Source: *The Straits Times*, pB3
Date: 20 March 2024

For Singapore, is Grab too big to fail?

The Republic's largest ride-hailing firm touches many aspects of our lives, so it is worth asking how much disruption we would face if it were ever to exit the market.

In Singapore, Grab is the market leader in the ride-hailing sector, commands about 35 per cent of the e-wallet market, and probably stands first among equals in food delivery and other auxiliary services, says the writer. Given Grab's size and importance to the local market, it makes sense to ponder the implications of a scenario in which it exits, however far-fetched it may be. ST PHOTO: LIM YAOHUI

Lee Kwok Hao

In February, investors in Grab breathed a collective sigh of relief. As the pre-eminent digital technology and ride-hailing company in South-east Asia, Grab finally posted a profit of US$11 million (S$14.8 million) in the fourth quarter of 2023, a substantial improvement from the US$391 million loss recorded in the same quarter in 2022.

Grab's profits were driven in part by deliveries, which grew 13 per cent year on year, said chief financial officer Peter Oey. More generally, since its inception in 2012, Grab has largely prioritised growth over profitability, though of late, the company has exercised prudence with costs, given economic headwinds.

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To the consumer, gig worker and regulator, one question is salient: Is Grab "too big to fail" or, rather, "too big to exit"?

Furthermore, what safeguards can be implemented to mitigate the fallout from any potential exit by Grab?

I am not suggesting that any such move is on the cards.

However, given Grab's size and importance to the Singapore market, it makes sense to ponder the implications of such a scenario, however far-fetched it may be.

PAIN AND CHAOS IF GRAB EXITS

To the consumer, Grab's primary value proposition is point-to-point transport, fast and cheap. Through its competitive pricing and various promotions, albeit diminished of late, Grab is now the dominant alternative to traditional taxis, taking a market share of about 50 per cent of 613,000 daily trips, as at July 2023.

Some observers reason, therefore, that if Grab were suddenly brought offline, consumers would have to suffer the sting of longer commutes and postponed family visits.

Accustomed to efficiency and the seamless interface between public and private services, these observers are haunted by the spectre of rail disruptions in the early 2010s.

If Grab went out of commission, they extrapolate, then consumers would be grasping at straws.

Furthermore, the recent series of banking outages faced by DBS has left a lingering discontent in consumers' minds.

Many consumers are banked with only one conventional bank, say, DBS; therefore, a service disruption implies "PayLah!" becomes "Cannot Lah".

A disruption to Grab's payment services could be similarly debilitating.

More vulnerable than consumers to Grab's exit are gig workers. When Uber exited Singapore in 2018, their handling of the situation left many drivers forlorn.

The New York Times reported that Mr Justin Ang, who had been driving for Uber in Singapore for over a year, said: "The whole thing was handled very badly. They basically just sent a message and said, 'We are merging! Bye!'"

The abrupt closure of a giant platform could be disastrous for workers in the gig economy.

These negative impacts are exacerbated because gig workers tend to be financially vulnerable, a DBS report released last July noted. For every dollar they make in income, they are said to incur $1.12 in expenses, relative to 57 cents for the median DBS customer.

A disruption to Grab, or worse, a disorderly exit, could mean missed payments from the platform to its workers, and thereon from these workers to their creditors.

There is yet another source of pain from Grab's exit. Many workers would lose an important certification of their quality.

Grab's five-star rating system, while imperfect, serves as a measure of a driver's reliability, road knowledge and overall professionalism.

Some drivers on Grab do not have formal qualifications but have built up a credible work history of trips on the platform, thus obtaining an independently verifiable indicator of their quality.

During the transition to other platforms, these drivers would effectively have to rebuild their work histories, possibly dampening their income in the short run.

REGULATIONS ON SERVICE AVAILABILITY

In any industry, the failure of a market-dominant company worries many stakeholders.

This is particularly true for platforms like Grab and Gojek, which share many features with public utilities, despite ultimately being businesses.

Their strong networks of riders and drivers present a formidable barrier to entry for new competitors, while setting up a new app and logistics infrastructure is expensive.

More importantly, ride-hailing also fosters the reliable transportation links that undergird the webs of social and economic ties driving our city.

Therefore, Singapore needs a sensible regulatory framework to manage the ride-hailing market without suffocating it.

Recently, the Land Transport Authority (LTA) released a set of regulatory changes aimed at improving the point-to-point transport sector, which includes both taxi and ride-hailing services.

Proposed amendments include a requirement for operators to notify passengers, drivers and the LTA within an hour of any systemic incidents that could impair service provision; and an extension of the minimum notice period for operators intending to quit the Singapore market from 60 to 120 days before they surrender their licence.

These operators must also inform the public at least 60 days before their exit.

While not targeted at Grab alone, these amendments seek to mitigate the negative impacts on gig workers and ride-hailing consumers that could arise from a sudden exit of a major service provider, including Gojek and other players.

Consumers will have ample time to withdraw their e-wallet balances and try out different ride-hailing options; gig workers will also benefit from an orderly wind-up and a higher likelihood of being fairly compensated for their labour.

Finally, a part of these measures also includes adjusting regulatory requirements to reduce operating costs for taxi operators. This move is welcome because a healthy point-to-point transportation market still has a place for taxis.

In her recent speech at the Committee of Supply debate for the Ministry of Transport, Senior Minister of State Amy Khor emphasised that "taxis and private-hire cars complement each other, and they work on slightly different models", necessitating the maintenance of "a stable and adequate supply of taxis."

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BUT IS GRAB TOO BIG TO FAIL AFTER ALL?

In the world of supply chain management, having back-up transportation infrastructure, like public transit, taxis and alternative ride-hailing platforms, provides spare capacity to cushion the system when adverse events arise.

These events may be routine, like when demand spikes because of rain, or rare, like if Grab were to be acquired by a competitor.

Given the recent regulatory changes, questions arise: Can regulators and other market players react within 120 days? And can consumers adjust to the new travel patterns within 60 days?

My research has found that Singaporean consumers are quick to adjust their travel habits in response to changes in their transportation options.

My paper with Brandon Joel Tan of the International Monetary Fund, forthcoming in the Review of Economics and Statistics, shows that once Stage 2 of the Downtown Line opened, travel to and from regions served by the line increased almost instantaneously.

Consumers in the aggregate settled into their new commuting patterns within two weeks of the line opening. Other papers studying unanticipated disruptions to Singapore's MRT network have also found that consumers adjust rapidly.

This means that the Singapore commuter will have ample time to adjust to any Grab exit.

As for other market players, it is instructive to consider Uber's exit from Singapore in 2018.

The run-up to 2018 saw both platforms bleeding red as Grab and Uber engaged in fierce competition, offering discounts and incentives for both riders and drivers. Thereafter, Uber's assets in Singapore were acquired by Grab.

The spare capacity afforded by Uber was commandeered by Grab to bolster its own fleet, while consumers faced higher ride-hailing prices.

Looking beyond the internal structure of the surviving company, one feature of ride-hailing is unlike that of public transportation and digital payments.

This feature is that of "multi-homing": Drivers may accept orders from other platforms, and riders may place their orders on these platforms.

To see the prevalence of multi-homing in the ride-hailing market, one need only observe the preponderance of drivers with two phones on their dashboard, one with the interface for Grab active while they accept an order for Gojek on the other.

In a market where multi-homing is prevalent, economists are less worried about the disruption to any one platform, quite unlike how they feel about disruptions to transit (no multi-homing) and digital wallets (with much lower rates of multi-homing in practice).

In other words, the drivers will not find it hard to switch to another platform.

It is an empirical question, then, whether any other ride-hailing platform can scale up within 120 days to minimise disruptions to our point-to-point transportation market. My money would be on Gojek.

It has scaled up its operations in other countries, having taken a 50 per cent market share of the ride-hailing sector in Indonesia, a formidable task.

My Indonesian friends call their home a country with about 50 times the population and 2,500 times the land area of Singapore. Furthermore, Gojek has ample liquidity today.

As at the third quarter of 2023, the company's cash and cash equivalents stood at about 25 trillion rupiah, or S$2.1 billion. The equivalent figure for the whole of Grab Holdings is S$2.4 billion, as at the fourth quarter of 2022.

Despite the initial chaos of Uber's exit, Singapore has settled into a new equilibrium in which Grab is the market leader, Gojek waits in the wings, and newcomers like Ryde and Tada jostle for a seat at the table.

Who is to say Gojek will not be the market leader in a Singapore without Grab?

Grab may continue to serve us for many more years. But it is not too big to exit.

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