

Summary:

Inventive pricing of urban public transport

Background

Norwegian local public transport fares are to a large degree determined by regional authorities. The various types of concessionary fares and season ticket rebates are mainly justified from a social point of view, such as mobility for all. Given the fact that urban public transport subsidies have been cut dramatically over the past decades, the operators have become more dependent on passenger receipts to finance their operations. The question then is: how can urban public transport increase ticket revenues and at the same time maintain passenger numbers and market shares? Fare increases that we have seen so far have not managed to address this issue adequately.

Inventive pricing

The report explains different pricing strategies to increase traffic revenues. Inventive pricing is to see the operator's cost structure and passengers' willingness to pay and in combination in order to make services more attractive for most passengers and at the same time increase operating revenues.

An important strategy to improve pricing efficiency is to differentiate fares more actively. Fares should ideally reflect the variations in marginal costs at different times of the day. And, since operators face strict budget constraints, fares should be related to different groups of passengers' price elasticities. The Ramsey pricing rule is the net social benefit maximising approach to the problem, and implies that the less elastic demand segments face fare levels that are marked-up over marginal costs by more than the more elastic demand segments.

An important finding is that season tickets in their current form should be phased out. With season tickets extra trips are free to the passengers whilst in fact it can be costly, especially during the rush hours, for the operator to produce that extra trip.

The report gives examples -mainly from abroad- of different types of public transport pricing that adhere to the pricing principles described above.

More inventive pricing will improve efficiency of cost recovery, and will have less adverse effects on market shares and patronage.