

Pricing the surge

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- The unique thing about Uber, a new taxi-market player, is that it seems to have annoyed some of its customers as much as the incumbent cabbies it threatens.
- The problem is its “surge pricing”, which can make the cost of Uber rides jump to many times the normal fare at weekends and on holiday.

Taxi market

- Entry should be easy—all that is needed is a car and a driving licence—with new drivers keeping cab fares close to costs.
- Yet in many cities, cabs are far from that competitive ideal. Decades of regulation conspire to keep entrants out.

New York and London

- In New York a pair of taxi medallions sold at a 2013 auction for \$2.5m.
- In London “the knowledge”, a test of familiarity with the city’s streets which GPS has made redundant but drivers still have to pass, can take four years to complete.
- Antitrust concerns have been raised in Australia, Ireland and Bulgaria among others.

- Uber aims to change all this
- Launched in San Francisco in 2010 it lets passengers hail drivers from their smartphones—a move requiring even less effort than extending your arm.
- But it comes at a cost.

When demand spikes

- Most of Uber's prices are slightly cheaper than a street-hailed cab
- But when demand spikes, **the surge prices** kick in: rates during the busiest times, such as New Year's Eve, can be seven times normal levels, and minimum fares of up to \$175 apply.

Price discrimination

- It seems unfair when the charges for drugs vary across countries, the price of train tickets varies with the buyer's age, or, as in Uber's case, the price varies depending on the time that the journey is booked.
- But price discrimination is not necessarily a bad thing.

Price discrimination

- Because price spikes raise the pay Uber's drivers receive (they get 80% of any fare, if they drive their own car) more cars are tempted onto the roads at times of high demand.
- Prices are high at 2am at the weekend not just because punters are willing to pay more, but also because drivers don't want to work then.

Improving taxi markets

- There is some evidence Uber's surge pricing is improving taxi market.
- However, the inflexibility of Uber's matchmaking fee, a **fixed 20%** of the fare, means that it may fail to optimise the matching of demand and supply.

Flexible rate

	Fare	Driver	UBER
	\$200	\$160	\$40
#1. 80/20 (%)	\$400	\$320	\$80
#2. 85/15 (%)	\$400	\$340	\$60
#3. 80/20 (%)	\$380	\$304	\$76

- 若採 #2 之方式, 而司機的供給彈性高, UBER 利潤可能上升 (相對於 #1 的方式)

As big as possible

- Uber should keep its surge pricing in place.
- But to make the market as big as possible, and really revolutionise taxi travel, it might need to retune its fees.