MAXIMIZING NET REVENUE FOR LYFT'S TOLEDO ROUTE

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PURPOSE

This report aims to provide stakeholders with a comprehensive strategy for maximizing net revenue on Lyft's Toledo route for the next 12 months. By analyzing the current scenario, evaluating pricing experiments, and proposing adjustments alongside driver and rider acquisition strategies, I aim to present a balanced approach that focuses on long-term sustainability while addressing current challenges. Through a clear and concise presentation, I seek to foster discussion and collaboration to drive informed decisions for optimizing revenue in this market.
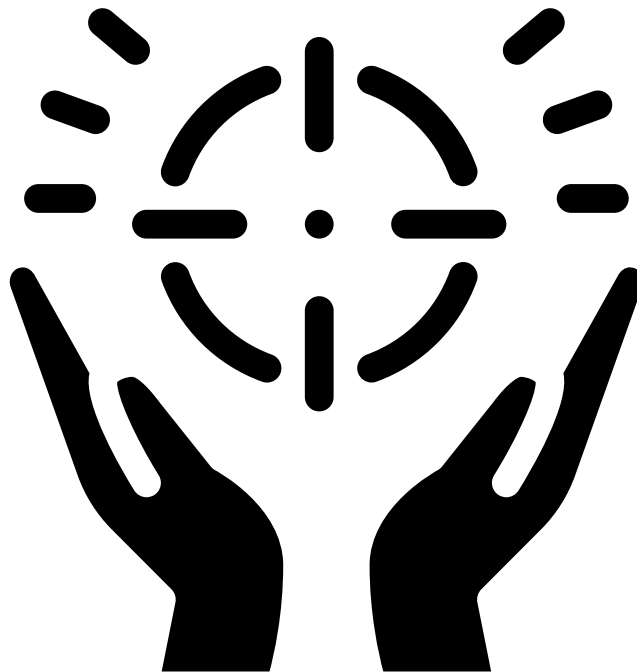
Current Pricing Model Overview

Current Pricing Model

- **Rider prevailing rate =** $25 per ride (one way, either direction to/from airport)
- **Driver prevailing wage =** $19 per ride
- **Lyft's take =** $6 per ride

The current pricing model charges riders $25 per ride, of which $19 is allocated to drivers, and Lyft retains $6 as its share. However, the prevailing **_match rate of 60%_** indicates that only around 60 out of every 100 ride requests are successfully matched with available drivers at this price point.

Total Earnings: $25 x 100 rides = $2500 per driver
Driver wages allocation: $19 x 100 rides = $1900 per driver
Projected Lyft Profit: $2500 – $1900 = **_$600_**
Actual Lyft Profit: $600 x 0.6 = **_$360_**
Losses due to "failed to find driver" events: $600 x 0.4 = **_$240_**

Limitations of Current Model

- The match rate of 60% signifies that approximately **_40% of ride requests go unfulfilled_** due to unavailability of drivers.
- This unmet demand results in potential revenue loss and a suboptimal user experience for riders.
- The subpar match rate might contribute to increased churn among riders who experience "failed to find driver" events, negatively affecting rider retention.
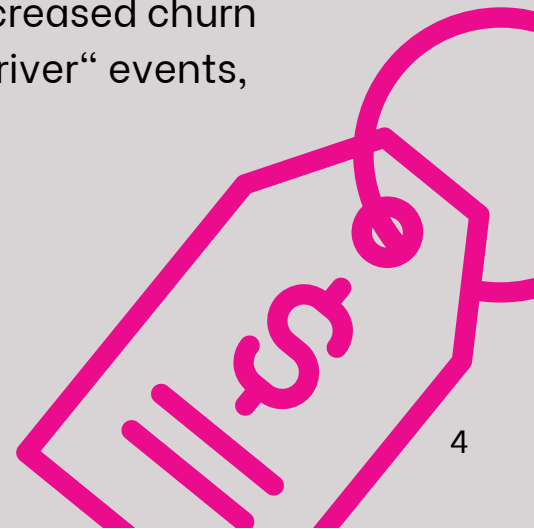
Pricing Experiments & Results

Experiment 1: Adjusting Driver Earnings and Lyft's Take

- **Rider prevailing rate =** $25 per ride (one way, either direction to/from airport)
- **Driver prevailing wage =** $22 per ride
- **Lyft's take =** $3 per ride

The most significant outcome of Experiment 1 was the remarkable increase in the match rate, which escalated from the initial **_60% to an impressive 93%_**. This means that 93 out of every 100 ride requests were successfully matched with available drivers, leading to a substantial reduction in unmet ride demand.

Total Earnings: $25 x 100 rides = $2500 per driver
Driver wages allocation: $22 x 100 rides = $2200 per driver
Projected Lyft Profit: $2500 - $2200 = **_$300_**
Actual Lyft Profit: $300 x 0.93 = **_$279_**
Losses due to "failed to find driver" events: $300 x 0.07 = **_$21_**
Additional Revenue from Increased Match Rates =
(93 - 60) x $25 (rider payment) = **_$825_**

Key Takeaways

- Increasing driver earnings and reducing Lyft's take led to a substantial **_33% increase in the match rate_**.
- The augmented match rate translated to a heightened number of successfully completed rides and potential revenue.
- While the projected Lyft profit per ride reduced, the overall revenue growth potential was substantial due to higher rider volume.

Potential Adjustments Analysis

## Estimated Yearly Revenue per Driver by Adjustment

Adjustment	Rider Rate (12 Months)	Driver Wage (12 Months)	Lyft's Take (12 Months)	Match Rate	Estimated Yearly Revenue per Driver
Current	$30,000	$22,800	$7,200	60%	~$4,320
Experiment 1	$30,000	$26,400	$3,600	93%	~$3,348
A	$24,000	$19,200	$4,800	65-70%	~$3,120 - $3,360
B	$24,000	$18,000	$6,000	60%	~$3,600
C	$24,000	$20,400	$3,600	65%	~$2,340

*Lyft's Take is representative of the expected yearly revenue

Adjustment A: A projected 5-10% match rate increase due to appealing rider rates and optimized driver wages, potentially mitigating churn and driver availability concerns.

Adjustment B: Aiming to balance rider affordability and driver motivation, but challenging to prevent significant match rate decrease and driver disengagement.

Adjustment C: Emphasizing competitive rider rates and balanced driver earnings, with potential improvements in both sides' engagement and overall match rates.

Expected Revenue (Lyft's Take) vs. Estimated Yearly Revenue
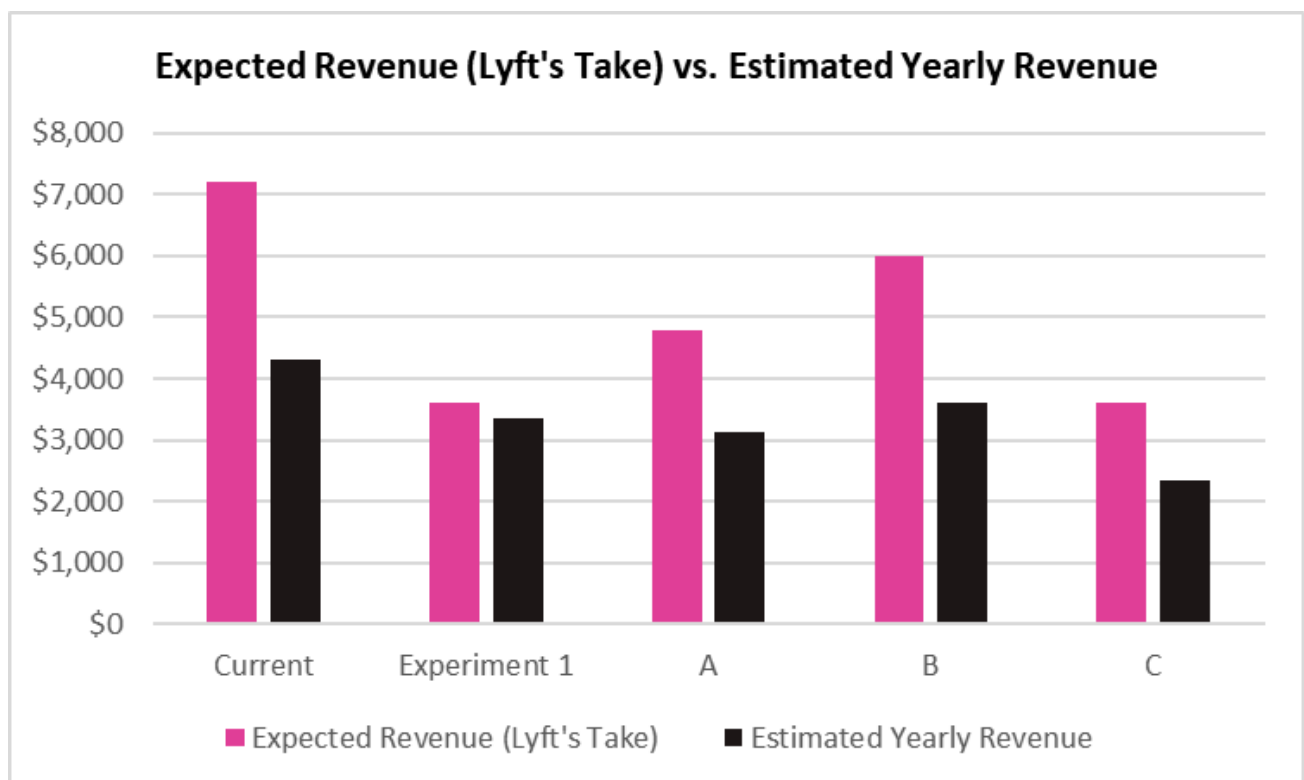
Driver & Rider Acquisition Strategies

Increasing Driver Acquisition

- **Incentives:** Offering signup/referral bonuses for new drivers to encourage them to be active on the Lyft platform
- **Flexible Hours:** Offering drivers the opportunity to work when it is convenient for them and pick their own hours
- **Driver Support:** Providing support and assistance to drivers through help centers, customer service representatives, and training programs
- **Driver Benefits:** Offering benefits like insurance coverage, fuel discounts, or vehicle maintenance support to create more incentive
- **Marketing & Partnerships:** Utilize targeted advertising campaigns and network with local businesses and organizations to promote driver opportunities

Increasing Rider Acquisition

- **Promotions:** Offering discounts, free rides, and first-time user perks to attract more riders
- **Referral Programs :** Offering existing riders rewards and discounts for referring friends and family
- **Smooth Onboarding:** Ensure hassle free user experience from signing up to booking their first ride
- **Marketing:** Ensure marketing efforts are tailored to match the values of ideal user base
- **Testimonials:** Highlight positive reviews and ratings from existing riders as a means to build trust and credibility among new users

Potential "Failed to Find Driver" Causes & Remedies

Insufficient Driver Availability & High Demand

- Imbalance in driver to rider ratio during peak times may result in failed requests.
- **Solutions:**
  - Incentives for drivers such as flexible work hours and potential bonuses for working during peak times
  - Offering alternative ride options (pooling rides) or alternative pick up points to address unavailability during peak times.

Technical Issues

- Technical issues with the app or user platform may result in errors and prevent proper driver-rider matching
- **Solution:** Ensure regular app maintenance and efficient bug fixes

Poor User Experience

- Complicated app interfaces or unclear instructions may lead to difficulties in requesting rides.
- **Solution:** Employ simple user-friendly interface and provide riders with clear instructions on how to properly request a ride
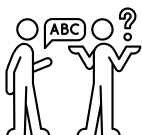
Miscommunication Between Riders & Drivers

- Miscommunication between riders and drivers regarding pick up location or logistics can lead to increased failed matches
- **Solution:** Incorporating a chat box or means for rider-driver communication within the app can help reduce misunderstandings

Conclusions & Recommendations

The analysis of potential adjustments and pricing experiments provides valuable insights for optimizing net revenue on the Toledo route in the next 12 months.

Evaluating rider rates, driver wages, and Lyft's take has revealed a delicate balance between rider affordability, driver incentives, and profitability.

Adjustment Insights:

- **Balanced Reduction (Adjustment A):** A 5-10% projected match rate increase due to appealing rider rates and optimized driver wages.
- **Striking a Balance (Adjustment B):** Challenges balancing rider affordability and driver motivation, avoiding significant match rate decrease.
- **Focus on Balance (Adjustment C):** Emphasis on competitive rider rates and balanced driver earnings, with potential improvements in match rates.

Experiment 1 Sucess:

- Experiment 1's rider rate of $25, driver wage of $26.40, and Lyft's take of $3 showcased a promising match rate increase to 93%. Long-term sustainability took precedence, despite slightly lower revenue.

Combined Recommendations:

- Implement an adaptive pricing model that adjusts rates based on demand.
- Enhance driver incentives through flexible hours, bonuses, and benefits.
- Refine rider acquisition strategies with promotions and seamless onboarding.
- Experiment with adjustments based on real-time data insights.
- Address factors leading to "failed to find driver" incidents.
- Embrace continuous evaluation and adaptation.

Future Steps & Considerations

- **Continuous Experimentation:** Building on Experiment 1, refine pricing adjustments and explore innovative strategies.
- **Market Insights and Adaptation:** Monitor competitors and tailor strategies to Toledo's unique dynamics.
- **Technological Enhancements:** Prioritize app maintenance and implement real-time driver availability updates.
- **Driver-Partner Engagement:** Integrate driver feedback, offer ongoing training, and enhance professionalism.
- **Diverse Marketing Strategies:** Collaborate locally and optimize marketing efforts based on data.
- **Focus on Long-Term Sustainability:** Maintain a balanced ecosystem, leveraging data insights for informed decisions.

By combining these insights, recommendations, and future steps, Lyft can navigate the evolving market landscape and achieve sustainable growth. The focus on balancing user satisfaction with company profitability will ensure success in the ride-hailing industry, benefiting both riders and drivers.