

Transferring low-cost marketing practices from air to rail services: The *Ouigo* case

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Abstract:

More and more airlines have adopted a low-cost business model and many scholars have studied the characteristics of such marketing strategy. While other transport modes have decided to copy and adopt this strategy, we investigate how they replicate this business model. To do so, we in-depth study the operational and marketing characteristics of *Ouigo*, the new low-cost offer launched by the French rail operator *SNCF* in 2013. Based on interviews and secondary data (press articles, reports, etc.), we analyze how the rail operator has adapted the low-cost model used by airlines to the high-speed rail industry. We first begin by explaining why rail operators need to implement low-cost strategies and we analyze the characteristics of these low-cost strategies in the air industry. Then, we examine how the key success factors of low-cost carriers have been replicated and adjusted to the rail setting: simplified price policy, increased number of seats per train, use of secondary train stations, exclusive online distribution, e-ticketing, development of ancillary revenues, etc. Finally, a deeper analysis shows that commercial features (e.g. pricing policy) tend to be adapted more easily than technical ones (e.g. network structure) which are more constrained by the industry characteristics. We conclude by giving directions for future improvements for low-cost rail business models.

Key words:

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1. Introduction

Low-cost marketing practices are pervasive in transportation industries. Aiming to offer no-frills products at the lowest price (Calder, 2006), these strategies are used in almost all transportation modes. These strategies are not only used by low-cost actors but also by traditional carriers. Indeed, if we give a closer look at the air transportation industry, one can observe that even legacy carriers have adopted some of these low-cost practices (Jarach et al., 2009). In fact, adopting low-cost practices has become a necessity to survive in this price-based competition (Alderighi et al., 2012).

But in the transportation industry, the competition is not only intra-modal and has also become inter-modal, meaning that several modes compete for a trip from a point A to a point B (Ivaldi & Vibes, 2008). Considering that competition has become more and more inter-modal, we analyze how rail operators can implement strategies to compete with low-cost airlines. More precisely, we study how rail operators implement low-cost marketing practices inspired by low-cost airlines.

Based on an in-depth case study of the French low-cost rail operator *Ouigo*, we observe how rail operators may adapt some key features of low-cost airlines to their own industry. At first, it appears that most characteristics have been transferred from the air to the rail industry. However, a deeper analysis allows us to conclude that commercial features (e.g. pricing policy) tend to be adapted more easily than technical ones (e.g. network structure) which are more constrained by the industry characteristics.

The article is structured as follows. First, we review the main antecedents leading to the development of low-cost rail offers. Then, we detail our methods and present our case. The third part is dedicated to the analysis of the *Ouigo* case with a specific emphasis on the adoption of low-cost features. In the following part, we discuss the extent to which airlines low-cost characteristics can be transferred to the rail industry. Finally, we conclude and offer some directions for future research.

2. The necessity for rail operators to implement low-cost strategies

2.1. The impact of low-cost strategies in transportation industries

While low-cost carriers already existed in the US in the 1970s, they just began to emerge in Europe at the very end of the 1990s and especially in the 2000s (Shaw, 2011). Taking advantage of the liberalization of the air transportation industry, many new airlines were launched in order to serve new routes at a very low price (Dobruszkes, 2009). These low-cost carriers are characterized by a very aggressive pricing policy which increases the competitive pressure on short-haul flights (Dresner et al., 1996; Franke, 2004). These very low prices have considerably modified travelers' perceptions of the actual cost of a short-haul flight (Dennis, 2007; O'Connell & Williams, 2005).

The introduction of low-cost carriers has significantly changed the nature of the competition especially on short-haul services (Dobruszkes, 2006, 2009, 2013). Facing this new competition, traditional airlines have very often decided to cut routes or reduce their offer when they became unprofitable. But some legacy carriers have tried to adapt their business model to these new competitors. By adopting several of these low-cost marketing practices, some legacy carriers have expected to gain market shares (Alderighi et al., 2012; Jarach et al., 2009).

2.2.The intense competition between air and rail services

Low-cost airlines do not only impact the air transport industry, they also have consequences on the rail industry (Friederiszick et al., 2009). Indeed, over the last decades, the development of the high speed train (HST) has led to a convergence between the air and rail industries for distance under 800 kilometers (Chiambaretto & Decker, 2012). This industry convergence has contributed to the emergence of intermodal alliances in which an airline cooperates with a rail operator on a given route (Chiambaretto et al., 2013; Dobruszkes & Givoni, 2013; Givoni & Banister, 2006, 2007; Socorro & Vicens, 2013). However, it has also contributed to intensify the competition between these transport modes, such that we can clearly consider the existence a real intermodal competition (Dobruszkes, 2011; Ivaldi & Vibes, 2008; Jimenez & Betancor, 2011). In most contributions focusing on intermodal competition, it appears that two variables explain most of the rail market share: the fare and the time spent in the train.

Except for few routes (like Paris-London), travelling by train is usually cheaper than flying, but flying appears longer than travelling by train (Dobruszkes & Givoni, 2013; Ivaldi & Vibes, 2008). Depending on the price and passengers' time-elasticity, one can infer the rail market share on a given route (Abraham & Blanchet, 1973). However, according to Friederiszick et al. (2009), even if rail operators are generally cheaper than legacy carriers on short distances, they tend to offer the same price as low-cost carriers do. Consequently, rail operators are the closest competitors of low-cost carriers on short distances.

2.3.The first steps towards low-cost offers in rail services

Facing the strong competition of low-cost carriers, rail operators have had to respond to the threat exerted by these new competitors. Some European rail operators have thus created low-cost offers in order to be more competitive. By doing so, they have become not only more attractive with respect to airlines, but they also have appeared as a reliable alternative to cars and long-distance buses. Sauter-Servaes & Nash (2007) investigated the adoption of some low-cost features by rail operators. More precisely, they focused on pricing policies and showed how rail operators have borrowed from low-cost yield management approaches. In addition, they insisted on the critical role of subsidiaries to implement the specific features of yield management. Authors illustrated their arguments with two current empirical examples: *IDTGV* in France and *TrenOK* in Italy.

The *TrenOk* offer is a basic “no-frills” offer, with a very simple pricing system, a single class and no additional services in the train. The core idea of this product is to provide low fares by maintaining a low cost structure in order to avoid cannibalization with other products of *Trenitalia* (the parent firm). On the opposite, the *IDTGV* product is targeted to different segments of travelers. A basic service is offered at a very low price but this basic product can be combined with other features that will bring additional revenues to the rail operator.

Nevertheless, these first attempts have adapted only some elements of low-cost carriers. With the increasing liberalization of the rail industry in Europe (Johnson & Nash, 2012), new experiments have been implemented in which firms have attempted to push further the low-cost business model. We thus need to understand how rail firms can adapt the airline low-cost business model to their own industry.

3. Research methods and case

3.1.Methods

To study how rail operators can transfer low-cost marketing practices from airlines, an exploratory qualitative approach seems to be particularly relevant (Miles & Huberman, 1994). This inductive approach is particularly relevant for studying emergent phenomena such as low-cost strategies implemented by rail operators (Glaser and Strauss, 1967; Eisenhardt, 1989). This method is ideal to answer questions such as “how,” “what,” or “why,” as in the present study. More precisely, we implement a unique in-depth case-study (Yin, 2009).

To do so, we were looking for a recent case of a rail operator which decided to implement a low-cost offer. We found the *Ouigo* case - the new offer launched by the French rail operator SNCF in 2013 – particularly interesting as it was representative of such strategies (Yin, 2009). The *Ouigo* case was indeed recent and was the purest application of low-cost features from the air to the rail industry. In addition, we benefitted from a special access to this firm that allowed us to study in-depth the launch of the project.

To investigate this case, we collected data from primary and secondary sources to gather more information and to increase the quality of our data using triangulation techniques (Gibbert *et al.*, 2008; Lincoln and Guba, 1985). Concerning primary data, 8 semi-structured interviews were conducted with SNCF’s executives, industry experts and specialized journalists. These interviews lasted between 45 and 75 minutes with an average length of 57 minutes. We notified the managers that these interviews would remain confidential and to ensure confidentiality, notes were taken manually. Concerning secondary data, we tapped into various sources such as press articles (from economic or specialized journals), firm reports and press kits. In a final stage, all the data collected has been analyzed through a content analysis and discussed regarding previous academic contributions.

3.2. Case presentation

Officially presented on February 19th 2013, the *Ouigo* offer has been launched on April 2nd 2013. It is the low-cost branch of the *SNCF*, the French rail operator. The goal of *Ouigo* is clearly to compete with low-cost airlines, but also with long-distance buses and cars. Most of the trips offered are between the Paris area and the south-east of France because these routes represent up to 35% of the *SNCF*'s train trips for leisure passengers.

Developed during the aftermath of the global economic downturn, this low-cost offer has been designed for passengers with a low budget. As explained by the Commercial Director of the *SNCF*, "*Ouigo completes our offer for high speed travel as it provides more choice and has been adjusted to the needs and purchasing power of travelers*". With prices rising from 10€ to 85€, the *SNCF*'s CEO Guillaume Pepy has proudly announced that *Ouigo* is "*the best price offer for a high-speed train in the world*". But to offer low prices, the business model of *Ouigo* has been carefully designed, with the low-cost carriers' business model in mind.

4. The adaptation of the low-cost model to rail services

4.1. Learning from the air transport industry

Facing the competition from different transport modes, the *SNCF* has set a low-cost branch called *Ouigo*. In order to design properly this new offer, the *SNCF*'s executives looked for inspiration in the airline industry. More precisely, they tried to learn from low-cost airlines. Despite the diversity of business models used by low-cost carriers and their increasing hybridization (De Wit & Zuidberg, 2012; Klophaus et al., 2012), we focus on the main key characteristics that generally allows researchers and experts to classify an airline as "a low-cost carrier". Many contributions have tried to identify the main elements of the low-cost

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carriers' business model (Belobaba et al., 2009; Francis et al., 2006; Shaw, 2011). Below, we summarize these main characteristics.

Concerning aircrafts. Most of low-cost carriers have decided to use a standardized fleet (i.e., with a single type of aircraft) in order to reduce maintenance costs. In addition, most of these aircrafts has been specifically redesigned to offer a higher seat-density. To increase the density, low-cost carriers tend to prefer single-class airplanes so as to optimize the space available. For instance, *Ryanair* operates exclusively B737-800 in a 189-seat configuration while most of airlines offer 160-170 seats on such aircrafts (De Wit & Zuidberg, 2012).

Concerning the product. In order to offer flights at a low price, low-cost carriers have developed a very simple product, including only basic features. The price structure is simple regarding the basic price: the sooner the ticket is bought, the cheaper it is. To have access to other services (bags, meal, etc.), the traveler has to pay in addition. This extensive use of ancillary revenues is central in the low-cost business model (Wittmer & Rowley, 2014). In fact, everything that is not essential to travel has been removed: there is no frequent-flyer program, no reserved seating, etc. These flights are essentially targeted to leisure passengers because of their very high price sensitivity. In addition, these tickets are only sold through web sites and printed by passengers in order to reduce distribution costs (Koo et al., 2011).

Concerning airports and the staff. Most routes offered by low-cost carriers are direct routes in order to avoid connections that are costly for airlines. Moreover, these low-cost airlines generally prefer to fly from and/or to secondary airports that are less congested and especially cheaper because of lower airport charges (Graham, 2013). Besides, these smaller airports or dedicated terminals also allow airlines to shorten their "turnarounds" and thus increase the frequency of their flights. Finally, concerning the staff, it has been specifically

trained in order to be able to do several tasks before, during and after the flight (Hunter, 2006). Staff versatility contributes to reduce production costs.

4.2. Adapting low-cost marketing practices to rail services

To offer competitive prices, the *SNCF* team dedicated to the *Ouigo* project has worked in order to generate a new business model that would lead to low prices without neglecting the security of passengers. In this part, we focus on the key features of the *Ouigo* product and we will put them in perspective in the next part.

Concerning the trains. To increase revenues and to minimize costs, a single type of train is used by *Ouigo*. These trains have been specially redesigned in order to have a single class structure (instead of two) and to host 20% more passengers. In addition, the conception of the train has been changed in order to be used more frequently and to have a longer life cycle.

Concerning the routes and the train stations. The *Ouigo* offer is only available on some routes, especially between the Paris area and the south-east of France (Figure 1). These routes are not only highly profitable but they are also essentially used by leisure passengers. Indeed, if we give a closer look at the cities served, we clearly see that the low-cost airline model inspired *Ouigo* as it mainly offers trips from/to secondary train stations. As the main train stations in Paris or Lyon are over-crowded, the *SNCF* has decided to launch train trips from Marne-la-Vallée (25km from Paris) and from Lyon Saint-Exupéry (15km from Lyon). Not only these train stations are less crowded, but they also give access to different “train paths”. These path trains are bought to the infrastructure manager (*Réseau Ferré de France*) and are consequently cheaper than traditional ones as there is a lower demand for them.

Consequently, the use of secondary train stations (for large cities or urban areas) is a significant source of cost reduction for the rail operator.

[Insert Figure 1 about here]

Concerning the product offered. The *Ouigo* product has been simplified to match perfectly with travelers' preferences and purchasing power. This simpler product allows the *SNCF* to be competitive against low-cost carriers but also long-distance buses and cars. This no-frills product can be enhanced by the traveler by buying several upgrading options (bags, electric socket, etc.).

Concerning the price structure. The call price starts from 10€ for a trip from Marne-la-Vallée to Marseille and allows the traveler to carry only a cabin luggage with him. In fact, facing many criticisms regarding its complex pricing policy, the *SNCF* has simplified the fare structure of its *Ouigo* product with a minimum (10€) and a maximum (85€) price. When buying its ticket on internet, a passenger knows how many seats are available in the cheapest category available. In addition, the pricing mechanism is simple: the sooner the passenger buys the ticket, the lower the price is. However, many services that used to be free or included in the price ticket have to be paid when using *Ouigo*. Regarding the luggage policy, any additional piece of luggage (beyond the cabin luggage) is charged. Information sent by SMS or the access to electric sockets in the train require an additional charge. Indeed, besides the simple price structure of the ticket, a complex system aiming at increasing ancillary revenues has been set up.

Concerning the distribution. In terms of distribution channels, the *Ouigo* product can be bought only online through the *Ouigo*'s website, whereas traditional *SNCF* tickets can be bought through different channels (train stations, internet, travel agencies, etc.). This unique

channel of distribution allows the low-cost branch to reduce its distribution costs. In addition, as for low-cost airlines, passengers are asked to print themselves their train tickets.

5. Low-cost marketing practices in the rail industry

Considering the *Ouigo* case as exemplary (Yin, 2009), we summarize the main features of a low-cost rail operator. Obviously, there might be differences between the different low-cost rail operators, but to our knowledge, the *Ouigo* offer is the closest one to a pure low-cost rail business model. We propose to put these characteristics in perspective with low-cost airlines and traditional high-speed train offers. We summarize our results in the Table 1. We observe that low-cost rail operators have tried to copy low-cost carriers by adapting to their setting the main characteristics of a low-cost business model. For each variable, the low-cost features have been redesigned to fit with the specificities of the rail industry.

[Insert Table 1 about here]

Nevertheless, when taking a closer look at the Table 1, the match between low-cost airlines and rail operators does not seem perfect. If it works for almost all features, a few of them remain different. For instance, while the staff has become multi-task in low-cost airlines, it is not (yet?) the case for low-cost train operators. In train services, a strict separation remains between the different categories of agents maybe because of the requirement of non-imitable individual core competencies. The same observation can be made regarding pre-reserved seating. If low-cost airlines have decided to adopt a free-seating policy, the *Ouigo* product still requires to have a given seat number. This remaining difference could come from differences in the management of passengers' flows. The high-speed train's capacity is higher

than the one of a regular low-cost aircraft. Passengers have less time to board on the train than to board on the plane. Consequently, it is essential for the railway company to make the boarding simple and fast by giving each passenger a seat number (even though the *Deutsche Bahn* has a free seating policy).

All these differences between low-cost airlines and low-cost train services invite us to think about the limitations in terms of transferability. In other words, is it really possible to copy-and-paste the airline low-cost business model to the rail industry?

Based on our case, it appears that commercial features (such as the pricing policy or the distribution channels) have been adapted and transferred to the rail industry in their purest way. In fact, these characteristics are clearly independent from the industry in which they are deployed. Consequently transferring them from the airline to the rail industry has been rather easy. On the opposite, technical features have been much harder to adapt and implement in the rail industry. As we explained earlier, the legal framework in the rail industry acts as a strong barrier to the adoption of some low-cost features (e.g. multi-task staff). But technical reasons may also limit the extendibility of a low-cost rail business model beyond few specific routes. For instance, the physical rail network limits the possibility to develop a point-to-point network mainly composed of secondary train-stations as low-cost airlines do.

But the real question that must be asked is whether rail operators do want to create real rail low-cost operators. Contrary to the airline industry, the rail industry is not fully liberalized and the competition is still limited on national routes. So far, these low-cost rail operators have been subsidiaries of large groups such as the *SNCF*. These firms don't have any interest in developing too fast their low-cost offer that would lead to a cannibalization of their products. Until now, these low-cost offers have come in complement to their traditional offer.

But the forthcoming liberalization of the rail industry may lead to a change in their strategy in the upcoming years.

6. Conclusion

Considering that rail operators are facing a strong direct competition from low-cost carriers on short-distances, it has become highly critical for researchers and for practitioners to understand how rail operators have decided to compete with these new actors. We focused our attention on the adoption of low-cost features by rail operators using the specific case of *Ouigo*. It appears that if rail operators have adapted to their activity the key elements of the low-cost business models, it is not the case for all the features. It appears that while commercial features have been adapted and transferred to the rail industry in their purest way, it has been much more complex for technical features.

Our discussion also allowed us to question the willingness of traditional rail operators to extend such low-cost features to the rest of their network. It appears that as long as there is a low level of competition in the rail industry, rail operators will limit the cannibalization of their offers by providing different products to different segments of customers. Focusing more on the link between the rail industry liberalization and the development of low-cost rail operators appears to be a promising research direction.

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Table 1. Comparison of traditional and low-cost features in the air and rail industries

Category	Air transportation industry		Rail transportation industry	
	Legacy carrier	Low-cost carrier	Traditional operator	Low-cost operator
Fleet used	Multi-type	Single-type	Multi-type	Single-type
Plane/train configuration	Normal-density configuration	High-density configuration	Normal-density configuration	High-density configuration
Routes served	Direct and with connection	Direct only	Direct and with connection	Direct only
Airports / Train stations used	Main airports	Secondary airports	Main train stations	Secondary train stations
Entry price product	Inclusive	Basic	Inclusive	Basic
Price structure	Complex	Simple	Complex	Simple
Use of ancillary revenues	Moderated	Extensive	Moderated	Extensive
Distribution	Multi-channel	Single-channel (internet)	Multi-channel	Single-channel (internet)
Loyalty program	Yes	No	Yes	No
Multi-task staff	No	Yes	No	---
Reserved seating	Yes	No	Yes	Yes

Figure 1. Routes offered with Ouigo



Source : <http://www.ouigo.com/sites/default/files/carte.png>