

Why Mobike is a Hit

■ By Lin Chen

Bicycles with bright orange wheels are now a common sight along the streets of Shanghai and Beijing. It began last fall when mobike became all the rage. But why has this Tencent Holdings-backed start-up become such a hit?

Mobike's operational model is simple: download the app, deposit RMB300 and then pay RMB1 per half-hour ride. The app provides the location of nearby bikes and they can be dropped off anywhere after use. One reason behind mobike's success is that it makes customers feel as if they are getting a great bargain, paying RMB1 to enjoy a RMB3,000 bike. Second, the mobike looks cool and many users have taken to sharing WeChat Moments of themselves riding them. Mobikes have now become a kind of social currency, synonymous with cool, green (environmentally friendly) and definitely in. Finally, the mobike was destined to be a hit because of its flexible return system which is

perfectly in line with the post '80s and '90s generation lifestyle trend of "own nothing, reject nothing and be responsible for nothing".

Thus despite the fact that the mobike business model is commercially illogical in many ways, it has sparked public interest with some even going as far as calling it a Unicorn in the making. But is mobike really a money-making machine?

According to the company's own projections, its annual profit may be as much as RMB1.6 billion yuan; that's more than the profit level of 90% of A share listed companies!

"Own nothing, reject nothing and be responsible for nothing."

Lin Chen is Assistant Professor of Marketing at CEIBS.



Mobike Money

Mobike Algorithm		Notes
Single user deposit	¥309.00	According to mobike's internal calculations, the deposit and rental residue are 309 RMB.
Number of users	10,000,000	According to the company's internal projections, each mobike can serve 10 users.
Annual Interest Rate	8%	The deposit is similar to an interest-free loan. A little higher annual interest rate is reasonable because of the low cost.
Deposit Return Rate	40%	Male white collar workers, aged 26-35, in the financial sector are the main users of mobike. It is projected that 40% of users will have their deposit returned.
Deposit Income	¥148320000.00	The deposit will be returned to clients so that cannot be calculated as a source of income. However, the interest earned on the deposit can be calculated as income.
Daily Usage Per Bike (Hour)	3.5	According to mobike's publicly available data, each bike is used 7 times per day, half an hour each time.
Number of Bikes Offered	1000000	The company's estimated number of bikes available is 1,000,000, however, the true number is 20,000 in Beijing and Shanghai.
Mobi Price	¥1.00	
Number of Days	300	According to mobike's calculations, the significant number of days is 300 per year, not including days when the weather is unsuitable for riding.
Profit from Bike Use	¥2100000000.00	
Profit from Other Business	¥ -	In the future, advertising will be considered.
Cost of Single Bike	¥1500.00	Purchase cost.
Residual Scrap of Single Bike	¥150.00	
Estimated Useful Life	3	
Depreciation Cost of Single Bike per Year	(450.00)	Calculated as straight line depreciation. It should be accelerated depreciation actually.
Total Depreciation Cost	(450000000.00)	
Operating Cost of a Single Bike	(180.00)	According to the company's internal information, the daily operating cost of a single bike is 0.6 RMB, in addition to the cost of maintenance and other costs.
Total Operating Costs	(180000000.00)	
EBITA	1618320000.00	1.6 billion!





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A closer look at their numbers (see the chart called Mobike Money) shows that, based on the various assumptions of their calculations, mobike could immediately increase their profit to RMB30 million by simply adjusting the number of users and bikes. However, I believe the number of users doesn't influence the company's bottom line that much. The final profit is determined by the number of bikes offered.

Contrary to what many people think, the deposit paid by each initial user doesn't have a huge influence on mobike's profit margins. On the other hand, when the number of uses declines, profit falls rapidly.

However, the importance of the deposit cannot be underestimated. The capital pool, made up of the deposit plus non-refundable payments left over when the bike is recharged, is the most important source of funding. After all, a large deposit is the equivalent of an interest-free loan for the company. It is like an ultra-low-cost capital pool, which significantly reduces the pressure on the company's need to access external financing.

But looking ahead at mobike's long-term operations, it will be vital for the company to explore other sources of funding. Maybe it can generate new streams of revenue by placing ads on its eye-catching bright orange wheels.