SHOULD BIKE-SHARING PROGRAMS BE PROFITABLE?

01 MOTIVATION

BIKE-SHARING ON THE RISE

Financial success of a bike sharing program depends on its ability to attract diverse sources of revenue. In the last 3 years, around 190 programs have been cancelled, mostly when the local government discontinued the funding. The pressure to achieve profitability is continuous as the debate on the role of bike shares continues.

The debate revolves around a question whether bike shares should bring profits, or to be seen as a social welfare program subsidized by the government. Could be both? The answer depends on the choice between profit and accessibility.

Additionally, the existing programs (1328 of them, in the figure below) face another existential pressure: the growth of bike-sharing start-ups in Asia.

SOURCE: www.bikesharingmap.com

02 FINANCIES MATTER

PROFIT VS ACCESSIBILITY

Experience has shown that bike share operators must balance between profit and accessibility. A highly accessible system resembles other public transport systems, which often require government subsidization to provide service in low impact neighborhoods.

A profitable system provides coverage only in desirable areas, with higher user fees, more tourist targeting, and financial sustainability.

Ownership

Depending on the ownership structure (public, private, non-profit), exact ratio of the funding sources changes. All three models rely on user fees, advertising, sponsorships, and in some cases, governments, for their revenues.

The approximate ratio of funding sources for the bike shares with docks (majority of the existing programs) is presented below.

03 THE NEW BUSINESS MODEL

DOCKLESS BIKES START-UPS

On surface, the new business model coming from China seems to be solving the profit/accessibility dilemma. There are over 40 companies in more than 100 Asian cities that offer low-cost rides on the dockless bikes in all parts of the cities. And they are coming alright. Top two companies, OFO and Mobike, together offer 16% of all world’s sharing bicycles.

Now, traditional bike-shares not only have to break even, but also to compete with new fierce competition as well.

04 CONCLUSIONS

WHY DO WE NEED BIKE SHARING PROGRAMS?

Despite the on-going debate about the funding of the bike-shares, the industry experts agree that urban public bicycle transportation brings positive externalities such as congestion alleviation, reduction of road maintenance costs, reduction in emissions, improved public health and even commercial success of local businesses.

Adding more bikes in the cities is a good step forward, and the private companies should be encouraged to do so. However, city officials should develop a long-term strategy for the development of the urban biking and ensure that this strategy is not jeopardized by the profitability goals.

IS PROFITABILITY THE MAIN GOAL?

Bike sharing is a transportation industry as any other. And as any other industry, it should be regulated in a way that protects the public and encourages positive societal outcomes. Key areas of interest should be to protect public spaces, enforce the maintenance of bikes, facilitate competition, and uphold the privacy laws.

Fourth generation of bike sharing programs, coupled with the freedom enabled by the dockless bikes could revolutionize the way we think about urban transport and design our cities. Companies on the forefront of this effort should be rewarded for their effort. Within the regulatory boundaries.

As the westward expansion begins, officials are worried that the existing bike shares will cave under the pressure and that entire mode of transport will be controlled by a single, heavily indebted company.

However, the new business model is not new at all. Successfully utilized by Didi and Uber. It involves raising large amounts of venture capital ($1.2b for OFO and $1.0b for Mobike) and providing below-the-market prices for monopolizing the market and squeezing out the competition. The companies have been oversaturating cities with tens of thousands of bikes in the short periods of time. Eventually, as the competition dwindles, the company increases the prices and decreases the service, or it runs out of money.

IS PROFITABILITY THE MAIN GOAL?

"I haven’t seen any clear business model for bike sharing business. The model now is still the same old path of getting venture capital in, using the money to circle more consumers with ultra cheap services and hoping to profit from such a user base." – Bao Ran, secretary general of Zhongguancun consumer industry association.


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