APPLYING LOW COST AIRLINE PRICING STRATEGIES ON EUROPEAN RAILROADS

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Growing Low Cost Airline Market

Source: DLR / ADV 2006
Relevant Size of LCA-Business

**Passenger Volume LCA vs. DB**

- **Cologne - Berlin**: 34%
- **Dusseldorf - Berlin**: 21%
- **Cologne - Hamburg**: 10%
- **Hamburg - Munich**: 36%
- **Dusseldorf - Munich**: 63%
- **Cologne - Munich**: 57%
- **Berlin - Munich**: 71%
- **Berlin - Stuttgart**: 64%

**Source:** Antes et al. 2004

*DB: Only direct links (no connections) included in capacity calculation*

*Assumption for Lufthansa - 25% of tickets in low-fare category; load factor: DB 40%; LCA 80%*

*DB: Schedule 2003, Airlines:Schedules 06/2004*
Introduction of New Train Products in France and Italy

SNCF

TRENITALIA

iDTGV

TrenoOK.com
Il primo low cost ferroviario italiano
SNCF created iDTGV…

- to compete with low cost airlines between Paris and the Mediterranean coast
- to explore new services and product ideas

Niche product:
- 8,000 iDTGV-seats per week against 300,000 TGV-seats (2005)
Measures to Reduce Operating Costs

• Only online distribution
• No cancellation, restricted change of tickets
• Ticket control on the platform
• “Piggyback” Service:
  – No own locomotive driver,
  – Reduced (shared) infrastructure charges
• Using surplus rolling stock

Cost reduction: 20 %
iDTGV – an Experiment in Value Added Services

- Two different travel atmospheres:
  - iDzap: entertainment area
  - iDzen: silence area

- Add-on revenue and improved travel time utilization
iDTGV Pricing Strategy

- Price logic like a Low Cost Airline
  - Low starting price: 19 EUR
  - Price increase depending on booking date and booking level
- No regular price reductions
Assessment of iDTGV Service

- Targeted average load factors exceeded
- 470,000 Passengers in the first year
- 84% satisfied with service quality
- Sales 2005: €22 million
- Opening of two new lines in 2006
TrenOK – the low cost company of Trenitalia
TrenOK – An original No Frill Service

- No frills transportation
  - Old rolling stock
  - One class
  - No supplementary in-train services

- Additional measures to reduce operating costs
  - Stops at suburban station, no service of main downtown stations
  - Reduced wages for TrenOK-employees

Focus: young, price-oriented target group
TrenOK – Simple Pricing System

- 3-step-model: €9 - €19 - €25
- Regular EuroStar fare: €46
- Price differentiation based on
  - Amount of time before travel date
  - Fixed number of tickets in each price category
Conclusions

• New brands as test bed for new train products with different processes and innovative services

• iDTGV-approach:
  – Yield management: reducing perceived ticket costs
  – Value added services: additional revenue and utilization of travel time

• TrenOK-approach
  – Very simple price system
  – Classical no frills concept
Thank you very much for your attention!

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