



Queensland Taxi Industry Review Economic Model & Policy Considerations

Department of Transport & Main Roads

30 September, 2010

The materials contained in this document are intended to supplement a discussion between Department of Transport and Main Roads and L.E.K. Consulting on 30 September, 2010. These perspectives are confidential and will only be meaningful to those in attendance.

L.E.K. CONSULTING PTY LTD, LEVEL 35, FRESHWATER PLACE, 2 SOUTHBANK BOULEVARD, SOUTHBANK VIC 3006, AUSTRALIA
T: 61.3.9270.8300 F: 61.3.9270.8350 WWW.LEK.COM

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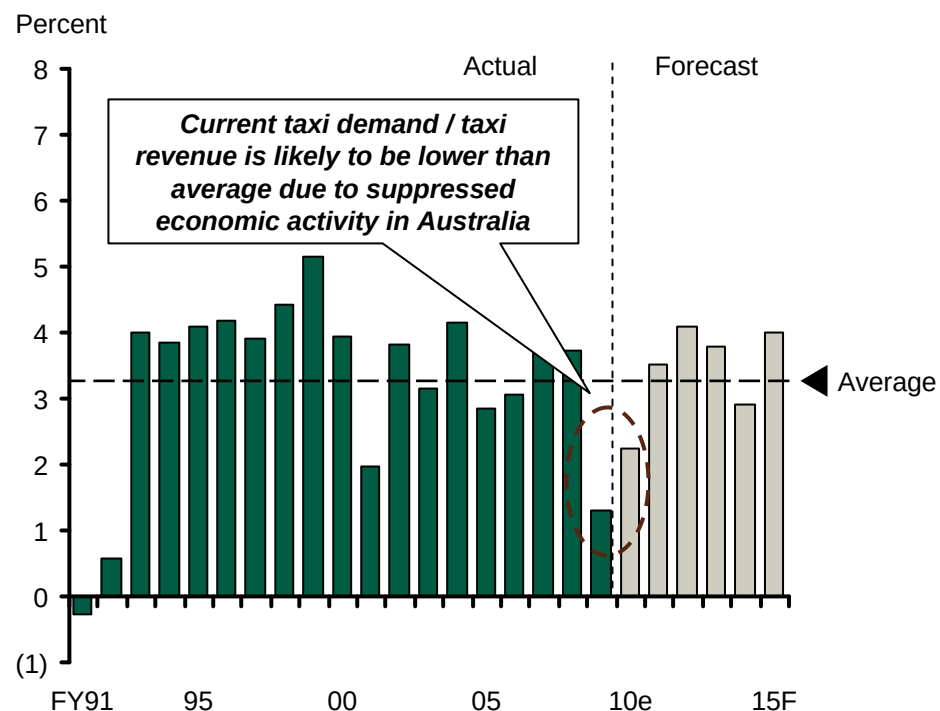
L.E.K. has analysed the economics of individual conventional taxis in Brisbane

- L.E.K. was engaged by DTMR to develop an economic model of the taxi industry with a focus on conventional taxis
 - the analysis is based on recent per shift earning reports and operating costs collected from five Brisbane operators covering ~700 drivers
 - in addition, a number of interviews with key industry stakeholders have been conducted to supplement the findings
- The model focuses on the earning potential and associated costs for a single conventional taxi operating within the Brisbane network
 - it captures the associated economics for each party along the lines of revenue, costs, and return
- This analysis has been completed over an eight week period

Note: This report is based on a point in time in the economic cycle and based on reported revenues and costs provided by a sample of Brisbane's taxi operators. Whilst it provides insights into the economics of the taxi industry, the economics of individual operators can differ substantially from the general picture provided in this document

The analysis is based on data collected in a relatively weak economic climate

Australian Real GDP growth (FY1991 – 15F)



- The demand for taxi services is highly correlated with both domestic and global economic conditions**
- This presentation is based on data representing the current economic conditions; thus industry economics could improve in the future

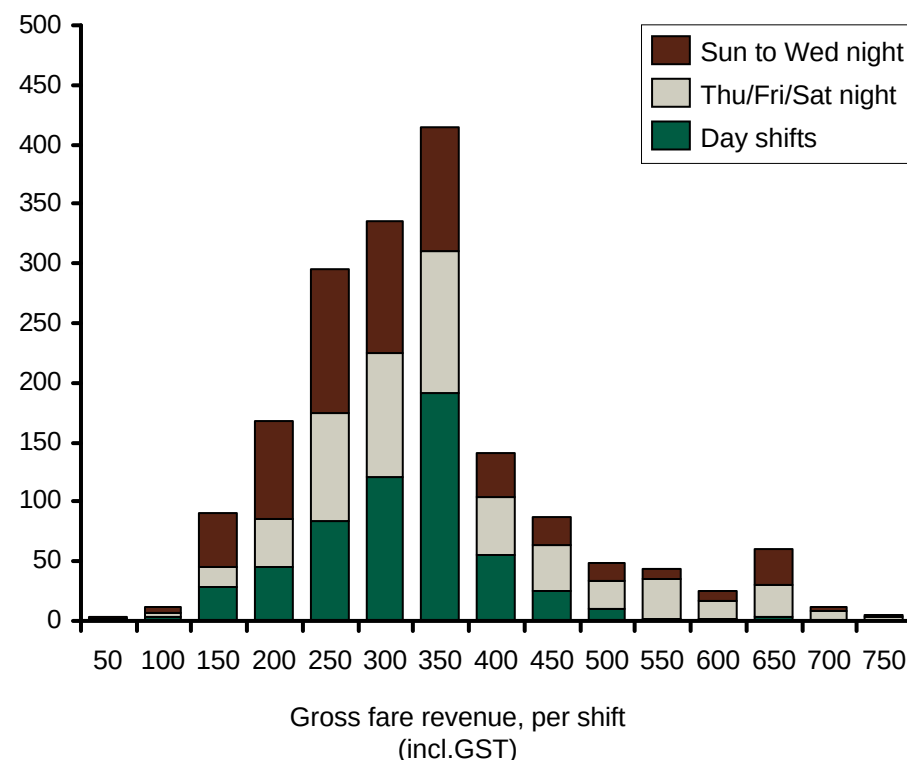
Note: * Approximately 65% of domestic tourism trips are same day trips and 35% of trips are overnight; ** total taxi jobs are highly correlated with OECD GDP (R-Sq = 0.86) and international tourism trips to Australia (R-Sq = 0.98); taxi jobs are also correlated with the growth in domestic GDP (R-Sq = 0.99) and the level of domestic tourism (R-Sq = 0.95)

Source: ABS; BIS Shrapnel; ATIA; L.E.K. analysis

Taxi revenue varies widely per shift, averaging \$311

Per shift gross revenue, distribution by time of shift (2009-10)

Number of shifts



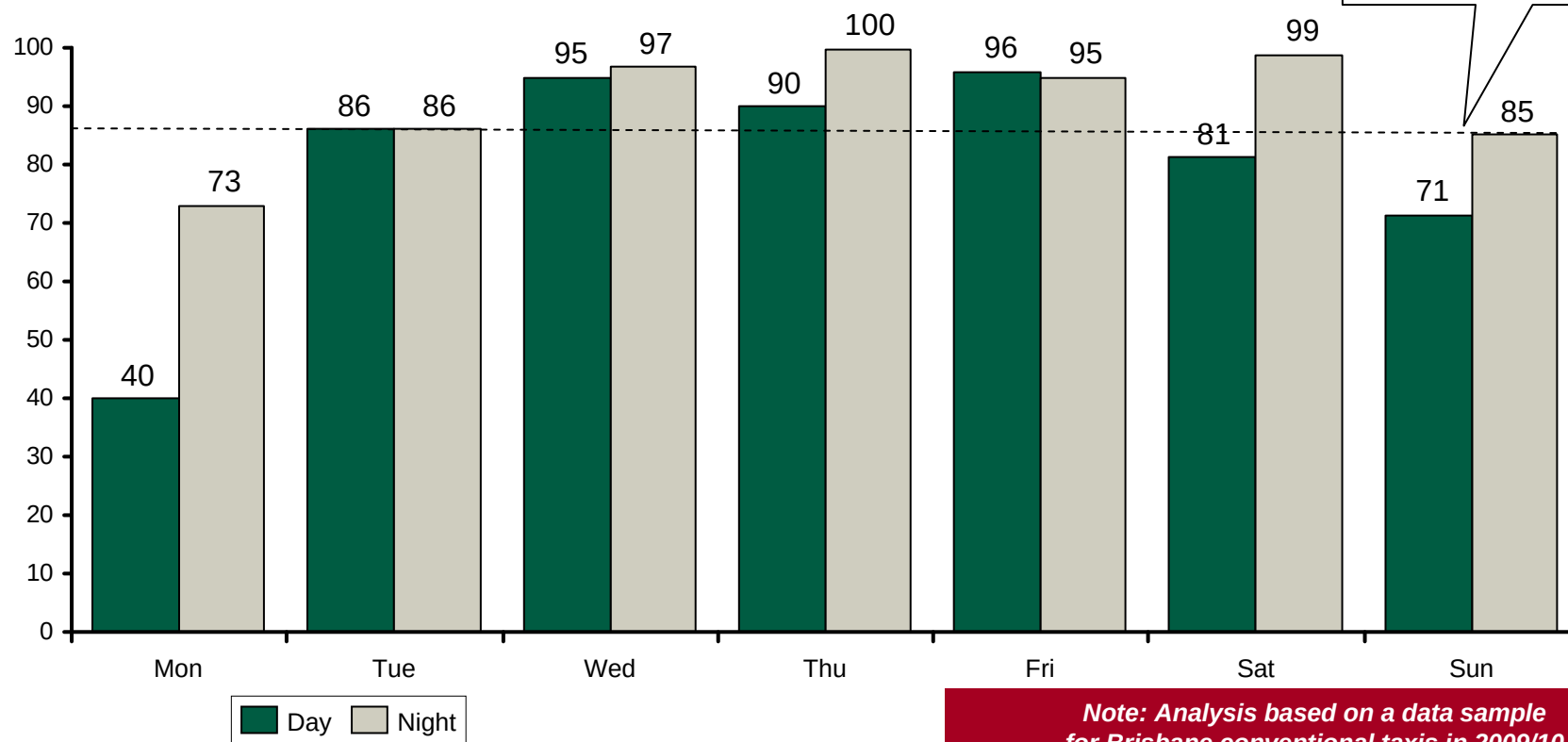
- A conventional taxi in Brisbane is estimated to earn an average of ~\$311 per shift
 - the \$311 figure accounts for total gross revenue plus GST, but excludes the levy on fares paid by credit card
- However, in any given shift, multiple factors impact how much revenue each taxi generates
 - revenue can be dependent on the time of week as Friday or Saturday nights will generate more revenue than Monday days
 - driver performance also has a big impact as more experienced drivers might have a better capability to generate revenue during a shift
- While the variability will decrease when looking at a longer period, different taxis will still generate a wide range of annual gross revenue earnings

Note: Analysis based on a data sample for Brisbane conventional taxis in 2009/10

Based on available shift data, an average a conventional taxi is in service for 85% of total potential shifts, or 11.9 out of the 14 weekly shifts

**Percent of total potential shifts worked,
by time of shift
(2009-10)**

Percent

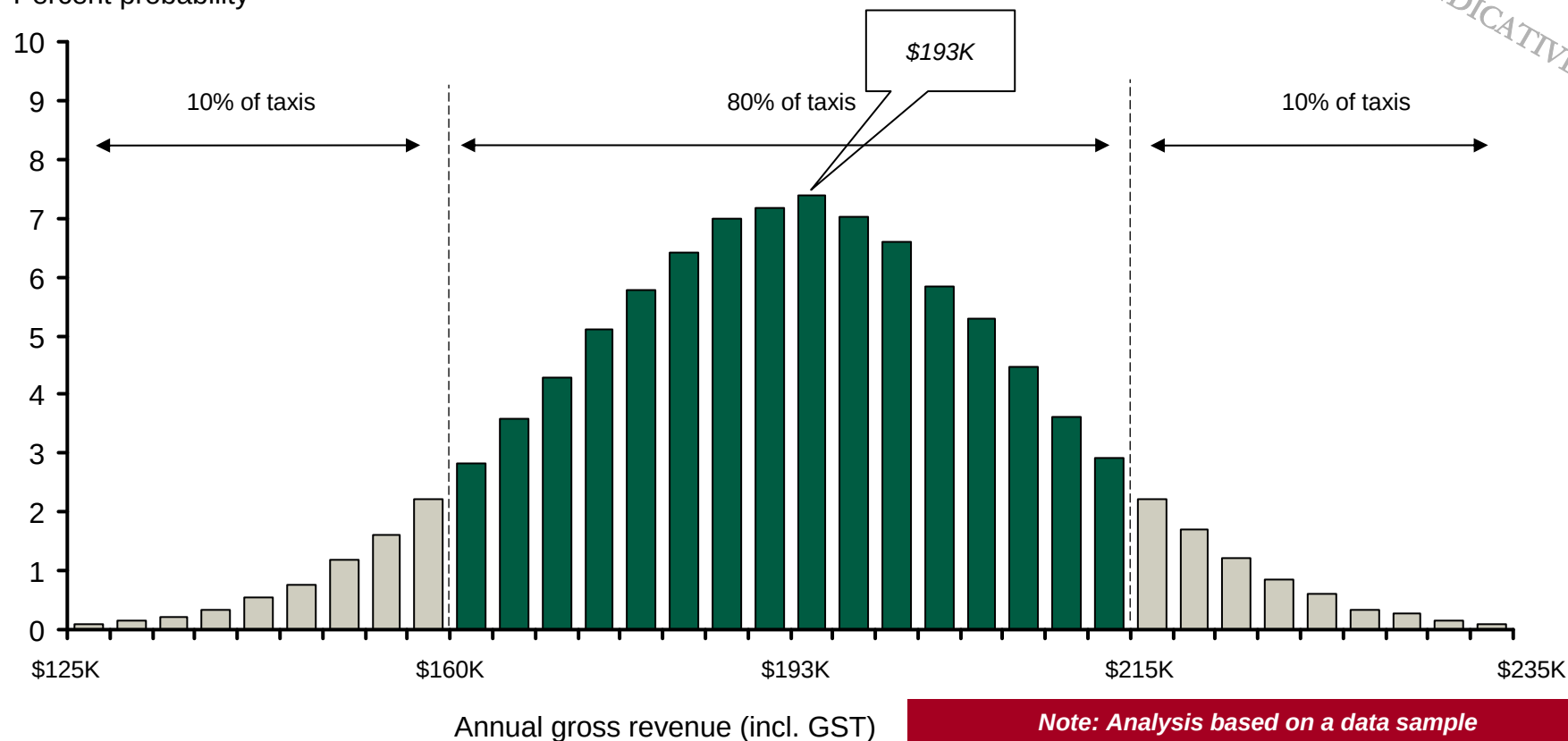


**Note: Analysis based on a data sample
for Brisbane conventional taxis in 2009/10**

Based on this data, a conventional “average taxi” generates \$193K gross revenue per annum

Distribution of annual gross revenue per taxi (incl. GST)

Percent probability



Note: * \$311 includes GST, but does not include a levy on credit card payments

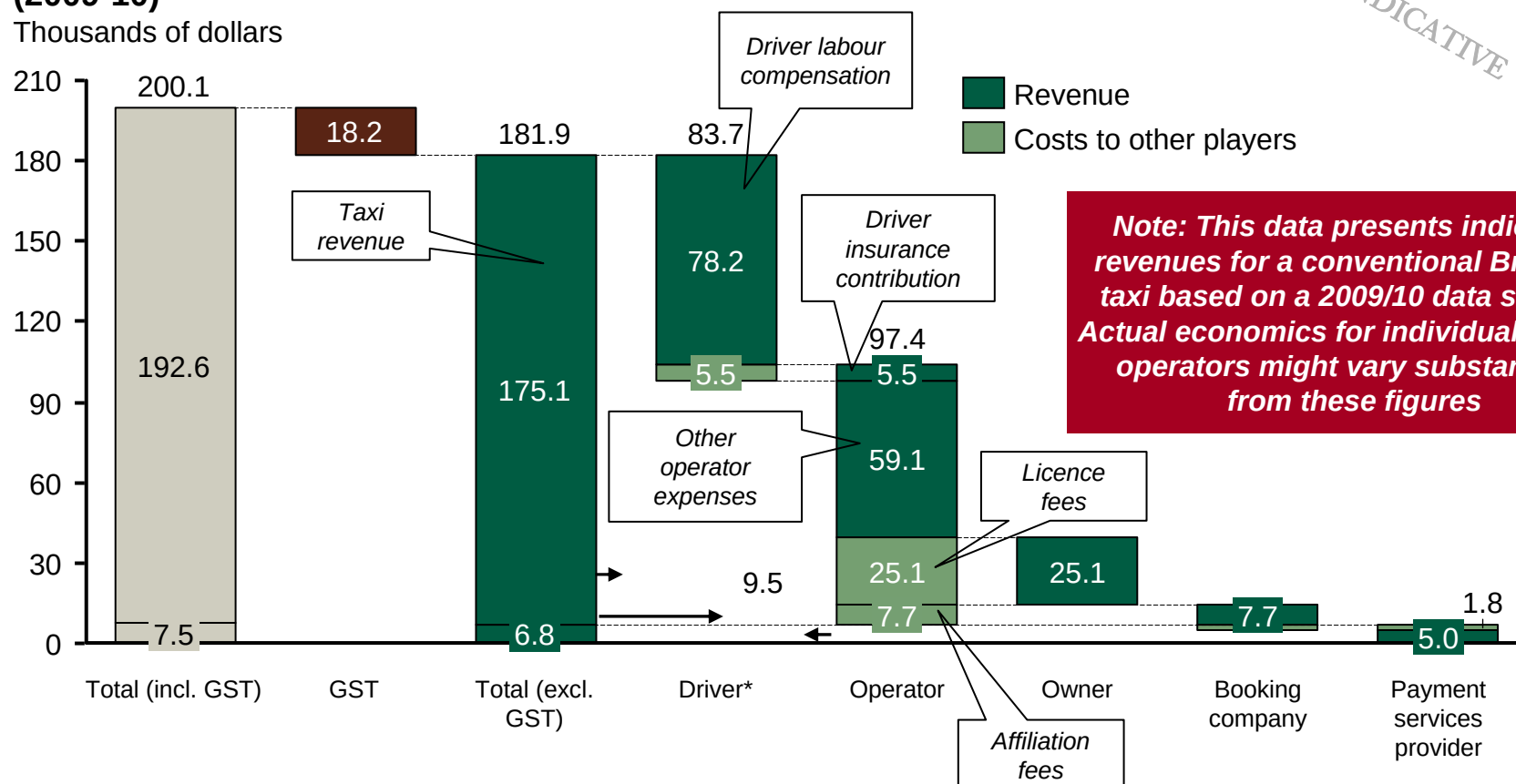
Source: DTMR, Brisbane operator data; L.E.K interviews and analysis

DTMR. Taxi Industry Economic Model

Five parties are involved in the delivery of taxi services

Annual tax revenue (excl. GST), allocated across players (2009-10)

Thousands of dollars

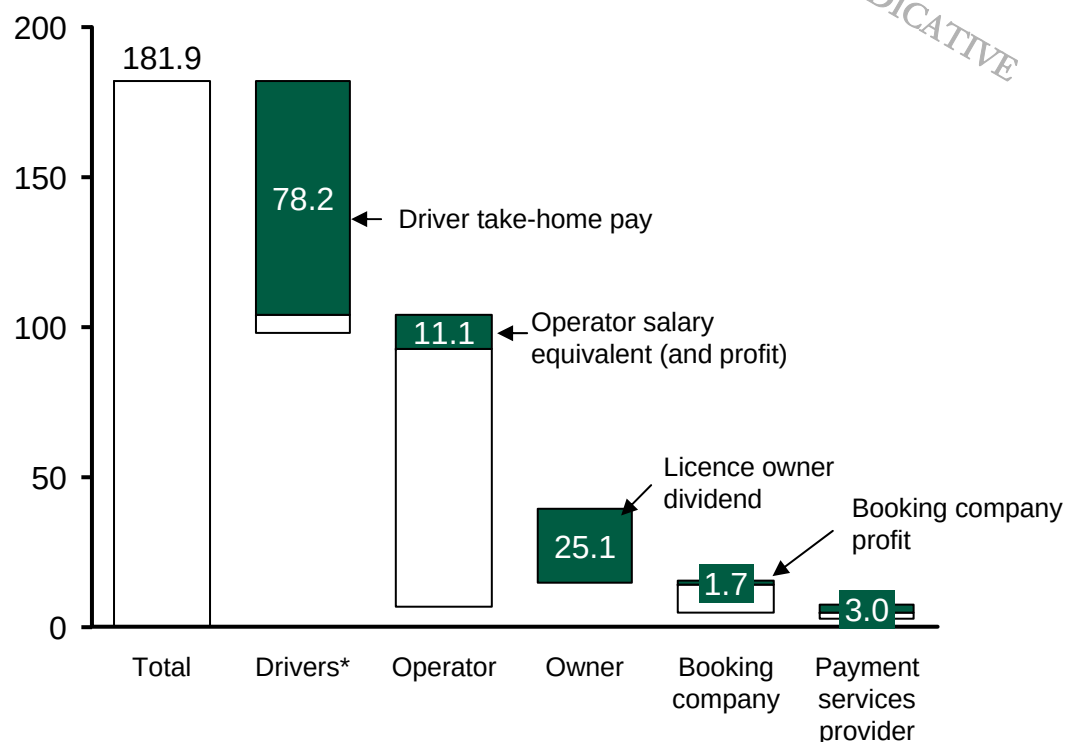


Note: * Figure represents the aggregate of all the individual drivers of the taxi
 Source: DTMR, Brisbane operator data; Annual reports; L.E.K interviews and analysis
 DTMR. Taxi Industry Economic Model

The returns for each industry participant include a compensation for labour and/or profit

Annual return and costs for conventional taxis by player (excl. GST) (2009-10)

Thousands of dollars



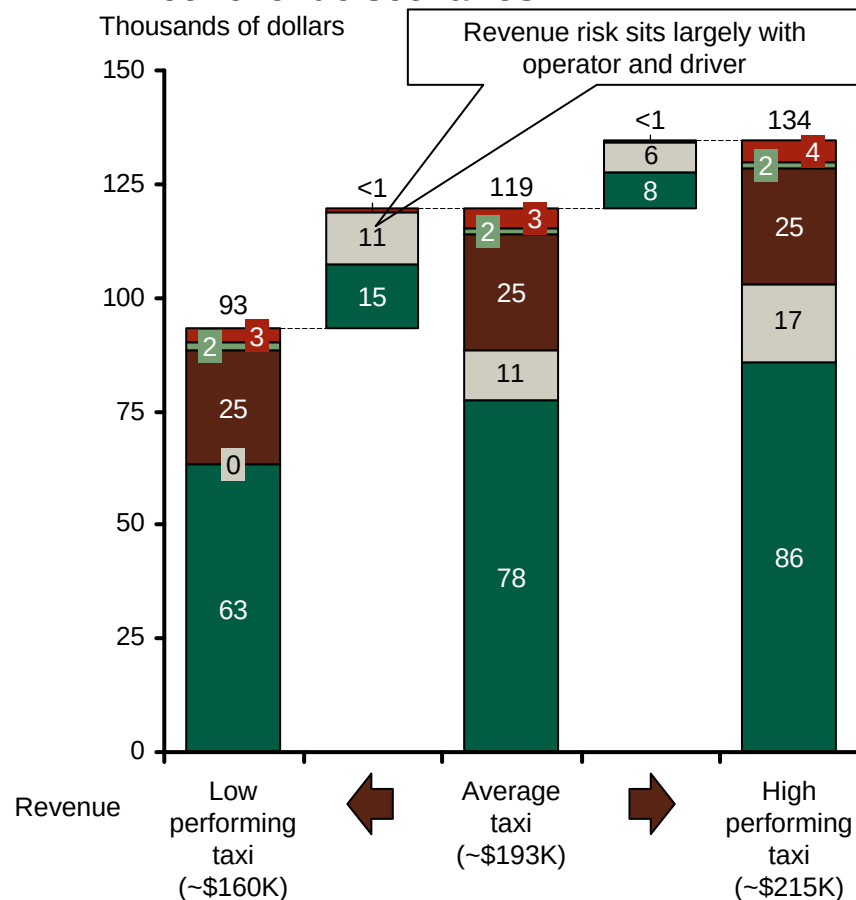
- The take-home pay for drivers represents the money earned by the driver as compensation for the work
- Operator return is considered to include both the operator's salary equivalent and profit
 - the cost of the operator's labour is not tracked as an expense
- The licence owner dividend represents an approx. 6% return on the value of a taxi licence
- The returns for both booking companies and payment services provider are pre-tax profits based on their existing cost structure

Note: This data presents indicative returns for a conventional Brisbane taxi based on a 2009/10 data sample. Actual economics for individual taxis or operators might vary substantially from these figures

Each party has a varying level of exposure to changes in revenue. Operators are most exposed

Annual return for conventional taxi Three revenue scenarios

Thousands of dollars



	Revenue sources	Revenue exposure
Payment Services Provider	EFTPOS* fare surcharge. Varies with fare	Medium
Booking company	- Fixed affiliation fees - EFTPOS* fare surcharge Varies with fare	Low
Owner	Fixed licence lease fees	Low
Operator	- Variable fare revenue - Fixed driver insurance contribution - Largely fixed costs	High
Driver	Variable fare revenue	Medium

Note: This data presents indicative returns for a conventional Brisbane taxi based on a 2009/10 data sample. Actual economics for individual taxis or operators might vary substantially from these figures

Note: * EFTPOS fare surcharge is from the payment services provider levy on fares paid by credit card

Source: DTMR, Brisbane operator data; Annual reports, L.E.K interviews and analysis

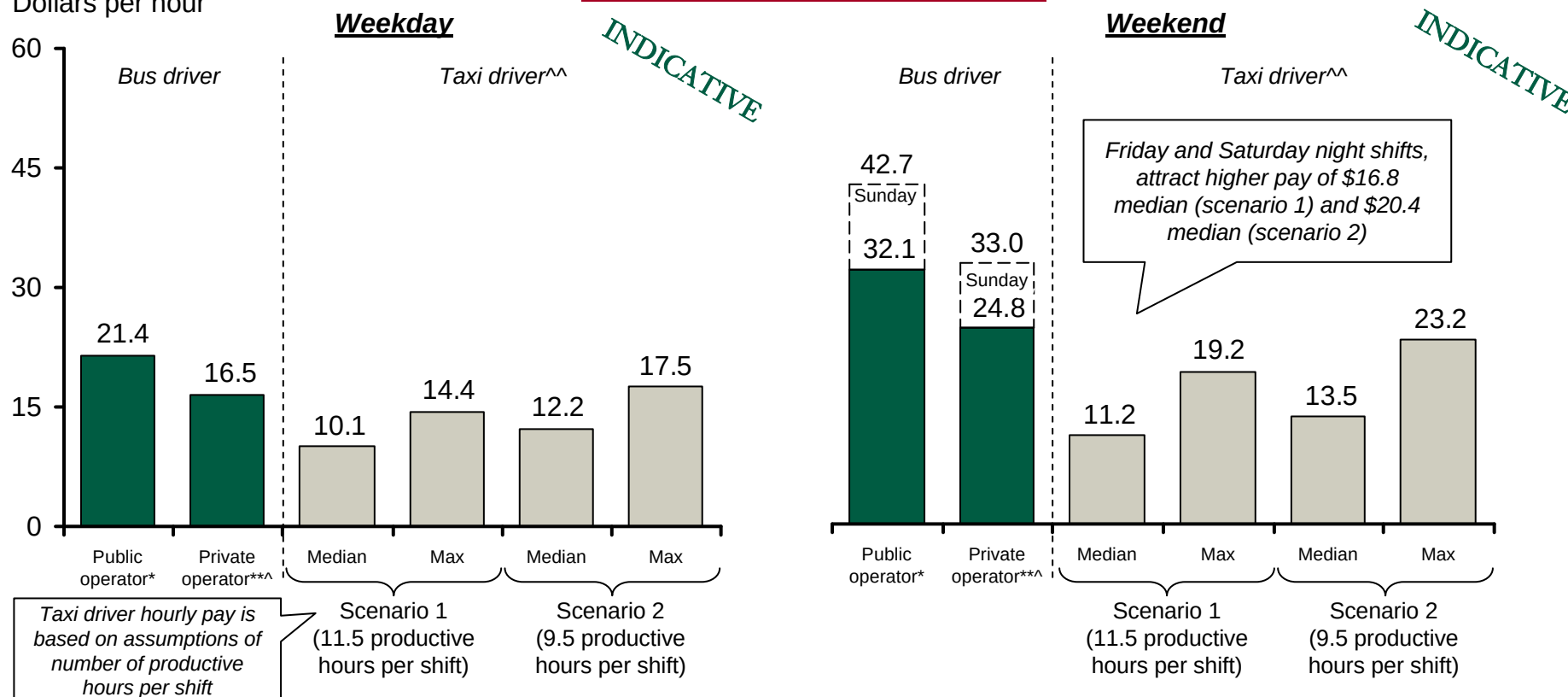
DTMR. Taxi Industry Economic Model

A comparison of bus driver hourly wages to taxi driver hourly pay highlights a substantial difference in compensation

Driver pay benchmarking (2009-10)

Dollars per hour

Note: driver pay calculations based on data sample for Brisbane conventional taxis in 2009/10



Note: *BT hourly rate based on pay point 0402, Brisbane City Council Enterprise Bargaining Agreement (EBA6) 2005, Schedule 10 Passenger Services Employees (Bus Operators, BO). Rate as from 01 July 2009. Excludes special night allowance; **Grade 4,5,6 average for 2009; ^Assumes 150-200% penalty rates for Saturday and Sunday shifts respectively; ^^Sample of operator data for May 2010. Drivers included in sample must have driven a minimum of 8 shifts over the month. Excludes GST

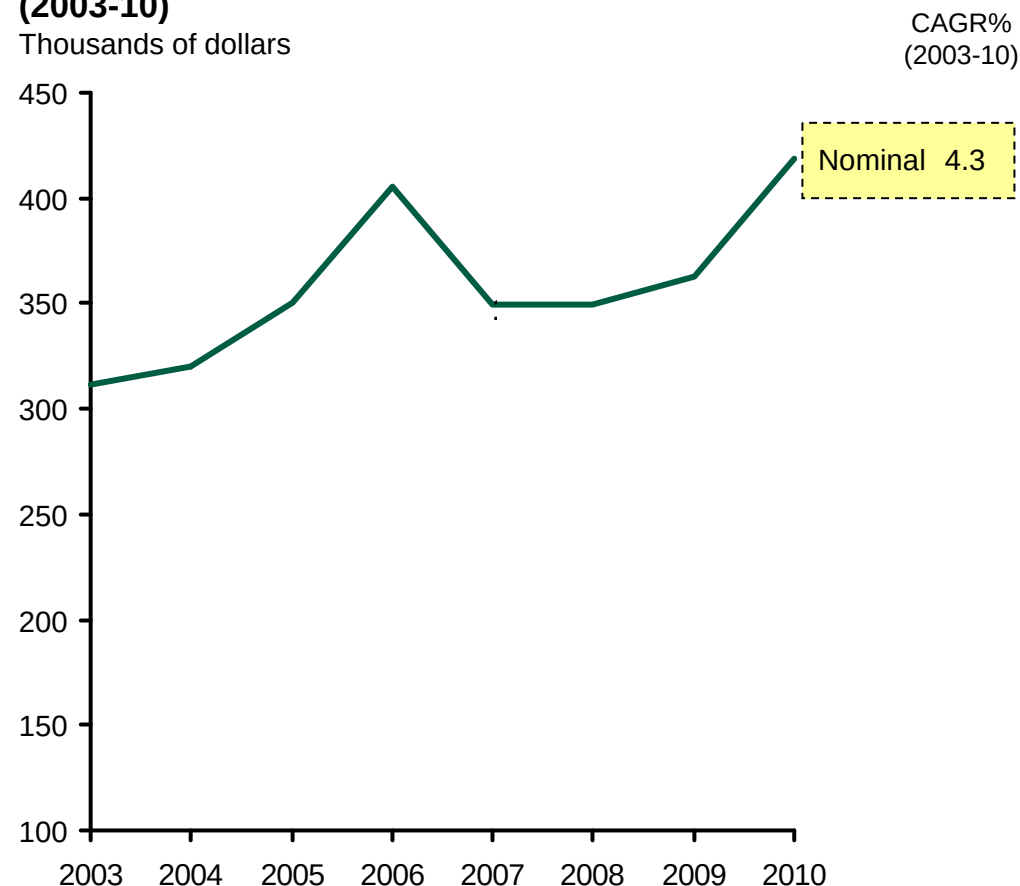
Source: Brisbane City Council EBA 6 Ext II; Wageline; Operator data; Fair Works Australia; L.E.K. interviews and analysis

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Licence owners are compensated through licence fees (approx 6% return) and capital appreciation which amounted to an average of 4.3% p.a. over the last seven years

**Market value of Brisbane taxi licences
(2003-10)**

Thousands of dollars



Lease Fee

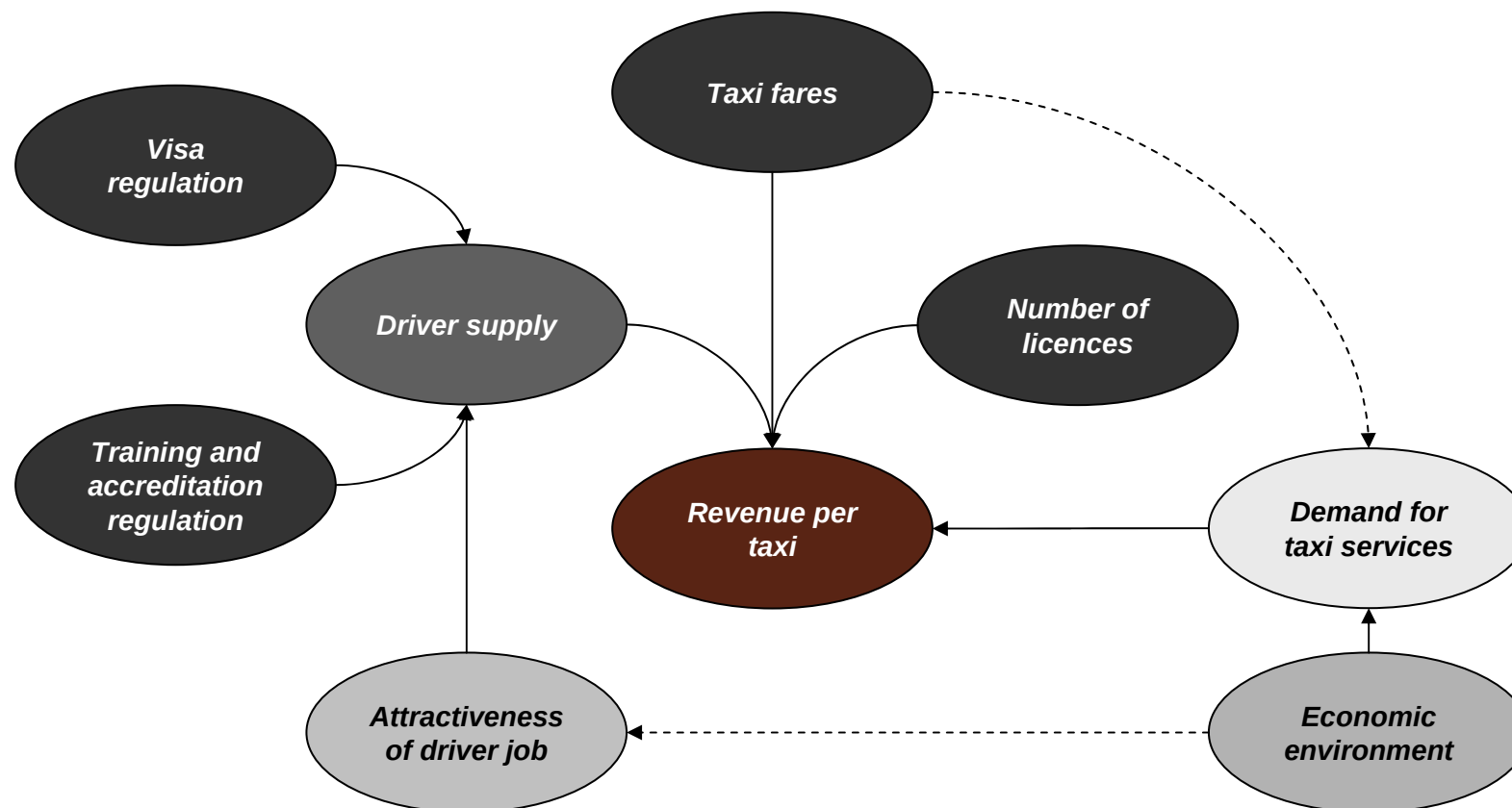
Annual fee: ~\$25.1k

Licence value: ~\$420k



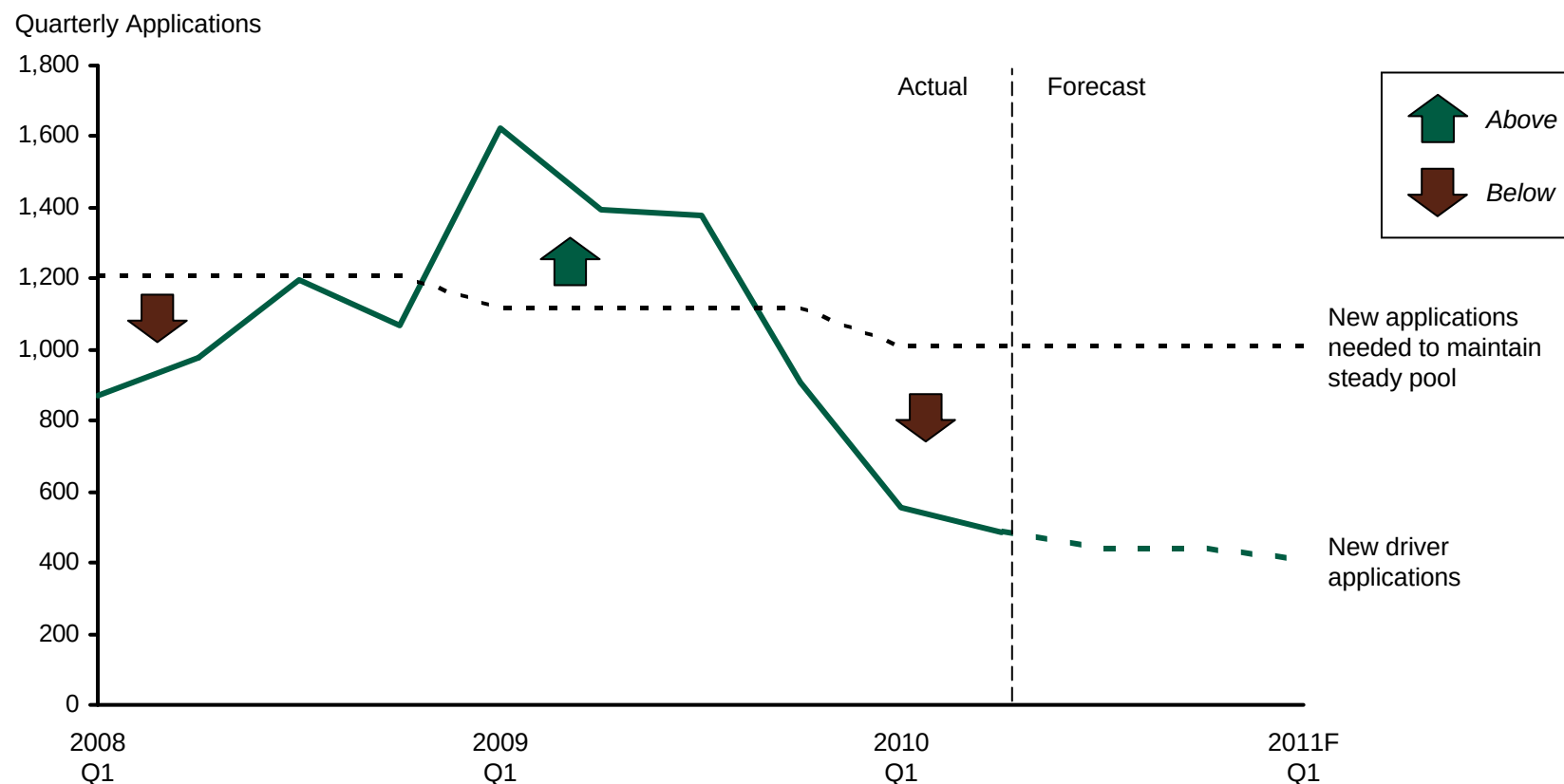
Licence fee amounts to
~6% dividend

A range of factors determine the revenue per taxi. Many of these factors can be influenced by Government, in particular fares, licence numbers and driver supply



New driver applications have fallen below the level required to maintain the current number of drivers

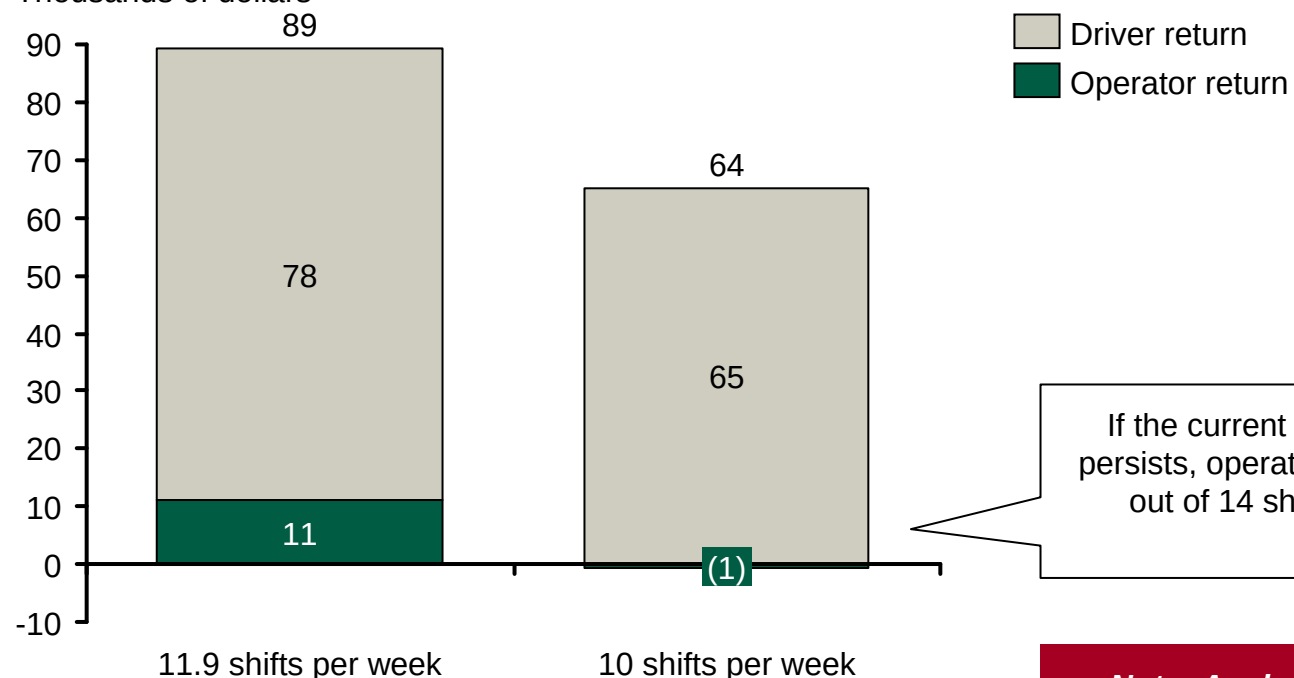
New driver applications vs. applications required to maintain sustainable level of supply (2008 - 11F)



If a decline in driver supply drove down shift coverage from 11.9 to 10.0 shifts per week, operators could make a loss

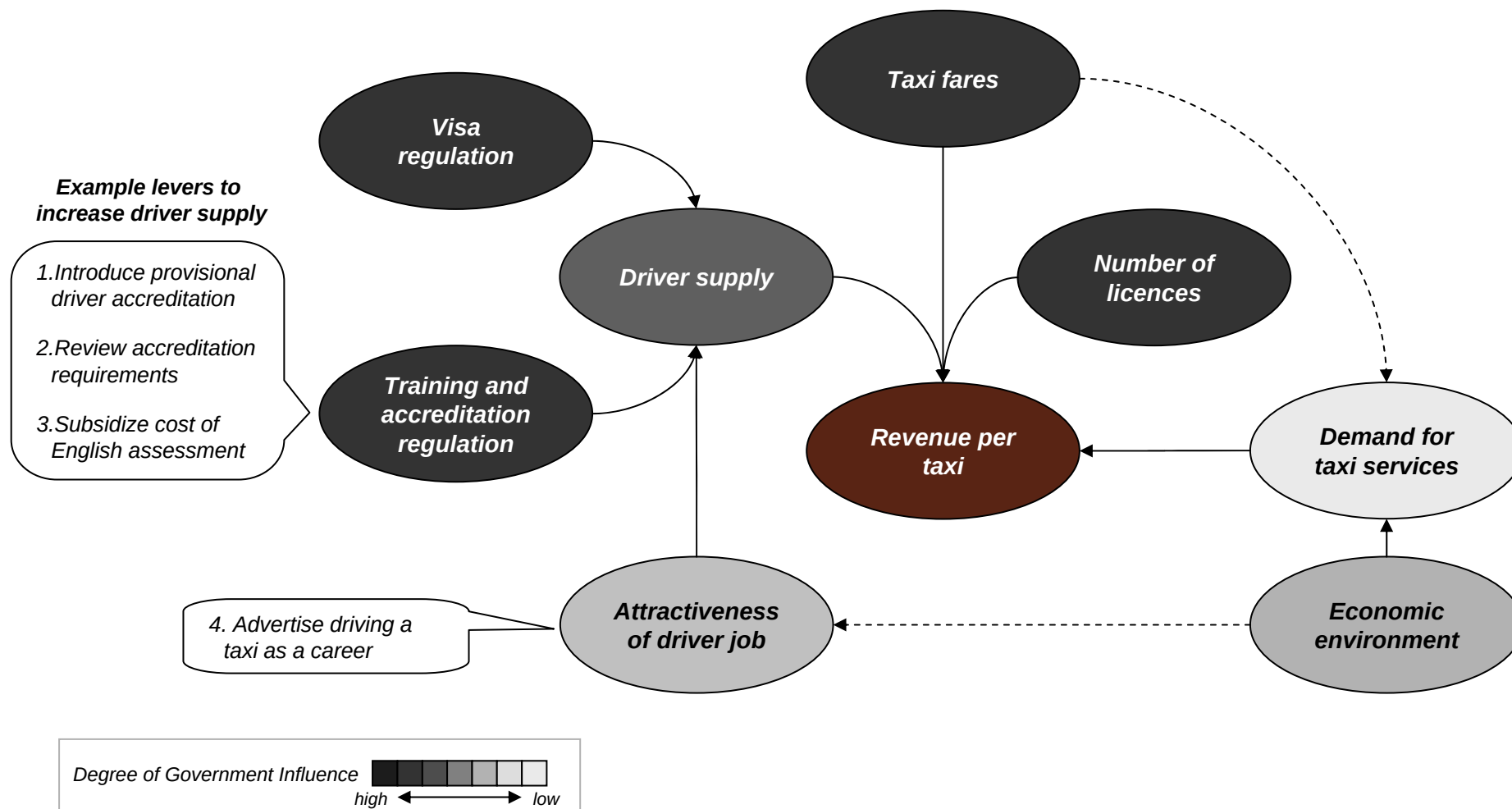
Annual taxi return, by number of shifts per week (2010)

Thousands of dollars



Note: Analysis based on sample data for Brisbane conventional taxis in 2009/10. Actual economics for individual taxis or operators might vary substantially from these figures

A range of factors determine the revenue per taxi. Many of these factors can be influenced by the Government



Summary

- A typical conventional taxi attracts gross revenue of \$193K with an additional \$7K of payment services provider fees for non-cash payment
- Net of third party costs, annual indicative average per taxi
 - driver pays amount to \$78K
 - operator salary equivalent and profit amounts to \$11K
 - licence income is \$25K
 - profits for the booking company and payment services provider are \$1.7K and \$3K respectively
- For individual taxis, revenues can differ with an estimated 80% generating between \$160K and \$213K (incl. GST)
- Operators and to a lesser extent drivers are exposed to variation in revenue
- Factors driving the revenue per taxi include driver supply, which is currently not sustainable as new driver applications are substantially below churn rates

***Note: Analysis based on sample data for Brisbane conventional taxis in 2009/10.
Actual economics for individual taxis or operators might vary substantially from these figures***