

Innovate or Perish: Why Taxi Companies Should Switch Gears

Opinion Editorial

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In the transportation sector, the taxi industry faces new and global competition. Around the world, ridesharing services like Lyft, Uber, and Sidecar offer convenient, user-friendly transportation that disrupts the taxi monopoly over budget car-for-hire services. This has spurred entrenched interests, such as taxi unions, to advocate for regulations or, in some cases, the termination of ridesharing businesses altogether (i.e. Germany). However, rather than push for more regulation or termination of the ridesharing economy, taxi companies should improve their service and focus their efforts on working with policy makers to reform burdensome policies that stifle their ability to innovate and compete.

Uber now operates in 207 cities in 45 countries and Lyft has a presence in nearly 70 U.S. cities – both with plans to expand – demonstrating that there is a demand for alternatives to traditional taxi services. For instance, according to the San Francisco Municipal Transportation Agency (MTA), taxi use in the San Francisco has decreased by 65 percent as consumers switch to ridesharing services.

Additionally, a study conducted by UC Berkeley revealed that the top reasons for why respondents chose rideshares over taxis were: ease of payment, shorter wait times, and fastest way to destination. The study also found that 92 percent of rideshare vehicle requests arrived in fewer than 10 minutes during evening rush hour, while this only applied to 16 percent of dispatched taxis during that time. Furthermore, survey respondents indicated that 37 percent of dispatched taxis took more than 20 minutes to arrive during evening rush hour, whereas only one percent of rideshares took that long to arrive.

With taxi companies historically dominating the budget car-for-hire market, the taxi industry has lacked sufficient incentive to better its offering – until ridesharing alternatives came on scene, that is. Overall the UC Berkeley study demonstrates what consumers value and provides a starting point for taxi companies to address identified problems. The numbers don't lie – consumers want the ridesharing alternatives to taxis.

Rather than adapt to consumer demand, in an act of self-preservation, the taxi industry began to call for government intervention. However, if the government steps in and ends viable ridesharing businesses, consumers would be worse off. They would be left with no budget car-for-hire alternative and a taxi industry that has failed to innovate to meet new market demands. If the taxi industry aims to survive, it must better its services to cater to consumer demand, rather than focus on trying to tear down its competition through government action. This kind of market Darwinism, the survival of the fittest businesses, raises the bar for service.

If these competing services continue to innovate and expand, the ultimate winner is the consumer. Thus, the focus on government termination of the ridesharing economy is misdirected. The taxi industry should instead address consumers' needs, starting by spotlighting and contending outmoded regulations governing its own industry in order to reform laws that diminish the competitiveness of taxi companies with ridesharing alternatives.

To be clear, complete deregulation of the taxi industry is not the answer. Some regulations are necessary to protect consumer safety. The ridesharing community must also abide by safety standards. According to Uber, 14 U.S. jurisdictions have adopted ridesharing regulations including: Chicago, Baton Rouge, Oklahoma City, Washington, D.C., and multiple cities in California. Reforming regulations that are cumbersome and costly is essential to the survival of taxi companies. It is important to note that, faced with outright bans, even ridesharing services have indicated that they are open to discussing regulations. It is critical that policy makers adapt to industry advances in order to enable innovation to flourish for both taxi companies and ridesharing businesses.

There are some examples of positive steps policy makers have taken to allow competition and innovation. For instance, in San Francisco the MTA is working with taxi companies on industry reforms to emphasize better service. MTA is promoting

the use of credit card readers and electronic data systems. Additionally, Malcolm Heinicke, one of MTA's board members stated, "The agency should also consider some flexibility in the fixed rates taxis are required to charge." Furthermore, the San Francisco taxi industry and the MTA began to allow a citywide taxi-hailing app, along with other "hail and pay" apps for taxi companies to use.

In Los Angeles, California Mayor Eric Garcetti recently requested that the city's Board of Taxi Commissioners review the 64 pages of rules governing taxi companies. This practice serves to update archaic regulations like the one in Los Angeles that requires taxi drivers to wear white dress shirts and black dress pants with matching black shoes and socks. The LA taxi regulations also require drivers to maintain \$20.00 in change throughout their shift, while also obliging drivers to both verbally inform passengers and post signs in their taxi stating the driver only carries \$5.00 in change on his or her person. With obsolete and contradictory rules like these, as well as inflexible rate requirements, it is time for the taxi industry and other cities to take note and recognize the regulatory burdens that prevent innovation for the taxi industry.

The focus on reforms is a step in the right direction. If alternatives to taxis are shut down, ultimately the consumer suffers – no choice, lower quality service. With competition, consumers win – more options, higher quality service. To date, consumers have adapted to technological advances in the transportation industry, so should policy makers. Plus, at the current rate of technological innovation, self-driving vehicles may soon be the next taxi or rideshare fleet. What will taxi drivers, rideshare drivers, and policy makers do then? ◀