VALUE CREATION OPPORTUNITIES FOR EUROPEAN TRAVEL BUS OPERATORS

JULY 18, 2016

PRESENTED BY: MAX-ALEXANDER BORRECK
Objective: Provide insights into the current discussion on value creation in the travel bus industry

1. Overview of European travel bus industry

2. Highlight challenges players are facing as the industry matures

3. Discuss – selected – value creation levers for travel bus companies
Travel bus liberalization continues to drive capacity expansion in national networks followed by long-distance international routes

- Fully liberalized with general permission of bus lines requiring minimum quality standards
- Basically liberalized countries with some administrative barriers (e.g. expiring concessions)
- Auctioned concessions allowing for some degree of competition
- Non-liberalized markets preventing domestic travel bus offerings with possible existence of historical concessions/permits of cabotage

Source: Oliver Wyman, Van de Velde, European Commission, IBM, Reuters
Deregulation substantially transformed the European travel bus market

Development of European travel bus market, 2011–2016
Schematic illustration

Source: BDO, IGES, Federal Ministry of Transport, Oliver Wyman Research

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Yield levels in fully liberalized markets are low and are likely to induce further consolidation

**Bus price index – Europe 2016**

in €-cent/km

<table>
<thead>
<tr>
<th>Country</th>
<th>Average Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>1.34</td>
</tr>
<tr>
<td>Germany</td>
<td>2.35</td>
</tr>
<tr>
<td>UK</td>
<td>3.07</td>
</tr>
<tr>
<td>Italy</td>
<td>3.26</td>
</tr>
<tr>
<td>Spain</td>
<td>4.63</td>
</tr>
</tbody>
</table>

Average: 2.93

**Comments**

- Very low yields in fully liberalized markets
- Increasingly, aggressive discount strategies by railroad incumbents
- Bus incumbents in not-fully liberalized markets, e.g. Spain, advocate prolongation of bus concession to secure price levels in home markets
- Many bus players cannot operate profitably at current yield levels and low utilization rates (Germany ~50% as of 2014)

1. Based on cheapest price available in the market
Source: Checkmybus
As the European bus market starts to mature, players face new challenges

- **Dynamic market environment** - entry of new players and emerging consolidation at the same time

- **Increasingly aggressive “fight back”** of railroads and low cost airlines

- **High price transparency for customers** – intermodal price comparisons (bus, rail, carsharing, airlines) gain importance

- **Current yield levels** not sustainable in the long run for many market participants
Broad set of value creation levers for travel bus companies

Focus today

UNLOCK VALUE

COMMERCIAL OPTIMIZATION

NETWORK MANAGEMENT

PRODUCT DESIGN

PRICING & YIELD MANAGEMENT

PERFORMANCE OPTIMIZATION

COST REDUCTION

ORGANISATIONAL EFFECTIVENESS

FLEET PLANNING

NETWORK PLANNING

NETWORK MONITORING

PRODUCT CONCEPT/UPSELL

ANCILLARIES

LOYALTY

CUSTOMER JOURNEY

PRICING STEERING

COMPETITION-BASED PRICING

DEMAND FORECASTING

OVERBOOKING

Time 2 market

Focus today

Time to market

© Oliver Wyman
Companies choose between different product strategies – in the airline industry, you could observe two archetypes in the past.

**Single-product strategy, e.g.**

- One fare (potentially, one standard/one flex-fare)
- Fare increases over time and with fees for added comfort

**Differentiated product strategy, e.g.**

- Differentiated product offering divided by product features and time – clearly fenced
- Products clearly distinguished by cabin (Economy, Business) or by fare families (Basic, Smart, Best)

<table>
<thead>
<tr>
<th>Product</th>
<th>Ticket price</th>
<th>Passenger volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;Standard&quot;</td>
<td>✔️</td>
<td>✗</td>
</tr>
<tr>
<td>&quot;Premium&quot;</td>
<td>✗</td>
<td>✔️</td>
</tr>
<tr>
<td>&quot;Cheap&quot;</td>
<td>✗</td>
<td>✗</td>
</tr>
</tbody>
</table>

- Only one willingness-to-pay addressed
- Limited revenue potential for upselling
- Low complexity

- Several willingness-to-pay addressed
- Increased revenue potential
- Higher complexity

Source: Oliver Wyman
Most airlines moved towards two-product/differentiated pricing approaches, making use of more up-/cross-selling options.

**Comparison of pricing schemes of key players**

<table>
<thead>
<tr>
<th>One product</th>
<th>Two products</th>
<th>Differentiated products</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>easyJet</strong></td>
<td><strong>easyJet</strong></td>
<td><strong>Lufthansa</strong></td>
</tr>
<tr>
<td><strong>RYANAIR</strong></td>
<td><strong>RYANAIR</strong></td>
<td>Eurowings</td>
</tr>
</tbody>
</table>

**Ticket up-selling**
- Low base price = low service, all extra services are charged separately

**Pricing schemes**
- **Ancillary services**
  - Priority handling & treatment
  - Higher baggage allowances
  - On board meals & drinks
  - XL-Seating
  - Travel insurance
  - Active promotions cars & hotels
- **Ticket base price**
  - Flight as from ~20€ (+Tax)
  - No re-booking or refund options
  - No baggage allowances
  - No service offerings
  - No loyalty amenities

**Two products**
- Low base price = low service, all extra services are charged separately
- NEW tailored product for “business travelers”

**Differentiated products**
- Offer of multiple products via different booking classes and also extra amenities sell

- **Pricing schemes**
  - Priority handling & treatment
  - Higher baggage allowances
  - On board meals & drinks
  - XL-Seating
  - Travel insurance
  - Active promotions cars & hotels

- **Ticket base price**
  - Flight as from ~20€ (+Tax)
  - No re-booking or refund options
  - No baggage allowances
  - No service offerings
  - No loyalty amenities

- **Ancillary services**
  - Priority handling & treatment
  - Higher baggage allowances
  - On board meals & drinks
  - XL-Seating
  - Travel insurance
  - Active promotions cars & hotels

- **Business travel package**
  - On board meals & drinks
  - Active promotion cars & hotel & shopping
  - Travel insurance
  - Higher baggage allowances

1. MilleMiglia miles and re-booking/refund possible for higher booking classes only but not explicitly offered

© Oliver Wyman
Ancillaries account for about 20% of total revenues of low cost airlines

Ancillaries as a % of total revenues
In %, numbers rounded

Key ancillary revenue components
Global airlines outside the US

- Baggage fees: 30%
- Sale of FFP miles: 15%
- Onboard retail (food, duty free): 15%
- Travel retail (hotel, car, insurance): 25%
- Other a la carte services: 15%

1. Close to 10% for US carriers, significantly lower for European legacy carriers but increasing
2. Distribution based upon analysis of 2014 results of non low cost carriers based outside the US
Source: IdeaWorks, Oliver Wyman
Ancillary product marketing particularly attractive for intangible products

**Tangible products**
- Corporate merchandise (“MeinFernbus Fanshop”)
- Onboard snacks & drinks, duty-free articles
- Luggage
  - ...

**Intangible products**
- Flexibility (Rebooking, cancellation)
- Seating preferences
- “Hold seat free” options
- On-time guarantee
- ...

**Carrier bears the costs of the physical product**

**No direct additional costs for carrier – indirect costs can be approximated using statistics**

**Bundling**
- Priority
  - Security fast lane
  - Priority boarding
  - Premium snack
- Comfort
  - Preferred seating
  - More luggage
  - Free choice of movies
- ...

**Revenue maximization and focus on boosting intangible/high-margin products**

Source: Oliver Wyman
Different options for setting up “loyalty relationships” with clients

<table>
<thead>
<tr>
<th>Exclusive offers for regist. Clients</th>
<th>Participate in ext. loyalty program</th>
<th>Launch frequent traveler card</th>
<th>Launch in-house loyalty program</th>
<th>Launch elite program</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pros</strong></td>
<td><strong>Cons</strong></td>
<td><strong>Pros</strong></td>
<td><strong>Cons</strong></td>
<td><strong>Opportunity</strong></td>
</tr>
<tr>
<td>• Limited additional costs</td>
<td>• Impact limited to already registered users</td>
<td>• Full control</td>
<td>• High saturation/ „Loyalty Fatigue“</td>
<td>• Fit with brand perception/target customers</td>
</tr>
<tr>
<td>• Flexible steering options</td>
<td>• Participation fees</td>
<td>• Ability to generate extra revenues from partners (e.g. credit card)</td>
<td>• Requires own organization</td>
<td>• High costs for benefit delivery</td>
</tr>
<tr>
<td><strong>Opportunity</strong></td>
<td><strong>Costs</strong></td>
<td><strong>Opportunity</strong></td>
<td><strong>Costs</strong></td>
<td><strong>Opportunity</strong></td>
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</tr>
</tbody>
</table>

Source: Oliver Wyman

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A UK and Central Europe comparison indicates room for improvement in forecasting and willingness-to-pay optimization.

**Price curves Berlin – Amsterdam**  
Fridays, 17:30–20:00, January 2016, in €

**Price curve London – Manchester**  
Fridays around 18:30 in May 2015, in £

**Decreasing price curve** – competitors with little price differentiation

**Steadily increasing price curves** – high number of price points (~10)

Source: Oliver Wyman, R&R Analysis
Sophisticated forecasting has significant positive impact on revenues, operations and customers

Impact of proper forecasting

- Ensure price sensitive customers are not lost due to high prices early in the booking cycle (over-estimated demand)
- Condition price sensitive customers to book early, thereby improving customer segmentation/fencing options
- Minimize irritation and annoyance of customers from closing/reopening of booking classes
- Ongoing learning process helps to better tailor products and pricing structures

Forecasting with significant revenue impact – at airlines, we see observed topline improvements of 1–2% from improved forecasting methodologies

Source: Oliver Wyman, R&R Analysis
In the fight for price leadership, bus operators aggressively underprice each other

Paris – London, April 4th, 8:00–10:00 departure range¹

<table>
<thead>
<tr>
<th>PARIS</th>
<th>08:05</th>
<th>7:55 hrs. → LONDON 15:00</th>
<th>€ 27.50</th>
</tr>
</thead>
<tbody>
<tr>
<td>PARIS</td>
<td>08:30</td>
<td>8:15 hrs. → LONDON 15:45</td>
<td>€ 37.00</td>
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<tr>
<td>PARIS</td>
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<td>€ 41.26</td>
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<td>PARIS</td>
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<td>€ 28.00</td>
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<tr>
<td>PARIS</td>
<td>08:30</td>
<td>9:00 hrs. → LONDON 16:30</td>
<td>€ 25.47</td>
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<tr>
<td>PARIS</td>
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<td>8:00 hrs. → LONDON 16:00</td>
<td>€ 19.00</td>
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<tr>
<td>PARIS</td>
<td>09:45</td>
<td>9:15 hrs. → LONDON 18:00</td>
<td>€ 34.50</td>
</tr>
</tbody>
</table>

¹ Data collected on April 2nd, 2016, durations incl. 1 hr time difference between FR/UK

Cheapest competitor undercuts next cheapest competitor by ~25%, despite having a very competitive, fast service offering.
An analysis of key O&Ds indicates high, quickly achievable revenue potential by optimizing fares vs. competitors.

R&R Departure Hotlist for Berlin-Dresden
4.–19. April, Screenshot R&R Analysis

- Significant number of O&Ds where price leader outprices/undercuts competition (+/- 20% vs. own price)
- Value levers from better reflection of competitor prices
  - Reduction of discounts vs. competitors
  - Increase utilization with targeted, cheaper fares

Source: Oliver Wyman, R&R Analysis
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About Oliver Wyman

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- 150+ affiliated consultants
- Deep industry and relevant content knowledge in all logistics and aviation value chain segments from Partner through junior levels
- Team with strong entrepreneurial spirit as well as personalities clients can rely on

Source: Oliver Wyman
Oliver Wyman contracts in Transportation & Hospitality in Central Europe

- Transportation practice: Focus on Pricing & Revenue Management
- Founder of „R&R Analysis“ – first dedicated bus Yield Management platform

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- Focus on value creation projects for airlines
About R&R Analysis
R&R is an Oliver Wyman-originated start-up focussed on providing competitive intelligence for the rail and travel bus industry

Automatic identification of yield/utilization improvement potentials based on competitive prices

Near-time competitive data feed into YMS or as *.CSV download

Outlook on competitive prices by route and competitor for the next 20 days

Dynamic schedule analysis by route/competitor incl. schedule change alerts
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