Kostis 2018). As services enter a new phase of transition and transformation because of technology and sharing platform; service pricing becomes even more complex and critical (Sun Luoyi et al. 2019). Amongst the several fallouts of shared platform driven service pricing, ride hailing cab services have been dominant in news and for bringing new dimensions to pricing challenges (Jin et al. 2016). As the design of these platforms are a complex edifice of economics and technology pricing here follows a different trajectory (Fang et al. 2017). Alongside pricing, the markets they target have a supply and demand side perspective that requires understanding (Skouras et al. 2005).

The paper attempts to understand the basis of service pricing for emerging economics with two similar yet so dissimilar market entry approach of the two players. Uber entered India with ride hailing applications, were Ola and TaxiForSure was already operating as ride hailing services through mobile applications, besides

Radio Taxi players like Meru and MegaCabs. They continue to operate independently in India. Alternatively, in China they (Uber) entered initially in the luxury car rental market and gradually moved to cab hailing service which was on no profit no loss basis. After burning cash for a year, they finally sold of their shares to Didi Chuxing and today has a 20% stake in profit sharing. Didi Chuxing started taxi haling services and has gradually moved to multiple services within the same domain. The paper attempts to understand the context of taxi hailing and cab hailing as separate entity and how pricing gets affected for two side market. Second, understanding regulatory forces like governments role in pricing fixation and regulation. The two key issues that are raised as questions:

- Issue 1: Is Pricing Power is more in ride hailing as compared to taxi hailing?
- Issue 2: Do Government regulation and intervention have impact on pricing for final products in shared based platforms?

2. Review of Literature

2.1 App hailing services and shared economy

The concept of sharing economy has invaded homes and economies in less than a decade. By 2025 the two biggest pioneers of shared economy, Uber and Airbnb will be estimated to reach $335 million (Constantiou et al. 2017). The concept introduced in 2011 (Botsman 2011) has three important parameters to consider and differentiate from others: access over ownership, peer to peer and allocation of idle resources. The three, if dovetailed into Uber or Airbnb provides the right rationale to how one access a room or a cab or the whole thing is in a peer to peer setting where either Uber or Airbnb provides the platform to transact and finally it is about idle resources lying with the seller that he wants to put up on the platform for access at a price.

At the forefront of sharing economy has been the role of information technology. It has significantly helped the concept to leverage and the catalyst for the same has been Smartphones and Social Media. In an emerging economy like both China and India, smartphones played a vital role in helping a large section of underprivileged section to be empowered through Smartphones. Even with the launch of Didi and Kuaidi, later Uber too; Smartphones helped Chinese customers to avail the app-based cab haling services. Fed up with the local taxis and the different regulations, burgeoning population and inconvenience of the taxi format, the app-based cab services took off. The internet was a key enabler in the process and was able to provide the platform for growth. The 2008 global recession was also a major catalyst too. With the economic slump and the instability that arose, the concept of resource sharing became an outcome of staving. On the side-lines of technology and economic downturn, shift in consumer mindset also helped in nurturing the process of sharing economy. Consumers were more interested in experiencing rather than acquiring. A car or a house was about experience and less about ownership for the millennial population.

Constantiou et al. 2017 in their paper have discussed four kinds of sharing economy platforms: Chaperones, Gardeners, Franchisers and Principals. The context in which the typology is discussed, rivalry between platform participants and control exerted by platform owner. Uber follows in the category where the rivalry amongst the competitors is high, and the control of the owner is tight. Globally,

wherever it (Uber) operates the markets are oligopolistic in nature with intense price war (Didi versus Uber in China).

2.2 The premise of shared economy and two-part market

The concept of two-sided markets is gaining momentum in shared/platform-based economics. Two sided markets are about markets that affects change in volume transaction because of change in price share between two groups (Sun Luoyi et al. 2019). In two sided markets the context of ride hailing versus taxi haling platforms are different; where, in the latter the pricing power is less as compared to the former. This is important from the context of Uber India vs Didi Chuxing; the former being a ride hailing versus the latter being taxi haling.

Uber's entry in India was in 2013, after a massive shakeout that had already been observed in the market; first with the launch of Radio Taxi like Meru, Fast Track and Mega Cabs in 2001. The problem with Radio Taxi was the fare was collected and aggregated at the company level, which was considered negative by the drivers. In 2010, the market saw a major shift to app-based cab haling services with the launch of Ola and TaxiforSure. The cycle was complete in 2013 with the launch of Uber India.

Table 1 below provides fares charged by Uber in major metros of the country.

Table 1. Pricing Rates by Uber in Indian Metro Cities[1]

DELHI		BENGALURU		HYDERABAD		KOLKATA		MUMBAI		CHENNAI	
Time of day	Avg Weekly savings	Long distance (20+ kms)	Rs140 – Rs210	Late night (9pm-7am)	Rs70 – Rs140	Long distance (15+ kms)	Rs210 – Rs280	Afternoon hours (11am-5pm)	Rs175 – Rs245	Long distance (15+ kms)	Rs140 – Rs210
Peak hours (7am-11am and 5pm-9pm)	Rs130 – Rs150			Long distance (16+ kms)	Rs210 – Rs280			Late night (9pm-7am)	Rs175 – Rs245		
Afternoon hours (11am-5pm)	Rs180 – Rs220										
Late night (9pm-7am)	Rs130 – Rs150										
Long distance (20+ kms)	Rs525 – Rs560										

[1] Source: Source: https://www.zeebiz.com/companies/news-uber-fares-chart-tariffs-get-slashed-check-savings-rates-in-delhi-bengaluru-mumbai-and-more-54007 accessed on 18 August 2019

The practice of Surge Pricing[2] explains variation in prices across different times in a day. When the cab driver is online, the app installed in driver's phone identifies and displays areas with high demand for rides in shades of red. The deeper the shade of red, the greater is that area's demand. While the demand for ride is very high, fares may increase to absorb the excess demand generated in the market. Thus, practice of surge pricing ensures that rider gets the pickup quickly and reliably. For driver-partners, surge means higher fares and a steady stream of ride requests. Thus, increase in fare through surge really incentivizes the supply side to provide the service. Figure 1 illustrates the incident of surge pricing with the help of a simple Demand – Supply diagram:

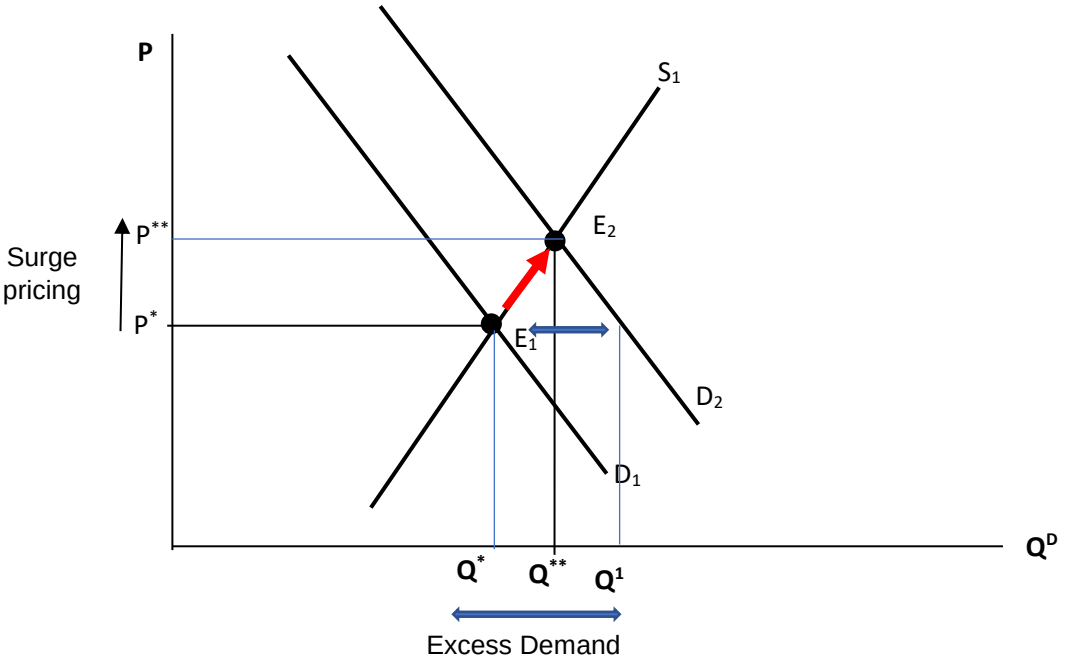

Figure 1. Surge Pricing by Uber

The figure above shows that through the increase in a price of cab service the equilibrium is restored (temporarily) in surged area. Mathematically, this surge pricing followed by Uber can be written in the following manner[3]:

$$GF = f(\delta, BF, D, T, t) = [\{(1+\delta)TF\} + t]$$
$$= [(1+\delta)(BF + D + T) + t] \ldots\ldots\ldots\ldots\ldots\ldots (1)$$

[2] Extracted from https://help.uber.com/partners/article/what-is-surge?nodeId=e9375d5e-917b-4bc5-8142-23b89a440eec

[3] The mathematical formulation is based on the concept note available at https://help.uber.com/partners/article/what-is-surge?nodeId=e9375d5e-917b-4bc5-8142-23b89a440eec

where, *GF* = Gross Fare, *TF* = Trip fare, *BF* = Base Fare, *D* = Monetary Value of Distance to be travelled, T = Duration of Travel and δ = Surge Multiplier (≥ 0), *t* = Toll

$$\mathrm{NP} = \mathrm{GF} - \mathrm{SF} \ldots\ldots\ldots\ldots\ldots\ldots (2)$$

where, NP = Net Payout to Driver and SF = Uber Service Fee

It should be noted that the surge multiplier is not constant and depends primarily on the market dynamics. When the demand is normal ideally the surge multiplier is 0 and a consumer is paying the Toll amount only over the Trip Fare (TF).

Table 2. Sample Pricing Calculation by Uber during Surge

Components of Pricing	Hypothetical Numerical Value
BF	$2
D	$3
T	$5
TF	**$10**
M	1.5
T	$1
GF	**$ 16**
SF	$ 2
NP	**$14**

Given the existing competition in this market (ride hailing application services) Uber India and OLA are two major players along with players like MERU cab and Mega cab (though they are a hybrid of radio taxi and application-based cab hailing services). However, the market share of Mega Cab and Meru Cab have been shrinking since the entry of OLA followed by Uber in India. This has to do with technology (UI/CX issues) and demand supply related price fixation. For an unregulated market typically forces of demand and supply determine the final price. Had it been a highly competitive and regulated market, market forces in cab service market would have set the final price or fare paid by the consumers.

However, since OLA and Uber India are the major players in this market and facing very less competition from other existing cab services, market power or pricing power is very much concentrated in their hands. As a result, one can clearly observe discriminatory pricing as a manifestation of pricing power is in practice in this market. To be specific, ride hailing followed by Uber India is clear reflection of a typical price discrimination strategy. At different point of time in a day for the same distance covered Uber India is charging different prices to a customer and this is known as Surge pricing. It should be noted that one part of this surged price could be a result of interaction between market forces, but the other part is clearly a result of discriminatory pricing practice. Discriminatory pricing refers to the strategy of charging different prices from different customer segments for the same product or different prices for different products or different products at same prices (please see Figure 4 and Equations 1 and 2).

Discriminatory pricing works in condition when firms must be able to control supply, firms must prevent re-sale from one buyer to another and there must be difference price elasticities in the different markets for the product

(https://www.intelligenteconomist.com/uber-price-discrimination-strategy/). In the case of Uber, they are able to manage all the three factors. They control supply through the application with both buyers and sellers knowing about the demand and supply through the application. Second, there is no element of resale here.

The other aspect of unregulated market is the alternate available for transports. For markets in India where Uber operates the other options are three-wheeler, private taxis, and private registered commercial vehicles. Each one of them have soft and hard issues. Soft issues are in terms of safety of passenger, quality of vehicle, ease of haling and ride safety (three-wheelers are generally unsafe on long stretches). Hard issues are primarily cost of the ride and restrictions in travelling (many airports do not allow three-wheeler entry).

Alternatively, Didi Chuxing's orientation and market regulatory factor has been different. Didi DaChe ("honk honk taxi hailing") was released in Beijing by Xiaoju Technology Co. Ltd. in September 2012, as a rival to Kuaidi. At the initial stage, both Didi and Kuaidi focused on providing a basic taxi-hailing service that was more accessible and convenient for customers[4]. Didi and Kuadi price war became intense, and each was individually burning cash. Between 2012-2015 they were stuck in a bitter price war with Didi eventually buying out Kuadi. Uber which had launched in 2013 had joined this price war with support from major tech giants. However, it could not sustain itself and had to exit China in 2017, with a 20% stake in Didi ChuXing.

Unlike India, China has two parts to the taxi industry. (i) There are publicly owned taxi companies own vehicles and (ii) there are the Private taxi companies that are subsidiaries of or affiliated with collective firms or qualified government agencies (Gao and Duan, 2015). China's taxi industry is under strict governmental restrictions on market entry, fare standards and quotas for operating vehicles (You et al., 2009). Under this circumstance, bureaucracy and the burden of administrative cost have given rise to a third type of taxi company that affiliates with collective firms or qualified government agencies. These companies have operation licences but are far from transparent when it comes to management and wage level (Chen 2018).

2.3 Regulatory factors impacting shared economy and impact on tariff

As a taxi hailing application service and second the government regulatory forces (pertaining to price and hygiene factors for operating taxis) have been pronounced in China. The resultant fallout of such regulation even led to Uber China's exit and working on a percentage share model with Didi Chuxing now.

Uber's exit from China was more about government[5] intervention and less about direct competition from rivals. Upon entering Chinese markets in 2019 Uber was forced to change a few of its core products. First, replacing credit card-based authentication to local payment wallet (Alipay) based authentication. Second, it was forced to shift from Google as a navigation to the local internet giant Baidu for the reach and connectivity Baidu had and third, it installed local servers in China for avoiding disruptions in services due to the problematic Chinese firewalls.

After undergoing such adaptations in the core application, Uber China had to now compete with locals like Didi and Kuaidi. Both these players were engaged in

[4] Source: Uber vs. Didi: The Race for China's Ride-hailing Market; Insead Business School; Kuangzhen Wu, and Guoli Chen; Accessed 19 August 2019

[5] Source: The real reason Uber is giving up in China; William C Kirby, HBS August 2016

an intense price war with deep discounting and subsides being passed onto the drivers and customers. Uber was also forced to follow suit. It realized very quickly that to compete in this market, volumes will drive business. Volumes in terms of more customers and more drivers to cater to the demand. Drivers were willing to ride with Uber because of the attractive incentives. Soon, Uber started onboarding drivers from the gray market (as listed above in the three kinds of taxi operators in China), who were basically a large migrant population working in an unregulated market. The government soon realized, and Uber came under the scanner. The massive regulatory mechanism introduced in the Chinese market fell like a ton of bricks on Uber. In July 2016, China granted legal status to the ride haling services. This meant tariffs were regulated, subsidies and deep discounting was off, and the gray market taxi driver repository was wiped off. In addition to the national regulation, each state had rights to bring in their set of regulations too, which affected Uber even more. In between Uber did try making inroads with Didi and the negotiations fell off. Eventually in August 2016 Uber was forced to leave China and in share swap deal with Didi has 20% stake in it. This gives Uber access to Lyft in US and Grab in SE Asia too.

Pricing approach of cab services in Indian market are not restrictive and usually follow going rate pricing. In other words, government intervention or regulatory instrument such as Price Ceiling is not there. Though in 2015 the Ministry of Road Transport and Highways (MoRTH) released a directive for all such kind of vehicles. According to MoRTH the working definition for such app-based cab haling services will be defined as on-demand information technology-based transportation aggregators and not taxi companies. The directive also stated that:

> *"the aggregators must not own or lease any vehicle, employ any drivers or represent themselves as a taxi service, unless also registered as a taxi operator. Taxi operators are to maintain a minimum fleet size, office space and parking space for all taxis, among other requirements"*[6].

However, the directive was more towards operational regulation and less towards tariff. Similarly, two other documents obtained[7] also shed no specific light on tariff norms. However, there is a capping on the maximum fare that can be charged by local taxis and autos, which varies from state to state and city to city. In India, most of the motor vehicle (commercial or passenger) are regulated through the state transport authorities.

3. Outcomes and Concluding Comments

The paper provides edifice for sharing economy and how the concept has evolved because of several factors which have acted as catalyst. It further illustrates different typologies of shared economy in the later part of the literature review. This helps to classify the context of the paper and where does application-based cab haling services are slotted. The segment as defined in the literature is referred as Franchiser, where the competition is intense amongst platform players and their control of their respective platforms are tight too.

[6] Source: http://transport.delhi.gov.in/sites/default/files/All-PDF/City%2BTaxi%2BScheme.pdf accessed 19 August 2019

[7] https://one.oecd.org/document/DAF/COMP/WP2/WD(2018)23/en/pdf
https://www.mdi.ac.in/pdf/research/ABCA_Report_MDI.pdf

The two key issues that have been raised at the start of the literature review: Issue 1: Is Pricing Power is more in ride hailing as compared to taxi hailing? Uber's foray in India and China have been different in the form and process part of it. In India the form was more about aggregating private cabs onto the Uber platform. These private cab operators were earlier operating independently as private cabs (may not be mistaken for Taxi as Taxi regulatory norms, road regulations and even physical appearance are different in India) or as a part of a fleet where the vehicle was the responsibility of the driver. Often such services were not regulated and did not have guidelines to operate. The only set of guidelines were about driver license type, vehicle registration type and National Green Tribunal norms. The tariffing was open and followed a going rate pricing. Uber's foray helped drivers to find more rides and more frequently where pricing was a function of more demand and better pricing. It is important to note; before Uber's launch in India, the market was slowly getting organized with local players like Ola, Taxiforsure and Radio Taxis like Meru. Uber brought in better technology and better user experience (the car quality, the driver quality and the app-based UI/CX). In contrast, the form part of China was more about local taxis joining Didi, Kuaidi and later Uber. China had three types of Taxi market; the state controlled, the privately held but with state regulations and the gray unregulated market. Aggregation brought about by Didi was more through these Taxis, which had regulations. Later when Uber entered and the price war grew intense, the way to generate more revenue was to integrate more drivers and get customers to take more ride. This is where markets moved into gray market taxis. By the very form part of it, pricing power in ride haling is more as compared to taxi haling which was evident in how Uber India and Didi in China differed and had price advantage.

Had it been a highly competitive and regulated market, market forces in cab service market would have set the final price or fare paid by the consumers. However, since OLA and Uber India are the major players in this market and facing very less competition from other existing cab services, market power or pricing power is very much concentrated in their hands. As a result, one can clearly observe discriminatory pricing as a manifestation of pricing power is in practice in this market. To be specific ride hailing followed by Uber India is clear reflection of a typical price discrimination strategy. At different point of time in a day for the same distance covered Uber India is charging different prices to a customer and this is known as Surge pricing. It should be noted that one part of this surged price could be a result of interaction between market forces, but the other part is clearly a result of discriminatory pricing practice. Alternatively, Didi Chuxing's orientation and market regulatory has been different. For one it started as a taxi hailing application service and second the government regulatory forces (pertaining to price and hygiene factors for operating taxis) have been pronounced in China. The resultant fallout of such regulation even led to Uber China's exit and working on a percentage share model with Didi Chuxing now.

The other aspect important for service pricing comparison between the two-ride hailing app and service function is matching function that is about demand and supply equilibrium. Uber India has predominantly considered base fare, time, distance, wait time, rebate and toll (if any) as the service price base (Kashyap 2018). Didi has considered time, distance, distance of driver to customer versus first to click driver and traffic congestions (Sun Luoyi et al. 2019) as basis for pricing. Matching functions therefore differ in service pricing for both applications.

Finally, pricing started is also considered in setting the final price for cab hailing application in shared platform. Service pricing is about demand based, cost based, and competition based. From the context of this study demand-based pricing is relevant which is based on perceived value (Channon, 1986; Lovelock, 1996; Zeithaml and Bitner, 1996; Hoffman and Bateson, 1997), value pricing (Cahill, 1994) and pricing according to customer needs (Bonnici, 1991; Ratza, 1993).

From the process point of view the second issue raised was about; Issue 2: Do Government regulation and intervention have impact on pricing for final products in shared based platforms? In China, the Taxi market was regulated and had norms to operate. Taxis were publicly held or privately held. Both had regulations in tariffing, operating and driver related factors. Didi and other local payers were one able to target more of the private taxi players. However, their markets in terms of size was defined and limited. Later, Uber's launch showed that the number of drivers required were far too less as compared to the demand. Surge pricing had regulations here and worked in a limited way. In India, regulations as mentioned earlier were limited and more about pollution, driver and vehicle related. Tariffing was discriminatory and going rate. This helped the market forces to decide the pricing. In a state-controlled regulation, market forces often do not decide the price. There are non-tariff barriers too that affects the final pricing too.

One of the major limitations of the paper remains, the lack of empirical support to some of the outcomes of the literature review which may have been validated. However, that remains as a scope for future research.

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