

FAST FERRY

Type: Interviewer-led | Difficulty: Low | Function: Digital | Sector: Leisure & Tourism | Stretch area: Judgement and insights | Author: ex-McKinsey

Our client is FastFerry, a maritime transport company that operates ferry routes between mainland Australia and destinations in continental Asia. They carry both passengers and their vehicles, mainly cars and scooters, serving about 1.5 million customers per year. The ships offer a range of cabins from low-cost shared bunks to ensuite cabins, along with restaurants, bars, and shops on board.

Over the past three years, FastFerry's revenue growth has lagged behind the two other companies competing on similar routes. In a market that is concentrated, with a fixed pool of potential customers, the company wants to address this slippage quickly.

Customer expectations have also shifted, with growing demand for digitally enabled, end-to-end services.

The CFO of FastFerry has reached out to your team to help them diagnose their revenue problem and suggest areas for investment to turn the situation around.

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FAST FERRY – QUESTION 1

Dimension: Structuring

How would you analyze FastFerry's revenue issues?

INTERVIEWER GUIDANCE

The candidate should prioritize looking at FastFerry's services offered and how the pricing of these compares to the rest of the market, given the market's structure with a limited number of players all vying for a set number of passengers.

PROPOSED SOLUTION

1. How has pricing changed for FastFerry across the services they provide?
 - **Baseline pricing per service.**
 - **Price changes for their core services**, split by service type.
 - Prices for any **additional and value-added services**, split by service type.
2. How have the volume of services sold changed?
 - How have **passenger volumes** for FastFerry changed? Are there macro trends that may have affected passenger numbers in the overall market.
 - How has passenger likelihood of purchasing each service changed?
 - **Passenger demographics** may have changed.
 - **Passenger preferences** may have changed (e.g., fewer sales of onboard meals)

FAST FERRY – QUESTION 2

Dimension: Judgement and insights

Share Exhibit 1. We've received some data from the client which benchmarks FastFerry's performance on each of its revenue streams against its two main competitors.

What can you learn from these competitors that could help FastFerry improve its performance?

INTERVIEWER GUIDANCE

- Candidates should be able to arrive at the fact that there are “other” revenue categories outside of those shown on the chart. If not, remind them that this only compares services that FastFerry offers
- Exceptional candidates should be able to give a back of the envelope calculation of how much revenue each competitor is getting from sources not on the chart.

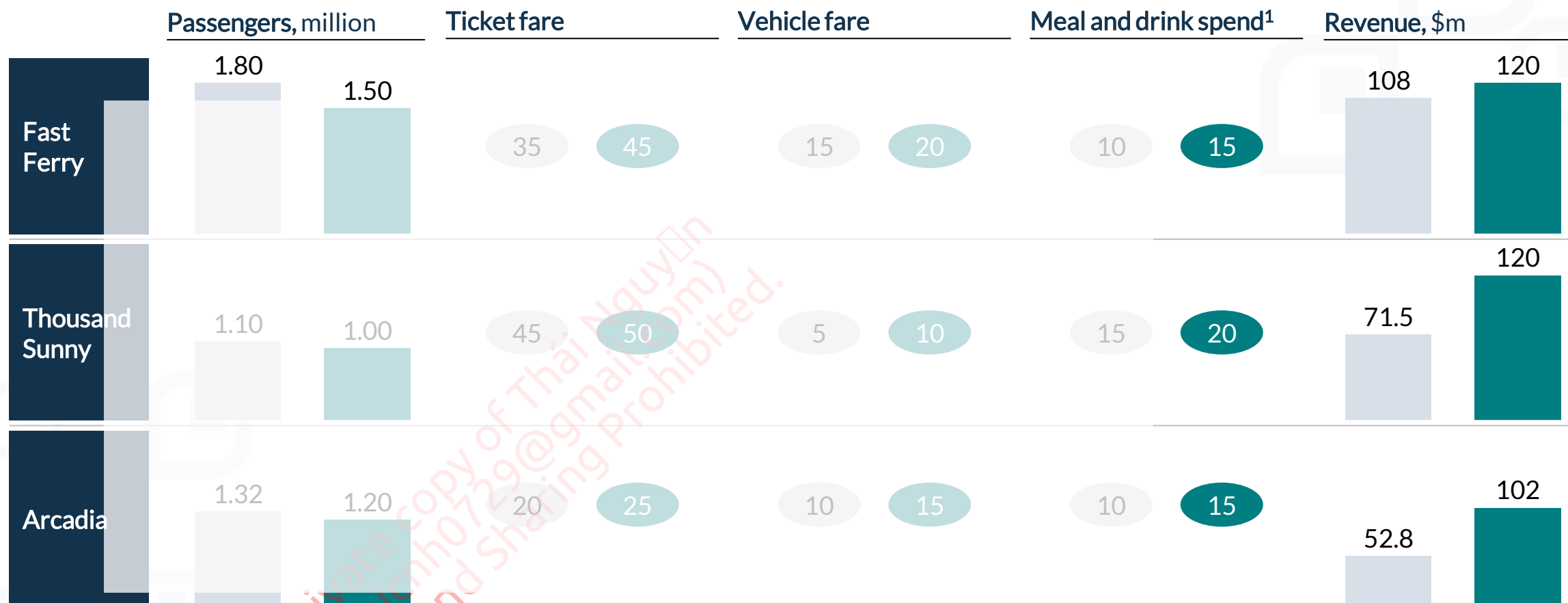
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FAST FERRY – EXHIBIT 1

MARKET PRICE COMPARISON

Year N-3 Present Year

Average spend per service, per passenger, \$



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FAST FERRY – QUESTION 2

Dimension: Judgement and insights

PROPOSED SOLUTION

- The entire industry seems to have shrunk over this period when looking at the total number of passengers.
- FastFerry is underperforming compared with competitors:
 - While passenger volumes have declined during this period, **all players have seen an increase in their revenues; FastFerry's revenue increase is noticeably lower.**
 - **FastFerry saw a bigger decrease in passenger volumes than their competitors**, with a decrease of 20%, while Thousand Sunny and Arcadia only saw a 10% decrease. This could be due to FastFerry having higher prices or poor services.
- Even though FastFerry had the biggest price increases of the 3 players benchmarked, their revenue lead has decreased:
 - FastFerry has the **highest average price when looking at one ticket and vehicle fare**, and had the biggest price increase over this period (even though Thousand Sunny has a marginally higher ticket price in the present year).
 - This may be contributing to their bigger decrease in passenger volumes and may not be a good pricing strategy from a competitive standpoint.
- Both competitors are earning 2x the average Meal and Drink spend per customer, indicating room for improvement in this area.
- Both competitors are generating revenue from other sources:
 - For Thousand Sunny - 1m customers all spending an average of (\$50 + \$10 + \$20) per ticket would only mean 80m in revenue, meaning a further \$40m (or \$40 per passenger) is missing from the analysis.
 - Similarly, ~\$35m in revenue (or \$30 per passenger) is unaccounted for in the Arcadia revenue.
- As next steps, we should investigate the additional services our competitors are providing, and the reasons for our lower food and drinks spend.

FAST FERRY – QUESTION 3

Dimension: Creativity

FastFerry currently has an app available for customers to order food and drink onboard, whereas Thousand Sunny engages customers through an app before, during and after trips.

What are some ways that FastFerry could generate additional revenue through a mobile app throughout the customer journey?

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FAST FERRY – QUESTION 3

Dimension: Creativity

PROPOSED SOLUTION

- Purchasing
 - **Push notifications** for promotions, personal offers and incomplete purchases
 - Integrating **BNPL (buy now pay later)** and other financing solutions to check out
 - **One-click purchasing** of bundles or services to increase uptake
 - **Multi-ride passes** options to encourage additional usage
 - **Additional services** such as car rental and advertising for activities at destinations
- Pre-boarding
 - Using **trip reminders** for potential further advertising
 - **Selling optional services:** parking, early boarding, preferred seating, cabin upgrades, etc.
- On-ferry
 - **Live notifications** for onboard events
 - **Scheduling updates** to keep people satisfied/informed
 - **Happy Hour discounts** or similar real-time offers
 - **In-app entertainment** package e.g. movies
 - **Premium office areas and faster** internet access
 - **Digital loyalty and discount cards** for onboard stores
 - **Augmented Reality entertainment** onboard
- Disembarking
 - Live information and further **travel offers** from preferred partners
 - **Limited-time discount** for pre-booking next trip
 - **After-service activities** and partnerships
- Online feedback collection
 - **Ongoing loyalty schemes**
 - **Selling customer data** to third-party partners in arrival destinations

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FAST FERRY – QUESTION 4

Dimension: Math

Market research shows that FastFerry could sell the data associated to customer profiles to partners in the destination city for the sum of:

- 3% of a passenger's average ticket fare
- 7% of a passenger's average vehicle fare
- 5% of a passenger's average meal and drink spend

Given the competitive landscape, the CFO believes FastFerry needs to reduce ticket prices by 5 dollars, which would increase their share of passengers by 100,000 per annum.

What would the revenue impact be on FastFerry from selling customer data?

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FAST FERRY – QUESTION 4

Dimension: Math

PROPOSED SOLUTION

- We can see the cost per passenger by service in Exhibit 1:
 - \$45 on the ticket fee, reducing to \$40 following the proposed price drop
 - \$20 on vehicle fare and \$15 on food and drinks
- The **additional average fee that can be earned from selling data is \$3.35.**
 - Passenger ticket data: $\$40 * 0.03 = \1.20
 - Vehicle data: $\$20 * 0.07 = \1.40
 - Food and drink data: $\$15 * 0.05 = \0.75
- **Total revenue** = number of passengers * (service revenue + data sales revenue)
= $1,600,000 * (\$40 + \$20 + \$15 + \$3.35)$
= **~\$125m, an increase of ~\$5m**
- To maximize this opportunity, FastFerry could explore data items that can be sold to specific businesses. For instance, they could offer
 - Vehicle make and model information to travel insurance players in the destination city
 - Data regarding travel locations, group size, and duration could be of interest to local accommodations
 - Food and drink preference data to local restaurants, allowing them to better cater to the preferences of their target customers

FAST FERRY – QUESTION 5

Dimension: Synthesis

What would you recommend to the client?

PROPOSED SOLUTION

We were asked to assess the reasons for **FastFerry's slowing revenue growth** and recommend solutions.

FastFerry's revenue growth is slowing because it has experienced the sharpest drop in passenger numbers and it is not significantly monetizing its customer base through non-fare purchases:

- FastFerry is still primarily generating revenues through **passenger and vehicle ticket sales and has increased prices, which may have resulted in decreased market share**
- **Competitors are generating \$30-\$40 in revenue per passenger from services that FastFerry does not offer**
- FastFerry does not appear to have kept up on using digital channels

FastFerry can close this gap through a **multi-pronged strategy**, including:

- **Improving digital channels:** Building out the functionality of the mobile app may improve customer retention and spend, while laying the foundation for further expansion and opportunity
- **Data sales:** FastFerry can quickly generate ~\$3/passenger through selling customer data to partners in the destination cities.

As next steps, we should do a deep-dive to better understand Thousand Sunny's additional services that they offer to passengers and identify additional areas for growth.