



## The future of mobility

*If the bus is to play a leading role in the long term future of urban mobility, we need to be **scanning the horizon now and sowing seeds of change** to ensure that a very different bus world stakes its claim to exist.*

*We shouldn't be spending time and energy implementing a retro 1980's governance model for yesterday's buses but be focused on **designing a new age of the bus looking toward 2030 and beyond.***

*This is the **third of fourteen weekly articles** on what different aspects of that new bus future could look like and the kind of things we need to be sowing seeds for now if we are to truly **ride the wave of future opportunity.***

*We need to **be bold if we are to shine** over the next 40 years and do more than invest in a zero emission fleet, tinker with governance and introduce the odd capped fare.*

## Episode Three – Pricing

### Context

Bus networks should be perceived and managed as both an **essential part of the social and economic infrastructure** of the community **and** a **retail consumer product** with both roles having a significant impact on how they should be priced.

People are not **motivated to invest in a car** because it is cheaper than travelling by bus but **by a host of factors related to convenience, reliability, status, fashion, style and utility.**

**Where bus travel is priced at zero**, either for everyone or for specific categories of people, you then discover that **you can't even give it away free to many people** so the reality is that bus fares are not the cause of acute urban traffic congestion and **tinkering with price will not generate transformational modal shift** in urban areas.

Indeed, providing **free travel** severely damages operators' ability to constructively and positively promote bus use through pricing and marketing strategies, undermining **essential revenue streams to fund investment in the highest possible quality of bus services.**

Additionally, **over the last decade government policy has tilted the cost comparison between commuting by bus and private car in favour of the car** with bus fares rising as motoring costs have been falling.

That change has been driven by three factors. Firstly, the **freezing of fuel duty has held down the cost of car commuting** whilst, secondly, **austerity cuts** to local authority budgets have **hit hard on buses as the single biggest local authority category of discretionary spend** and not a mandatory duty. Thirdly, **labour costs generally rise above CPI and labour is the single biggest cost in delivering bus services** whilst car drivers come free for most of the population as they do it themselves!

Consequently, if local Mobility Policy moves along the lines set out in **Episode One** and Networks develop along the lines set out in **Episode Two**, **pricing is going to have to change as radically as networks.**

Pricing bus travel for a major modal shift from car **will require a whole different mindset and psychology** than the current traditional approach.

To the extent that bus networks are a retail consumer product, where demand can be influenced through detailed product design, consumer marketing and price, there will be a need to **develop more sophisticated consumer pricing strategies to optimise both demand and revenue.**

To the extent that they are an essential part of the social and economic infrastructure of the community, **local authorities will also have their own social and economic objectives for the bus** which may also require the use of price as a policy lever.

The **major modal shift** targeted by the policies set out in **Episode One** will **heavily reduce the levels of both national and local government spend** feeding our current car addiction with reductions in the cost of roads, parking provision and other infrastructure and in costs caused by poor urban air quality, car crashes and ill health. It would be appropriate to **divert a proportion of those savings to either global bus support or specific support for particular categories of bus passenger.**

In the Future Mobility world, **bus services should be funded by a combination of customer fares and government grant.**

This Episode will deal with the consumer pricing issues and the government financial support element will be dealt with more fully in **Episode 10** on **Funding**.

## History

**In the previous heyday of the bus**, up until the 1950's, **bus fares were predominantly driven simply by distance** travelled by individual customers with some commercial discounts for the young and the elderly.

The industry cost structure was predominantly distance based and, therefore, pricing and costs were part of the same equation.

That relationship has been **disrupted a little and become more dynamic** in the 40 years since deregulation **but only in a modest way**.

In the period **between 2014 and 2017**, I made a series of presentations to conferences stating that *'**Ticketing, Pricing and Payment were the fastest changing elements of the UK bus industry.**'*

On more mature reflection today, I would say **it was only ticketing and payment which were seriously disrupted by Oyster, Smartcard and Contactless right across the board but prices just continued to go up annually, much like always**, and, whilst there were some limited changes to pricing structures, **the real pricing revolution has yet to come** and will be driven by the need to deliver the mobility transformation set out in **Episode One**.

More detailed discussion on the future of Payment and Ticketing technology will be covered in **Episode 6** on **Technology** but **this week we will focus on the consumer pricing revolution component of the bus renaissance**.

## Political Pricing Today

Before we look at what we can expect to happen with direct consumer pricing, we **need to understand the implications of political pricing decisions taken by the Welsh, Scottish and UK Governments in the 2000's to give away bus travel free** to certain categories of passenger.

The **majority of passengers travelling on buses in Wales are either elderly or disabled and qualify for free travel** theoretically funded by the Welsh Government.

**In Scotland, everyone over the age of 59 and under the age of 22, can travel free on buses**, again, theoretically, funded by the Scottish Government.

Much less generous schemes apply **in England, outside London, with free bus travel after 9.30am Monday to Friday and all day Saturday and Sunday available to those of State Pension Age, currently 66+ and some categories of the disabled.**

Those schemes were introduced based upon budget calculations that they were **affordable at the time they were introduced** and for the foreseeable future thereafter. However, the **bus industry is subject to above inflation cost increases driven by it being a labour intensive business and, therefore, the cost of those schemes has grown exponentially in cash terms.**

The **impact of inflation on operating costs is real cash whereas Free + Inflation remains Free** and this has put considerable **pressure on reimbursement arrangements** for the public sector **leading to effective pressure for those schemes to be cross subsidised** either by **higher fares for the rest of the customer base** or **lower salaries for staff** working in the bus industry.

On the face of it, each of these schemes is funded by government on a 'no better, no worse off' basis for operators but the **realities of public sector austerity and the state of local government finance simply puts pressure on operators to accept the best deal they can get** and adapt the rest of their budgets to suit.

**If you then pursue a mass transit first mobility solution, the significant proportion of the population who currently spurn the free scheme** and simply drive their own car regardless of the cost, will **become an additional financial burden on the public sector.**

It is fair to say that **the free travel schemes for the elderly are purely a matter of social, as opposed to environmental or transport, policy**, given the number of the elderly who would rather carry on driving their own car at their own expense than take advantage of a free bus pass.

Car use only truly falls as a result of targeted measures of physical restraint and, therefore, **free travel is not a useful lever to deliver modal shift** and reduce the damage done to urban environments by excessive car use.

If we are to follow the kind of urban mobility policy set out in **Episode One**, we need to fundamentally **revisit the value of the current use of free bus passes** particularly **in light of how much it will cost the public sector in the context of mass bus use.**

## **Political Pricing in a Car Restrained Environment**

It is a **perfectly legitimate objective** for governments to seek **to provide social benefits to certain sections of the population.**

It is, however, **questionable, whether providing free bus passes to all of the currently entitled groups would either be affordable or provide value for money** in an environment where many more people in those categories will travel by bus as a result of government environmental policy to restrict inappropriate car use in urban areas.

It would certainly **be a barrier to delivering the environmental benefits if free travel** for certain sections of the population **were to be cross subsidised through either higher fares for the rest of the population** or lower pay for bus operator staff.

The most manageable solution would be to **replace free with a discounted fare coupled with a carefully calibrated operator reimbursement model** to ensure that operators can afford the levels of investment required to deliver services of the quality set out in **Episode Two**.

**Income** from the discounted fares **would then at least keep pace with inflation** as opposed to the ever-increasing burden on a cash starved public sector of free schemes.

In political transitional terms, it would also be **possible simply to cease issuing new free passes but allowing those currently entitled to retain their current benefit**, phasing out free travel gradually over time.

In the absence of free schemes, it is also likely that there may be a **commercial logic to introduce promotional pricing for the young and elderly** as part of a wider restructuring of pricing policy in the new, high demand world of the bus.

## **Cultural and Legacy Issues**

Traditionally, bus pricing has been focused on **distance based single prices for individual tickets plus time limited or open ended discounted return tickets, zonal day, weekly, monthly, quarterly or annual tickets** plus commercial discounts for children and, prior to the evolution of government concessions, the elderly.

Proper commercial **consumer pricing, however, is still inhibited by a series of cultural legacy issues.**

For example, as **single fares are usually the base from which concessionary reimbursement is calculated**, there is a clear **perverse incentive to keep them as high as possible** to drive up concessionary reimbursement even though it

may be deterring adult single patronage. This simply reinforces the culture of the car amongst the core adult population between 22 and 59.

Similarly, in many cases, the terms and conditions behind **bundles of day tickets sold on Apps have ridiculously short time periods for their use** rendering them relatively unattractive due to the **high risk of them expiring without refund** before they can be used. Generally, this has been **driven by them being used by customers who, previously, would have bought a weekly ticket and operators' seeking to minimise the loss of that revenue.**

The proposals set out in **Episode One** and **Episode Two** require a **completely fresh, forward-looking approach to commercial pricing** based on **optimising demand and revenue for the future rather than looking back to the past.**

### Consumer Pricing in a World of Car Restraint

If the kind of networks set out in **Episode Two** were to develop, the **substantially larger bus market** will provide huge scope for **demand and revenue to be maximised by much more sophisticated pricing strategies** than we have seen to date.

There will be **three powerful forces at play incentivising innovation in pricing.**

- ***Ongoing Development of Payment and Ticketing Technology***
- ***A transformational all-round improvement in product quality with the removal of acute traffic congestion and the ability to provide better frequencies, much improved reliability and proper levels of customer service***
- ***A major change in the shape and scale of the market as the overwhelmingly dominant role of the car in urban travel is scaled back and operators find themselves with a growing, dynamic market which can be incrementally developed through dynamic pricing innovation.***

#### *Ongoing Development in Payment and Ticketing Technology*

**Payment and Ticketing systems have been revolutionised over the last decade through developments in technology** which will only **continue to accelerate over the next twenty years.** It would not be unreasonable to assume that payment and ticketing technology should be able to evolve in such a way that **any kind of pricing product would be technically feasible to deliver.**

Account based ticketing could easily evolve in such a way that **a customer will be able to board a bus without any driver interaction or, indeed, any need to interact with a validator or present a card or phone.**

The customer might only need to be carrying a token in some form on their person in a switched-on mode which can be read by the payment and ticketing technology automatically on the bus.

That would allow for **customised pricing for each individual creating the ability to travel seamlessly on mass transit, buses, trams and trains, benefitting from their own bespoke pricing offer charged to an online account.**

Alternatively, if preferred, a customer could present a token to a validator, as they board and as they alight, with payment either taken from a wallet encompassed in the token or from an associated bank or card account again based on **their own bespoke pricing profile.**

In the same way as a mobile phone customer can purchase a data package either from a retailer or online customised to their own profile of needs, **bus customers** could visit high street retail outlets or operator, transport authority or third party retailer websites to **sign up for a package customised to their needs.**

### **Your bus mobility, your way.**

The sheer increase in market scale will make **bus retailing a major customer service business in its own right** with the transactional element of it taken away from the bus stop or the bus door and any interaction with the driver or, indeed, in many cases, even with a validator feeding even more demand with a **simple, seamless, friction free experience at the point of travel.**

### **How refreshing and transformational would that be?**

#### *New forms of pricing*

The bespoke element of it will also address the **expectation of former car commuters that the cost of taking friends or family on a trip to be no more expensive than if they were travelling together by car.**

Allowing customers to **purchase joint tickets with up to 4 others, for example, at much more competitive prices than multiples of the single fare.**

The methodology could **resemble current Rail Cards** whereby you acquire 2, 3, 4 or 5 together travel at a substantial discount. Technology would deal with the

profiles of the individuals involved **recognising them as a singly priced group no matter whether they travel as a 2, 3, 4 or 5.**

If supermarket checkouts today can recognise that you have bought 3 oranges and have a loyalty card and automatically adjust the price so, too, could bus validator technology in 20 years time recognise a group boarding and alighting together and match the charge to the appropriate Group Discount Card.

That opens up a **whole new world of payment and pricing options designed to make bus travel much better value** and customer friendly.

The **sheer volumes, load factors and faster operating speeds** of the new environment can **transform the pricing equations for customers** whilst being sustainable for operators.

The dynamism around pricing can also underpin **special offers at quiet times of day, quiet days of the week or different seasons of the year.**

Simple core standard fares would exist in any town or city but **customers would also benefit from the kind of discounts set out plus lower fares on the busier routes where the lower fares will generate greater revenue.**

A win for the operator and the customer.

**Removing the friction of having to make different arrangements when travelling in a different town or city could be removed from the customer** and accommodated by the bus operators sharing a UK wide transactional back office which would accept the customer onto any urban bus in the country and allocate the journeys made in each town or city to that town or city's revenue pool for distribution to local operators.

This would open up opportunities, for example, for **a customer based in Leeds spending a day in Manchester using one daily or weekly cap for their urban journeys.**

If you are in Manchester for the day, you won't be using your account in Leeds at the same time so why should you pay any extra so long as the operator you travel with receives a revenue payment?

This would also allow **integration of ticketing and payment for interurban express coach services and commuter express services with urban networks** and feeder services.

Payment for an intercity or commuter journey could be purchased bundled with urban travel at either or both of the origin and destination town or city.



Put simply, **with bigger customer volumes, much better quality services and transformational technology comes a wholly different world of pricing** which can further feed the popularity of the bus and the level of demand.

Having a simple, universal ticketing back office and standard processes removes the mystique behind bus payment and pricing which have always been a barrier to casual use.

### *New forms of retailing*

With retailing moving entirely off bus and the substantial ramp up in customer volumes, there is **room for many more retailing channels** including partnerships with third parties **bundling bus packages with other retail offers** such as mobile phone operators, satellite tv and streaming platforms, utilities, rail retail outlets etc which could all use their existing channels and customer databases to expand their retail activities and the bus audience in different ways.

Additionally, it should be possible to **allow entertainment venues, supermarkets and other retailers to bundle bus travel to and from their stores and events through the provision of a token to customers included in their own pricing.**

There are plenty of **tunes to be played around those themes to add volume to the bus market** and make it increasingly easy for customers to pay for their bus travel in the package which best meets their needs.

Mutual loyalty and discount schemes all open up in those scenarios.

### *Dynamic, competitive innovation vs simplicity and equity?*

This issue is relevant here but will also come up in the context of **Episode 10** on **Governance** and **Episode 11** on **Funding**.

There is a case for arguing that **current bus demand is depressed by the mystique and complexity around pricing** and that **clear, simple fares will lead to greater levels of price awareness and willingness to travel by bus.**

Certainly, when **non bus users are surveyed as to** their perception of the likely **cost of bus travel, they** virtually always substantially **overestimate it** which reinforces that point.

However, the alternative solution is to **transform the whole bus environment, including much greater transparency around payment and ticketing technology and the whole bus retail experience, paving the way to price,** as

other consumer markets do, **as a key component of efficiently managing demand and providing value**. If price is detached from both efficiency and value, it can lead to poor economic outcomes for both customers and operators.

The nature of **demand on certain urban routes is such that costs per customer journey are much cheaper than on others** and, therefore, **that value ought to be passed on to customers** which, in turn, may generate even greater demand and efficiency creating a positive spiral of patronage growth and a substantial **positive contribution to the economy and the development of the network**.

At the opposite end of the spectrum, **where the core nature of demand is flatter, fares still need to represent efficiency and value but around a different base point**.

That does conflict with an assumption of equity where the cost of travel per km on one route will be different from another.

However, the net effect of **balancing those price points by cross subsidy would lead to an overall reduction in bus use and demand** which reflects negatively on the economy and customers.

We need to keep some **competitive dynamic in bus networks to encourage innovation and deliver value in the same way as open access rail services do on the intercity rail network** where the strongest demand exists on routes with an open access provision.

**Simple, equitable fares on franchised networks may appear attractive but the ultimate reality is that those fares will be set by a public sector monopoly in a world where public funding is under acute pressure** due to the many other pressing demands on taxpayer funding.

That is **not good long term news for bus customers**.

How to create and govern that competitive dynamic will be addressed in **Episode 10 on Governance**.

*Finally .....*

The **most exciting part** about pricing in the car restricted urban environment is the opportunities for much more innovative pricing strategies which will, inevitably, emerge **as operators and retailers properly explore the psychological dynamics of the whole issue**.