TAXI, TAXI

With Grab’s acquisition of Trans-cab, where is the taxi industry headed? Are better days ahead?

BY TAY PEE CAI

It has been a bumpy road for taxi operators in Singapore, especially over the last decade as the rise of private hire vehicles disrupted the industry. Recent developments, however, may see the lines blur between taxis and private hire cars – as well as offer a lifeline to the flagging taxi industry.
In September, the Land Transport Authority (LTA) announced that it would undertake a review of the point-to-point (P2P) industry structure and regulatory framework. This is to ensure the continued relevance of taxis and private-hire cars as commuter needs and the industry structure evolve.

LTA's announcement came after ride-hailing and food-delivery giant Grab in July proposed the takeover of Trans-cab Holdings – Singapore's third-largest taxi operator. Trans-cab owns a fleet of 2,154 taxis and more than 300 private-hire cars, as well as a vehicle-maintenance workshop and fuel-pump operations.

The Trans-cab move is Grab's third attempt at buying a taxi company in Singapore. The platform began as MyFetsi in Malaysia, offering ride-hailing services through cabs before extending them to private vehicles.

In 2017, Grab was in talks to buy SMRT's taxi fleet, but the deal fell through. In 2022, its talks with Prime Taxi – the smallest cab operator in the Republic – did not materialise into a transaction.

While Grab's proposed acquisition of Trans-cab is still pending regulatory approval, it raises some questions about the local taxi industry.

Is the value of the taxi business finally getting recognised? And has the industry reached an inflection point?

Driving stability

The average daily number of P2P trips – comprising street-hail and ride-hailing trips – has risen to 613,000 in July 2023, from 576,000 in January 2021. However, the proportion of street-hail trips has shrunk. Street-hail rides accounted for 13.9 per cent of total P2P trips in July 2023, compared with 22.4 per cent in January 2021. In part, this could be due to taxi drivers who used to be able to pick up fares only on the street – now offering trips via ride-hailing service platforms as well.

But a bigger reason could be that the cab population here has declined drastically since ride-hailing service operators entered the P2P industry 10 years ago.

There were 27,000 cabs in 2013, with the number reportedly peaking at over 28,700 in 2014. Since then, the number of local taxis has dwindled to about 13,770, as at July this year. Meanwhile, the chauffeured private-hire cab population expanded from about 1,600 in 2014 to more than 49,000 in July 2023, according to industry estimates.

Yet a study by Cheng Shih-Fen, an associate professor of computer science at the Singapore Management University (SMU), showed that taxi drivers' working hours are significantly higher than those of private-hire drivers.

Making comparisons across three periods – pre-pandemic, the post-pandemic recovery in 2021, and the present – he observed that most cabbies are also working as many hours now as they did prior to the onset of Covid-19.

His study also found that there were significantly more private-hire drivers who worked short hours in 2021, compared to pre-pandemic levels. This resulted in much fewer working hours per driver.

Thus, owning a fleet of taxis could help stabilise the total supply of drivers for ride-hailing operators.

"I believe taxis are most valuable to ride-hailing operators due to (their) stability in labour output," Prof Cheng said. "Although Trans-cab owns some private hire cars as well, I believe taxis are Grab's major focus."

Indeed, the Nasdaq-listed, Singapore-based company said in its second-quarter earnings call that its monthly active-driver supply has at 84 per cent – yet to return to pre-pandemic levels.

Should the acquisition go through, Trans-cab drivers would supplement Grab's supply base in the Republic.

Walter Theiseria, an associate professor of economics at the Singapore University of Social Sciences (SUSS), said the advantage of a taxi service is that it is more reliable as a supply source – but that is because of selection.

"Drivers who choose to rent taxis are people who want to devote more time to driving for a living, whereas drivers on the private-route are a mix of full-time drivers and part-timers who also use their car for private purposes," said Prof Theiseria. For operators, the value of the taxibusiness lies not only in being a more reliable driver-supply source, but also in its potential cost-efficiency.

Leveraging the taxi licence would help Grab drive down its cost to serve amid skyrocketing certificate of entitlement (COE) premiums in the Republic, acknowledged the platform operator.

In Singapore, taxi operators pay a moving average of COE premiums for new taxis. This makes buying new taxis less prohibitive than bidding for fresh COEs for new private vehicles.

Prof Cheng pointed out that with more than 2,000 Trans-cab taxis boosting Grab's supply, the platform operator would also be able to reduce its spending on driver incentives as it pursues profitability.

While Grab said that it was not close to acquiring other companies like Trans-cab, it has not ruled out the possibility of such deals if the "kinds of strategic synergies that we saw in the Trans-cab situation" are present.

Jonathan Chang, chief executive of digital-lending fintech company Fintonia Indonesia, said: "The acquisition suggests that Grab sees value in blending traditional taxi operations with ride-hailing services. This could mean better prospects for the industry, particularly in an environment with record high COE prices, as we have seen lately."

Prof Theiseria of SUSS noted that the value of the taxi business in the pre-ride-hailing era was, in part, based on the implicit barriers to entry created by licensing requirements.

Ride-hailing services – and, in particular, the extensive operating-cost subsidies provided by ride-hailing platforms – destroyed the value of the taxi business by creating massive entry at a loss.

Returning to fundamentals

Now, as ride-hailing companies have ceased to seek expansion at a loss, the subsidies have ended. And the value of the taxi business is returning to fundamentals, said Prof Theiseria.

He added: "But the fundamentals are still poor, because taxis basically compete with private-hire cars. And private-hire cars are simply more flexible capital assets, as they can be converted to private ownership and sold off, or they can be rented out through other means (such as direct private rentals or car-sharing).

"There is no substantial cost advantage to taxis, as any benefits of having Category A COEs are partially offset by the restrictions on alternative use. I do not see the acquisition as about recognising taxi market value: I see it as gaining access to a stable, large pool of drivers for Grab."

Grab's proposed takeover suggests that the supply of vehicles in the current high COE environment is still a constraint for fulfilling the post-pandemic ride-hailing demand in Singapore, said LI Jiangang, chief executive of venture outfit Momentum Works.

"This is a structural supply-demand issue which is unique to Singapore... I think the
Taxi fleet expected to expand
A look at cab numbers revealed that the population is still decreasing in Singapore, from 14,016 in January this year to 13,714 as at August. However, the pace of decline, compared to the past two years, is slowing.

SMU’s Prof Cheng noted that the largest taxi operator, ComfortDelGro, is maintaining the size of its fleet and renewing its taxi licences. The operator has a 60 per cent share of the car population in Singapore, and a hire-out rate of nearly 100 per cent.

He expects Grab to gradually expand its taxi fleet as a fixed supply, if the integration of the Trans-cab taxis into the platform's fleet management system — via the mobile display units present in the cabs — is successful.

Grab would then use private-hire cars as a variable supply. “By doing so, the driver labour supply variability could be reduced,” he said.

Fintopia Indonesia’s Dr Chang agreed that it would make sense for Grab to expand the Trans-cab fleet — if the acquisition is approved — given the ongoing driver-supply crunch.

Prof Theseira thinks that Grab, when the time comes, will assess the economics of expanding the taxi fleet, versus supporting private-hire vehicle rentals or not being involved at all, letting drivers figure the situation out themselves.

Taxi operators are allowed to expand their fleets by only up to 2 per cent per annum, based on LTA regulations and subject to meeting certain standards. Even if the Trans-cab acquisition fails, Grab might attempt to buy a smaller fleet elsewhere, or even apply for a taxi fleet licence — especially if its motivation is to stabilise its driver supply, said Prof Cheng.

GG-CLMB analyst Ong Khang Chuen predicts that the outcome of the Trans-cab deal — even if successful — will not have much impact on the industry landscape, unlike the merger of Uber and Grab.

He said Grab’s attempt to acquire a taxi company and ComfortDelGro’s move to strengthen its digital capabilities show that taxi and ride-hailing platform businesses can co-exist in Singapore. ComfortDelGro has added ride-hailing offerings to its operations, including dynamic pricing and onboarding private-hire vehicle drivers.

Dr Chang of Fintopia Indonesia said that ComfortDelGro has an advantage in terms of fleet size, but Grab’s “robust” technology platform and regional presence can offset that.

The way he sees it, the optimal model likely involves a blend of both traditional taxis and private-hire vehicles — something both companies would then offer.

But culture clash could be a roadblock for the Grab and Trans-cab business, since the former is regional and tech-run while the latter is conventional and locally operated, said Dr Chang.

“I hope there won’t be so much friction that Trans-cab drivers will flee to other taxi companies.”

Prof Theseira believes that the standalone, low-scale business model for taxi operators is coming to an end, as smaller independent operators have been bought up in recent months.

Strides Taxi merged with Premier Taxis in April to form Singapore’s second-largest taxi operator with some 2,300 taxis.

“This would be consistent with the relatively low efficiencies from being a smaller taxi operator, and with the business concern that, given the shift to ride-hailing, the main source of revenue for one’s drivers is now under the control of a third party, which creates serious business risks for any small taxi operator,” he said.

Ultimately, what matters is the level of service (the P2P operators) can offer to consumers... and drivers,” said Ong of CGS-CLMB. This includes pricing, wait times and service quality for consumers, and income level and stability for drivers.

“Failing to uphold standards will lead to market-share loss over time.”

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