

Velib case study

Business



FINANCE Velib is privately operated by SOMUPI, a joint venture owned by JC Decaux, an outdoor advertising and street-furniture multinational, and Publicis, a large advertising and communications corporation.

Most profits are derived from Billboard advertising. SOMUPI is responsible for covering the entire cost of implementing and managing Velib, as well as any additional fees. In return, it receives exclusive rights to provide and operate the bus shelters, public announcement boards and other street furniture, which then serve as the physical support for 1, 628 lucrative advertising boards. The revenue directly generated by Velib subscription and rental fees, expected to be in excess of 30 million Euros a year, goes to the city. If SOMUPI meets all contractual standards of good operation of the system, it is entitled to revenue sharing of 12 percent of Velib revenues plus payment by the city of an amount equal to 12 percent of advertisement sales, i. .

about 10 million Euros. Since 1976, SOMUPI had held the street furniture and billboards contract with the city. The contract was not supposed to expire until 2010. However, in January 2006, Mayor Delanoë decided to break it and tender a new one designed to emulate the success of Velo'v, Lyon's bike share program, also run by JC Decaux. Delanoë wanted at least 3, 000 bikes by the summer of 2007, and 6, 000 by the end of the year. He also demanded a 20 percent reduction in the 2, 000 existing billboards.

The top two bidding companies were SOMUPI and Group for Paris, a joint venture led by Clear Channel, the Texas based global media conglomerate and number one outdoor advertising company worldwide, and including major French companies. Initially, Group for Paris made the winning bid in

November 2006 with a proposal for 14, 000 bikes; SOMUPI's proposal was for just 7, 500. However, SOMUPI attacked the bidding process on technicalities and obtained its cancellation at the Paris Administrative Court. In February 2007, SOMUPI won the new bid by tripling its initial offer to 20, 600 bikes and pledging to implement the first phase by summer 2007. Group for Paris's bid remained 14, 000 bikes, and offered a slower timetable. (Source: - Sustainable Transport magazine, Fall 2007: Number 19) No precise numbers regarding Velib implementation and operational costs have been published, but various public statements by Decaux officials suggest that capital investment and bike procurement amount to about 90 million Euros.

Maintenance costs in Lyon's similar bike-share program are reportedly about 1, 000 Euros per bike per year. On this basis, the total investment and operational cost of Velib over the 10-year contract is estimated to be about 300 million Euros. Decaux separately said that he expected the 1, 628 billboards to earn 60 million Euros per year for SOMUPI — or about 600 million Euros total. The consortium also has to pay for the billboards, street furniture, and up to 32 million in space rental fees to the city. The city of Paris has agreed to pay JCDecaux 400 Euros for every bike stolen in excess of four percent of the total fleet each year. Given the enormous popularity of Velib — users have taken 42 million rides since its debut — the cost of those payments is minimal.

Using the figure of 7, 800 missing bikes in 2009, the price tag for the city comes to less than 2 million Euros annually, out of 20 million Euros earned in user fees.