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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.

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, Zerbini, & Miniero, 2009). In fact, adopting low-cost practices has become a necessity to survive in this price-based competition (Alderighi, Cento, Nijkamp, & Rietveld, 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 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

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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, Lin, & Windle, 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, Gantumur, Jayaraman, Röller, & Weinmann, 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 km (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, Baudelaire, & Lavril, 2013; Dobruszkes & Givoni, 2013; Givoni & Banister, 2006, 2007; Socorro & Viecens, 2013). However, it has also contributed to intensifying 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 on the train.

Except for a few routes (like Paris–London), traveling by train is usually cheaper than flying, but flying appears longer than traveling 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 and 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). By contrast, 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 (Eisenhardt, 1989; Glaser & Strauss, 1967). 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, Ruigrok, & Wicki, 2008; Lincoln & 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 min with an average length of 57 min. 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 the 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.