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Italy – Taxi Dispatch Services

Competition between traditional and digital services

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The environment

- Typical two-sided matching environment
 - Passengers | Drivers
- With obvious network externalities
 - Value to side i larger the more individuals in side j
- Platform technologies
 - Traditional (old) technology: radio, uniform price
 - Apps: better matching + can put two-sides in contact (price deals?)
- Multihoming (drivers) technologically feasible, inexpensive
- What is special?
 1. Regulated price (not necessarily fix) but don't forget waiting-time (QoS)
 2. Regulated entry: supply is capacity constrained
 3. Traditional platforms: cooperative owned by drivers

Allegation and problems

- According to ICA, violation of 101:
 - parallel network of anticompetitive vertical agreements
 - that created foreclosure, hindering entry of actual and potential competitors

Problems

- [Lack of proper product market definition!?)
- Drivers joined anticompetitive agreements that also harmed themselves
 - Fine if it were 102, difficult in 101.
- Is this possible?
- ICA states it is not violation “by object”, but unfortunately not very clear/articulated theory of harm (clear causal link between practice and effects)

Economic theory

- “Two-sided Markets, Competitive Bottlenecks and Exclusive Contracts,” 2007 Econ. Theory, Mark Armstrong and Julian Wright (among others)
- Rare good match: “*one side views the platform as homogeneous [drivers] the other as heterogeneous [passengers]*”
 - Notable differences: #drivers fixed, (max) price to passengers fixed
- Equilibrium with no exclusivity: multi-homing of drivers, single-homing of passengers
 - Competitive bottleneck equilibrium: drivers fiercely compete to have access, passengers happy (lured into platforms, better quality/lower prices)
- When securing exclusivity of a sufficiently large fraction of drivers, then competitive equilibrium replaced by single-homing on drivers and one winner-takes-all (even if inefficient)
 - Passengers worse off: lower QoS, product variety, possibly higher prices
 - Drivers/Platform owners: quiet life, possibly higher prices

Foreclosure?

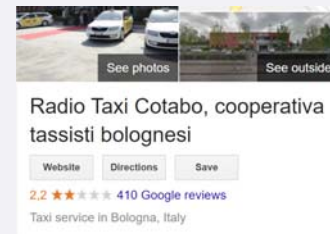
- Can entry take place in this market with more than 60% of taxi drivers under exclusivity?
 - YES if you look at App download (quick interest of drivers), and one could claim that Mytaxi is stuck because of its own too-high fee structure (7%)
 - But...
1. We know that, in **Gig Economy**, affiliation and even time-logged on App are not good measures of working hours!
 - “Uber happy?,” Econ. Policy 20019: “*hours spent logged into the Uber app... comes with a number of potential drawbacks.*” and
“*Active drivers are defined as those providing at least four trips in each respective month.*”
 2. Moreover, with network externalities, uncertainty plays a key role...

Foreclosure?

1. Definition of active drivers
2. **Uncertainty** with network externalities plays a key role: a driver's decision to abandon Traditional platform (if exclusivity)
 - No much current risk of too few passengers with Mytaxi (high non-dispatched demand)
 - But what about expectations with Mytaxi in the future?
 - Rational expectation: with exclusive dealing agreements, quite reasonable to guess that Mytaxi would remain marginal (could also exit), hence drivers do not switch (fixed costs of re-entering)
 - Allow for multi-homing instead: the optimal and mixed-market structure can easily realize (although not for sure)
 - [OK, cutting its fare MyTaxi may flip expectations with exclusivity too: requires aggressive pricing (both sides), even below cost, and deep pocket]

Exclusivity: efficiency defense?

- Traditional platform claim exclusivity is necessary because of large investments they do for:
 - Guaranteeing mutualistic self-production
 - Some exclusivity clauses appeared exactly when Mytaxi entered
 - Improving technology !?
 - They are lagging behind ...
 - Advertisement expenses “to attract demand”!?
 - No efficiency gain with advertisement
 - Maintaining reputation of high quality service!?
 - Have a look at their ratings on Google...



- A very sound and very technical “*Come on!*”

In quest of harm

- Apps are more efficient technology
 - “Proof”: you can replicate the traditional-radio
 - Better capacity usage of cars (relevant here)
- If all passengers were “online” (ready to use Apps) then entry certainly desirable and blocking entry harms passengers and possibly drivers
- **Problem:** some passengers are (ON), some are not (OFF)
 - Hypothetical comparison: status-quo (no Apps) vs. *forcing* technology change: ON lose, OFF gain (and viceversa)
- Optimal market structure may currently require co-existence of two techs
- Do we risk abrupt tipping from Traditional to App tech?
 - Not a big deal (e.g. single phone number granting access)
- Yes APP is DESIRABLE: if not, harming passengers for **reduced product variety** and possibly others...

Theory of harm

Drivers. Contrary to ICA, there is no harm! The bottleneck competitive equilibrium is much worse for them [no logical inconsistency with 101].

Passengers.

1. Loss of product variety [Calzolari and Denicolò, 2013,2015, 2018, 2019] and explore collective dominance
2. Assume price are fixed (cannot claim higher prices)
 - then same story and mistake as with freebees in digital markets: price cannot change because zero (here because regulated), but...
competition is elsewhere (e.g. advertising in digital m.), here waiting time (QoS)
3. Are price fixed?



The highest fare to be applied by the Taxi Service is a single, progressive taximeter fare, valid across the entire municipal district, which increases in accordance with the kilometres travelled and the completion time of each individual service. Furthermore, fixed fares are set for journeys to/from airports. Taxi license holders are obliged to issue receipts of payment.

PROGRESSIVE FARE (COST OF EACH TAXIMETER TICK € 0.10)
ROME CITY COUNCIL RESOLUTION N.151 DATED 23/5/2012.

FIXED FEE

Initial fixed fee

- Fixed fee from point of departure on weekdays (from 6:00 to 22:00) € 3.00
- fixed fee from point of departure on Sundays and public holidays (from 6:00 to 22:00) € 4.50
- fixed fee from point of departure at nights (from 22:00 to 6:00) € 6.50

HOURLY FARE

Timed tick on the meter applied at speeds of less than 20 km/h; 27.00 €/h

SINGLE PROGRESSIVE TAXIMETER FARE

- T1: at speeds > 20 km/h 1.10 €/km
- T2: at speeds > 20 km/h 1.30 €/km
- T3: at speeds > 20 km/h 1.60 €/km

The taximeter shifts from T1 to T2 when the initial fixed fare on the taximeter has clocked up a further € 11.00, from that time onwards the T2 fare is applied until a further € 13.00 have been clocked up; from then on the third fare, T3, is applied until the end of the journey.

SPECIAL FARES

A discount of 10% is applicable to the amount stated on the taximeter in the following cases:

- direct journeys to state hospitals in Rome
- for unaccompanied women using the night service (between 22.00 - 6.00)
- for young people coming out of clubs and discos on Friday and Saturday nights, provided that suitable agreements are in place with the management of such venues

EXTRA CHARGES

- The first piece of luggage is free; each subsequent piece of luggage measuring more than 35x25x50 cm costs € 1.00
- the fifth passenger upwards in taxis with a capacity for more than 4 passengers: € 1.00
- the fixed fee for calling a radio-controlled taxi is € 3.50

Journeys commencing from within the Rome ring road (GRA) and travelling to Fiumicino Airport, and vice versa, shall be charged a maximum fare of € 70.00.

The fare to be paid is that indicated on the taximeter at the end of the journey. Extra charges, when present, shall then be added to this amount: extra luggage, fixed fee for calling a radio-controlled taxi, extra passengers from the fifth passenger upwards. These extra charges will be added to the amount stated on the taximeter at the end of the journey.

Fixed prices?

- If you put drivers and passengers in direct contact as with Apps, they may end up bargaining/reducing prices of rides
- This is very much feared by the same drivers
- When they develop Apps drivers cannot get in contact with passengers

Thank you

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