

COVID-19: Global transport revenue model transition

COVID-19 lockdowns are creating fundamental changes in how people shop, work and socialise. The transport industry can expect material, lasting impacts.

Technology-led disruption and pressure on public funding have already pushed traditional mass transit to the brink. Sustained revenue shortfalls from COVID-19 will render existing approaches obsolete and increase the urgency of designing and transitioning to a new, sustainable revenue model.

The COVID-19 crisis will exacerbate the pressure that transit agencies are currently facing by putting further pressure on the current delivery model, whilst changing the needs of the customer base

A Pull Factors: An unsustainable delivery model

Mass transit systems are already unprofitable with recovery ratios below one

46%

Average costs covered by farebox revenue on US transit systems
US DoT

Technology-led disruption has compounded pressure on profits through cheaper competition

1.3%

Annual observed fall in rail ridership after the introduction of ride share services
University of Kentucky

Continued restrictions and social distancing requirements will place further pressure on revenue models

12%

Maximum bus capacity utilisation to comply with two metre social distancing
London Co-ordination Group

B Push Factors: A changing customer base

Traditional revenue streams will fall as travel becomes more discretionary

20%

Predict making fewer trips by public transport after restrictions are lifted
UK survey of 1,500 adults

Passengers will respond to uncertainty by avoiding long-term commitments to season tickets

50%

of global consumers expect COVID-19 to impact their routines and finances for more than 4 months
Global consumer survey

Lower incomes and reduced consumption will create continued pressure on ridership and ability to pay

11%

Estimated decline in UK household disposable income between 2020-2025 from a COVID-led recession
Teneo analysis

After the crisis, transit authorities may only cover 10% of costs through the farebox. Authorities must explore new financial models to maintain financial sustainability

1 Adapting the traditional sources of income to fund transit in a post COVID-19 world



Changing the user payment model

Example:
Subscription fares
Low monthly payment, unlimited use

Low monthly payments for unlimited transit use would **reduce the marginal barriers** to travel and provide **reliable recurring revenue**

The revenue impact will depend on the **ability to attract new users** through a low flat fee so that **new revenue exceeds the abstraction** risk of losing revenue from existing customers

Subscription fares

Regular (5-10% pop.)	Subscription offers discount which will be abstractive	↓
Occasional (10-20% pop.)	Subscription could protect existing revenue base	→
Non Users (70-85% pop.)	Key generation opportunity to attract new customers	↑



Enhanced public funding

Example:
Societal Dividend
Base public funding on benefits delivered to cities

Link funding to specific initiatives (e.g. back to work schemes for people who cannot work from home) to ensure a **transport-led recovery**

COVID-19 has highlighted the need to **address air quality standards**. Develop specific **taxes** on private vehicles to promote **zero emission mass transit**

A transport-led recovery

- Tax breaks for employers that subsidize staff travel
- New air quality tax on commercial vehicles
- Free transit in city centers to restore footfall and restart the economy

2 Harnessing new sources of revenue to reduce the pressure on fare payers and tax payers



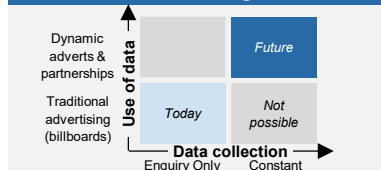
Creating new revenue streams

Example:
Monetising Data
Using data on transit users to fund the transport network

Ensuring a **constant, data-driven interaction with users** while they are using the network will improve **targeted, dynamic advertising**

More radical **partnership and sponsorship models** could offer firms exclusive access to transit users and **provide substantial revenue streams**

Data-driven advertising



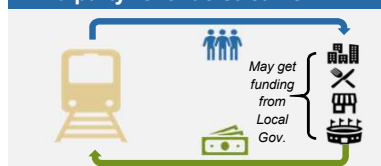
Creating third party revenue streams

Example:
Inclusive Pricing
Sharing transit costs with city / business centres & events

Transport provides access to retail, businesses and leisure events. Transit agencies could look to secure **funding from event organisers** and town centres to **reflect this essential service**

As **business and commercial centres** encourage people to return after the COVID-19 crisis, transit agencies could seek contributions to help **secure future footfall**

Third party revenue streams



- Teneo **offers industry leading expertise**, with deep understanding of the strategic, commercial, and operational principles of the global transport sector
- As the **global CEO advisory firm**, we are uniquely placed to provide a complete view of future implications of the crisis – we offer strategic, communications and public affairs advisory as a one-stop-shop. Our team has deep sector expertise and established relationships with global business leaders at the most senior level



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