What ridesharing on halloween can teach you about incentives

[Art & Culture]

On any given day, ridesharing companies face the logistical puzzle of balancing supply and demand. As they strive to match the number of cars on the road with the number of passengers seeking rides, they rely on computer algorithms to guide drivers and keep customers updated in real time. But on a busy night such as Halloween, the balance becomes even more challenging to maintain.

Yes, Halloween is one of the busiest nights for ridesharing. And, of course, there’s New Year’s Eve, when demand skyrockets, as well as times when it spikes in a particular market, such as Mardi Gras in New Orleans, St. Patrick’s Day (for cities such as Chicago that are serious about their pub crawls) and even smaller occasions such as sporting events, concerts or conferences.

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Like New Year’s, universality defines Halloween. Drivers aren’t necessarily directed to a certain part of town, because people could be celebrating anywhere. This creates not only a challenge for the companies, but also an opportunity. It requires a few tricks to wrangle contractors and make sure everyone gets their treat: Drivers get paid, customers get efficient rides and the company profits.

The fact that ridesharing services dispatch fleets of contractors, rather than employees, is what makes all of this so complicated. Simply put, the companies can’t tell drivers, “ You have to work.” They can suggest it, but they can’t mandate it. This is the wrinkle that an increasing number of companies will navigate astechnologyfosters the continued expansion of the gig economy and remote workforces become more common.

No one can anticipate exactly how many drivers will be on the roads on Halloween or other busy nights. Even the most prominent ridesharing companies have been around for less than a decade, so they have minimal historical data upon which to draw. That’s why the economically savvy strategies that they have developed to bolster supply will be in full force on this Halloween.

Predicted dynamic pricing

Chances are, you’ve been on the receiving end of dynamic pricing as a rider. Uber calls it surge pricing. Lyft calls it Prime Time. During periods of high demand, ride prices increase.

“ Halloween is one of the busiest nights of the year for Lyft,” a Lyft spokesperson said in an email statement to *Entrepreneur* . “ Because of the high level of the demand, passengers may encounter Prime Time prices, but we will do everything we can to ensure that there are enough drivers on the road to keep rides affordable for everyone.”

Dynamic pricing frustrates many customers, which is what ridesharing platform banks on.

“ We will offer surge-free fares on Oct. 31 and throughout Halloween weekend, just like we do on every other day of the year,” said Gett CMO Nahshon Davidai in an email statement. “ Gett is completely transparent about pricing and offers firm quotes based on the estimated time and distance of the ride. As a result, customers won't need to worry about increased fares due to higher demand on Halloween.”

Davidai also noted that for 50 select “ peak” hours each week, Gett pays its drivers 1. 2 times their regular pay, and the company takes 10 percent commission from drivers and allows them to accept and keep all of their tips. The company did not specify whether it has any plans for Halloween in terms of driver pay or incentives.

(Uber declined to share information with *Entrepreneur* regarding its strategies for managing supply and demand on Halloween. Other ridesharing companies Via and Juno did not respond in time for this story’s publication.)

Yet dynamic pricing is core to how many ridesharing platforms operate, regardless of how customers may feel about it. It’s not meant for price gouging -- it’s a way to limit demand.

“ It’s a losing battle to stick to a ‘ we’re against surge’ message, though it may appeal to certain customers,” says Arun Sundararajan, professor of information, operations and management Sciences at New York University’s Stern School of Business and author of . “ It’s certainly one of the innovations that was necessary. You could never get a taxi during rush hour five years ago.”

Sundararajan explains that airline ticket prices fluctuate constantly, but customers have grown to accept the fact that the person sitting next to them on a flight may have paid a much lower price for his or her trip. He expects that surge pricing will become more a part of the landscape. “ I don’t think this is the best branding choice to call it surge pricing,” he says. “ Airlines don’t call it anything.”

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The surge pricing argument is nothing new. What’s more recent are guarantees for drivers that dynamic pricing will be in effect in a certain area. Uber calls it “ Earnings Boost,” while Lyft calls it “ Guaranteed Prime Time.” In either case, the platform sends an advance message to drivers informing them of an opportunity to drive and receive, say, 1. 8 times their normal pay for rides in a given area at a given time. The companies offer this when they anticipate high demand in an area in order to incentivize drivers to work. When supply is sufficient, Uber doesn’t run the risk of prices climbing sky-high and outraging riders.

“ This year, we’re probably going see them use [Earnings Boost] a little bit more effectively, and that will lead to less surge,” says blogger Christian Perea of , who drives for multiple platforms. “ But it will still be there, almost certainly. You’re not going to get a $3 ride 85 blocks at 3 in the morning on Halloween.”

Promotions for drivers

Ridesharing companies offer other types of monetary incentives for drivers. These include hourly wage guarantees and bonuses for completing a given number of rides. For example, here are some of this year's Halloween bonuses for New Jersey Uber drivers, according to :

- " Want to earn an extra Halloween treat?
- Complete 25 or more trips before 11/1/16 to earn an extra holiday incentive:
- $500: Complete 100 trips
- $300: Complete 75 trips
- $200: Complete 50 trips
- $100: Complete 25 trips"

Drivers often have to read some fine print and adhere to guidelines in order to reap deals such as these. These were the rules for drivers in to be eligible for an $30 hourly guarantee on Halloween 2015:

- " At least $30/hour 8 p. m. to 2 a. m.
- Be online at least 2 hours on Saturday night
- Complete at least 1. 25 trips per hour (on average) when online
- Accept and complete 85% of trip requests"

So which incentives work best? That's what ridesharing companies are trying to figure out.

" What I think they will evolve to is creating incentive structures that are far more individualized," Sundararajan says. " More targeted to individual providers, some of whom have shown that they are more susceptible to accept a certain kind.” For instance, he explains, companies will refrain from offering incentives to drivers who are likely to drive without them. Companies can also use bonuses to target some of their best or most reliable drivers.

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Perea says that the companies are already engaging in incentive targeting. In the past, he’s seen that the companies have provided special bonuses to drivers who have been latent for a period of a few months in order to get them back out on the roads on busy nights such as Halloween. He also says that the company tests new incentives regularly through a program called “ Power Driver One.”

Both driver bonuses and dynamic pricing are integral to many ridesharing companies’ supply management.

“ One is about getting your drivers to show up and be on the platform every day, and the other is about getting them to be where you want them when you need them,” says Paul Oyer, an economics professor at the Stanford Graduate School of Business who studies the gig economy and Uber drivers. “ They’re complements rather than substitutes. Each one helps make the other more effective. So these bonuses for doing a certain number of rides, those are reinforced by effective use of boost and vice versa.”

Now you might think, “ Doesn’t everyone want to drive on Halloween and cash in on these incentives?” In a post last year, Perea explained that

Halloween tends to bring drivers out of the woodwork, especially when companies assure drivers that they'll be compensated handsomely.

" It seems like when these big holiday events come around, all of those previous drivers who stopped driving come out to earnmoneyagain and saturate the market. The streets become flooded with Uber U's and pink mustaches. This ' latent' labor pool makes predicting holidays like Halloween or NYE more difficult but still doable," Perea , when Halloween fell on a Saturday. He then reassured drivers: " Even if there is a lot of saturation I would still expect to earn a little more than normal on a Saturday."

Ridesharing companies' strategies are effective in bringing up supply, but some drivers have learned that if there are too many other drivers out there, they'll have a lot of competition. And in situations when Uber is requiring drivers to complete a certain volume of trips in a certain window of time in order to qualify for bonuses, drivers may not be able to meet those criteria. Often, Perea says that whether he drives will depend on the promotions that a company offers. That is, if they offer too many, he'll stay home.

" I'm not going to drive this year, because I'm absolutely convinced they'll do a decent job of bringing up supply," Perea says. " Anecdotally, what I look for is how much they're going to drum up the event or the holiday. ... If it's too much, then I'm actually not going to drive, because I know that drivers will be everywhere and it's more likely to be a bust on the driver side."

How these techniques translate to other industries

Oyer explains that online labor market platforms fall into two categories: Commoditized matching and differentiated matching.

Ridesharing companies are an example of commoditized matching, because the identity of the driver doesn’t come into play -- every driver provides an identical service of transporting a passenger from point A to point B. “ The task of the intermediary is to manage the supply and demand, figure out the price and allocate things efficiency,” Oyer says of the ridesharing companies. “ They’re running the market.”

Differentiated matching services, such as UpWork, provide platforms for skilled workers to find customers. “ They’re matching buyers and sellers. All they’re doing is giving them a way to find each other,” Oyer says. “ The intermediary stays out of it completely.”

Just as ridesharing companies offer bonuses based on number of rides a driver completes, Sundararajan says that he sees potential for companies that use gig workers to implement a variation on sales incentives (similar to holiday retail workers on commission).

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Another factor that makes ridesharing services unique is the element of immediacy. “ You don’t have this kind of instantaneous volatility in other markets,” Sundararajan says. “ Most of the time, things can be planned sufficiently in advance.”

Hypothetically, an accountant could brace for tax season demand and even charge incrementally higher fees in the first days of April than at other times of the year. But dynamic pricing doesn’t make as much sense for most other types of companies. It’s best suited for on-demand services.