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Explainer: What Grab's failed takeover of taxi operator Trans-cab means for consumers and the industry

- A proposed merger of ride-hailing platform Grab and taxi operator Trans-cab is not going ahead
- The consumer watchdog announced that both parties had said the deal was off
- This was after it had raised some concerns about the merger's possible impact on competition
- Industry experts said Grab was already a dominant industry player, which meant the merger could have been against the interests of both drivers and consumers
- They said mergers between smaller entities tended to be regarded as positive since they led to efficiencies without the negative impact on competition

Industry experts have been weighing up the implications of an announcement by Singapore's consumer watchdog last Thursday (July 25) that ride-hailing platform Grab's proposed acquisition of taxi operator Trans-cab will not go ahead.

The two companies had notified the Competition and Consumer Commission of Singapore (CCCS) that they would not be proceeding with the plans.

The companies' withdrawal came after CCCS gave a provisional decision earlier this month stating that the proposed acquisition had been "likely to result in a substantial lessening of competition in the market for the supply of ride-hail platform services to drivers and passengers in Singapore".

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Proposed deals of this nature have to go to the CCCS, which is tasked with ensuring that they do not hurt competition.

The latest proposed deal follows several similar plans by point-to-point (P2P) operators in recent years with some proving successful and others failing.

So why was this latest proposed acquisition effectively halted, it appears, by CCCS? How will it affect smaller industry players such as Trans-cab?

And what does it all mean for consumers?

TODAY speaks to transport and business experts to break down these questions.

WHY GRAB'S TAKEOVER OF TRANS-CAB WAS DROPPED

In deciding whether a merger or acquisition is detrimental to competition or otherwise, the size of the parties' market share matters, experts said.

Generally, mergers and acquisitions between smaller players are regarded as positive because they allow the parties to capitalise on economies of scale, they added.

The term "economies of scale" refers to the ability of firms to operate more efficiently if they are larger. For example, two smaller firms merging could combine their back-end operations.

Transport and business analyst Terence Fan said that this was the case for taxi operators Premier and Strides, which merged in May last year.

The assistant professor from Singapore Management University (SMU), whose research interests include inter-firm collaboration, added: "Even within the (relatively small) taxi industry, they were not the biggest players."

The merger allowed the new entity, Strides Premier, to become the second biggest taxi operator, but it was still less than half the size of market leader ComfortDelGro in terms of fleet size, he explained.

However, under the proposed Trans-cab and Grab deal, this was to have been "more like an empire building exercise for Grab", one academic said.

Professor Sumit Agarwal from National University of Singapore (NUS) Business School said that this is because Grab is already a dominant player in the industry looking to acquire a taxi company whose fleet is only slightly smaller than Stride Premier.

Dr Lee Kwok Hao, presidential fellow at NUS Business School, noted that as of July 2023, Grab provided about half of the 613,000 daily trips made by P2P transport operators.

CCCS in its provisional decision on the Grab and Trans-cab deal said that the proposed acquisition would have allowed Grab to "significantly save on the incentives that it would have to pay to drivers", as opposed to attracting the drivers via alternative means.

A check on their websites showed that Grab offers S$3,000 in cash and fuel vouchers for new private-hire drivers and S$2,200 for taxi drivers, whereas competitor Gojek offers S$1,400 for new joiners.

Trans-cab has 2,067 taxis in its fleet as of May 2024, based on the latest figures by the Land Transport Authority. Each taxi car can have more than one hirer.

"It is possible that Grab assessed it cheaper to acquire Trans-cab and their drivers upfront and then implement 'vertical restraints', rather than raising their incentives across the board," Dr Lee added.

Vertical restraints refer to various methods to keep drivers within the Grab platform.

PREVIOUS DEALS IN THE POINT-TO-POINT INDUSTRY

The merger of taxi companies Strides and Premier was the most recent successful one in the industry and it did not trigger any concerns from the Competition and Consumer Commission of Singapore (CCCS).

This allowed the merged company Strides Premier to become the second-largest operator with about 2,500 taxis, overtaking Trans-cab that had about 2,170 taxis then.

Market leader ComfortDelGro was miles ahead in terms of fleet size, numbering around 8,700 taxis.

In 2018, Grab and Uber were fined a total of S$13 million after Grab bought Uber's Southeast Asian operations.

CCCS said then that the deal led to a substantial lessening of competition in the market, highlighting Grab's increased prices and changes to its loyalty programme.

ComfortDelGro's fleet today is by itself a product of a merger in 2003.

Assistant Professor Terence Fan, a transport analyst from Singapore Management University, noted that this pre-dated CCCS, which was set up in 2005.

"If CCCS had been there, would it have approved that? I don't know," he added.

WHAT WOULD HAPPEN TO TRANS-CAB NOW?

Prof Agarwal said that he does not foresee a "big impact" on Trans-cab following the deal's failure.

"We know from past failed mergers that the (potentially) acquired company did not suffer because the merger failed," he added, referring to merger and acquisition cases in general.

Associate Professor Nitin Pangarkar from NUS whose research field comprises strategy and organisational behaviour, said that Trans-cab could continue operating on its own, though the "stagnating or declining" taxi segment might cast doubts on its long-term prospects.

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The number of private-hire cars has ballooned from 72,632 at the end of 2022 to 85,097 as of June this year. In contrast, the number of taxis fell slightly from 14,084 to 13,436 over the same period.

The analysts said that Trans-cab may tie up with non-dominant players in the P2P industry either through an acquisition or merger or some form of partnership.

“If consolidation results in cost efficiencies, allowing these firms to stay viable and compete more effectively against larger players, I do not think that CCCS would see this as a bad thing,” Dr Lee from NUS Business School said.

HOW DOES THIS AFFECT CONSUMERS, DRIVERS AND FARES?

The analysts generally agreed that had the deal gone through, it would have allowed Grab to achieve greater dominance over the P2P market.

This would have reduced bargaining powers of drivers, and Grab could have potentially raised prices for consumers more easily, Prof Agarwal said.

Now that the deal has fallen through, in the short term, Trans-cab drivers "may be better off," Assoc Prof Pangarkar said.

“Especially if they have a preference for the traditional model, namely renting taxis daily and then keeping most of the receipts,” he added.

Again, he said that the long-term prospects of the taxi company operating on its own remains to be seen, mainly because the industry is seen as a sunset one.

As for consumers, the failure of the proposed acquisition means one more P2P transport player remains in the market.

Yet, would it go so far as to have an impact on Grab's ability to set or at least influence market prices?

“I think Grab is a price setter anyway,” Asst Prof Fan said, noting the large market share that the technology company has.

Taking a more ambivalent approach, Assoc Prof Pangarkar said that fare price adjustments depend on many factors beyond just mergers and acquisitions.

TODAY has asked both Grab and Trans-cab about their reasons for withdrawing the proposed deal.