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Reinventing rail in Europe

The battle for the customer

A customer revolution

A customer revolution

In the last decade, travel experienced more change than it saw in the previous fifty years.
It was nothing less than a customer revolution.

This revolution saw the customer crowned king – and ushered in an age of disruption in the travel industry. In this new era, technology continually reshapes the relationships between buyers and sellers, empowering the infinitely connected customer and opening up unprecedented choice. Competition is fierce, fast-moving and complex with new contenders emerging in waves to challenge established players.

Rail has not escaped the storm of change. An industry that was so often splintered along national lines and driven by the priorities of engineering was ignited by a key imperative: to reengage with the customer.

Passenger rail operators have seen their competitive landscape transformed by waves of EU-driven market liberalisation which are bringing new providers onto the tracks. In boardrooms across Europe, rail executives are wrestling with a complex competitive environment that is becoming increasingly moulded around the customer. Coach and now car sharing services may challenge rail's dominance on some routes, but also feed customers to rail operators on others. Air can be seen as a competitive threat, but also as a partner and collaborator on the journey towards door-to-door travel.

Executives are asking how they can best pilot their company through this customer revolution. What do they need to do to adopt and embed the kind of total customer focus it takes to thrive? Do they need to embrace new technologies or adopt new commercial strategies, or both?

In this paper we bring together leading figures from across the European travel industry to discuss how the rail industry can win the battle for the customer. Technology is the critical enabler in the customer revolution: The battle for the customer will ask how rail can use it to strengthen customer focus and look to other industries for best practices in terms of the strategies and mindsets that drive change.

Our aim is to offer insights that can help players from across the industry understand the forces that are driving change and harness them for competitive gain.

The battle for the customer in rail is ongoing and there is much at stake: the prize is stronger customer satisfaction, customer loyalty and, ultimately, revenue growth.

Thomas Drexler
Global Head of Amadeus Rail and Ground Travel

Competition arrives

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For a long time, the European rail industry was fragmented along national lines. Operators were state-owned and competition was limited.

This longstanding settlement has been overturned. Progressively, the EU's 'Railway Packages'[1] (first, second, third and fourth) have swept away the anti-competitive order and turned the industry's focus towards the customer. And while the fourth package – which covers standards that are key to encouraging further competition and driving down European rail subsidies – has yet to be approved by the European Parliament, it will further shift the emphasis onto the customer experience. As such, competition is intense and increasing in the sector – and this emerging competitive landscape is uniquely complex and multidimensional.

For one, the high barriers to entry associated with capital intensive rail rules out the kind of direct competition between different providers found in, for example, air. Instead, competition between operators could take a different form. Virtual rail operators are expected to become more dominant. Like the MVNOs (Mobile Virtual Network Operator) that reshaped telecoms in the 2000s, these players would piggyback their branded service offer on another provider's investment.

While direct competition between train operators will be constrained, competition between different modes will thrive. One particular area to watch is rail versus long-range bus services. Here, bus has a strong price advantage which means it presents a *"new and very real challenge to rail"* according to Antoine de Kerviler, Director of R&D for Amadeus Rail. Indeed, so strong is the advantage that traditional rail operators have quickly moved into the space with offers such as DB's (Deutsche Bahn) IC-Bus or SNCF's OUIBUS.

At Eurostar the focus is on competition from air. There has been a dynamic and significant shift over time.

Darren Williams, Eurostar's Head of Global Sales, said: *"This is the most competitive environment I've ever seen. When Eurostar launched we went head to head with Air France and British Airways on the London to Paris route. Then the low cost carriers arrived to challenge the legacy carriers and that put pressure on us. Today we have something like seven carriers competing with us – the low cost carriers can challenge us on cost so we have to not only meet this but also focus on the customer experience."*

Not everyone is convinced that competition between air and rail will remain so fluid. According to Jean Noel Lau Keng Lun, Senior Director Global Product Marketing at Egencia, a competitive balance can emerge: *"Some companies really push the air / rail comparison – but travellers only need to ask themselves this question once or twice, and then they stay with what works best for them. If you live in Central London and need to get to Paris, you'll do the research and then take the Eurostar from then on. It would be a hard sell to convince you to go out to Gatwick or Heathrow."*

New factors can reset the balance between competing modes of transport. The opening of a convenient new rail link or the introduction of extra airport security measures can overturn the traveller's personal choice. Technology always has another surprise up its sleeve, as SJ's (Statens Järnvägar, a Swedish rail operator) Thomas Silbersky notes: *"So far the customer has had limited choices. If they wanted to get from Amsterdam to Berlin they would probably have compared air with air. But the choice is changing, with high-speed options and, in the near future, driverless cars, choice is becoming more complex. OK, maybe rail loses against air when it comes to time. But it wins on environment and the ability to work and use your time. The driverless car can challenge rail on all those core benefits."*

[1] For an overview of the European Commission's moves to liberalise rail in Europe http://ec.europa.eu/transport/modes/rail/market/index_en.htm

"On routes where they have a choice, our customers prefer high-speed rail for the inner city connections, the space on the trains and the comparative lack of stress and hassle at check-in."

Ned Booth
General Manager Flights & Rail at lastminute.com

With competition comes greater customer focus

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As predicted in the Amadeus report *The Rail Journey to 2020,* the complex competitive forces unleashed in rail have resulted in a greater focus on the customer[2].

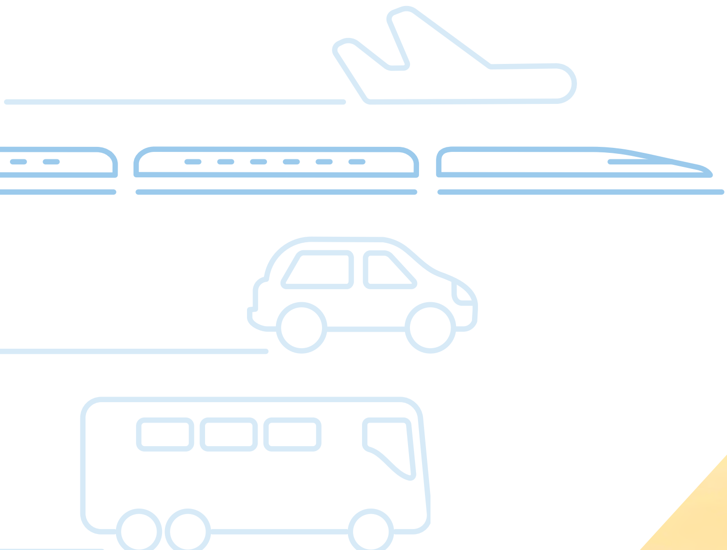
The experience of rail operators bears this out. At Eurostar, today the customer is the rail operator´s number one priority. Everything else is a means to an end. The operator's objective is to give the customer the best possible experience across the many touch points in their journey. There is a core belief that if the firm loses sight of what the customer wants, they will be out of the game.

Several rail operators point to air as a powerful example of customer centricity. Airlines control almost every aspect of the customer experience, from the time they buy their ticket to landside at their destination airport. At every stage of the customer journey, airlines have the opportunity to give the traveller something special and rail operators, like Eurostar, are paying attention. Eurostar looks across a range of industries for inspiration, something which more of the field should do, however it is the airline sector that provides a natural benchmark.

Many others in the industry agree that air can show the way forward for rail operators, helping them keep pace with rising customer expectations, deliver better customer experiences and meet competitive challenges. Air is a useful model, but rail can think even bigger: door-to-door travel. As envisaged by global design consultancy Arup, this door-to-door future will see *"rail become increasingly dynamic, innovative, sustainable and competitive, ensuring a bright future as part of truly integrated transport networks."*[3]

With door-to-door, traditional competition between operators comes second place to customer focus. It requires different players to work together and re-engineer the whole trip experience around the needs of the traveller. The All Ways Travelling[4] Consortium – tasked by the European Commission and led by Amadeus to develop a model for multimodal pan-European passenger transport information and booking system – is focused on getting different operators to collaborate to give the customer a smooth trip experience.

[2] The Rail Journey to 2020, Amadeus IT Group. 2013
[3] Arup, Future of Rail 2050, July 2014
[4] http://www.allwaystravelling.eu/home.aspx



Technology is a powerful enabler

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Traditionally, technology advance has been the primary driver for innovation in rail. Technology remains a powerful change agent, but today the emphasis is on using technology to increase customer focus.

Engineering innovation opens new possibilities

Technology has always played a decisive role in the development of passenger rail. Progressive technology advances in trains and infrastructure introduced faster, safer and more comfortable services. High Speed Rail (HSR) is the latest in a long line of these evolutions with major multi-billion Euro investments in train, engineering and signalling technologies. The resulting traveller experience has improved significantly and transformed perceptions about the industry in many countries.

Eurostar is a case in point: the opening of the High Speed 1 line in 2007 meant big reductions in journey times. Meanwhile, new Eurostar trains, optimised to run on the continental rail network, will allow the operator to radically extend its service footprint, as Williams describes: *"Introducing new Siemens e320 trains lets us extend our scheduled services from London, adding Lyons, Avignon and Marseilles. In 2017, we will add Amsterdam to our destinations. Going to Amsterdam was only possible because of the new trains."*

For customers, these improvements mean better experiences and make rail more attractive versus other modes. Ned Booth, General Manager Flights & Rail at online leisure and travel retailer lastminute.com, explains: *"On routes where they have a choice, our customers prefer high-speed rail for the inner city connections, the space on the trains and the comparative lack of stress and hassle at check-in."*

Arguably, the rapid modernisation of rail infrastructure outpaced the adoption of new booking technology and interfaces, which can put rail at a disadvantage compared to other modes of transport. Eurostar and lastminute.com provide an example of how collaboration can enhance rail's competitive position. Ahead of the launch of new Eurostar routes, lastminute.com is distributing early so that its customers will see new services launched through its website.

Transforming the entire customer journey: personalisation and merchandising

Innovation in rail was once just reliant on engineering and infrastructure, but today technology advance enables rail to re-orient every aspect of the customer journey.

On board, operators are already exploring how connected technology can help them win the battle for the customer by improving their experience and keeping pace with rising customer expectations by enabling more personalisation. Silbersky at SJ explains: *"Technology change is accelerating, and transforming the customer experience with it. Things that we regard as value-added parts of the customer experience will become hygiene factors tomorrow. People expect to have the same experiences they get at home when they're on the move. If that means having super-fast Wi-Fi and rich services then they will have to be available."*

But perhaps the most exciting innovations are taking place long before the customer boards their train. Felix Pauli, Head of Portal Management Partners, Third Parties and Cross Sell Products at DB (Deutsche Bahn), believes there is much more scope for travellers to use mobile devices to plan and manage their travel. He sees voice activation as offering much simpler and intuitive search experiences, providing a platform for a new generation of services delivered in conjunction with third parties. Clearly, forward-thinking rail operators are exploring how they can take advantage of online channels.

It is important to consider that today's consumer expectations of good service are defined by the likes of Netflix, Amazon and sharing-economy brands such as Airbnb and Uber. Therefore it is vital that the rail sector looks towards these brands for inspiration in merchandising. Consumers are now able to book restaurants, buy flight tickets, download music and films in minutes using their mobile, tablet, laptop or in some cases, their watch. But it is not just a case of ease of purchase. Customers expect to be serviced in a way that works for them, based on their needs, preferences and chosen method of communication.

This is a view shared by Peter Cochrane, former Chief Technology Officer for UK Telco BT, who said, *"Rail operators have an opportunity to embrace the level of customer centricity you get with an Amazon or a Netflix account."* Only if rail adapts to this new landscape will it be able to compete with new competitors and brands that seek to move customers from place to place.

Meanwhile, many in the industry conclude that data-driven customer insights will be key to more personalised experiences. Information about the customer's preferences (past behaviour, location, etc.) can enable rail operators to anticipate traveller needs and be a key factor of differentiation. The mission must be to get ahead of the customer. If customers are late for a train, operators need to use technology to be proactive and propose solutions that get them to their destination. Using these same insights, rail operators can anticipate what services the customer needs on a journey and what revenue-boosting services they can offer the customer prior to their trip. By doing so, the customer's perceptions of the rail journey and the value they assign to rail brands will significantly improve from where they are today.

The brakes on change

The brakes on change

As the development of rail networks has evolved over many decades within national borders, many differences still exist in terms of rail gauges, signalling systems and electrification. This means the number of cross-border trains is limited, acknowledged by the European Union as *"the main obstacle to a single market in the rail sector."*[5]

Clearly, the rail industry is looking towards a customer-focused future, but its deep roots in engineering culture – and the fundamental logistics of rail – can hinder transformation. Changes take longer compared to air or ground transportation. On the other hand, if aircraft manufacturers make breakthrough innovations and increase the speed of transit they can be implemented quickly (or relatively), as they don't have to wait for new infrastructure to be built or modified.

The facts of life about capital intensive and engineering-heavy rail are compounded by political factors, as in many markets, such as Switzerland, the rail network is perceived very much as a public service unlike airlines. According to Antoine de Kerviler of Amadeus: *"A low cost carrier can cancel a route that underperforms – rail can't just end a service like that. Politics affects how quickly a rail operator can react and can override commercial priorities or economics."*

The fragmentation of Europe's passenger rail industry creates issues for players across the value chain. Again, the differences between rail and air can be stark. Jean Noel Lau Keng Lun outlines what they mean for a corporate travel management provider like Egencia: *"Rail providers do offer negotiated fares for corporations but they are not standardised as with airlines and ATPCO. With an airline, you can negotiate a deal and upload the fares into the GDS. But it's different with rail: a negotiated rate from Swedish Rail is not going to look like a negotiated rate from SNCF."*

In an increasingly globalised travel industry, rail remains very national. While there are notable exceptions, like Eurostar or Thalys, it's not like air which you can book from anywhere.

[5] The Cost of Non-Europe in Transport and Tourism, European Union, 2014

Organisational and cultural barriers

Beyond the barriers around industry structure, there are issues within rail operators that reduce agility and impede them in the battle for the customer. Ned Booth at lastminute.com observes: *"Our customers rarely buy just rail. Our focus is on dynamic packaging and rail is a component of that. We're an online travel agency so we're borderless, but sometimes we encounter silo walls between, say, the domestic team and the international team in a rail operator."*

Fragmentation between and within different transport operators can make it more difficult for the rail industry to manage the whole customer experience. But culture or state of mind is just as important. Older, or legacy, rail companies with their roots in the public sector and engineering cultures can often have the wrong mindset to be agile. They often try to do too much for themselves. This is in stark contrast to low-cost air carriers, which have decided to focus unrelentingly on the customer. They outsource maintenance, or use off-the-shelf and SAAS solutions for maintenance, so they can devote all their attention to serving their customers.

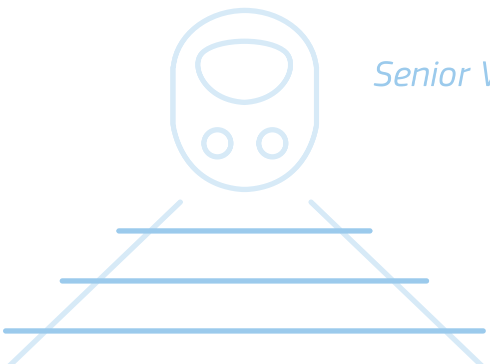
Culture is notoriously difficult to shift: can rail realign its culture to play an active part in the battle for the customer? The good news is that another industry has followed a similar trajectory and can provide insights to guide the strategic conversation in rail.

Traditionally fragmented, capital intensive and with a strong engineering culture, telecommunications has important parallels with rail. Peter Cochrane, former Chief Technology Officer for UK Telco BT, describes how this industry accelerated itself towards customer focus. *"Around 20 years ago, boardrooms of telephone companies faced the decision to stop being engineering legacy businesses and become converging customer-centric organisations. The rail industry is in a similar state today and faces a similar choice."*

The answer lies in adopting a creative mindset, one that embraces culture and policy. *"Having a true 'customer comes first' culture and thinking like a service company will help rail companies thrive and compete with new players already grasping this opportunity."*

"Change just takes longer in rail, compared to air or ground transportation. If Boeing can make a plane fly twice as fast, they don't have to wait for a new sky. But with rail we have to wait for infrastructure."

Thomas Silbersky
Senior Vice President Sales and Marketing at SJ Group



The modern station: the customer experience

“Rail stations will become destinations and lifestyle centres that further blend our commute with our lives.”[6]

To win the battle for the customer, rail operators need to deliver great end-to-end customer experiences – but, as Professor James Woudhuysen points out, an important link in the chain is often missing.

Rail operators do not always own and operate railway stations and this means they do not control a key part of the customer experience. *“Rail is not agile but stations are worse. They have not even begun to face up to the realities of a customer-driven world. In stations, retail has triumphed over passenger needs – and the traveller comes a distant second place.”*

James Woudhuysen believes stations must be part of the same process of customer-centric modernisation that needs to reshape rail as a whole. *“What should rail companies demand from station operators? The best! Fewer shops, more cleanliness and much better passenger information systems.”*

Here, the airlines may offer lessons. By responding to traveller complaints about pain points in the airport experience, carriers are putting pressure on airport providers to raise their game. The airlines may not own the airports, but as their primary customers they get listened to when they make requests. Could rail operators take a similar approach? And if they do own the stations, which is the case in some markets, they must not overlook them when it comes to taking a customer-centric approach.

[6] Arup, Future of Rail 2050, July 2014

The competitive landscape in rail – the battle for the customer

"The focus has got to be on the customer. Get that right, you win on the technology front and beat the competition. If you lose sight of what your customer wants, you will be out of the game."

Darren Williams
Head of Global Sales at Eurostar

Towards a customer-focused rail industry

Towards a customer-focused rail industry

Today, passenger rail in Europe is in the throes of a customer revolution. Complex competitive forces are shaking the industry, challenging longstanding assumptions and compelling the continent's operators to remake their business model around the customer.

In the battle for the customer, figures from across the industry describe this state of disruption and their responses to it. Technology is seen as playing a pivotal role, offering opportunities to transform right across the customer journey. From search and booking through to the on-board experience and merchandising, technology is enabling rail operators to deliver a more personalised and customer-focused service.

With door-to-door travel, there are possibilities to take customer focus a step further as different providers collaborate around the shared goal of serving the customer. There is also an opportunity for rail to be better integrated into the overall travel experience, by building the rail offer into the online and traditional travel sellers' portfolio. This is an exciting time for rail: the industry has a customer-shaped vision for its future and wants to make it happen.

As the industry sets off on this journey, the battle for the customer offers these considerations for driving customer focus:

- Customer focus starts at the top: leaders in the telecoms industry made the decision to become more customer-focused at board level. To harness this in rail, industry leaders will need to make a similar decision to put the customer at the heart of the business.
- Breaking down internal silos is key: if the customer is to be placed at the heart of the rail sector, it is incumbent upon rail operators to ensure that all functions within the organisation work towards this goal, and do not leave this to the marketeers or customer-facing staff. There needs to be a collective mission amongst all functions to ensure that every decision is taken with the customer impact in mind.
- Collaboration becomes more important all of the time: complex competition is a fact of life in rail today, but the growing focus on the customer will make collaboration with other non-rail partners just as important. Delivering a true end-to-end experience will require multiple players to work together.

Ultimately, transformation begins when people change their perspective. In today's complex travel industry, rail is often just one component of the traveller experience. Clearly the rail industry is making the leap to think differently – and the leaders who contributed to this report are acting differently too. Darren Williams at Eurostar here speaks for the industry: *"The focus has got to be on the customer. Get that right, you win on the technology front and beat the competition. If you lose sight of what your customer wants, you will be out of the game."*

"Having a true 'customer comes first' culture and thinking like a service company will help rail companies thrive and compete with new players already grasping this opportunity."

Peter Cochrane
Former Chief Technology Officer for UK Telco BT

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