

OLA/UBER turning taxi booking services an oligopoly market into duopoly

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Abstract-

As a consumer, we consume different goods and services in our daily life but hardly, we show any interest to understand how the rivalries in the market compete with each other. There are different competitions under imperfect market and all the firms follow a stringent competitive strategy to keep themselves at the top by revenue. There are different types of competitions under imperfect market and one of them is duopoly, a part which has originated from oligopoly with few features of oligopoly market. Oligopoly competition for taxi booking services in Indian market has turned into duopoly when OLA and UBER entered into the market. Both the firms have almost identical strategies to capture the largest market share.

Keywords- oligopoly, duopoly, market, taxi booking app, strategy, revenue, loss, cost

Introduction

Oligopoly and Duopoly- Oligopoly has derived from two Greek words named "Oligos" means few and "Pollen" means sell. Oligopoly is a part of imperfect competition, where there are few firms who control the oligopolistic market by producing either

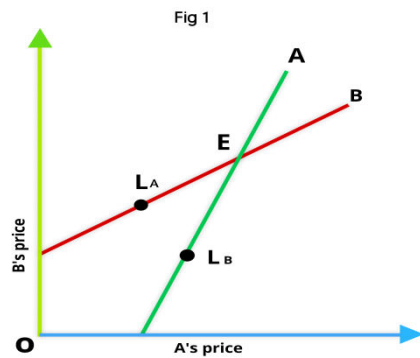
homogenous products or producing products which are close but not perfect substitute to each other. This type of market has few sellers but many buyers and oligopolistic firms create high barriers to entry for new firms, however existing firms have mutual interdependence on selling their goods.

Duopoly is a special case of oligopoly. It is unpredictable action and reaction by oligopolistic firms that makes a systematic analysis of oligopoly difficult. Duopoly is a situation created by any two big oligopolistic firms, who tries to control or regulate the whole market. A duopoly market too have features of monopoly, oligopoly and it collude too.

We will use Stackelberg Duopoly Model to understand strategy of OLA and UBER in Indian market. Stackelberg pointed out 4 strategies for duopoly firms. Here OLA and UBER have opted all the strategies from time to time. Let us assume Firm A as OLA and Firm B as UBER.

a. Firm A act as leader and firm B a follower

If firm A considered as the leader and raised his price from L_B upward, Firm B follows him by raising his price from L_A upward, so that both ultimately reach the equilibrium point E. So both will follow the same price

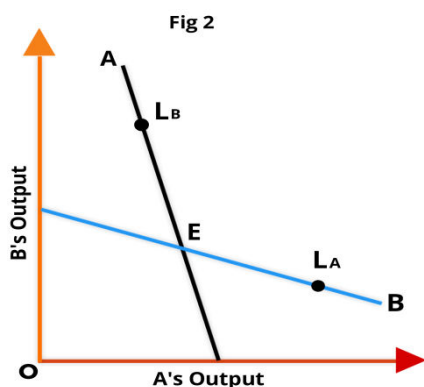


b. Firm B acts as leader and firm A as follower

Here firm B act as a leader and firm A as the follower. When firm B raises his price from L_A upward, firm A follows him by raising his price from L_B upward, till both reach the equilibrium point E. Hence, they follow the same price.

c. In case both firm A and B act as leaders

Both the firms assume that behaviour of the other is governed by his reaction function but won't follow the reaction function. Therefore there is no equilibrium situation. This can be discussed in following figure where the 'variable' is interpreted as the quantity of output. Each seller suffers from the rise in the output of his rival.



Profit maximisation output of one seller falls when his rival firm's output increases. If firm B act as the

leader and increases his output from L_A onward, Firm A reaction would be to reduce his output from L_B downward. But firm A does not follows firm B because he also considers himself a leader and so does not reduce his output from L_B downward, hence there is no possibility of equilibrium at point E.

d. In case both firm A and B considered as leaders

If firm A follows then Firm B also follow. Suppose in Figure 1 seller B thinks that seller A has raised the price of his product, therefore B will follow him by raising the price of his product. Here firm A will follow firm B in raising the price of his product, then firm B will follow him and it will continue till both reach the equilibrium point E.

Though OLA and UBER is a part of oligopolistic market in India but created a duopoly power in Indian cab service market. To understand their duopoly strategy, we must understand the history of taxi booking apps in India

Table 1

Taxi booking firms in India	Started in the year
Carzonrent	2000
Meru cabs	2006
Savaari car rental	2006
Spice cabs	2009
Ola cabs	2010
Zoomcar	2012
Uber	2013
My taxi India cabs	2013
Bharat taxi cabs	2014
Gozo cabs	2015

The above oligopolistic firms operate in more than 30 plus cities in India. Their mode of operation is almost identical that is providing last mile

connectivity through cab services in the city or outstations. These firms have own taxi booking apps where consumers can download the apps to avail the booking services or even they can book through their websites.

Although there're many competitors such as Carzon rent, Meru, Savaari etc. in the market and few of them kicked off their operation in India even before the entry of OLA and UBER, they're not as successful as their rivals cab aggregator OLA and UBER, who is gradually moving to be duopolistic firms. The following statistics shows the revenue earned by oligopolistic firms.

Merucabs revenue

Meru's revenue has fallen from ₹277 crore in 2017 to ₹190 crore in 2018 to ₹156 crore in 2019. Managing partner Vishal Nevatia blamed Ola and Uber, which were burning cash and offering better incentives.

Savaari Car Rentals

Savaari Car Rentals Pvt Ltd shared data that they have completed more than 150000 transactions and earned revenue Rs 52 crore only.

Zoomcar

In 2019 Zoomcar shared a net loss of Rs 202 crore, whereas Rs 159 crore was their net revenue during financial year 2018.

UBER India

Uber, posted revenues of Rs 533 crore for the year ended March 2018, against Rs 410 crore in the previous year, according to its filing with the Registrar of Companies (RoC).

OLA

Ola recorded revenue of Rs 2,543.63 crore in 2019 whereas Rs 1,847.53 crore in 2018.

The above statistics reveals that there are several taxi booking firms in India which creates an oligopolistic firms, however the above statistics also reveals how OLA and UBER have created a duopoly market from oligopolistic firms by following the Stackelberg duopoly model. Initially there were four firms who were operating in India before the entry of OLA in 2010. In the beginning, OLA was following the market strategy of its rivals as they were bigger firms. Gradually, OLA remodelled their business strategy and emerged as one of India's leading cab aggregator leaving behind its competitors such as Carzonrent, Meru cabs, Savaari car rental and Spice cabs and pushing them to follow OLA's pricing strategy. A biggest turning point towards Duopoly started when UBER entered in India in 2013. There are many taxi booking firms such as My taxi, India cabs, Bharat taxi cabs, Gozo cabs who entered in oligopolistic market but could not compete with OLA and UBER. This has led the duo towards duopoly market in India.