***Recommendations for possible pricing modifications***

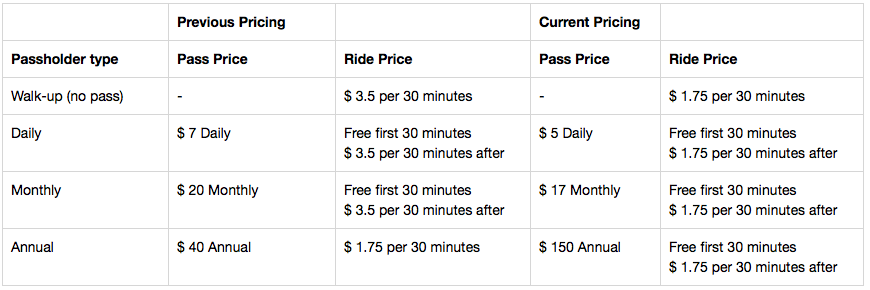
Recommendations for possible pricing modification can be made only after understanding the current pricing model. The pricing model then needs to be optimized to maximize total revenue.

The total revenue can be split into two main components viz Total fare of all rides and Total sales of passes (Daily, Monthly, Annual).

A demand model also needs to be estimated to derive the appropriate price to demand relationship. For this purpose, number of passes sold for each pass type is estimated as shown below:

Since the pricing system is based on 30 minutes blocks spent by a user on the bike, a column is coded to calculate the number of 30 minutes block spent by each rider on a trip. The pass holders would be charged for one less time block than the walk-up riders so the passholders get the first 30 minutes of their ride free. Therefore, two columns are added namely “time\_block\_count” and “time\_block\_count\_post\_free” for getting the 30 minutes block that the walk-up users have to pay for and the second column for 30 minutes blocks for passholders that excludes first 30 minutes block.

Moreover, the pricing model of Metro bike company was changed on July 12, 2018 so in order to analyze and optimize the pricing model correctly, the dataset was divided into two parts with one having data before the data July 12, 2018 and the second dataset having data after that date.



The total number of trips in each segment of the monthly pass, daily pass, annual pass and walk-up are calculated along with the total duration of the rides.

There is no unique identifier for passholders so the number of passes sold can’t be inferred from data itself. Total number of passes sold since January 2016 is 67,013 in 3 year period so it would be safe to expect roughly 20,000 passes sold during the year-long period for first two years and the remaining during the last year. The sales of each pass type would be estimated from a breakeven perspective i.e the average number of trips needed to cover the price of a pass.

**Breakeven analysis for estimating number of passes sold:**

The breakeven analysis is conducted for trips under 30 minutes since the median trip duration is 12 minutes. Number of rides to break even is calculated by dividing the pass price by the difference in the price to ride without pass and the price to ride with pass. Then, the number of passes sold is estimated by dividing the total number of rides by the number of rides to break even.

This calculation provided the number of rides per day required for daily pass: 2.0 Rides per month required for monthly pass: 5.714285714285714 Rides per year required for annual pass: 22.857142857142858 under the old pricing model. These numbers seems to be on the low side looking at the number of rides required to breakeven and assessing the numbers since Daily pass holders are likely to perform more than a round trip if they were purchasing a day pass and Monthly pass holders are likely to be the occasional commuters and even at a conservative 2 rides/week to work would tally 8 rides a month. Annual pass holders are the hardest to gauge due to the low $40 price point of the flex point from the previous pricing plan. They'll be scaled to the same factor as day and monthly pass numbers by a common factor of 40%. Under the old pricing model, the number of rides required per day for daily pass was scaled up to 3. Similarly, the number of rides required per month for monthly pass was scaled up to 8 and the number of rides required per year for annual pass was scaled up to 32. The total number of trips under different pass types were divided by the scaled-up value of the number of rides required for that particular passholder calculated above.

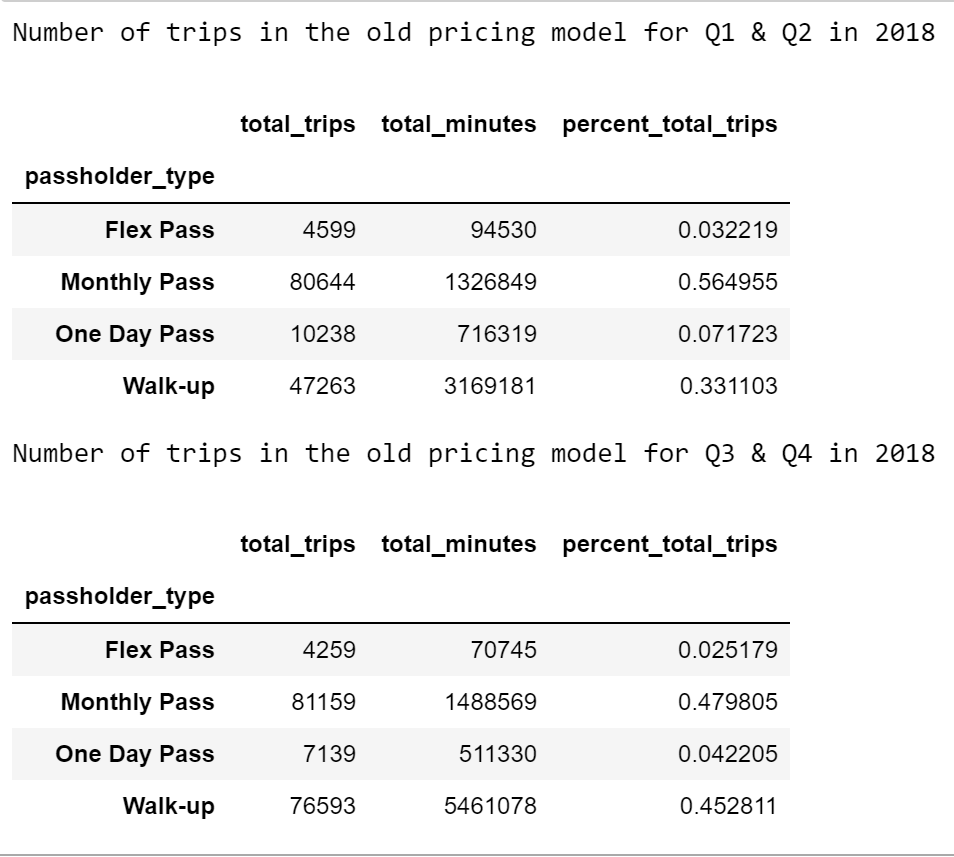
The estimated number of passes sold for daily pass, monthly pass and annual pass were 5299, 35507 and 711 respectively.

The total revenue was calculated by adding the revenue from 30 minutes blocks used by different types of riders, revenue from post 30 minutes usage and the revenue from selling passes. The total revenue calculation under the old pricing model came out to be $1479654.25 from July 2016 to July 2018.

**Linear Optimization:**

An objective function was formulated for this optimization model to maximize total revenue from pass sales and rides. Binary variables for each plan are created and a basic optimization is run over the previous price plans. Given that riders have already been complaining about the $3.50 per half hour block rate, any dropping of passes in the past pricing scheme would have led to a precipitous drop in ridership. Furthermore, given the fierce competition in the area of bike and scooter sharing, the dropping of certain passes could simply lead to riders moving to other competitors. A baseline attrition of 30% for each category is assumed and the parameters adjusted as the model is run. The optimal solution returned the following numbers: $1614687.75 for the old pricing model which is higher than it’s respective total revenue figure. The optimization results for the old pricing model favored the monthly pass and the annual pass but daily pass was not fruitful according to the results.

**Comparison of the number of rides in each category between the old and new pricing model**

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A comparison is carried out between the old and new pricing model by considering the data of the same time frame for both old and new pricing model. The estimated number of passes sold for daily pass, monthly pass and annual pass was 10238, 80644 and 4599 respectively under the old pricing model for quarter 1 and quarte2 of 2018 whereas the estimated number of passes sold for daily pass, monthly pass and annual pass was 7139, 81159 and 4259 respectively. This steep fall in the number of daily passes sold indicate that the customers are not willing to invest in the daily pass under the new pricing model as the price of the walk-up has been reduced from $3.5 for 30 minutes to $1.75 for 30 minutes. Furthermore, it can be observed that the number of walk-up has also increased from 47623 to 76593. The increase in number of walk-up and the decrease in the number of passes sold suggests us that the bike riders prefer to use the walk-up option under the new pricing model.

**Optimization Using additional Information**

There are multiple ways in which the pricing scheme can be structured such as:

1) Variable rate by minute

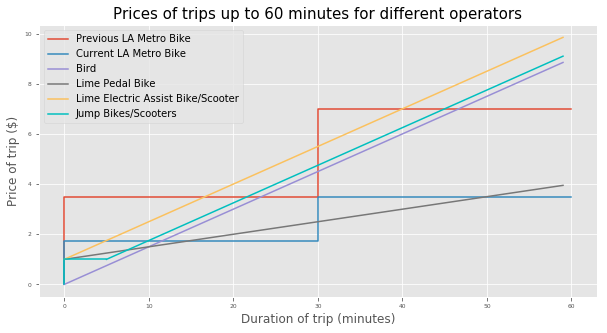
2) Variable rate by time intervals (30 minutes for LA Metro currently)

3) Fixed fee for any ride

4) Fixed fee for a time interval before implementing a variable rate

5) Weekly, monthly passes that cover all rides up to a particular duration. Variable rate thereafter

The current model by LA metro is examined and compared with other competitors in the market.



It can be observed from the above plot that the current pricing model enacted by LA Metro is one of cheapest being $3.5 for an hour-long bike ride. For rides shorter than 15 minutes and between 30 to 50 minutes, Lime pedal bike is the cheapest. These values are used to set up upper bound on prices to be used in the optimization model.

1. The variable rate per minute without a pass is set under the average of the two most common prices of 0.05 and 0.15:

Variable rate per minute without pass <= $0.10

1. The variable rate per minute with a plan is set under the average of the LA Metro’s current $0.06 and Jump’s $0.07:

Variable rate per minute with pass <= $0.065

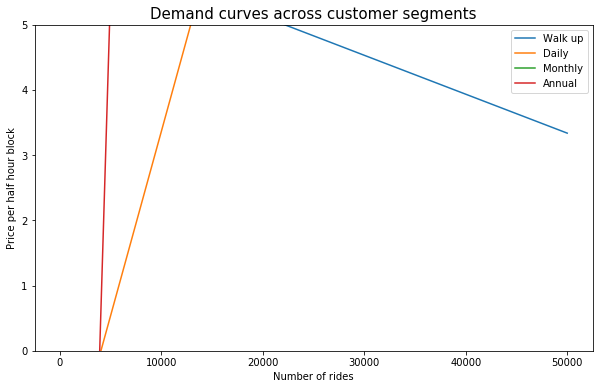
1. The variable rate per 30 minutes is set under the nearest competitor(Lime pedal):

Variable rate per 30 minutes <= $2.5

**Quadratic Optimization:**

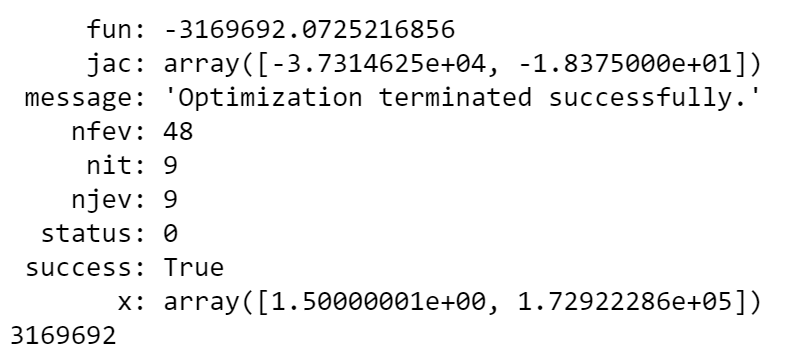
The total revenue would be optimized for two main factors: price and number of rides. If a simple linear optimization with an upper bound for price was run, it would intuitively move towards the upper bound for optimization so a demand curve that would vary total rides taken along with the prices charged for each hour block is taken into consideration.

For Demand curve estimation, 2018 Q1 and Q2 would be considered for data before the price change and Q3 and Q4 would be considered for data after the price change since 2018 Q2 was the last datapoint before the price change and 2018 Q3 was the first after. The slope for the demand curve was calculated by dividing the difference in price change with the difference in number of bike rides.



It can be noted from the above figure that the typical demand curve with a negative slope is observed only for the walk-up riders. This is because of the drastic rate cut in rates from $3.5 to $1.75 which motivated customers to start using walk-up option instead of purchasing the passes and the prices for passes did not fall proportionately for half hourly rates so it became more economical to forgo the passes.

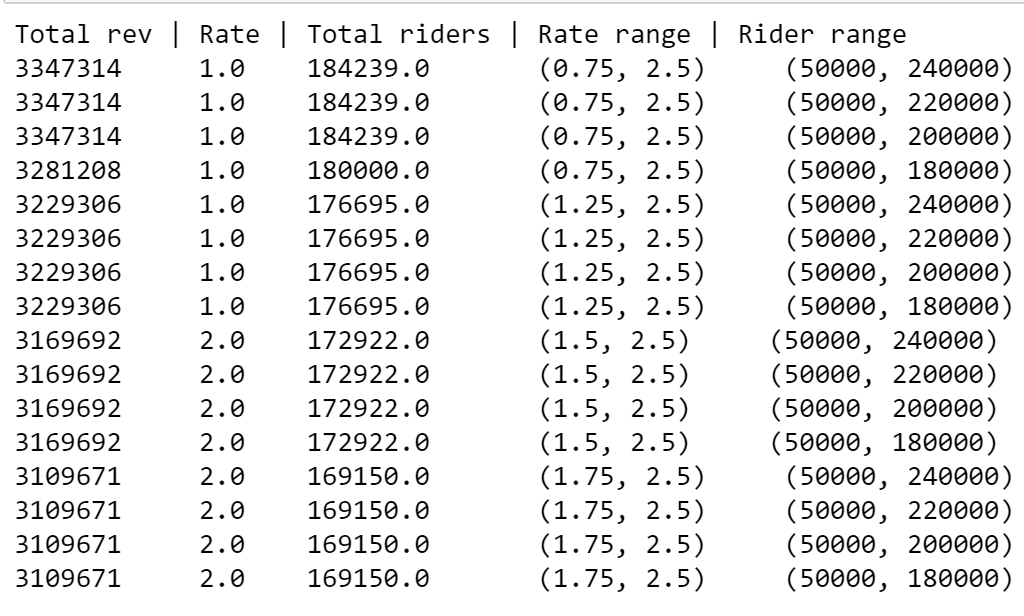
An objective function of total revenue based on the price and the number of rides was defined.



From the optimization results, it can be observed that the revenue is optimized when the price is set at $1.5 for every half hour. This would increase the total number of rides to 172,922 and the maximized revenue would be $3,169,692 which is much higher than what was observed in the previous pricing model.

**Sensitivity analysis :**

A further sensitivity analysis is carried out on both the factors viz price and the number of rides to observe the effect on the objective function i.e the total revenue.



It can be observed that adopting the lowest possible price of Dollar 1 results in a maximum of 184,239 rides. It also results in the highest possible revenue of Dollar 3,347,77314. Across the board, it seems that as long as LA Metro is able to attract more than 180,000 rides, the strategy should be to reduce prices. Given the results seen here, perhaps the drastic drop of 50% from the previous pricing scheme is justified.