Buyer Power Abuses and Labor Issues: The Case of Uber

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OCT 10, 2023

Digital Monopsony

- Prerequisites for monopsony power
  - (1) the buyer contributes to a substantial portion of purchases;
  - (2) barriers to entry into the buyer's market; and
  - (3) an upward-sloping supply curve
- Welfare effects of a classic monopsony
  - Lower output level and resultant deadweight loss
  - Price increases for the final product are contingent on the degree of competition in the downstream market
- Whether these conclusions hold where the monopsonist is a digital platform, such as Uber, remains an interesting question
  - Uber's ability to engage in price discrimination
  - Not necessary to reduce overall demand to depress the purchase price

Uber's Hell Program

- A program run by Uber to target drivers that also drove for a competitor
  - Not to exercise monopsony power as the main purpose
- Three components:
  - (1) the collection and combination of data
  - (2) the identification of drivers who were also driving for competitors
  - (3) targeted incentives for these drivers
- "Multi-homing" drivers would receive more offers, be given special bonuses, and be offered better prices
  - Occurs with no knowledge on the part of the drivers
- Excluded a competitor from the input market through personalized rebates, bonuses, or personalized overbuying

Uber's Hell Program

- Not many legal countermeasures that the competitor could undertake as costs could be substantial
  - (1) Pay a higher price to the existing drivers
  - (2) Introduce exclusivity clauses in the driver contract
  - (3) Recruit more drivers
- Allowed Uber to distinguish between those drivers that might multi-home from those who only driver for Uber
  - Did not have to offer the incentives to all drivers
  - Any profit required in the recoupment of the costs would also be smaller

Uber's Technological Capacity to Monopsonize

- The technical feasibility of personalized pricing has been widely debated
  - Whatever the current technical limits of pricing algorithms, some industry experts believe that personalized pricing is the future
- Uber appears more capable of offering personalized pricing
  - The Hell program indicates that Uber can identify with considerable accuracy multi-homing drivers and predict their willingness to drive
  - Could presumably obtain even more information if it was willing to release an estimated fare in advance of driver acceptance of a ride
  - That Uber drivers are compensated on a per trip basis gives Uber significant room to individualize compensation
  - Uber's pricing model is a far cry from the single equilibrium price offered by a classic monopsonist

Uber's Technological Capacity to Monopsonize

- Personalized pricing against Uber drivers is unlikely to cause a public outcry
- Nor do Uber drivers have the option to interact with Uber anonymously
- Uber can also seek additional assistance from pricing algorithms
- Likely to face fewer technical challenges compared to a digital platform attempting to price discriminate against its consumers
  - Determining a consumer's willingness to pay requires a high dimensionality of data, much of which is often incomplete
  - Much of the consumer data from third-party online sources is unlabeled, which greatly impedes supervised learning by pricing algorithms
  - Most retailers lack the appropriate technical infrastructure that is needed to gauge consumers' willingness to pay

Welfare Effects of Digital Monopsony

- The possibility of individualization fundamentally changes the welfare calculus of digital monopsony
  - The efficiency loss of price discrimination decreases as it approximates first-degree price discrimination
  - Market outcome with first-degree price discrimination mirrors that under perfect competition
  - Producer surplus is fully extracted by the price-discriminating monopsonist
  - The deadweight loss disappears as there is no restriction of output
  - A price-discriminating monopsonist need not resort to demand depression to obtain lower prices
- The closer the monopsonist approaches perfect price discrimination, the more benign are the welfare effects

Welfare Effects of Digital Monopsony

- Are consumers indifferent to digital monopsonies?
  - Consumer prices may rise if downstream competition is weak
  - May not be able to increase downstream prices without curtailing its output
  - Which may require the digital monopsonist to leave some input unused
- Most of the competitive harm from a typical exercise of buyer power has little application in the case of Uber's digital monopsony
  - Waterbed effect
  - Quality erosion, increased concentration in the supply chain, and reduced investment incentives by suppliers
  - Creation of downstream market power
    - If Uber's monopsony power is exercised for an exclusionary purpose