

KA FU WONG

Taxi Branding in Hong Kong

In May 2002, a new taxi company in Hong Kong aimed to overhaul the taxi industry in Hong Kong by recruiting 200 drivers at its office in Shamshuipo. These drivers had to dispense with their T-shirts and jeans and wore uniforms while driving. They also became employees, instead of being self-employed.

“The Royal Motors (Taxi) Company says it is testing four designs and wants to ensure drivers are comfortable and that their uniforms do not become too crumpled by the end of a long shift at the wheel. The firm will set up a hotline for passengers to complain if they do not receive good service and drivers will be sacked for being impolite or over-charging. A satellite positioning system will monitor the fleet, offering better protection for drivers and passengers in the event of a traffic accident or crime. The company also hopes to discuss with the Transport Department using luxury vehicles as taxis.”¹

Discussions on a sweeping overhaul of the taxi industry had been going on for years. Back in 1999, the New Territories’ Taxi Drivers’ and Operators’ Association put forward a proposal to let taxi operating licence holders form companies, keep fare money and employ drivers on contracts offering fixed wages. “We have been demanding this for years,” association chairman Wong Wing-chung said. “We are glad that a government consultancy now agrees with the direction and promises to implement our plan.” On the other hand, Taxi Operators’ Association chairman Leung Shiu-cheong was not in favour of the proposal. “Hong Kong cabs are not organized. You cannot easily pool so many taxis in a company.”²

As at 2003, there were some 18,000 taxi drivers in Hong Kong. They were experiencing a general decline in incomes. However, the vast majority of them remained self-employed and either owned their car or hired one. Would the taxi drivers be interested in joining companies like Royal Motors (Taxi) Company or even taking the initiative to group together to form a company and create a brand themselves? Could service quality be improved with branding? What else could be done to improve taxi services?

¹ Quinton Chan. “Taxi firm’s uniform approach to success”. South China Morning Post. 16 May, 2002.

² Wing Wong. “Taxi trade shake-up ‘given the green light’”. South China Morning Post. 28 Dec, 1999.

Alexandra Yiu prepared this case under the supervision of Dr. Ka-Fu Wong for class discussion. This case is not intended to show effective or ineffective handling of decision or business processes.

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Ref. XXX

Hong Kong's Taxi Industry

Hong Kong had a diverse multi-modal public transportation system. Besides taxis, there were Kowloon-Canton Railway, Mass Transit Railway, Airport Railway, Light Rail Transit, tramway, franchised buses, public light buses, residents' shuttle bus services, a funicular cable tramway and ferry services, extending to almost every part of the territory. [Exhibit 1]

There were three types of taxis, operating in different parts of Hong Kong. Urban taxis operated throughout Hong Kong except Tung Chung Road and roads in south Lantau, NT taxis were fundamentally confined to rural areas in the New Territories, the airport and certain locations in the urban area through specified routes. Lantau taxis (introduced in December 1982) operated only on Lantau Island. [Exhibit 2]

Hong Kong was a densely populated city with a very high road utilisation rate. Hence it was important to carefully manage the number and type of road users to alleviate traffic congestion. There were four broad types of regulations: namely entry, price, brand and quality regulations.

Entry Regulation

The government set quota for taxi operating licence as a tool to restrict entry and regulate supply. Taxi operating licences had been issued through public tender since 1964. These licences were transferable and provided holders with a right to license a motor vehicle as a taxi for hire and to carry passengers. In the late 1970s and early 1980s, over 1,000 taxi operating licences were issued each year. In 1992 and 1993, no public tender exercises had been conducted. Since 1994, there were only two taxi tender exercises. The first one was held in September 1994 for 300 urban and 100 New Territories taxi operating licences. The second one was in March 1997 in which the tendering of 10 Lantau taxis was invited. As at 2002, there was a total of 18,138 taxi operating licences issued, consisting of 15,250 urban taxis, 2,838 New Territories taxis and 50 Lantau taxis. [Exhibit 3]

Taxi operating licences were permanent rights with no expiry date. They could be traded freely on the open market. Due to the fact that the price of taxi operating licence was not fixed but subjected to the price called by the highest bidder through public auctions, the industry was riddled with speculators who manipulated the second-hand taxi operating licence market by anticipating the future course of government policy on regulating the supply of taxi operating licences. As shown in **Exhibit 4**, premium for taxi operating license had skyrocketed by nine-fold from 1986 to 1997. However, speculators had largely disappeared since 1998 with the decline in taxi operating licence premiums.

“According to Tan Yoke-gong, a director of Winton Holdings, one of Hong Kong’s largest taxi financing and management companies, the taxi industry “is still a good business to be in” even though speculators have largely disappeared from the industry. Analysts say the average licence is currently valued at slightly under \$2 million.”³

There were five major taxi companies in Hong Kong. These companies sold bundled services, (e.g. insurance and repairs) to owners. They might also manage licence plate registrations and operate a taxi business.⁴

In 1998, Transport Advisory Committee (TAC) reviewed taxi policy. The review reaffirmed that the taxi licensing system should operate in accordance with the following parameters that

³ “It’s still a good business”. South China Morning Post. Jun 6, 2003

⁴ In 2002, the five Taxi Companies were: Tai Woo Motors Ltd., JetWide Ltd., Yick Sun Motors Ltd., Chung Shing Taxi Ltd. and Hang On Motors Ltd.

there should not be unlimited issue of taxi operating licences and that new taxi operating licences should continue to be issued in accordance with supply and demand ⁵-

- (a) there should be no pre-set quota on the number of taxi operating licences to be issued in a given period of time;*
- (b) taxi operating licences should be issued as and when necessary;*
- (c) in any future public tender exercise for taxi operating licences, an applicant should be permitted to bid for only one licence;*
- (d) there should be a 12-month restriction on the transferability of new taxi operating licences;*
- (e) both the transferor and transferee of a taxi operating licence must register the transaction in person.*

The review also concluded that changes in taxi operating licence premiums had no direct relationship with changes in taxi fares or taxi rentals, nor did they have any direct impact on the quality of taxi services.

Despite a quota on taxi operating licence, there were no limitations on the number of taxi driver licence. As at June 2003, the number of full taxi driving licence reached 223,250.

Price Regulation

Through setting quotas for taxi operating licence, taxi fare could be forced up to any arbitrary level. The Government had been using this method to maintain control over the taxi fare at a high level to regulate road usage and manage traffic.

Applications to revise taxi fares could be made from taxi associations. The applications were processed in accordance with the following guiding principles ⁶-

- (a) the need to ensure the financial viability of taxi operations, taking into account changes in revenue and operating costs;*
- (b) the need to maintain an acceptable level of taxi service in terms of taxi availability, passenger waiting time and feedback from passengers;*
- (c) the need to maintain a reasonable fare differential between taxis and other public transport modes; and*
- (d) the likely public acceptability of the proposed fares.*

Taxi operating licence premiums were not taken into account in assessing taxi fare increase applications because they were considered as a capital investment. Fare revisions were subject to the scrutiny of TAC and the approval of the Chief Executive in Council. The revised fare table was required to be put to the Legislative Council for negative vetting.

Brand Regulation

Until mid 1970s, taxi companies used different colour schemes. At a distance, customers could distinguish the different taxi companies' cars by appearance. Although the fare taxis charged was regulated and standardised, these companies could still compete on service quality to build a distinctive brand image.

By the late 1970s, the Government introduced the standardised colour schemes for the urban and New Territories taxis. In compliance with the "brand" regulation, physical appearance and operating characteristics of taxis evolved from an exclusively brand-named business to a

⁵ <http://www.info.gov.hk/info/taxi.htm> TAC 1998

⁶ <http://www.info.gov.hk/info/taxi.htm> TAC 1998

“homogeneous” service industry. Each Hong Kong taxi was metred and had a standardised appearance, distinguished only by its colour: red for urban taxis; green for New Territories taxis and blue for Lantau taxis. Apart from colour schemes for Hong Kong taxis, there were no other regulations or restrictions on the branding of taxis.

Quality Regulation

Various measures had been implemented to address the issue of taxi malpractices. These included the publication of an information booklet on taxi services, the introduction of specific requirements on the display of fare tables inside taxis, the installation of new meters to deter interference, and the compulsory display of taxi driver identity plates. Also, all taxi drivers were required to issue fare receipts to passengers on demand since June 1998, and owners of LPG taxis were required to install braille and tactile vehicle registration number plates inside taxi compartment for visually impaired passengers since September 2001.

The 1998 TAC Review had also recommended a number of measures to further improve taxi service quality and operations. These include relaxing restricted zones for taxis wherever traffic conditions allow; designating certain areas as taxi pick-up/drop-off or drop-off points; and reviewing the basic requirements for obtaining a taxi driving licence.

On the recommendation to relax restricted zones for taxis, the Transport Department formed a Working Group with representatives from the taxi industry and the Police to consider individual proposals from the industry. Restrictions at about 900 locations had been relaxed, and 146 locations had been designated as pick-up/drop-off and drop-off points for taxis.

To improve the communication skills of taxi drivers in both English and Putonghua, the Workplace English and Putonghua Programmes for Taxi Drivers were launched in end 2000. 50,000 sets of learning kits were distributed and a homepage was set up to facilitate self-learning by taxi drivers. The Transport Department also launched a series of projects, including the publication of taxi newsletters, a taxi driver commendation scheme, a taxi driver award scheme, the establishment of a 24-hour hotline for lost property on taxis by a radio station and taxi associations and the replacement of new taxi driver identity plates, for further improving the taxi service quality. The Quality Taxi Services Steering Committee[**Exhibit 5**], chaired by a TAC member with representatives from the taxi industry and other interested parties, was formed to oversee the progress of implementing the various projects.

How do passengers hail a taxi

Passengers’ satisfaction with taxis’ services was the key to determine whether quality regulations had achieved the stated aims of improving services. Interaction between passengers and taxi drivers generally began with passengers looking for a taxi. There were three different ways in which passengers can find a taxi. They could find one at taxi stands or ranks, they could hail on the street, or they could call for dispatch services.

Taxi Stands/ Ranks

- (1) *The driver of each of the first 2 taxis at a taxi stand shall sit in or stand beside his taxi and shall be ready to be hired at once by any person.*
- (2) *The driver of every taxi at a taxi stand shall move up his taxi as vacancies occur.*
- (3) *If a person wishes to engage a taxi-*
 - (a) *the driver of the first taxi at the taxi stand shall accept the hire; and*

(b) the driver of a taxi other than the first taxi at the stand shall not accept the hire, unless the drivers of all taxis ahead of his taxi at the stand have either accepted a hire or are not in or near their taxis.

- Road Traffic (Public Service Vehicles) Regulations (Chapter 374D)

By aggregating supply and demand at specific locations, taxi stands served four key purposes:

- They made it easier for passengers to find an available taxi, as taxi supply was concentrated at key points.
- They reduced the need for drivers to “cruise” in search of passengers, a practice which increased unpaid mileage, contributed to traffic congestion, and could pose safety hazards if drivers made sudden swerves to pick up passengers.
- If located at transit centres such as MTR and KCR stations, they could extend the reach of fixed-route transit services

Some taxi stands were identified for cross-harbour taxis. Passengers who took taxis from the stands paid a one-way tunnel toll.

Hail on the Street

In large cities like Hong Kong where hailing was common, passengers did not usually wait on side streets or remote locations to hail a taxi, but instead walked to main avenues where taxi density was high because taxi demand and supply were dependent upon each other. Some density of taxi service, in this case taxis on the streets looking for hailers, was necessary to elicit hailing demand. Furthermore, passengers hailing taxis on the street were unlikely to turn away the first taxicab that came to them, as they did not know when the next taxi would arrive.

Dispatch services

Dispatch services were less common in Hong Kong, because taxis were highly available on the street and at taxi stands or ranks. Dispatch services were utilised more frequently in other countries, and new services were more readily available.

For example, in London, mobile phone users were able to hail a taxi direct from their handset using GPS technology. Selected London taxis utilized a GPS receiver, mobile phone and data transmitter to pinpoint the mobile phone of someone that required a taxi and talked to them directly, obtaining details of where they want to go.⁷

In New Zealand, the first taxi GPS system was available in 1999, installed by the Gold Band Taxis and Corporate Cabs of Christchurch in all their taxis. The introduction of GPS system provided faster pick-up times, a safer environment for drivers, and more efficient fleet operation. By feeding continuous location data, the GPS satellite navigation terminals allowed the computerised central dispatch system to know exactly where each cab was, and automatically selected the best one for each job.

“One of the key reasons for installing GPS was driver safety. If the driver activates the cab alarm, the base computer produces a screen alarm display which over-rides all else. It also opens up the voice channel and records all speech, as well as position and direction data on disk so that the situation can be reconstructed.”

- Bernie Hall, General Manager, Gold Band Taxis, New Zealand⁸

⁷ “Zingo launches London taxi GPS system”. Telecomworldwire, Coventry. 21 March, 2003

⁸ Armstrong, D. “GPS finds the best cab for the job”. *The Press, Christchurch*, 15 Jun, 1999.

“The GPS upgrade gives drivers much more information about what is going on around town, which will help them to ply for business. They receive text displays of how many vacant cabs are in an area, how many jobs are waiting there, the number of jobs allocated in the last hour, and the number of engaged cars travelling through an area.”

-Lindsay Woods, Operations Manager, Gold Band Taxis, New Zealand⁹

When a customer phoned for a cab, the operator entered the details including the start and end points, and the computer worked out the best cab for the job. It started by searching for cabs within an area of 200m from the journey's start. If no free cabs were within the area, the search radius would be expanded. If two or more free cabs were found in an area, the one that had been free for the longest is chosen. The computer also matched customer requests with cab profiles, such as seating capacity, or whether the driver was a smoker or would take cheques. All this was done without human intervention. The operator simply took the call, entered the information required, let the computer select the cab, and told the caller which cab would arrive and when.

Outlook for Taxi Branding

Since the Asian Financial Crisis in 1997, economic sentiment in Hong Kong had changed from highly optimistic to highly pessimistic. In the hey days of 1997, some proposed a high-quality service of “gold taxi” with “velvet seats, clean seat covers, CD players with song selection functions, pay-per-view TV, mobile phones, free newspapers, magazines and payment by electronic money”¹⁰ at twice the existing price.

However, the idea of “gold taxi” at premium price was abandoned since Hong Kong had been badly hit by the economic downturn. In 2000, some taxi drivers started to form alliances to offer fare discounts and travel concessions to passengers between 10pm and 6am, during so-called “happy hours”.

“Alliance members provide name cards to passengers, who then call a mobile phone number to book trips and enjoy special prices. In one case, more than 20 cab drivers in Tsing Yi have grouped together to lure passengers. The leader of the Tsing Yi group, who requested anonymity, told the South China Morning Post his income had dropped from \$16,000 a month before the financial crisis in 1997 to about \$10,000 now. “Myself and three other taxi drivers realised we needed to find new way of doing business if we wanted to survive, so we started offering discounts two years ago. Then more and more drivers joined us.””¹¹

However, it was illegal for taxi drivers to charge fares other than those shown on the meters. Hence, drivers should form alliances to innovate the industry in lieu of offering illegal cut-price fares to passengers.

“It is indeed time for the industry to rethink its future direction and look at ways to restructure the business as a whole and not to limit its development by the red and green division. This practice is not only out of date, it is also extremely territorial and short-sighted. The taxi industry is not like it was 10 years ago. In those golden years, taxis had a big advantage over other public

⁹ Armstrong, D. (1999) The Press, Christchurch.

¹⁰ Luk, Helen. “Taxis seek golden opportunity to lift service and fares.” *South China Morning Post*. 16 Sep, 1997.

¹¹ Lee, Ella. “Hard-up drivers offering illegal cuts in taxi fares”. *South China Morning Post*. 17 Jan, 2002.

transport because taxis had air-conditioning and provided a 24-hour service to the public. Now the public transport infrastructure has been greatly improved, providing a similar round-the-clock service at cheaper rates. Although taxis are still more convenient, taxi operators have to be realistic that taxi is still a luxury option and thus there is an urgent need to find some innovative ways to stand out from the crowd,”

- Urban cabbie Andy Kam Kam-Wah.¹²

Nevertheless, the vast majority of the 18,000 taxi drivers in Hong Kong maintained the status quo. With a general decline in incomes, it was indeed time for the industry to find some innovative ways to stand out from the crowd.

¹² “Urban cabbie Andy Kam Kam-wah, 40 says he believes the fare reductions for NT taxis, which come into effect this Sunday, could open the door to more positive changes for the embattled trade.; Ride from Tsim Sha Tsui to Po Lam. Cost : \$83.6”. *South China Morning Post*. 6Jun, 2003.

EXHIBIT 1
PASSENGER JOURNEYS BY PUBLIC TRANSPORT OPERATOR

All in '000	Franchised Buses¹³	Railways¹⁴	Public Light Buses¹⁵	Ferries¹⁶	Taxi	Peak Tram-ways	Other Buses¹⁷	Total	Average Daily
1998	1,390,096	1,274,340	579,174	62,739	475,805	3,321	77,625	3,863,100	10,584
1999	1,445,741	1,268,529	578,841	57,247	476,849	3,277	64,267	3,894,750	10,671
2000	1,551,765	1,271,313	587,995	56,140	478,325	3,476	64,132	3,973,147	10,856
2001	1,547,966	1,264,194	596,458	55,431	476,892	3,504	76,101	4,020,546	11,015
2002	1,579,450	1,283,691	599,482	54,990	476,906	3,714	84,432	4,082,665	11,185

Source: Hong Kong Transport Department, *Monthly Traffic and Transport Digest*, January 2003.

¹³ Includes Kowloon Motor Bus, Citybus, New World First Bus, China Motor Bus, Long Win Bus, New Lantau Bus.

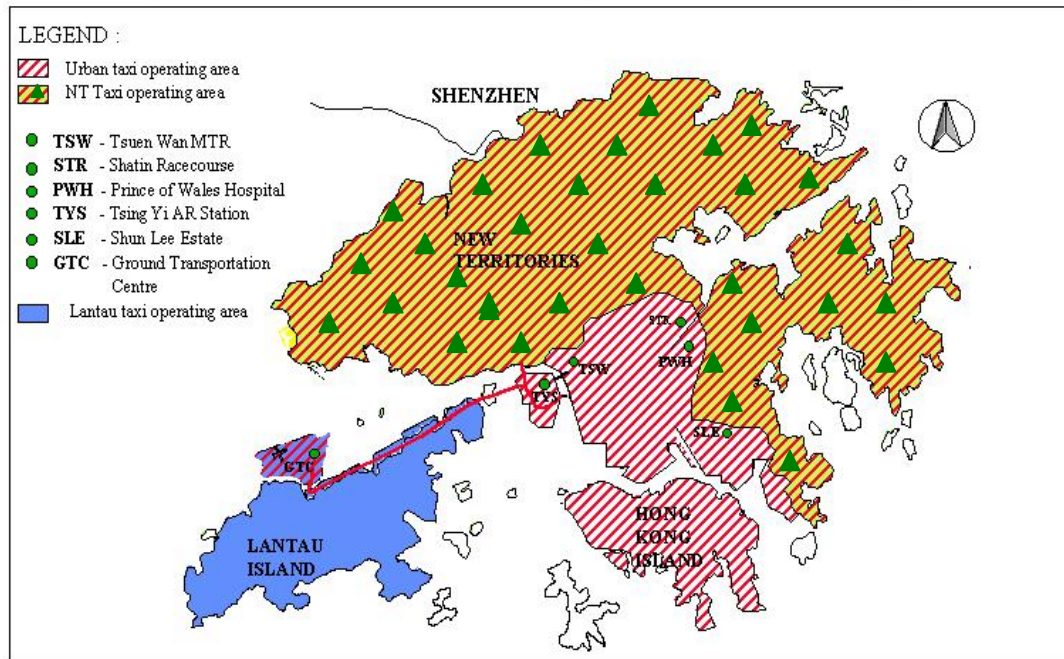
¹⁴ Includes Mass Transit Railways (MTR), Kowloong Canton Railways (KCRC), Hong Kong Tramways.

¹⁵ Includes Green Minibus and Red Minibus.

¹⁶ Includes New World First Ferry, Star Ferry, Licenced Ferry Services, Hong Kong & Yaumati Ferry.

¹⁷ Includes Residents' Services and KCRC Light Rail Transit Feeder Bus.

EXHIBIT 2 OPERATING AREAS OF HONG KONG TAXIS



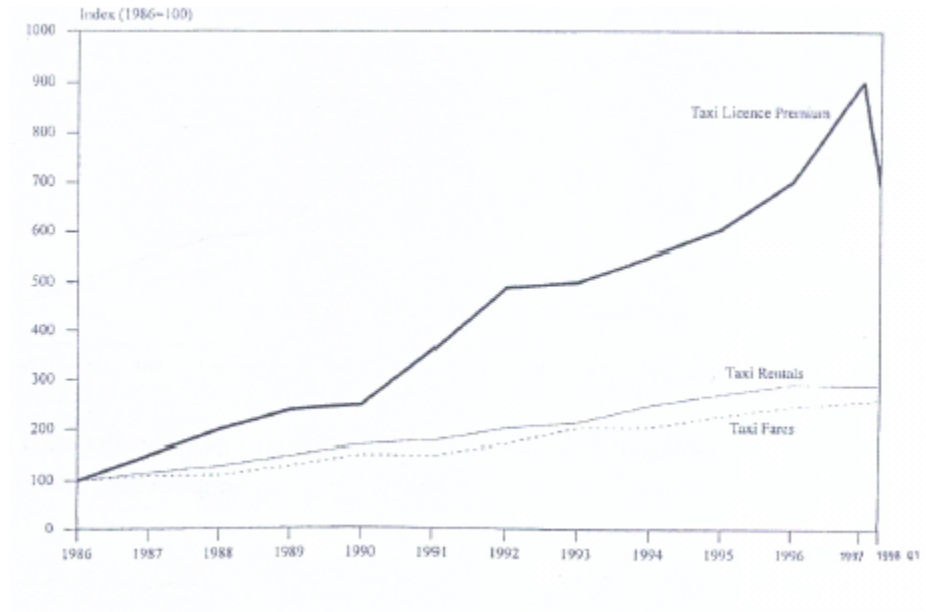
Source: Transport Department, *Detail of Taxi Operating Areas*, December 2002

EXHIBIT 3
NUMBER OF TAXI OPERATING LICENCES ISSUED SINCE 1976

Year	Urban Taxis		NT Taxis		Lantau Taxis		Total	
	Registered Taxis	Licences Issued	Registered Taxis	Licences Issued	Registered Taxis	Licences Issued	Registered Taxis	Licences Issued
1976	4,754	0	240	240	0	0	4,994	240
1977	5,465	711	738	498	0	0	6,203	1,209
1978	6,925	1,804	738	0	0	0	7,663	1,804
1979	8,024	900	738	0	0	0	8,762	900
1980	9,118	1,500	738	100	0	0	9,856	1,600
1981	10,171	931	891	300	0	0	11,062	1,231
1982	11,367	1,199	1,389	600	0	0	12,756	1,799
1983	12,468	1,201	1,932	569	20	20	14,420	1,790
1984	13,534	700	2,424	331	30	10	15,988	1,041
1985	13,800	200	2,638	0	40	10	16,478	210
1986	14,000	100	2,638	0	40	0	16,678	100
1987	14,132	132	2,638	0	40	0	16,810	132
1988	14,400	268	2,638	0	40	0	17,078	268
1989	14,600	200	2,705	0	40	0	17,345	200
1990	14,750	150	2,738	100	40	0	17,528	250
1991	14,750	200	2,738	0	40	0	17,528	200
1992	14,950	0	2,738	0	40	0	17,728	0
1993	14,950	0	2,738	0	40	0	17,728	0
1994	15,250	300	2,838	100	40	0	18,128	400
1995	15,250	0	2,838	0	40	0	18,128	0
1996	15,250	0	2,838	0	40	0	18,128	0
1997	15,250	0	2,838	0	50	10	18,138	10
1998	15,250	0	2,838	0	50	0	18,138	0
1999	15,250	0	2,838	0	50	0	18,138	0
2000	15,250	0	2,838	0	50	0	18,138	0
2001	15,250	0	2,838	0	50	0	18,138	0
2002	15,250	0	2,838	0	50	0	18,138	0

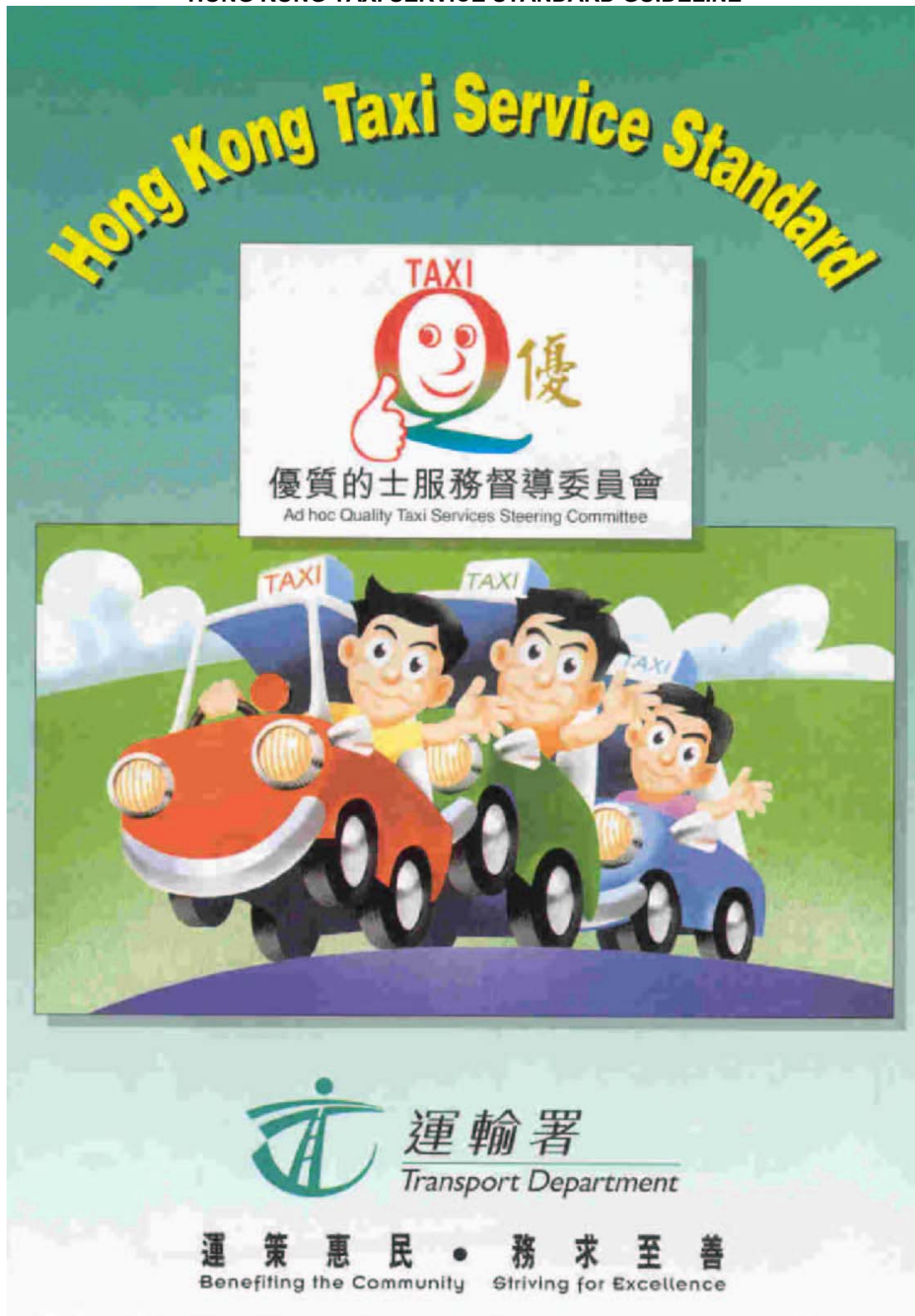
Source: Office of the Ombudsman, *Report of the Investigation on Taxi Licensing System*, Hong Kong, December 1997.

**EXHIBIT 4
MOVEMENT IN URBAN TAXI LICENCE PREMIUMS, TAXI FARES AND TAXI
RENTALS (1986 – 1998 Q1)**



Source: Transport Advisory Committee, *Review of Taxi Licensing System*, August 1998, Hong Kong.

EXHIBIT 5
HONG KONG TAXI SERVICE STANDARD GUIDELINE



The Hong Kong Taxi Service Standards comprise 8 items, some of which are statutory requirements and some are ways to enhance service level. Transport Department encourages taxi drivers to follow the taxi service standards pro-actively to provide passengers with quality taxi service.



1. Keep your personal appearance clean and tidy

- Keep your personal appearance clean and tidy and dress in clean and proper clothes
- Display your driver identity plate properly

2. Keep the taxi clean and comfortable

- Keep the outside and the compartment of the vehicle clean
- Keep the luggage compartment neat and uncluttered
- Do not smoke inside the car compartment even without passengers
- Adjust the volume of the radio and the intercom so as not to disturb passengers



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3. Courtesy - be polite to passengers

- Be proactive in greeting passengers, ask and confirm destinations
- Say "Thank you" and "Goodbye"
- Use polite language and avoid improper behaviour, e.g. using foul language or spitting
- Use basic Putonghua and English to communicate with tourists if necessary

4. Charge exact fare

- Display the latest faretable properly
- Inform passengers of the fare politely and explain surcharges before the journey starts if necessary
- Always carry at least \$100 worth of notes and coins for giving change
- Charge according to the taximeter and give exact change
- Issue a receipt on passengers' request



5. Use the most direct route or route specified by passengers

- Be familiar with destinations and routes
- Take the most direct route or route specified by passengers
- Consult passengers and offer alternatives if there are different choices
- Check traffic congestion, inform passengers and offer alternative routes
- Use maps and taxi radio station to locate destinations if necessary



6. Be proactive in providing assistance to passengers

- Assist people with a disability or elderly passengers in boarding and alighting
- Help passengers with wheelchairs and large luggage
- Help passengers with babies and baby carriages
- Remind and, if necessary, help passengers to put on seatbelts
- Remind passengers to take their personal belongings before alighting
- Take any properties left by passengers in the vehicle to a police station as soon as possible (within 6 hours). If the passengers who return to claim the properties are able to produce admissible proof, the properties should be returned immediately.



7. Provide a safe and smooth ride

- Follow the Road Users' Code
- Concentrate while driving
 - Minimize communication via mobile phone or with taxi radio station except for checking routings and road conditions or in case of emergency
 - Do not listen to radio programmes that will distract attention
- Maintain a habit of safe driving and provide a smooth ride



8. Adhere to taxi regulations

- Do not select passengers or refuse hire
- Do not overcharge
- Do not solicit passengers
- Do not refuse to drive to destination



Source: Quality Taxi Services Steering Committee, May 2003.

URL: www.gtssc.org.hk/eng/pub/pub.html