

App-based Taxi Aggregators and Entrepreneurial Opportunities

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Abstract

The entry of app-based taxi aggregators like Meru, Uber and Ola has revolutionized the cab service market by opening up opportunities to drivers with entrepreneurial spirit and skills. Easy and simple process of enrolment, continuous business, higher earnings due to surge fares and incentives, are considered as benefits of associating with the aggregators. As the services of aggregators are accepted by consumers, there is high growth potential for the business. On the flipside, several problems are reported. The seriousness of the problems can be understood by the way an association of drivers protested Uber's actions. The problems include: unilateral decisions, poor communication, last minute cancellations, long payment cycle, and failure to keep promises made. In addition, drivers are worried that their earnings will be lower in future due to government regulations which impose restrictions on fares and enrolment. In the future even traditional taxi operators will turn into aggregators increasing the number of drivers. Unless proper measures are introduced by the cab companies and government, the services will not be beneficial to consumers and drivers.

Keywords: Taxi Aggregators, Driver-Entrepreneurs, Problems faced by drivers.

Introduction

With the advent of mobile application-based taxi services, Indian cities have witnessed a silent revolution in the monopolistic taxi-rental market. With population swelling up in major cities, the demand for a safe and reliable mode of transport has increased multifold. These taxi aggregators with their innovative solutions managed to capture a huge customer base by making the process of taxi hailing a simple one. These taxi aggregators' pricing is transparent unlike black-and-yellow taxis and offer a better and comfortable drive than an auto rickshaw. Taxi aggregators like Meru, Uber, and Ola entered into the cab service market. Their entry and success has created a new wave of demand for taxi driver-entrepreneurs. In this paper, an attempt is made to evaluate the driver-entrepreneur opportunities and make suggestions for making the opportunities more attractive.

Aggregators

Having gained entry into the aggregation market in 2010, Ola enjoys the advantageous position of being the first mover in the aggregation market much before other aggregators. Ola aggregated cabs faster than anybody else and innovated on the technology. Ola introduced the mobile app for cab booking in 2011. Uber began operations in India only in 2013. Uber enjoys a very big presence in 68 countries in more than 300 cities across the globe. Uber constantly strives to bring world class customer service and

wants to introduce some of the best practices that are being followed in other countries to India. Meru entered in 2007 as a radio taxi operator with its own fleet of 50 vehicles later moved to the aggregation model in 2011. Meru was the first company to introduce GPS-enabled taxis with tamper-proof meters fixed in their cabs. Meru was also the first taxi aggregator to introduce "patrol vans" to handle sudden breakdowns and emergency situations.

A brief description of some of the major aggregators as follows:

According to an article about Ola in Financial Express, "Going by its claim that it has an 80% market share of the \$6 billion Indian cab services market, Ola looks to be on strong ground with Meru on 12%, followed by Uber and others at 4%."

Ola acquired its rival TaxiForSure in March for \$200 million. Ola is present in more 100 cities and Uber in 18 cities. Ola recently introduced a leasing model in which Ola buys cars and leases them to drivers for a period of 3 years after which drivers will become owners of the cars.

Uber is fighting hard to increase its market share which is currently dominated by Olacabs. Uber promises a reliable pickup with its clear pricing. Previously, when it entered the Indian market, it revolutionized the industry with its cashless ride facility, and owing to competition, now it has become more flexible and drivers are allowed to accept cash

from passengers. Recently, carpool services have been introduced in New Delhi.

Meru has its presence in 23 cities in India. Recently, Meru launched CarPool services, a ride sharing feature. It has partnered with Paytm to offer cashless rides. According to Amit Lakhota, vice-president, Paytm, said, "This would help consumers reduce travel costs significantly as well as reduce the stress involved in travel."

Benefits

Clearly, these aggregators have made the taxi hailing process an easy one. Certainly, this begs the question whether the development of this model has benefitted all the stakeholders involved in this model equally. This can be summarized as follows:

Drivers

The business model of aggregators spurred a new wave of micro entrepreneurship not seen before. The arrival of Uber, Ola and other app-based cab services in Indian cities opened up new opportunities for people with entrepreneurial spirit. Working for these companies afforded the drivers flexible employment where a driver is more of a contractor than an employee, although Meru still has a hybrid model, in which 70% of its cars are aggregated and the rest are owned by Meru and given under a subscription model to drivers. The driver becomes owner of the car after four years. The benefits to drivers are:

- Drivers can be part of a modern fleet that places the highest premium on vehicle uptime and vehicle quality. A driver can be a contractor or subscriber.
- Steady businesses assured by connecting to the customers. There is less idle time and more productivity and income.
- Quality of life is improved as they earn a respectable livelihood. Freelancers can potentially make more money than those associated with the company to drive cars.
- It saves the hassle of bargaining with the customers and entire process from pickup to drop is transparent.
- Flexible working hours. Follows ride more, earn more philosophy with attractive incentive schemes. Drivers can fix their own income target.

Customers

Taxi aggregator services have exploded in popularity among urban, smartphone-wielding commuters. Gone are those days where a customer walks to a taxi stand, bargains with the driver who does not share the enthusiasm of starting the meter. The black-and-yellow taxi has become an unpopular mode of transport due to problems like unfair fares, lack of

courtesy and uncertain security. App-based taxis have resolved to a large extent these problems. Customers have the following benefits.

- Anyone with a smartphone could easily book a cab at any time and from anywhere using their applications in a few steps without undermining the reliability.
- Pricing is pretty transparent. There is no bargaining. The rates are as low as Rs.7 or Rs.8 per kilometer. Customer pays a fair fare and gets a printed receipt for each transaction.
- Passengers enjoy good services since the drivers are given proper training before induction. Passengers get comfortable, air-conditioned cab services. Customer's preference for the type of vehicle. Feedback system ensures that the drivers' proper behaviour.
- Barring a few cases of sexual assault by Uber drivers since December 2014, they are pretty safe. Drivers are enrolled only when they have license, registration, and insurance.

Environment

The cab services are entrepreneur friendly. The cab uses environment-friendly fuel.

Entrepreneurial Opportunitites

Taxi aggregators just act as a liaison between the customer and a driver while the taxis are owned by the drivers. Recently, Ola has started leasing vehicles with a tenure of three years with minimal documentation procedures; the driver will get a vehicle and he is obligated to stick with Ola for a period of three years or until he completes the vehicle loan. This arrangement, aggregators claim, certainly helps the driver, financial institutions, and car dealers. Many people, who are in regular employment, are willing to take a plunge either quitting their conventional jobs or by taking up part-time driving. Here is a case explained below:

Box-1 Decision to become driver of an aggregator

"I saw young kids making three times more money than I do by working fewer hours as Uber drivers. I decided to try it for a while and did it after work for a few hours with my own car. I ended up making at least Rs10,000 every week." Two months later, he decided to let go of his retail job. He had only one regret: "I just miss wearing ties to work every day, though."

Govind Prasad completed his Bachelors in Arts from the Jaipur University in 1997. Failed to get a job; he learnt driving and moved to Delhi. He got job as a cab driver with a private firm and worked for 15 years. In 2014, Prasad decided to be self-employed and bought an auto-rickshaw from his savings. However, difficulty in getting passengers

and high operational costs made him to look around for opportunities. He partnered with Ola Cabs. Ola gave him Rs. 5,000 per month just as an incentive to partner with them. They provided him with a GPS enabled mobile phone to know passenger's location. The passenger pays him Rs. 10 extra from the meter-calculated fare. In addition to that Ola also pays him Rs. 30 extra for every ride. Ola deposits all his receipts in his bank account and he withdraws money from ATM machines.

Source: How taxi-sharing apps have transformed the lives of... - Quartz

qz.com/.../how-taxi-sharing-apps-have-transformed-the-lives-of-thousands...Oct 9, 2015 and How app based auto services are changing the lives of ...www.ibnlive.com/.../how-app-based-taxi-services-are-changing-the-lives...Jul 25, 2015.

According to TaxiForSure CEO Arvind Singhal said many educated people are approaching them to become cab drivers. An engineer contracted with them as a driver, because he loved the entrepreneurial mindset associated with the profession as compared to some IT job. Even the wives of some drivers have joined in the business.

Entrepreneur Driver—operational Aspects

How can one become a driver become entrepreneur and improve his earnings?

Enrolment

Becoming a driver for an aggregator is very simple. All one needs is a car with vehicle registration, a commercial driver's license and insurance. In case of Meru, drivers, not owning a car, may get car by paying a daily rent of Rs. 1,200 to Meru. Aggregators have similar conditions for enrolment. For instance, the conditions for engaging a chauffeur by Meru include address verification, complete medical checkup, testing of driving skills, ability to manage the onboard technology on their vehicles, familiarity with the city and all the mandatory licensing criteria. Once a potential chauffeur meets these requirements, he is put through an intensive 5-day training program where he is imparted knowledge on customer service, hygiene, safe driving habits and handling an emergency. According to Meru, the critical difference between an ordinary taxi service and a Meru Cabs service lies in the investment they make into training chauffeurs.

Idle time

Drivers spend less time sitting idle due to two reasons: (i) Using technology, the aggregators match sparse capacity with demand. (ii) Drivers are free to respond to the aggregator depending on their convenience and opportunity to earn more.

Payments

The remuneration paid to these drivers by the online players is fairly straightforward. In the case of Uber, for every trip made, the driver receives 80% of the fare, which is credited to the bank account. There is also a bonus payment of Rs. 150 per trip for rides made during peak hours and Rs. 50 during non-peak hours. Ola even provides a bonus to drivers if they do six trips a day. TaxiForSure charges the driver only 8-12% of the ride fee, in a bid to attract more drivers. Meru says it doesn't have to offer incentives to drivers in the way Ola and Uber do. According to Meru, a driver earns about Rs. 2,500 of consumer revenue every day, which is significantly higher than the revenue given by other competitors.

Incomes

Drivers with Uber and Ola often end up with hefty monthly incomes of Rs.50, 000 to Rs.1 lakh. In some cases, drivers are making as much as Rs. 1.2 lakh a month, in part due to the incentives such as peak-time bonus that these companies provide their drivers just to keep them on the road. Surge pricing, which kicks in during periods of high demand or late nights, often inflates the price of a ride by a multiple of two or three times the regular fare. Before the advent of these taxi-hailing services a driver was making somewhere around Rs 15,000-20,000 a month.

Box -2 presents the experience of a driver.

Box-2 How much a driver earns?

A cab driver had a cooler filled with drinks, snacks and mouth fresheners available at MRP, and drives an SUV. He explained that he earns an extra Rs. 200 for every taxi fare, as gratuity for being a driver. He works close to 10-12 hours every day, and earns anything above Rs. 50,000 a week. He observed:

"I am very content for the services and remuneration. I spend around Rs 40,000-50,000 on fuel a month, and maintenance is about Rs10, 000-15,000. So I am making Rs 1.2 lakhs a month nowadays."

Source: Why is Uber so incredibly successful comparing to the other startups. Retrieved from <https://www.quora.com/Why-is-Uber-so-incredibly-successful-comparing-to-the-other-startups>

Productivity

Self-employed drivers in Uber and Ola have much higher productivity than the black-and-yellow taxis because of high capacity utilization and low idle time.

Problems Faced By Drivers

While this aggregator model offers exciting opportunities, this model is also not free from flaws and there is a lot of

scope of improvement. It is raising hard questions about workplace protection. Box 3 and Box 4 present the protest by association of drivers.

Box-3: Protest by drivers

A delegation of drivers working with Uber called on Home and Labour Minister seeking Telangana Government's intervention to make Uber management fulfill their promise made to over 15,000 drivers. Their complaint can be summarised as follows:

Uber paid Rs. 5,000 as joining incentive and another Rs. 5,000 for each reference made to induct a driver. The company promised business of at least Rs. 70,000 per month. Lured by the attractive offer, many quit their regular jobs and purchased a new taxi by borrowing huge loans on high interests and or selling their house or wife's jewelry. Due to the sudden pull-out, the regular operators faced shortage of over 15,000 drivers and some of them closed their businesses. Having achieved its goal of sabotaging the organized tour operators, Uber reduced the incentives and other payments to drivers and also started collecting 20% commission. They also started deducting amounts if any customer cancels his booking. If a customer complains that the driver was late or any other such issue, driver's incentives are stopped for one week. The driver, most of them are illiterates are asked to send an email to give their version, which they are mostly unable to do so.

Source: Sreenivas Janyala, Hyderabad: Uber drivers complain that company reneged on its promises, Indian express, September 4, 2015.

Box-4: Uber drivers in Kerala go offline against fee changes

"The company has been frequently shifting the incentive structure to the disadvantage of the drivers. Frequent errors in the mobile-based service also lead to loss for the drivers. We have requested them to have a stable incentive structure and take the drivers into confidence before making changes," TRS Kumar of the union told FE. The union has also requested for an agreement on incentives between the company and drivers.

Source: <http://www.financialexpress.com/article/companies/uber-drivers-in-kerala-go-offline-against-fee-changes/177696/>

While this is a problem unique to Uber, it is not the only one to earn the ire of drivers. Olacabs has also faced complaints from the drivers with regard to constant changing of rate structure, incentive schemes, and long working hours. Some of the problems are briefly described here.

Controls sans freedom

If a driver is an employee, he will be eligible for benefits like company insurance, holidays, and other perks, which is

missing in this model. Despite being a freelancer, routes are monitored and the fare he charges is fixed and regulated by the company. That makes him less of a freelancer. Many a time, drivers do not have the liberty to cancel the trip even for valid reasons.

One-sided Contract

Drivers – entrepreneurs were made to sign a contract, written in English, which is not understandable to many. Further, a copy of the signed contract was not given to any of the drivers. This raises lot of questions about the clauses included in the contract.

Unilateral decisions and low earnings

The aggregators take decisions that suit the company and customers and not the drivers in most of the cases. Here is a case of unilateral decision of Ola cabs. Information obtained by interviewing 10 Olacabs drivers.

Ola initially fixed the rate per kilometer at 16 per kilometer and promised drivers that they would charge Rs. 1000 only as commission. Also drivers were promised Rs. 2500 per 10 trips as minimum guaranteed amount. The promise attracted many private car drivers to attach themselves with Ola and people from other sectors were also equally attracted and many bought a car through finance schemes. However, after some time Ola reduced the minimum business guarantee of Rs. 2500 to Rs. 1000 per 10 trips and charged 15% of drivers' earnings as commission. Ola notified this to everyone through SMS and a circular, pasted on the notice board in the Ola premises. The drivers protested the unilateral decision and questioned the mode of communication. After some time, Ola took another unilateral decision of reducing the per kilometer rate to fend off competition from Uber and Meru. Ola announced a breakup of Rs. 10 to the driver and Rs. 4 as commission to Ola for every kilometer a driver clocks. Out of the 10 rupees, 5% will be deducted as service tax and 1% for TDS. This brings down the driver's earnings to Rs. 8.50 per kilometer.

Poor communication

The communication between drivers and companies is limited and ineffective. Many drivers are yet to catch up on the technological innovation that the aggregator companies follow. Gagan Bhatia, a general manager at the Uber office in Delhi observes that the need for communication is limited as the drivers are entrepreneurs who run their own businesses with no reporting structure to Uber. To resolve driver issues, Uber has fixed office (customer service) hours every weekday, and every alternate weekend.

Drivers are finding it difficult to air grievances and seek redressal from the companies. Drivers are required to be technology savvy but many are not. Most drivers are not that educated, and even if they were, not fluent in English. Sometimes companies claim they have sent SMS and put up

circulars on notice board in company premises. How does a circular displayed on the notice board in the premises of a company can be reached by the drivers? The drivers are not employees to be expected to check notice board on a daily basis.

Promises not kept

The incentive schemes announced by the cab companies pose a lot of constraints and majority of the drivers do not see the kind of money they promise. Many a time companies changed their fee and incentive structures.

Last minute cancellations

Last minute cancellations hurt the drivers badly. To solve this Ola Cabs has come out with a policy to allot a booking to a driver only within 25 minutes of driving time.

Long payment cycle

There are problems in regard to payments to drivers. Several drivers complained that Uber's seven-day payment cycle is being delayed to over two weeks since cash is not the mode of payment. Drivers have to rely on the long credit cycles of Uber, to manage their livelihood. They have to buy fuel, pay toll, parking and municipal taxes daily to keep the cabs plying. In India drivers love cash and they inherently need to talk on the phone. Without these two basic functions companies cannot scale in the Indian market.

Tarnished image

The criminal acts of some drivers have tarnished the image of the companies and drivers. Government's stand with regard to regulations for these aggregator companies is still unclear.

Regulations reduce freedom and earnings

The government has taken initiatives to recognize App-based aggregators as taxi operators and not just technology companies... Taxi aggregators need to take license under Section 93 of the Indian Motor Vehicle Act, which states that without an operator license, 'no person shall engage himself—as an agent or a canvasser, in the sale of tickets for travel by public service vehicles or in otherwise soliciting customers for such vehicles.' Earlier this year, the Central government issued guidelines authorising various States to draft their own laws for regulating taxi services.

What happens if regulations are imposed?

- The companies have to comply with the norms on drivers' background verification, panic button, CNG cabs, GPS tracking system, government-declared fares, and public service badge for the drivers etc. to get the license.
- The aggregator's logo is mandatory on the cabs
- Police may monitor their fleet-on-the-ground

constantly. The drivers of aggregators should have police clearance; the service provider should have their proof of address, and provide them with identity cards.

- They cannot continue with peak-hour charges or surge pricing.

Future Outlook

It is reported that India's traditional taxi operators have developed a more favourable view of the aggregator model. Companies like Mega cabs and Easy cabs are now looking at a hybrid model, under which they will continue to operate their existing fleets, which are owned by them, but rely on the aggregator model for further expansion. In view of this, there is an immediate need for the government and aggregators business to introduce proper measures to make the business model effective. The services should be hassle free for consumers and problem-free for the drivers.

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