An Evidence-Based Analysis of Relevant Market

The Case of Ridesharing in Delhi-National Capital Region (India)

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Introduction

Globally, digitalization is expanding at an unprecedented pace. Rapid internet revolution has made multi-sided platforms (MSPs) ubiquitous in our modern economy. In India, ride sharing within urban transportation is one sector that has been significantly upended with the entry of MSPs. Owing to their distinct features, these Online App-based Platforms (OAPs) exhibit significant competitive pressure on traditional players. Concurrently, the enforcement of competition law with respect to MSPs generally and OAPs specifically is at an incipient stage. Particularly, the delineation of market definition of MSPs forms the hotbed of competition law discourse.

Ascertaining the relevant market encompasses the relevant product and geographic markets. According to the Indian Competition Act, 2002, a significant factor for the accurate delineation of relevant market is an intricate assessment of several factors, including 'consumer preferences'. However, the extent to which consumer preferences are currently evaluated and relied on appears to be limited and lacks on-the-ground research.

To fill this void, we undertook an evidence-based analysis to ascertain the relevant market of OAPs in the context of the ride sharing industry in the Delhi National Capital Region from the perspective of consumers (both riders and drivers on OAPs).

Methodology

We undertook on-the-ground in-depth in-person interactions with 1377 riders and 660 drivers in Delhi NCR to understand their preferences and switching decisions with respect to urban transportation. Price as well as non-price factors influencing consumer preferences and decisions were gauged. The survey results were supplemented with findings from Key Informant Interviews with relevant stakeholders such as on-the-ground service providers, transport and competition experts (national and international) as well as government officials. The data sets were analysed by applying tailored versions of Small but Significant Non-transitory Increase in Price and Small but Significant Non-transitory Decrease in Quality tests in a complementary manner to ensure robust findings.

Importance of non-price factors and network effects

The first step in the relevant market analysis was to undertake a general assessment of riders' preferences in the market. We found that OAP services (followed by personal vehicles and non-app autos) were most preferred private/ hiring modes of transport by riders. Radio taxis did not rank high despite offering similar physical characteristics as OAPs as riders value non-price factors such as availability and reliability, as much as price, while choosing a mode. These are supply-induced factors which are

directly linked to the critical mass of drivers available with OAPs at all relevant times. Alongside income, drivers also value non-price factors such as more riders on a platform and readily available rides, in attaching with OAPs. These are demand induced reasons, responses in favour of which collectively surpass the most obvious incentive for drivers, *i.e.* a better income. These findings indicate a growing significance of non-price factors alongside price factors for consumers, and the relevance of cross group network effects generated by platforms.

Multifarious consumer preferences

We found that preferences of riders are multifarious and are influenced by factors like their income, gender, geography, purpose, duration, and time of the trip. For instance, some riders prefer OAP services owing to availability, while women riders prefer personal vehicles for the reasons of safety. Similarly, riders travelling within Delhi are likely to value price over other factors, while riders travelling to Delhi from other parts of NCR are likely to value reliability and comfort more.

As a result, riders are unlikely to view OAP services uniquely. While considering alternative modes, they are likely to compare specific features of OAPs, from which they derive most value, with similar features of other service providers, online as well as offline. This leaves scope for innovation and entry in the market substantially open.

Similarly, a substantial number of drivers are likely to switch to a new online platform which, if it caters to specific driver needs (price or non-price), may be able to compete with existing platforms. Thus, it was found that despite the existence of cross-price network effects, there is scope for innovation and entry in the market.

Relevant product market

To examine shifting decisions of riders, different scenarios in the form of hypothetical increase in prices, decrease in availability, and unavailability of OAPs were administered. Their shifting trends were further analyzed across demographics like income, gender and geography. We found that there is a significant shift of riders availing OAP services to alternative modes (app and non-app based) of transport indicating that current pricing levels are competitive and not monopolistic.

We envision the relevant product market for riders as 'market for transportation services for riders', in which the different probable substitutes of OAPs in Delhi-NCR are OAP service providers, non-app auto rickshaws, personal vehicles, non-app taxis, metro and radio taxis (in the decreasing degree of substitution).

To examine the shifting decisions of drivers, differnt scenarios in the form of hypothetical increase of service fee of platform operators, reduction in incentives of drivers, and unavailability of OAPs were administered. Key alternatives considred by taxi drivers are other OAPs or plying as non-app taxis (in that order) and key alternates considered by auto drivers are plying as non-app autos or linking with other OAPs (in that order), due to difference in shifting costs and friction for taxi and auto drivers. We envision the relevant product market for drivers as 'market for facilitation services to drivers for accessing riders'.

Relevant geographic market

We found that the cities of NCR where OAPs are providing their services, including New Delhi, Faridabad, Ghaziabad, Gurugram and Noida lie in the same relevant geographic market for OAP services. Sonepat, however, displays heterogeneity in availability of OAPs and rider preferences, and is unlikely to fall in the relevant geographic market.

Relevant market

The relevant market on the riders' side has been delineated as market for transportation services for riders in Delhi NCR (consisting only the following cities: New Delhi, Faridabad, Ghaziabad, Gurugram and Noida).

The relevant market on drivers' side has been delineated as market for facilitation services to drivers for accessing riders in Delhi NCR (consisting only the following cities: New Delhi, Faridabad, Ghaziabad, Gurugram and Noida).

This study marks further support to growing body of literature on a more intricate determination of relevant market in competition assessments. Further, as the study highlights, the need for weighing in consumer preference and non-price factors is an essential exercise that must be undertaken by competition authorities across the world in order to ensure that rhetoric do not suppress the market reality. This is especially true for digital markets.

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