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Uber drives home need to innovate

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COMMENT

The recent taxi and bus operators' debacle in Mamelodi and the furore between Uber and meter taxis in Sandton signals an urgent need for the taxi industry to transform itself before it is obliterated by the ruthless vagaries of the market.

History is littered with examples of companies that faded because of a failure to adapt and adequately respond to disruptive innovations.

One that comes to the mind is the cellphone manufacturer Blackberry. Another is the music industry, in which innovation saw compact discs replace vinyl records now compact discs are under threat from USB flash drives and music downloads by smartphones, tablets and computers.

In the taxi industry owners and operators are constantly experimenting with different types of minibuses and establishing new routes to maximise profits. But the transformation required of the transport industry should be holistic and not limited to individual operator survival strategies.

When the bus operator Putco abandoned its Mamelodi operations, the taxi industry immediately assumed, rightly or wrongly, that it should take over where Putco left off. Taxi operators believe the bus route is a lucrative one that they are entitled to serve or from which at least to derive a share.

This expectation is consistent with general business practice and it is only fair that any competitor should want to capture the market share of a struggling rival. But in the case of public transport, this may require that taxi operators take practical considerations into account.

Key among these is the financial viability of taking over bus routes. Part of the reason Putco abandoned its contract of about 70 buses in Mamelodi was that the operation was not financially viable, despite public bus operators being subsidised.

Bus commuters are generally low-income earners who live far from work as a result of apartheid spatial segregation. Buses provide scheduled services and generally operate on the low-volume routes that take commuters directly to their destination rather than to stations where commuters connect to other means of transport.

Taxi operators are less likely to be able to carry the costs of operating along traditional bus routes without a subsidy. Because taxis have limited carrying capacity, operating on these routes will increase running costs, rendering their operations even less viable than those of buses. Recouping the costs by increasing fares will be limited by the low income of the commuters.

For the government and the public, the social and environmental costs of replacing 70 buses with minibus taxis will also be large.

Taxi operators have compelling reasons to be concerned about their diminishing dominance in the transport industry. The Gautrain and bus rapid transport, for instance, could dramatically reduce the taxi industry's market share.

The taxi industry wields substantial bargaining power because of its control of the low-income market, sometimes even standing in the way of reform. As public transport systems are expanded and commuters vote with their feet, it will be under immense pressure to adapt or die. The taxi industry will learn a valuable lesson that the culture of maintaining market dominance by force cannot defeat consumer choice. With more public transport alternatives, consumers will make a transition to better and cheaper services.

But the taxi industry is far too important to South Africa's economy and heritage to be left to die. Not only does it provide transport to millions of commuters, it also provides employment and livelihood to many.

By any measure, it is a vulnerable industry that requires some protection and development to survive.

The Uber experience in South Africa and other parts of the world has demonstrated the ease with which new technology and developments can disrupt traditional sectors of the economy when they are incapable or unwilling to adapt to new challenges.

But an industry's capacity to adapt is often linked to its level of development. The more developed an industry, the easier it is to adapt.

For vulnerable industries, adaptation and resilience strategies may have to be developed before the industry is exposed to advanced imported technologies.

That Uber has been banned by developed countries such as Germany, France and Spain, and in some cities in Japan, Australia and Thailand, vindicates the concerns of local metered taxis over the mobile metered taxi service.

Metered taxis believe that Uber is not subjected to the rules that govern them and will be able to crowd them out of the market.

But for customers, Uber offers convenient, safe, reliable and quality services. Using only a smartphone, customers can request a trip, choose a pick-up point, and even the kind of car, and make payments.

The traditional metered taxis still prefer to be stationed at pick-up points and will take only cash. Inevitably, Uber's competitive edge will lead to the demise of traditional metered taxis if they fail to adapt or sign up as Uber drivers.

To some commuters, the gripes of the Mamelodi taxis and Sandton metered taxi operators reflect their greed and desire to control the market, although others see it as a need to reform the public transport system. The desire to retain market dominance should be accompanied by efforts to improve the image, services, operational efficiency and fleet of the industry.

But reforms that seek to integrate the taxi industry into the broader public transport system, including eligibility for subsidies, cannot occur in the current structure of overtraded routes and fragmented ownership. It would be administratively inefficient and costly to manage the subsidy for thousands of independent taxi operators, particularly if they are reimbursed according to the distance travelled. It is also impractical to cushion any industry in a free-market economy against competition and innovation.

But competition laws can be used to grant a reprieve if the industry has genuine concerns about unfair

competition. Within practical limits, the law can at least ensure that the shifting of market power to new innovators does not make the taxi industry worse off. But, without protection, the taxi industry will have to develop its own strategies to retain market share.

After all, the Stone Age did not end because of lack of stones.

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