

Get the price right

Operators need to work harder to understand when passengers will be willing to pay more and where prices should be dropped to fill empty trains, says **Peter Shearer**

The confirmation that rail prices would rise by six per cent from January 2012 – and then every year until 2014 – under the government's austerity plan, has been met with predictable protests from the press and commuters alike.

Given the current uncertain economic climate and the price rises for essential commodities such as fuel and energy, there is some concern in the rail industry that this increase may drive customers off the rails. Some rail passengers already feel that the level of service being provided is not always what it should be – an impression only reinforced by press coverage of over-crowded or late-running trains, which does nothing to help the image of the rail industry.

With this in mind, and to sugar the bitter pill of price increases, the UK rail minister has promised more comfortable journeys – with more trains and more seats available. The hope is that consumers will see a tangible benefit in paying more for their travel. In addition, the chancellor George Osborne also capped increases that were originally in the region of eight per cent.

However, the fact is that consumers are not happy about the price rises and are increasingly looking for alternative transport options. Unless the rail industry finds a way of managing price increases intelligently, the additional capacity will go to waste as they risk discouraging customers from train travel.

So what can operators do? Since the increases are unavoidable, they are going to have to get smarter about their pricing in order to limit the negative impacts. Today's consumers understand that booking at the last-minute or travelling at peak times will be more expensive, but at the same time they expect preferential discounts during off-peak periods. Such pricing flexibility should be reflected in the way rail operators implement these annual price increases.

Rather than applying flat fare increases across the board, rail operators should work to show flexibility in their plans by setting prices based on day-to-day forecasts and incorporating competitive intelligence. In anticipating and building demand fluctuations into their pricing, the industry can make the best use of available capacity while maintaining customer satisfaction and delivering the better deal to fare payers as the government has promised.

The most effective way of creating these flexible plans is for rail operators to make better use of their data. They need to combine historical data and external information to create a pricing model. This means looking back at ticket sales, profits, previous capacity issues, any booms in demand and other historical data the operator will no doubt have at their disposal. Doing this should let them identify any periods where they have, in the past, seen an increase in demand, or markets where customers have been willing to pay higher fares. This would be a better

place to increase prices, as opposed to upping prices on a journey where they might struggle to fill seats in the first place.

Alongside using their own data, operators also need to look at outside market influences. In particular, their pricing should be informed by an understanding of what other prices are being offered in their key markets. This will help operators avoid pricing themselves out of the market by including these insights when forecasting demand and setting prices, thus ensuring that they remain competitive.

It's the ability to anticipate demand and set initial prices, but also to react to changes and adapt fares, that will ensure operators don't suffer from rail profit blues at the start of the year. Simply put, rail operators must balance expectations from their customers with those from the government. Every industry, including passenger rail, should understand their customers' willingness to pay when setting and changing prices in order to set appropriate prices. It is therefore vital that intelligent pricing tools are used effectively to build flexible, scalable pricing plans that can see the industry through what is expected to be a challenging 2012. **PS**

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