

Balancing Customer Expectations and Cost Challenges

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By Journey4

The Cost Challenge

With inflation still running at very high levels for recent times and cost of living rises only just starting to slow down, it seems likely that Government departments will be under further pressure to find cost savings or efficiencies, or at least to be able to justify in detail the money they spend on public services.

As it seems the Government are adopting a position that cost savings shouldn't adversely affect services to the public, the presumption is that cost reductions should be targeted at improving efficiency more than cuts in services and delivering the same level of service, if not more, for less.

This of course isn't news to the rail industry given the reductions in travel demand since the Covid

pandemic and the subsequent need to reduce costs over the last couple of years. Network Rail has been modernising and cutting costs for some time, and will continue to do so into the next Control Period, and the Train Operating Companies have faced challenging budget submissions over the last couple of annual business planning cycles.

In simple terms, the rail industry has looked at reducing spend in the following areas:

- Reducing headcount
- Increasing efficiency
- Reducing service capacity and frequency
- Stopping or postponing non-essential projects

These are all valid routes to reduce costs, although they become less effective when cost challenges persist over a period of time, as we are now experiencing. Cutting costs can lead to a downward spiral in service quality which can have a detrimental effect on customer experience and in turn demand and revenue, so the challenge is to find ways to reduce spend and increase efficiency without negatively impacting the customer experience.

Customer Expectations

To add to the cost challenge, it can be argued that customer expectations of rail services have increased over the last few years. This is mainly because travel patterns and behaviours have changed post-Covid with significantly less commuter and business travel and relatively more leisure travel resulting in different customer needs. From a commuting and business travel perspective, there is also much more choice for the workforce about when and where they work, so the rail industry will need to provide an attractive, effective and efficient offer to be relevant.

The other factor, which is a generalization but equally important, is that customer expectations of public services are constantly increasing, particularly given the rapid improvements in technology and that they experience improving services in other aspects of everyday life.

There is an argument that expectations are shaped by experience and that customer's expectations of rail services are relative to the experience they have received but this ignores those who don't regularly travel who we want to attract to rail and those who have a choice of other modes of transport.

In summary, it can be argued that customer expectations are increasing and will only increase faster over time and that the rail industry will fall further behind if it isn't able to deliver services that meet these expectations.

The Balancing Act

If we accept that the rail industry isn't meeting customer expectations at present and has an ever-

widening gap to bridge between the current service it offers and the service customers are looking for, it follows that adopting a more customer-focused approach than the generally operationally-led pre-Covid service, requires a shift of focus and culture across the industry.

We are acutely aware that in times of economic difficulty, putting the customer first isn't always seen as sufficiently commercial or cost focused, although we believe there is an even greater need to focus on the key priorities for customers at such times. As highlighted above, a focus on cost reduction alone can lead to a reduction in service performance and customer experience which ultimately will drive lower demand and revenue. This can lead into a downward spiral that will take longer and cost more to recover from. We believe, therefore, that a balancing act is required to find ways to meet changing customer expectations and the current cost challenges. We also believe that the information we need to strike such a balance is readily available.

If we focus on prioritising those areas that customers rate most highly in terms of their end-to-end journey experience, whilst investing less in those areas that have the least impact and managing customer's expectations accordingly, it is possible to maintain or even improve customer experience for less. There is customer expectations research available that highlights these priorities for customers and evidence to show the links between improving customer satisfaction and increasing revenue for those areas the customers rate most highly. Investing less in areas of the least impact can save money, and in some cases enable more money to be diverted to areas of higher importance, but of course has to be handled carefully. In our experience, if customers know that you are investing less in these areas and why, they are more likely to accept the trade-off, particularly once they see the improvements in priority areas.

About Journey4

Journey4 are specialists in customer-driven growth and transformation who have worked in the rail sector for more than 18 years. We have extensive experience of developing customer focused strategies that balance the challenge of operating cost pressures and translating these strategies into business plan requirements. We believe there is an opportunity to focus on balancing customer priorities and cost reduction in the short-term, whilst also setting out medium-term priorities to continually improve customer experience along with a long-term vision to deliver great customer outcomes. We refer to this as the Parallel Planning principle, focused on balancing customer priorities and cost challenges, which is an approach we have implemented at organisational and industry level.