Annex A

Analysis on the Trends in Grab's Rider Promotions and Driver Incentives

The Commission finds that there has been a significant change in Grab's rider promotions and driver incentives since the issuance of the PCC's Interim Measures Order dated 6 April 2018. Grab's failure to maintain pre-Transaction rider promotions and driver incentives has effectively created difficulty on the part of the Commission to assess the long-term prospects for the substantial lessening, prevention, or restriction of competition caused by the Transaction.

Grab alleges that the reduction in the incentives and promotions was not a change in the circumstances prior to the effectivity of the Interim Measures Order since there was already a downward trend in its promotions and incentives since the fourth quarter of 2017. As such, they argue that this should not constitute a breach of the Interim Measures Order.

The Commission finds this claim to be false, as examined in the analysis for structural breaks below. A structural break that is found within a period of interest is an indication that a significant change in the level and/or trend exhibited by a variable (e.g., rider promos and driver incentives) has occurred.

Results show that structural breaks in the trends of rider promos and driver incentives, identified using statistical tests, have indeed occurred since the issuance of the Interim Measures Order. This nullifies Grab's argument that no change in incentives can be observed.

On Rider Incentives

Grab offers promos to riders in the form of fare discounts to encourage them to book rides on the Grab platform. In addition to promos, riders can earn GrabRewards Points for every ride taken, which can be redeemed for fare discounts or deals relating to dining, shopping, and entertainment.[1]

Grab alleges that the level of rider promos and the frequency with which they are offered had been decreasing even prior to the Transaction. To support this, Grab has presented a table showing that the average promo discount rate per quarter is decreasing from the first quarter of 2017 to the first quarter of 2018.[2]

However, the Commission finds that obtaining the average promo discount rates per quarter is misleading and insufficient to determine whether Grab's rider incentives changed after the issuance of the Interim Measures Order. To begin with, this measure fails to account for the number of riders who benefited from the discounts, and therefore the total value of rider discounts. Further, to enable a comparison of trends in rider promos pre- and post-Interim Measures Order, data used should extend beyond the first quarter

[1] "Grab Rewards", *available at* https://www.grab.com/ph/hello_grabrewards/, last accessed on 10 October 2018.

[2] Grab's Comment on the Proposed Interim Measures dated 5 April 2018.

of 2018 to include the periods after the issuance of the Interim Measures Order. In fact, upon taking a closer look at the table, the Commission finds Grab's claim to be inconsistent with the data presented. In particular, the average discount rate actually increased from 14 per cent in the last quarter of 2017 to 16 per cent in the first quarter of 2018.

In its Supplemental Compliance, Grab shows that it had shifted from giving riders direct discounts on rides to providing riders the opportunity to earn points for every ride taken through the GrabRewards Program. This shift out of direct discounts essentially shows that Grab had changed the structure of its rider incentives, in violation of the Interim Measures Order.

Thus, to examine the validity of Grab's claim, the Commission analyzed the data provided by Grab in its Statement of Revenue and Cost,[3] which measures rider promos in terms of monthly cost. The total value of Grab's rider promos for each month is obtained by adding (i) passenger retention cost, which pertains to promos for existing passengers, and (ii) passenger acquisition cost, which pertains to promos geared towards new passengers.

The Commission's analysis begins at March 2017, a year before the Transaction, and ends at July 2018, the last month of the Interim Measures Order's effectivity. The analysis looks into two periods, namely, the period of March 2017 to March 2018 ("Pre-IMO period") and the period of April 2018 to July 2018 ("Post-IMO period"). The Pre-IMO and Post-IMO periods are compared in order to determine whether or not Grab has followed a consistent trend in its provision of rider promos.

Table 1 presents the average value of monthly promos and the average change in monthly promos. The average value of promos is at its lowest during the Post-IMO period at about USD 357 Thousand – less than half of the Pre-IMO level. The average change in promos shows that promos were declining for the period of March to November 2017, then increasing during the period of December 2017 to March 2018 at an average monthly rate of USD 309 Thousand. Post-IMO, the average rate of increase in rider promos was much slower at about USD 15 Thousand per month – only 5% of the average rate in the previous period.

Table 1. Grab's Value of Monthly Promos to Riders (in USD), Pre- and Post-IMO

Period	Average Value of Monthly Promos	Average Change in Monthly Promos
Pre-IMO		
Mar. 2017– Nov. 2017	1,341,268	-217,290
Dec. 2017 – Mar. 2018	869,245	309,192
Post-IMO *Apr. 2018 – July 2018*	356,721	14,768

Source of Basic Data: Grab's submissions dated 1 Oct. 2018

[3] Annex B of Grab's Partial Compliance and Motion for Time dated 1 October 2018.

To determine whether there has indeed been a change in the trend of rider promos following the issuance of the Interim Measures Order, the Commission conducted a regression analysis[4] and structural break test[5] using the same monthly cost data. The results confirm the existence of a structural break between November and December 2017, and another between March and April 2018.[6] Further, the average value of rider promos significantly dropped in April 2018, following the issuance of the Interim Measures Order. The trend Post-IMO is much flatter relative to the trend for the period December 2017 to March 2018. Such differences in the pattern of rider promos casts doubt on Grab's claim that its promotions to riders had been decreasing consistently even prior to the Transaction.

The value of rider promos per month is also plotted in Figure1, with trendlines for each of the distinct periods identified. It is apparent in the figure that there is a significant difference in trendlines across the three periods.

From a competition perspective, the lower rate of increase in rider promos Post-IMO could be interpreted in two ways. On one hand, it may be an indication of less aggressive behavior by Grab for purposes of promoting exclusivity through rider promos. On the other hand, it could be a sign of Grab exercising its increased market power over riders in light of Uber's exit from the market. The failure of Grab and Uber to maintain rider promos at the pre-Transaction level creates the possibility for alternative conclusions which caused difficulty on the part of the Commission in its review of the Transaction.

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[4] The Commission used the following regression model:

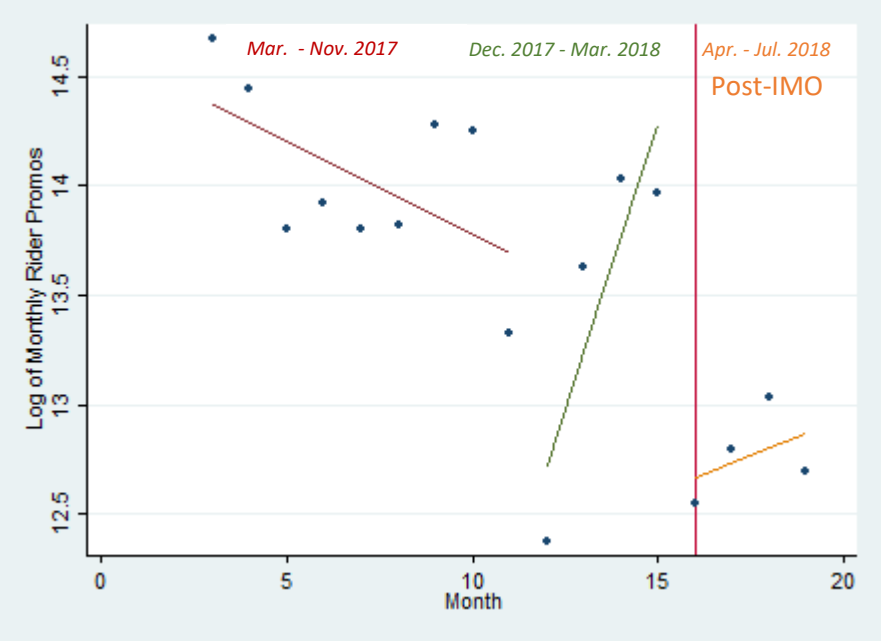
$$\log(rider\_promos_t) = \beta_0 + \delta_0 break_{0,t} + \delta_1 break_{2,t} + \beta_1 month_t + \delta_2 month_t * break_{0,t} + \delta_3 month_t * break_{2,t} + u_t$$

where *rider promos* is the sum of passenger retention cost and passenger acquisition cost; $break_0$ is an indicator for the period of March 2017 to November 2017; $break_2$ is an indicator for the period of April 2018 to July 2018; *month* pertains to the trend across months; and *u* is the error term. To compare the trends for rider promos in the periods indicated by $break_0$ and $break_2$, to the baseline period of December 2017 to March 2018, we include interactions between (a) *month* and $break_0$ and between (b) *month* and $break_2$ and test their joint significance. The logarithm (*log*) of rider promos was used as the dependent variable in order to correct for heteroskedasticity.

[5] The Chow test was used to test for the presence of a structural break in the data. This is a statistical method used to check whether the regression parameters across different time periods are equal (Wooldridge, 2013).

[6] The Chow test statistic is significant at 5% significance level.

Figure 1. Monthly Value of Rider Promos with Trendlines, Pre- and Post-IMO



Source of Basic Data: Grab's submissions dated 1 Oct. 2018

Considering the foregoing, an analysis of the data provided by Grab has shown a structural break in the relevant period being considered. Therefore, contrary to Grab's claim, pre-Transaction rider promos were not maintained, which constitutes a clear violation of the Interim Measures Order.

On Driver Incentives

Trip incentives are additional financial benefits offered by Grab on top of fares to encourage drivers to drive for the Grab platform. They are promotional and temporary, based on market demand, driver performance, and other factors.[7] Grab sets criteria and ride requirements for drivers to qualify for incentives, which is based on the number of completed trips and service quality metrics such as acceptance rate (AR), cancellation rate (CR), and star rating (SR).

The set of incentives, the conditions to qualify for incentives, the number of eligible driver-partners, and corresponding payouts typically change on a weekly basis and are announced at the start of each week. Payouts for meeting the incentive requirements are credited to the winning drivers at the end of week. As the dominant entity in the market, Grab has established this practice of modifying or introducing incentives on a weekly basis. Hence, Grab drivers, both new and potential, are inclined to make decisions (e.g., continuing to drive for Grab or shifting to other Transportation Network Companies ["TNC"]) and respond to incentives by considering the totality of their potential weekly earnings and the corresponding weekly targets.

[7] Grab FAQ's "What are trip incentives?", *available at* https://www.grab.com/ph/driver/car/, last accessed on 9 October 2018.

Grab alleges that the level of its driver incentives has been decreasing even before the Transaction, since the last quarter of 2017. The Commission verified this claim by analyzing the driver incentives offered by Grab during the period of 2 October 2017 to 5 August 2018 (the "relevant period"). The weeks within 2 October 2017 to 8 April 2018 ("Pre-IMO period") and the weeks within 9 April to 5 August 2018 ("Post-IMO period") are compared in order to determine whether or not Grab has indeed followed a consistent trend in its provision of driver incentives.

The Commission classified the driver incentives offered by Grab during the relevant period into two (2) types: (a) regular incentives, which are incentives available to Grab drivers every week; and, (b) special incentives, which are offered at least once. A summary of Grab's driver incentives is presented in Table 2 below.

Table 2. Description of Grab Driver Incentives

Regular Incentives	
All-Day Booster Incentive	Fixed payouts paid to Grab drivers who have met specified ride requirements; payout rates vary across driver categories. This incentive is typically offered twice a week – weekday (Monday to Thursday) and weekend (Friday to Sunday).
GrabShare Commission Back	10% commission rebate for an unmatched GrabShare ride, provided driver will maintain target AR, CR, and SR
GrabShare Fare Multiplier	Reimbursement of 30-50% of the fare for an unmatched GrabShare ride, provided driver will maintain target AR, CR, and SR
Subsidy	Guaranteed payment of PHP 5.50 per minute for every ride from Monday to Sunday to guarantee a driver will get a reasonable fare for every rides and to discourage them to cancel a low-fare ride
KaGrab Rewards	Fare rebate for drivers who hit target rides and ratings for the week to encourage the drivers to drive during that window to serve more passengers; fare rebate varies by type of driver (Platinum, Gold, Silver)
Special Incentives	
Peak Hour Bonus	Fixed payouts (PHP 300-1000) paid to Grab drivers who have met ride requirements per day made within specified peak hours and select days
Online Hour Guarantee	Guaranteed earnings of PHP 300 per online hour if driver makes at least 50 rides from 5 AM to 7 PM (Monday to Sunday)
Extra Booster	Fixed payouts paid to Grab drivers who hit the target rides and ratings for the week; payout rates vary by type of driver (Platinum, Gold, Silver)
Others: TGIF, TGIW, holiday promos	

Table 3 presents the ten (10) most frequently offered incentives during the relevant period and the corresponding number of weeks for which they were offered. It appears that there

has been a change in Grab's driver incentive program since the Interim Measures Order, as shown below.

Using Grab's data, the Commission found that the All-Day Booster and GrabShare Fare Multiplier, the two most frequently offered incentives which also constituted the largest share of Grab's incentives payout in the Pre-IMO period, have been discontinued as of 18 June 2018. It appears that KaGrab Rewards and Subsidy programs have been introduced on the same week to replace these incentives.

Table 3. Top 10 Grab Driver Incentives, Pre- and Post-IMO

Incentive	Type	No. of weeks applicable	
		Pre-IMO	***Post-IMO***
All Day Booster	Regular	27	10
GrabShare Fare Multiplier	Regular	25	10
Peak Hour Bonus	Special	7	1
Fare Rebate	Regular	0	7
Subsidy	Regular	0	7
TGIF	Special	7	0
Fare Booster	Special	5	0
Daily Special	Special	4	0
Daily Booster	Special	4	0
Extra Boost	Regular	0	3
Weeks Covered		***27***	***17***

Source of Basic Data: Grab's submissions dated 1 Oct. 2018

To further support its claim, Grab presented a table showing average incentives given to drivers per month, measured as cost per ride, from the last quarter of 2017 to the first quarter of 2018.[8] However, this standard does not accurately reflect the possible anti-competitive effects of driver incentives, for the reason outlined below.

An anti-competitive incentive is one that results in drivers being exclusive to Grab to the detriment of other competitors in the market. These incentives, in effect, significantly reduce the ability of driver to multi-home by making it costly for drivers to switch to another TNC.

The design of Grab's incentives directly influences drivers' decision to exclusively drive under Grab's platform. On a given week, Grab promises payouts conditional on the driver's meeting of targets and ride requirements – the level of payout offered typically rises as a higher target is reached. Therefore, Grab can achieve driver exclusivity either by setting the minimum weekly ride requirement to match the maximum number of trips that drivers are typically able to provide, or by setting the payout high enough to induce drivers to drive exclusively for Grab.

Given the structure of Grab's incentives, a Grab driver, in deciding to whether or not remain exclusive with Grab on a given week, will consider not how much he or she expects to earn per ride, but instead the totality of expected earnings. For this reason, the

[8] Grab's Comment on the Proposed Interim Measures dated 5 April 2018.

Commission finds that the appropriate standard to assess this anti-competitive concern is not cost per ride, but incentive payout per driver. Payout measured on a per driver basis captures how much each driver stands to gain from incentives by driving for the Grab platform, and thus better reflects a driver's main consideration in his or her decision making.

For its assessment, the Commission used data submitted by Grab in its Compliance which includes weekly incentive programs implemented by Grab from 2017 until 23 September 2018 and corresponding criteria requirements, number of eligible drivers and winning drivers per category, and total weekly payouts.[9] Incentive payout per driver was obtained for each week in the relevant period by dividing Grab's total weekly payout by the total number of winning drivers each week.[10]

Table 4 presents the average weekly payout per driver and the average change in weekly payout per driver, pre- and Post-IMO. The average weekly payout per driver Post-IMO is PHP 1,728 – about PHP 300 lower than its value at the Pre-IMO level. The average change in weekly payout shows that incentive payouts were increasing at a weekly rate of about PHP 35 during the Pre-IMO period, and then declining at a weekly rate of about PHP 160 in the Post-IMO period.

Table 4. Average Weekly Payout per Driver (in PHP), Pre- and Post-IMO

Period	Average Weekly Payout per Driver	Average Change in Weekly Payout per Driver
Pre-IMO *2 Oct. 2017 – 8 Apr. 2018*	1,960.29	+35.40
Post -IMO *9 Apr. – 5 Aug. 2018*	1,728.18	-157.24

Source of Basic Data: Grab's submissions dated 1 Oct. 2018

The Commission also performed a regression analysis[11] and structural break test using the same data to determine whether there has indeed been a change in the trend of driver incentives following the issuance of the Interim Measures Order. The result of the structural break test proves that there is a structural change from Pre- to Post-IMO. To state differently, the trend in payouts has changed since the Interim Measures Order.[12] Hence, the observed decline in weekly incentives received by a driver since the Interim

[9] Annex A of Grab's Partial Compliance and Motion for Time dated 1 October 2018.

[10] Due to limitations in the data provided by Grab, the Commission cannot account for the number of *unique* winners per week. The resulting measure may therefore be interpreted as the average value of payout a winner will receive on a typical week. This does not preclude the possibility that a driver may win multiple times in a week, for multiple incentives.

[11] We use the following regression model:

$log(payout\_winner_t) = \beta_0 + \delta_0 post\_imo_t + \beta_1 week_t + \delta_1 week_t * post\_imo_t + u_t$

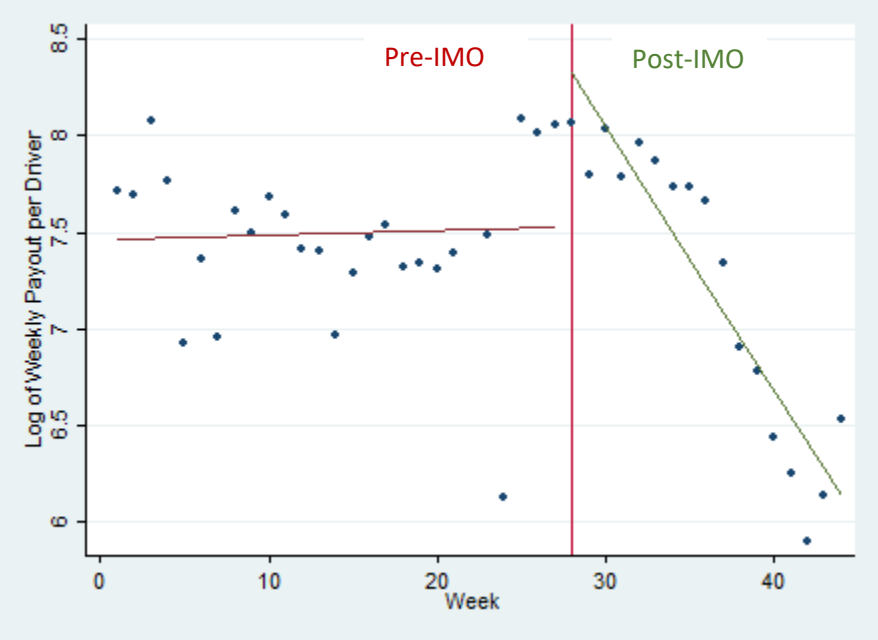
where *payout_winner* is the value obtained by taking total payout per week and dividing it by the number of incentive winners for that week, *post_imo* is an indicator for the Post-IMO period, *week* pertains to the trend across weeks, and *u* is the error term. An interaction between *week* and *post_imo* was included to account for the difference in trend Post-IMO. The logarithm (*log*) of incentive payouts was used as the dependent variable in order to correct for heteroskedasticity.

[12] The Chow test statistic is significant at the 1 per cent level of significance.

Measures Order may not be regarded as a mere continuation of the prevailing conditions prior to the order.

Figure 2 plots the value of incentive payouts per week, with separate trendlines for the Pre- and Post-IMO periods. There is an apparent difference in the steepness of the two trends.

Figure 2. Weekly Incentive Payouts with Trendlines, Pre- and Post-IMO



Source of Basic Data: Grab's submissions dated 1 Oct. 2018

Once again, the implication of the change in trend for competition may be subject to several interpretations. On one hand, the new trend post-IMO could suggest less aggressive behavior by Grab in offering incentives, thereby giving drivers less incentive to stay exclusive to Grab. On the other hand, the same reduction in drivers' incentives could be interpreted as an exercise of market power by Grab, which has been operating as a virtual monopoly since Uber's exit from the market. Absent a viable alternative platform, Grab need not compete for drivers despite LTFRB's policy of multi-homing. Thus, the failure of Grab and Uber to maintain driver incentives at the pre-Transaction level creates the possibility for alternative conclusions which caused difficulty on the part of the Commission in its review of the transaction.

Considering the foregoing, an analysis of the data provided by Grab has shown a structural break in the relevant period being considered. Therefore, contrary to Grab's claim, pre-Transaction driver incentives were not maintained, which constitutes a clear violation of the Interim Measures Order.