

# NEW REGS MAY BAN AMTRAK DISCOUNTS

by Richard Tolmach

Restrictive language in the \$1.315 billion FY 2006 Amtrak appropriations conference report, passed by the House last month may put Amtrak fare setting in a straitjacket.

According to the language, after March 1 Amtrak may not use appropriated funds "for any route for which discounts of 50% or more off normal, peak fares are provided." The meaning of "normal" is one of the problems in the poorly-drafted language, because it presumes that peak fares are the norm.

Current revenue management technique on Amtrak, borrowed from the airlines, is to maximize fares for last-minute purchases, as well as holidays and other seasonal peaks. Southwest Airlines for example, charges up to about \$650 for long flights, but often discounts them 70 percent to about \$200. Similar United and American flights top out at \$1200 but can be obtained for \$300 off peak, a discount of 75 percent. The language would essentially prohibit Amtrak from using standard industry methods and software.

Rep. Joe Knollenberg (R-MI), chairman of the House appropriations subcommittee, inserted the revenue provision into the appropriation law because he learned about some low fares Amtrak offered on the internet. This made him believe Amtrak was boosting ridership while ignoring finances.

According to NARP's Ross Capon, there

is a mythology on Capitol Hill that Amtrak is "buying riders with cheap fares." The reality is that Amtrak, just like airlines and cruise operators, offers deep discount internet specials on a very limited basis to sell seats that would otherwise go unsold. Empty seats generate no revenue.

Capon points out the reality is that overall yield (average fare per passenger-mile) on Amtrak rose in FY05, at the same time that air fare yields have dropped.

More importantly, the provision applies to far more than internet sales, threatening monthly passes, ten-ride passes and anything that falls below 50 percent of an artificially high "peak" fare. Gene Skoropowski, Capitol Corridor manager, has expressed grave concern about the effect this could have on the cost of monthly passes (estimated at 20-60% increases), and therefore on ridership and revenues.

Ironically, Amtrak's critics have asked that Amtrak run more like a business, yet this provision micro-manages Amtrak and its partners out of the ability to set ticket prices at the primary levels to maximize revenue.

The real question the language raises is why the conferees should tell Amtrak not to be competitive. One can imagine the howls of protest from the highly subsidized airline industry and the public if Congress started dictating limits on air discounts.

# 50 EURO NATIONWIDE FARE PROMOTION ON GERMAN DB

Deutsche Bahn (DB), Germany's national railway, had a hugely successful promotion earlier this year with the grocery discount chain Lidl, the exact kind of promotion that congressional language might make illegal.

In a 10-day blitz campaign starting May 19, second class tickets good for any round trip inside Germany were sold exclusively through the chain for 49.90 euros. Sales were limited to stock of the open-ended tickets on hand in each store. In many German cities, word of mouth caused lines into stores and exhausted ticket stock within hours.

"Resale of tickets is in principle not permitted", said a spokesman for DB on German television prior to the launch, but the offer nonetheless spawned eBay auction resales at rates ranging from 70 to 102 euros, an array of blogs and chat sites about the offer, as well as a general outpouring of interest by youthful travelers who had previously ignored intercity train travel. A consumer group weighed in with a complaint against Lidl for not having adequate ticket stocks.

DB did not seem to worry much about all the fuss. A primary point of the off-site sales was to reach new customers who don't frequent train stations. "We want to win new customers with this offer", said Juergen Buechy, DB passenger marketing manager.

It seems to have worked. The 2600 branches of the Lidl grocery chain sold upwards of 1.1 million trips worth tens of millions of euros in a matter of days. To expedite sales, customers only had to write their names, destination and date on tickets.

The offer targeted medium to long distance trips, the market segment in which DB has been hurt most by recent airline deregulation. Savings from the offer started from approximately 160 kilometers, (100 miles) about the distance from Hamburg to Berlin. On longer trips, the tickets represented as

much as an 80 percent discount.

There were few exclusions on the deal. Travel on the high speed ICE, EuroNacht night trains and private CityNightLine trains only required a surcharge. Children under six years rode along free of charge.

To be able to make such a low-price offer, DB had to trim its promotion and sales costs. The million-sales campaign had only a few ads paid for by Lidl, and used "viral marketing" powered by interest in the offer to produce free newspaper coverage, as well as weblogs and other internet activity.

Lidl sales costs were lower than what DB could have done itself. Selling off-site also had an array of other benefits for the railroad. Existing station revenues were not undermined, and its own ticket offices were not taxed by the offer, so regular customers did not suffer from the surge in sales.

The validity of the tickets ended October 3 and initial indications are that the experiment was so successful it will be tried again, perhaps in a modified form.

Perhaps the most profitable strategic partnership Amtrak could have with a mass retailer such as Subway (page 7) is a co-op campaign like DB's Lidl offer that makes use of the sales power of the chain.

DB photo



# Coast Observations

**RENO'S RAILROAD TRENCH** finally opened in November, eliminating 11 grade crossings through downtown and placing the UP main line below ground level. The 2.2-mile trench was originally proposed over 50 years ago. However, Reno's depot will not reopen until the city and Amtrak agree on costs. In the meantime, passengers have to endure a bus trip back from Sparks... **FRESNO'S BEAUTIFUL rebuilt Santa Fe Depot** finally opened to passengers on November 19, with a ceremony attended by Rep. Jim Costa (D-CA), Mayor Alan Autry and Caltrans Division of Rail Chief Bill Bronte... **SACRAMENTO-FOLSOM light rail** has opened to crush loads, leading the Sacramento Bee to suggest 15 minute headways are needed. Unfortunately, Folsom didn't join the Regional Transit District, and is using all its spare TDA money for road projects... **HOME STRETCH FOR EXPO LINE Phase 1 approval** from Downtown L.A. to Culver City. The MTA Board will certify the Final EIS/EIR for the Expo Line and select route options -- especially an interim terminus in Culver City and whether to use Flower Street (5 minutes faster and better-located) or Hill Street downtown... **AMTRAK FARES** go up as gas prices slacken. Tickets on the San Joaquin, Pacific Surfliner and Coast Starlight (coach only between selected California points) increased approximately 5 percent on December 6... **COASTER HAS NEW OPERATOR.** The San Diego County rail commuter service will probably be run by Herzog, the company that runs ACE, after North County Transit District's Board monitoring committee voted to recommend the change of operators (currently it is Amtrak and the contract expires June 30)... **BOND LEGISLATION** authored by President Pro-Tem of the Senate Don Perata (D-Alameda) has morphed into a statewide spending bill, with billions to repay borrowed State Highway Account funds, plus levee repairs, urban housing subsidies, and amorphous "high speed rail" funding. More solid funding is needed in the bill for bona fide rail projects that can make a difference in travel speeds this decade... **THE U.S. HOUSE** passed its version of the deficit reduction bill in November. The Senate-passed version includes the language of S.1516, the Passenger Rail Investment and Improvement Act (PRIIA) with a six-year Amtrak reauthorization. PRIIA passed as an amendment with an overwhelming Senate vote of 93-6. NARP has an action message on its website ([www.narprail.org](http://www.narprail.org)) to urge legislators to work to adopt Senate (S.1516) provisions in final conference committee deliberations... **ALSO TELL MEMBERS OF CONGRESS** you are upset about Bush Administration actions against Amtrak and regulations that would eliminate rail discounts. For congressional contact info, go to [www.trainriders.org](http://www.trainriders.org), click "Save Amtrak", then the click the "ignore this ad" X, enter your zip in the box, click "GO" to get the name of your member of congress, then click to send an e-mail...