

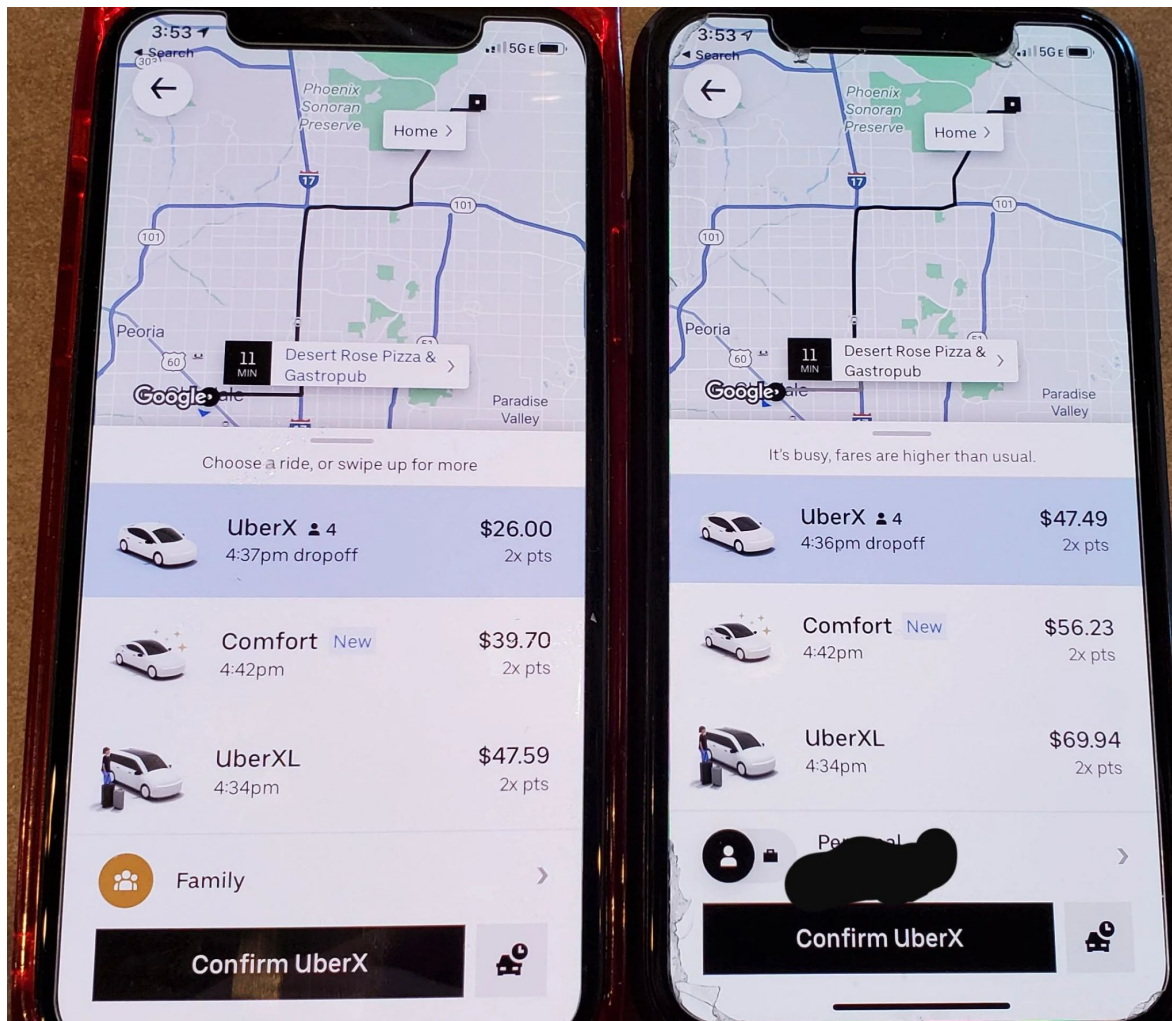
Uber:

Surge Pricing

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What's the most you've spent on an Uber?

Uber



What is Surge Pricing?

A type of dynamic pricing where prices increase during periods of high demand.

- Demand for rides increases
 - Too many people requesting rides when there aren't enough cars on the road.
- Prices go up
 - Prices increase to account for the increase in demand, ensuring that those who need one can get one.
- Riders pay more or wait
 - Uber lets riders know if prices are raised due to surge pricing, giving riders the option to wait or pay.

Surge Pricing on Uber

Implemented in October 2011. Previously, Uber used multipliers to show drivers what surge pricing looked like in certain areas, but have recently started using flat, upfront pricing.



Easier decisions for riders

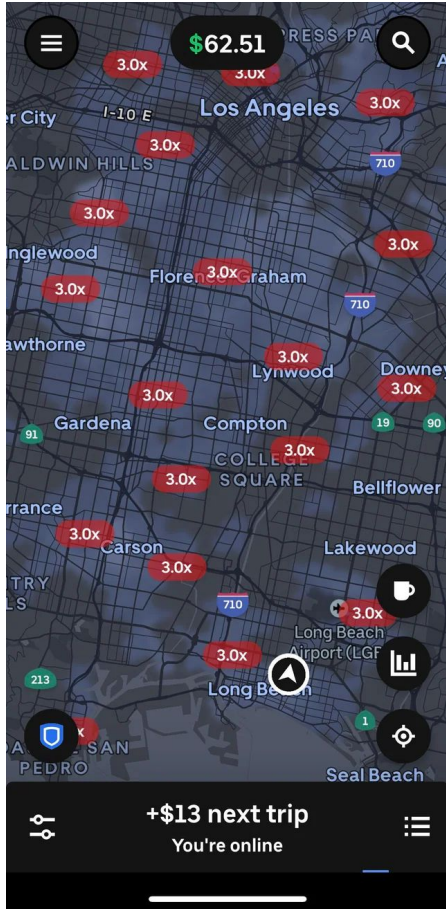


Increased transparency

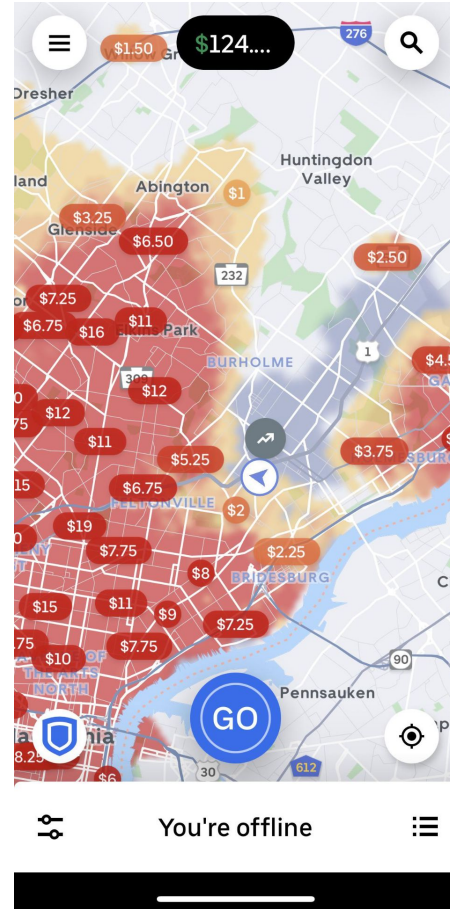


More rides requested

Old
Multiplier surge
pricing



Uber



New Flat surge pricing

How does the Surge Price Algorithm Work?

Supply Demand Equilibrium

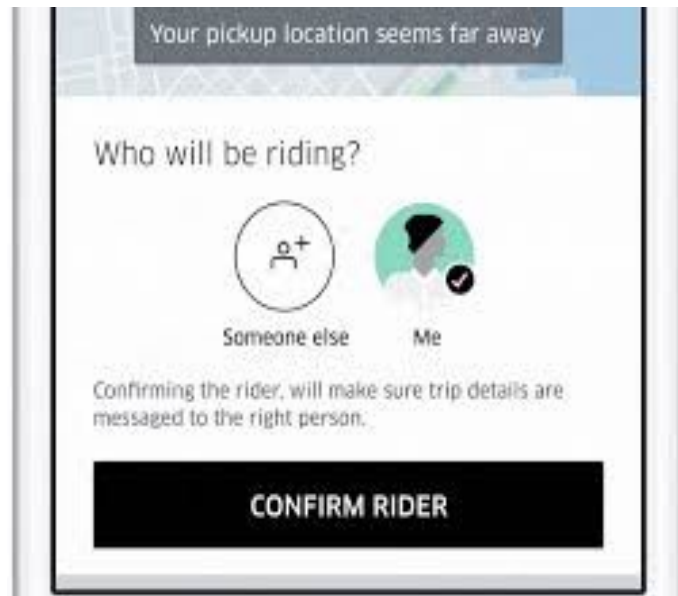
Surge pricing is based on the relationship between supply and demand, adjusting prices to encourage more drivers to get on the road during peak times and locations.

Algorithm-Controlled

The system is algorithm-controlled, automatically detecting shifts in rider demand and driver availability to determine when surge pricing is needed.

Rider Options

Riders are presented with the choice to either pay the increased fare or wait until the demand subsides.



Benefits of Surge Pricing



Supply

- Solved the income target problem taxis experienced
- Increased supply to match increased demand



Demand

- Set equilibrium prices to regulate fluctuating demand
- Allocated supply to those that value rides the most

Makes the market more efficient and consistently equilibrate supply and demand

Supply Side



Income-Target Problem

- Taxi drivers would stop working once they reached a daily target income
 - If rates were high, supply was low (negative supply)
- Surge pricing solves this by incentivising drivers to keep driving using higher rates



Increased Supply to Match Demand

- Taxi drivers have no way of gauging demand
 - Surge pricing incentivises drivers to provide rides in busier areas (where there is more demand) through higher prices

Demand Side



Prices Regulate Increased Demand

- When demand for rides are significantly higher (after a concert), the number of ride requests stay relatively constant
 - Some users are willing pay the higher price
 - Others wait for the price to go down or have a better alternative



Uber Can Properly Allocate Supply

- Despite increased demand, wait times didn't increase
 - Only those who valued Uber enough and willing to pay requested rides
- The price set was the equilibrium price, supply and demand were balanced

Case Study: When There is No Surge Pricing

What Happened

New Years Eve 2014-15

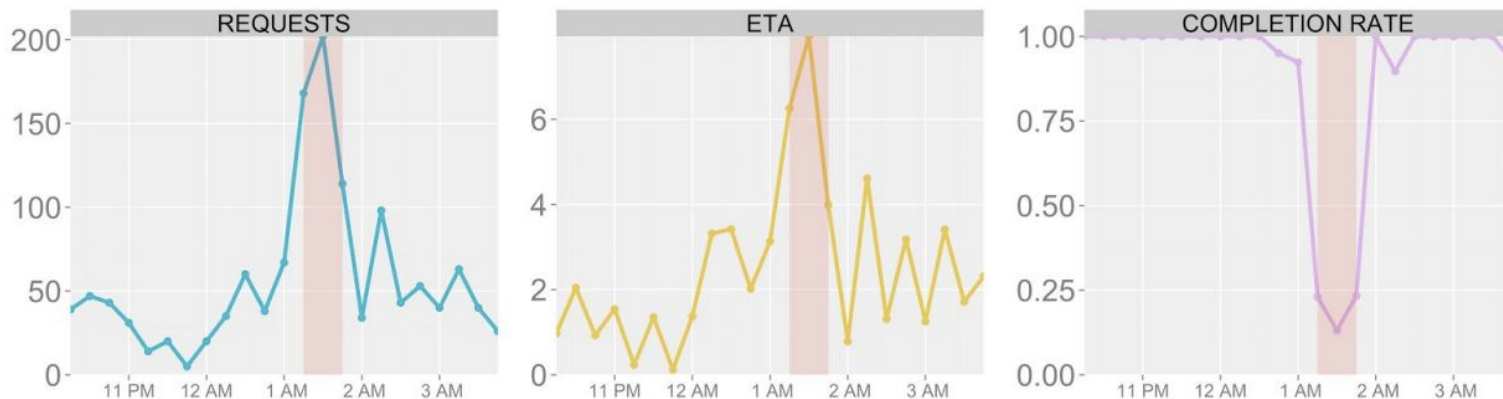
- Uber's **surge pricing algorithm** across NYC **broke down** for 26 minutes
- Number of **fulfilled ride requests fell** and **wait times increased** dramatically

Why Did it Happen?

- Supply is low and demand is high because it's NYE
- Few lucky users took advantage of the lower rate, but **supply of cars quickly diminished**
- There was a **supply and demand imbalance**

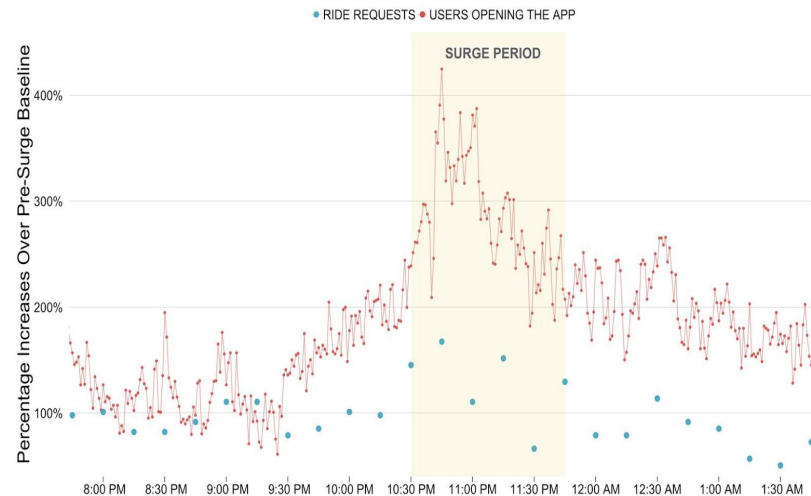
Case Study: When There is No Surge Pricing

Figure 7: Vital Signs of a Surge Pricing Disruption on New Year's Eve (January 1, 2015)



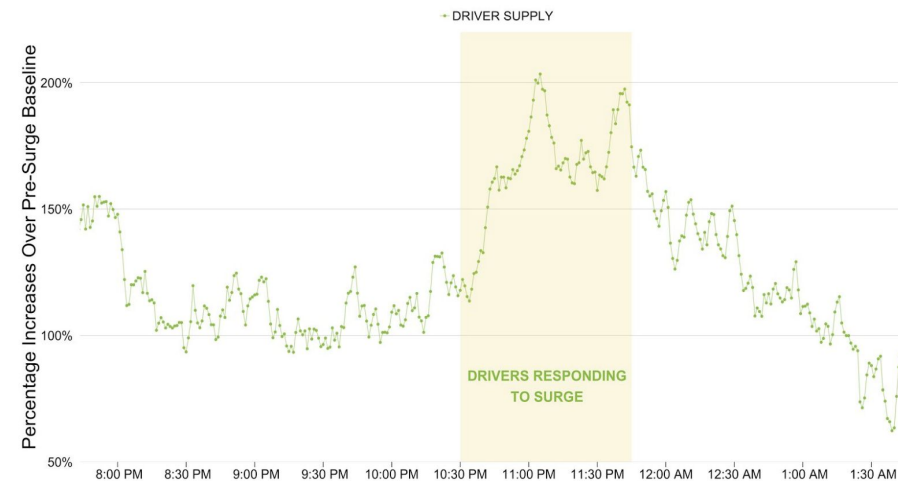
These charts demonstrate how without surge pricing the market is unable to match supply and demand - drivers and riders alike both experience value lost.

Figure 1: Demand for Uber Spikes Following Sold-Out Concert on March 21, 2015



Uber

Figure 2: Uber Driver-Partner Supply Increases to Match Spike in Demand



Ethical Considerations & Controversies

Fairness and Equity

During periods of Excessive Demands, Uber increases its fares with a multiplier whose value depends on the scarcity of available drivers. With the aim to find the “equilibrium price”, allocating rides to those who value them more.

Vulnerable Situations

The practice of surge pricing during emergencies or natural disasters has sparked ethical debates about the treatment of customers in vulnerable situations. A lot of people, riders and drivers have equated it with Price Gouging.

Regulatory Responses

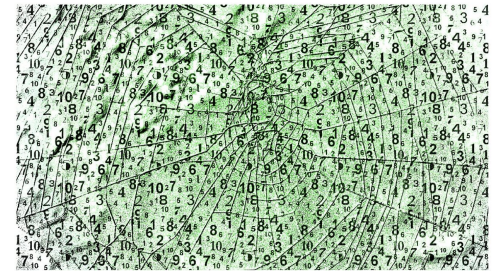
Governments and regulatory bodies have responded to the ethical considerations of surge pricing, leading to discussions about potential regulations. However, no formal legislation has been passed on this particular issue.

Pricing Strategy

Everyone Hates Uber's Surge Pricing – Here's How to Fix It

by Utpal M. Dholakia

December 21, 2015



Key Solutions & Ideas

Cap the surge multiplier at a reasonable number and communicate the cap clearly.



- Uber's surge pricing multiplier is undisclosed and mysterious, riders are frustrated by the uncertainty
- An open-ended multiplier suggests Uber is profit-driven which leaves riders unsure of what to expect
- Clearly communicate the cap to users, in order to maintain consumer - customer transparency

Reduce the volatility of price fluctuations.

- Volatile pricing erodes consumer trust
- Consumers can't anticipate when to book or if they're being overcharged
- Uber should reduce price changes for a more predictable experience
- Implement higher prices during rush hour or on weekend nights & Maintain normal prices at other times



Market the benefits & Rebrand the Surge Pricing Concept.



- "Surge pricing" has negative connotations, implies sudden, high price increases
- Use a new term emphasizing benefits to riders, like "convenience pricing" or "certainty pricing"
- Many riders focus only on the high price, not the benefits
- Marketers should clearly explain the value customers get for the price they pay

Thank
You!

Any Questions?

Economic Impact

Efficient Resource Allocation

Surge pricing facilitates efficient allocation of resources, ensuring that drivers are available when demand is high, contributing to economic efficiency.

Consumer Behavior

It influences consumer behavior, encouraging riders to consider alternative transportation options or wait for prices to return to normal.

Market Dynamics

Surge pricing reflects the dynamics of supply and demand in the transportation market, providing insights into consumer preferences and travel patterns.

CASE STUDY - Surge Pricing and Flexible Work on the Uber Platform

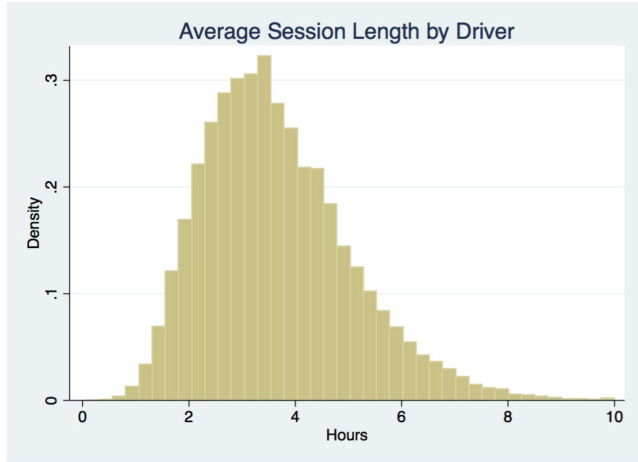


Figure 1: Uber Partners' Average Session Lengths

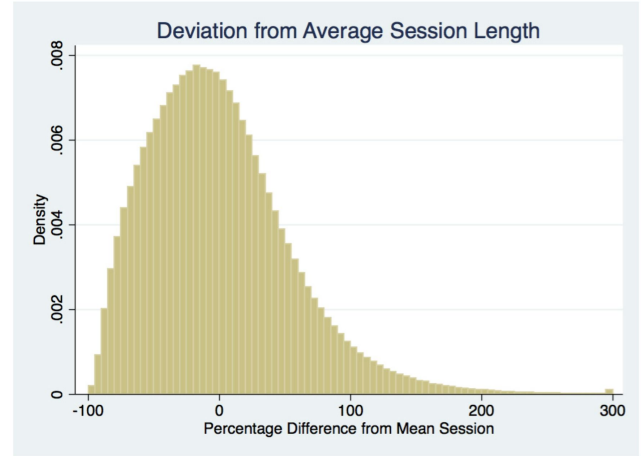


Figure 2: Variation of Session Length from a Driver's Average

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