

APPLYING LOW COST AIRLINE PRICING STRATEGIES ON EUROPEAN RAILROADS

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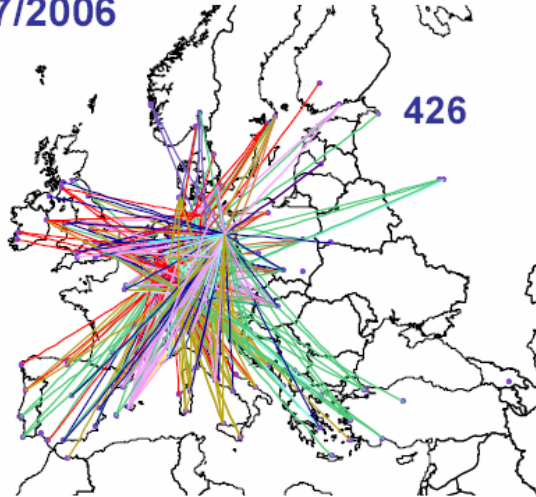
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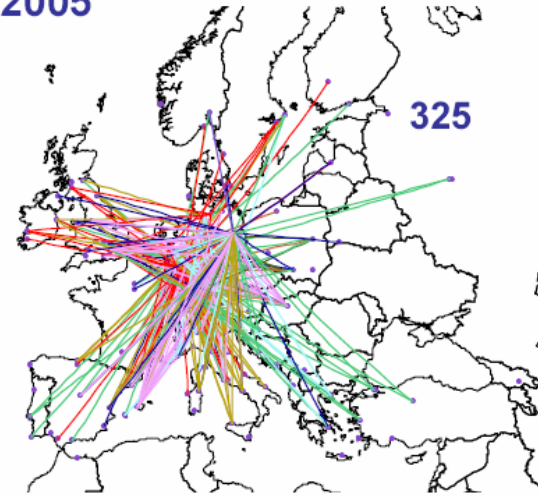


Growing Low Cost Airline Market

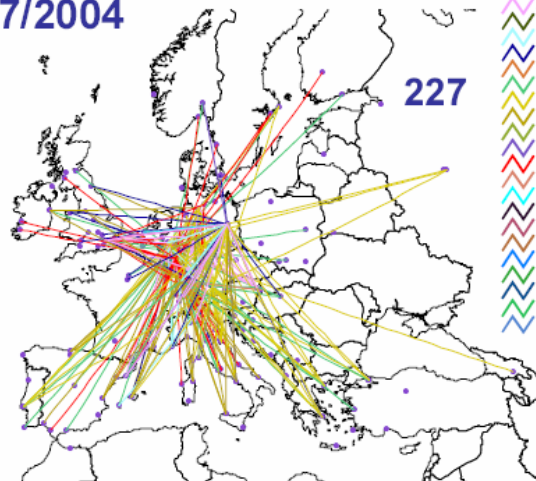
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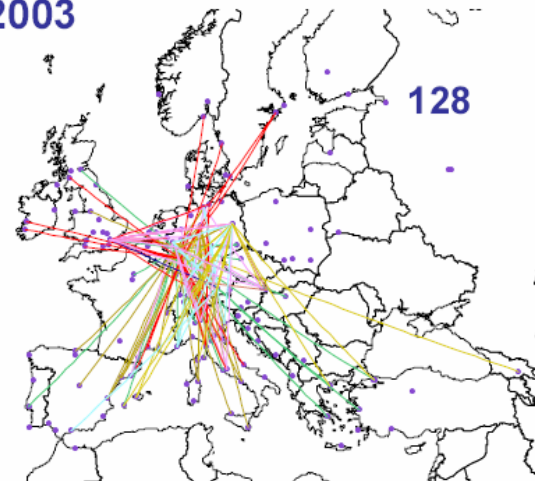


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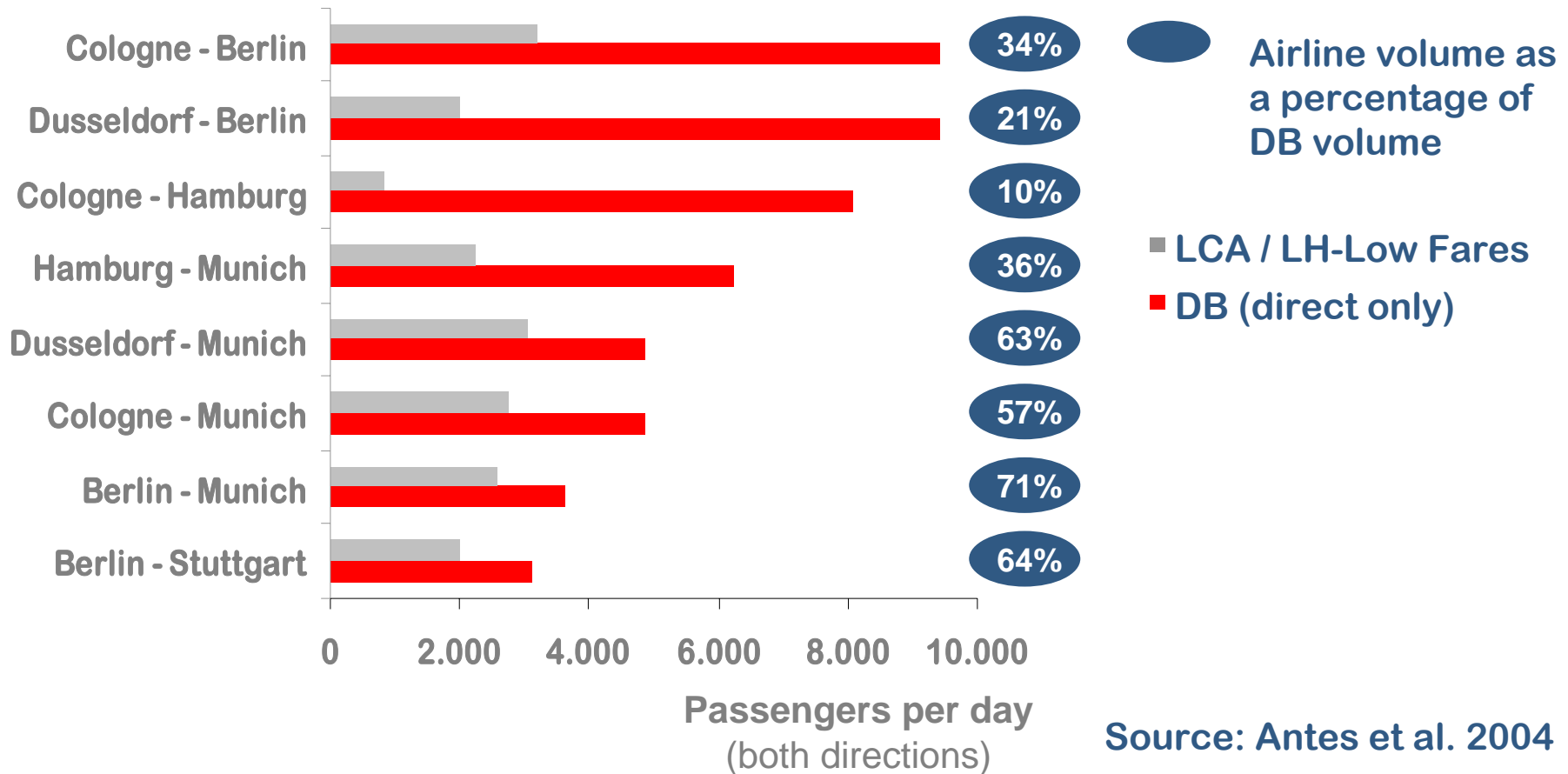
- Low Cost Carrier
- Air Berlin (Euro Shuttle)
 - Centralwings
 - DBA
 - Easyjet
 - Fly Nordic
 - Germanwings
 - Gexx
 - HLX
 - Intersky
 - Norwegian
 - Ryanair
 - Sky Europe
 - Transavia
 - Virgin Express
 - Windjet
 - Wizz
 - Blue Air
 - Blu Express
 - Condor-City fliegen
 - Jet 2
 - Sterling

07/2003



Relevant Size of LCA-Business

Passenger Volume LCA vs. DB



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



iDTGV – The French Experimental Train



SNCF created iDTGV...

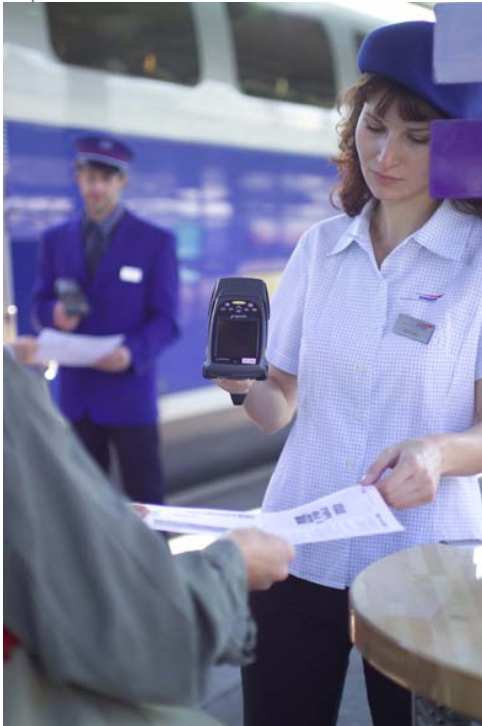
- to compete with low cost airlines between Paris and the Mediterranean coast
- to explore new services and product ideas

Niche product:

- 8,000 iDTGV-seats per week against 300,000 TGV-seats (2005)

Measures to Reduce Operating Costs

The screenshot shows the iDTGV website's search and reservation interface. The header features the iDTGV logo and navigation links. The main content area is titled "Rechercher & réserver" and includes a search form with fields for "Au départ de:" (Paris), "A destination de:" (Marseille), "Date de départ:" (09/01/2007), and "Date de retour:" (14/01/2007). A "Rechercher" button is at the bottom of the form. To the right, a "Premiers départs à petit prix" section lists several routes with prices of 19.00 €: PARIS - PERPIGNAN, PARIS - TOULOUSE, PARIS - BORDEAUX, and MONTPELLIER - PARIS. A "Nouveau!" banner highlights a special offer for the Paris-Perpignan route, starting at 19€.



- 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



iDTGV

Découvrir. Voyager. Dialoguer. Infos pratiques.

Ca vous dit une petite
partie à 300 km/h ?



- Two different travel atmospheres:
 - iDzap: entertainment area
 - iDzen: silence area
- Add-on revenue and improved travel time utilization

iDTGV Pricing Strategy

Search for & book

Outward-Return Outward only

Departing from:

Arriving at:

Departure date (DD/MM/YYYY):

Return date (DD/MM/YYYY):

New! I don't have any preferences for the dates of my journey, I am looking for the best price.

Number of passengers: Children of 0 - 4 years

Look for

Premiers départs à petit prix :

PARIS - PERPIGNAN

19.00 € Wednesday
10 January

PARIS - TOULOUSE

19.00 € Wednesday
31 January

PARIS - BORDEAUX

19.00 € Wednesday
31 January

MONTPELLIER - PARIS

19.00 € Wednesday
14 March

PARIS-PERPIGNAN,
FIRST DEPARTURE
ON JANUARY THE 9TH,
STARTING FROM: **19€**

- 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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