MOBILITY AS A PLATFORM

Newly emerging mobility solutions can provide a springboard for innovation

Words Ashish Khanna **Images** L.E.K. Consulting, Shutterstock

ADDING VALUE

New mobility trends, such as ride hailing and vehicle electrification, are driving improved transportation cost structures and have the potential to bring significant opportunity to the value chains of many businesses. With the right approach, businesses across the economy can see mobility as a stimulus for business model innovation, creating new revenue opportunities and improving operating efficiency.

L.E.K. Consulting's framework – Mobility as a Platform (MaaP) – provides a lens through which businesses can consider options for growth, through customer acquisition, customer experience and loyalty, and business operations.

Bending the cost curve

MaaP is enabled by significant improvements in the cost structure of transportation, underpinned by two key new mobility drivers: sharing and autonomy (in urban contexts); and vehicle electrification.

The mission statement of shared mobility disruptors (Uber, Lyft, Zipcar and so on), and indeed the strategy of some OEMs reacting to these trends, is to displace car ownership. This seeks to effectively monetize the 95% of unused capacity that consumers pay for when they buy – but don't use – a car. Improved use, custom vehicles and eventually autonomous driving will change the cost such that a consumer could get on-demand transportation at a more favorable cost point than owning a vehicle (Figure 1).

The transition from fossil fuels to alternatively fueled vehicles – in particular electric vehicles – could dramatically reduce fuel costs. UK businesses and consumers currently spend about £50bn (US$62bn) on diesel and petrol every year; the equivalent in the USA is about US$530bn (or US$4,200 in ultimate costs borne per household, on average). As electric vehicle total cost of ownership economics approach parity with ICE vehicles, the transition to electricity will accelerate and could materially reduce costs related to transportation fuel.

As transportation costs deflate, the key question is how the value chains of other industries are impacted and what business opportunities emerge. For example, the democratization of air travel created a number of beneficiaries, including destination holiday resorts, which acquired a new and vastly enlarged cohort of customers. More recently, new business models have emerged for everything from innovative accommodation providers (such as Airbnb) and traveler advice services (such as TripAdvisor) to aggregators that stitch the travel value chain together (such as Expedia). And let's not forget consumers, who have made significant savings and gained a richer experience.

While it is still early days for urban transportation, there are parallels from these industries that point to innovation opportunities for all companies relying on transportation.

Right: The MaaP framework is underpinned by vehicle sharing and autonomy, and vehicle electrification

Below right: Figure 1 – Cost to user by transport mode in Europe

The future in numbers...

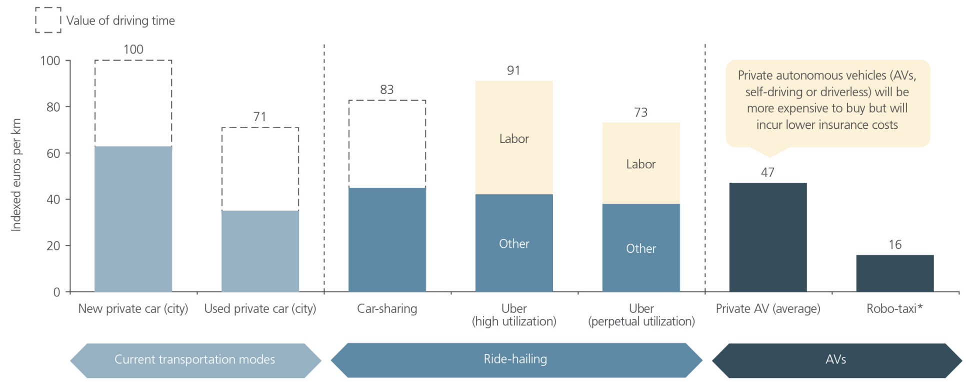
95%

The unused capacity that consumers pay for when they buy – but don't use – a car

L.E.K.'s MaaP framework enables organizations to identify opportunities for business model innovation, leveraging new mobility services and their associated lower transportation costs (Figure 2).

Customer acquisition

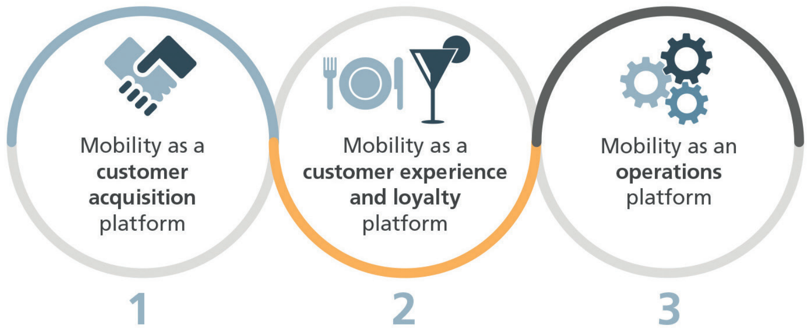
As sharing, automation and electrification dramatically reduce transportation costs per mile, their reach among consumers is expected



Note: *Includes a notional 10% additional car CAPEX to cover AI, learning and R&D cost
Source: L.E.K. analysis and research

to improve. Mobility platforms already touch a large proportion of consumers in big cities; over three (out of nine) million Londoners have used a ride-hailing service, and more than 30 million North American riders used Lyft services in 2018. In a short period, mobility platforms have already created a new means of accessing a large, addressable customer base.

Take for instance Cargo, a startup that provides free goods (from items of confectionery to electronics) to rideshare drivers to market and sell to passengers. Through its global collaboration with



Left: Figure 2 – Mobility as a Platform

Source: L.E.K. research

Uber, Cargo is hoping to target a captive audience that has disposable income and a willingness to experiment. Consumer brands are also having their products sampled or purchased in a new and relevant channel, bypassing traditional convenience retail channels and creating a data-rich interaction with end customers. It also improves driver earnings, creating a win-win situation.

There are a large number of high fixed-cost industries whose economics could benefit from even a modest rise in customer numbers. An empty cinema complex on a weekday afternoon, a restaurant chain in the business district on weekends, a theme park with idle capacity outside school holiday periods – all are examples where funding the 'customer acquisition cost' of a mobility fare to/from the venue could markedly improve business performance.

Customer experience and loyalty

Propositions leveraging mobility to enhance the customer experience can create powerful economics for businesses and, in turn, improve customer value and loyalty.

For example, Tesco, a leading supermarket operator in the UK, recently launched an initiative to install 2,400 EV charging stations across 600 sites, with a promise of 'free' trickle charging and paid upgrades to fast charging. On a standalone basis, the ability to break even on large charging infrastructure is unlikely to be possible for some time. However, when considering system economics – becoming the shopping destination of choice for EV owners (thus improving the customer experience and loyalty), and increasing dwell times while waiting for adequate charge to be achieved – the trade-off becomes more compelling, with potential for both customer volume increases and like-for-like shopping basket growth.

Where shopping baskets are of sufficient value, a paid enhancement to the customer experience can help improve overall revenues by stimulating volumes and market-share gains. Enterprise famously created the "We'll pick you up" promise, which helped cement its position in off-airport car rental locations. However, the concept was not without friction – in part due to the need to make calls at least two hours in advance. On-demand mobility changes this paradigm. ViaForBusiness or Uber4Business are already creating the functionality for businesses to support their customers by integrating mobility services.

An operations platform

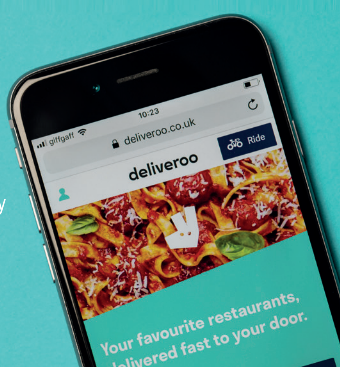
Perhaps the most straightforward opportunity is the rewiring of operations to benefit from developments in new mobility. Diageo, the international beverage manufacturer, has partnered with Deliveroo and UberEats to deliver alcoholic beverages to consumers in homes on an on-demand basis. This new experimental channel is enabling a traditionally B2B2C company to increase its B2C presence, enabled by last-mile mobility. From a system perspective, bypassing the traditional distribution channels saves significant distribution costs, while also reducing pricing pressure that is typically present in FMCG-retailer negotiations.

There are likely to be a number of use cases for on-demand mobility as a logistics application, where either part or the entirety of fleet requirements for a distribution venture could be served by more appropriate on-demand modes in a cost-effective (and potentially carbon-effective) manner.

L.E.K. Consulting's MaaP framework demonstrates the scope of opportunity available. Now it is time for businesses to consider how they can innovate, using these newly emerging mobility services and trends as a backbone for future growth. ✜

Economic and social benefits

The opportunities of MaaP are plentiful. Alongside being used as a platform for customer acquisition, customer experience and loyalty, and business operations, MaaP may also enable the corporate social responsibility agenda for large corporates. As carbon footprints, air quality and plastics consumption continue to be hot topics, the transition to electric, shared and on-demand mobility could dramatically change the economics of closed-loop supply chains. Furthermore, the landscape is ripe for mobility to be used as an accessibility platform, helping provide the elderly or infirm access to wider services to improve quality of life, or improving accessibility for disabled persons to become more actively involved in the workforce.



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Ashish Khanna, partner at L.E.K. Consulting, will present *Accelerating electrification: critical steps toward electric vehicle mass adoption* on December 11 as part of **STREAM 5: Energy – Powering the Future of Transport**; and *Mobility as a Platform: a springboard for innovation* on December 11 as part of **STREAM 3: Changing Landscape for the Automotive Industry**. Becrom Basu, director at L.E.K. Consulting, will present *Hyperloop: coming soon to a station near you?* on December 11 as part of **STREAM 7: Quantum Shifts Through Big & Small Changes**. Emma Edgar, manager at L.E.K. Consulting, will present *Mobility as a Service: the next transport disruption* on December 10 as part of **STREAM 6: Mobility as a Service**, at The Future of Transportation World Conference 2019 www.thefutureoftransportconference.com