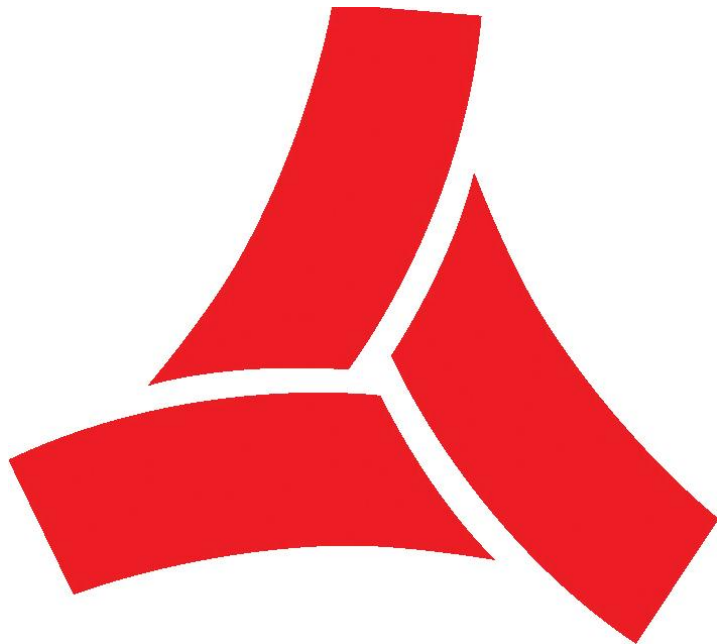


# Improving European Railways

## RETRACK Synthesis Workshop: Business Models and Challenges in Declining Rail Freight Market

Dr. Johanna Ludvigsen  
and Yu Bai

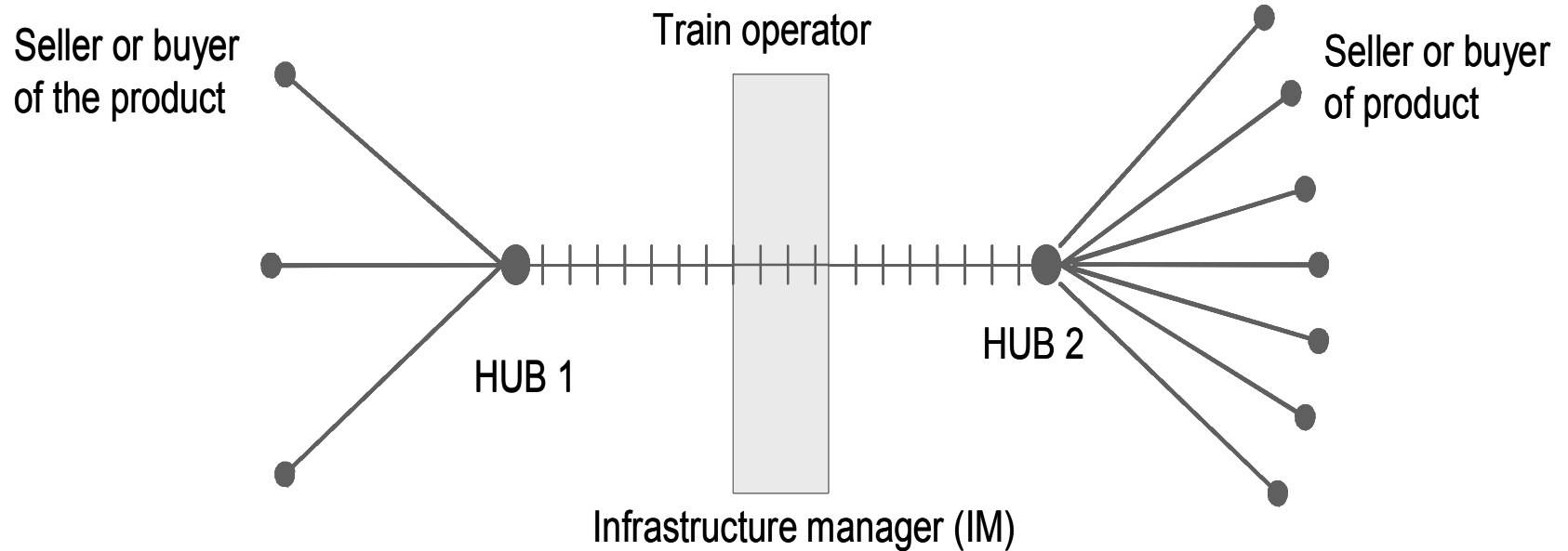
Institute of Transport Economics,  
Oslo, Norway



***retrack***

***An Integrated EU-Project***

# ”Anchor Customer Model ”



# Competitive Benefits of “Anchor Customer Model”

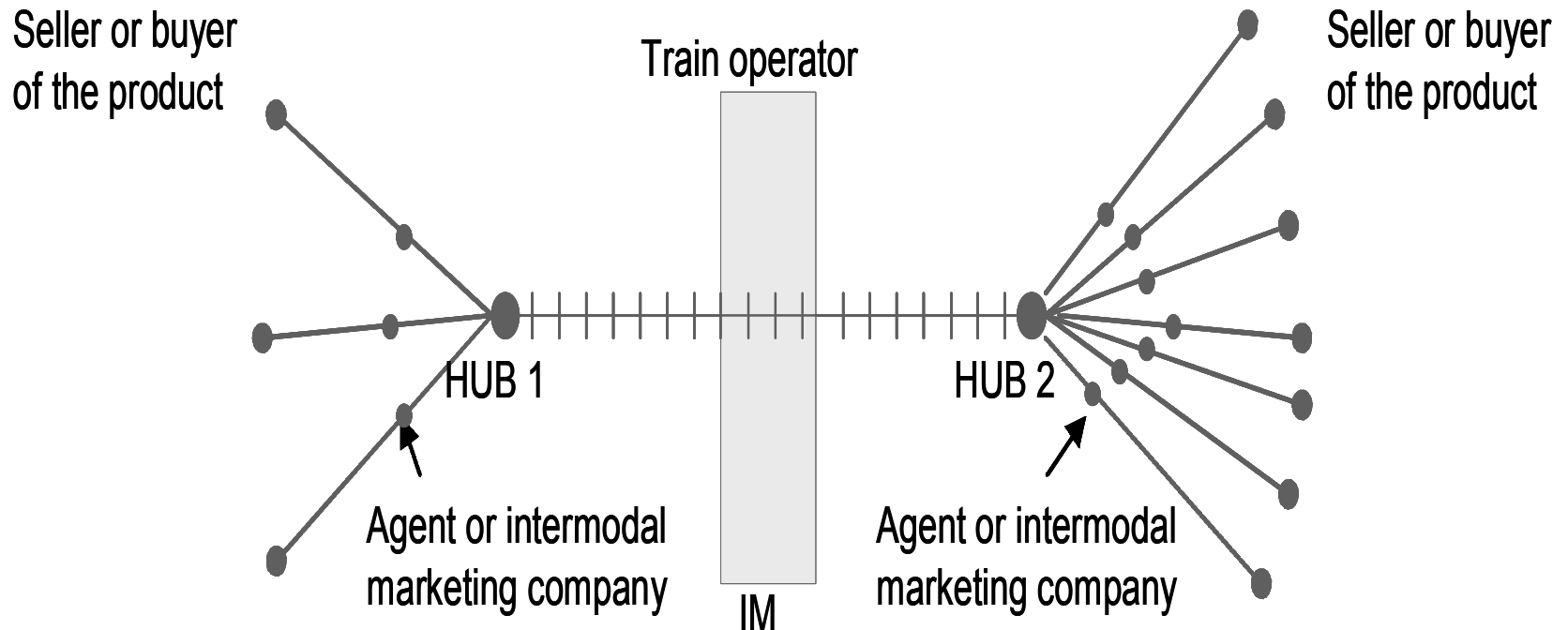


1. Low risk of empty runs
2. Quality and routing can be easily optimized with regard to just one customer
3. No need for IT -based interfaces with multiple customers
4. Management of service provision is relatively straightforward

# Competitive Disadvantages of “Anchor Customer Model”

1. Price becomes *the most* important competition instrument
2. High dependence on one source of business
3. High sensitivity to anchor customer's business fortunes
4. Difficult to harmonise service quality with demands of marginal clients , i.e., those buying the load carrying capacity left over by the anchor customer

# "Agent Model" with Agents/Brokers Selling Load Carrying Capacity to Different Shippers



# Competitive Benefits of “Agent” Business Model



1. Prior booking of large part of freight carriage capacity through blanket contracts
2. Relative easiness to manage quality levels as agreed in brokerage and/ or franchise contracts
3. Ability to develop new and/ or expand existing service lines to other shippers and/or destinations served by the same broker without much investments.

# Competitive disadvantage of “Agent” Business Model



1. Price remains very important competition measure
2. High probability of contract severance when costs exceed the agreed level ( due to e.g., higher energy costs) and/or when long-term consistency of service quality becomes problematic
3. Limited ability to develop working relationship with other shippers and/or consignees
4. Lower profitability due to the costs of the middleman

# And then came the **Crisis**....

## Consequences for the European Freight Transport and Logistics Industry

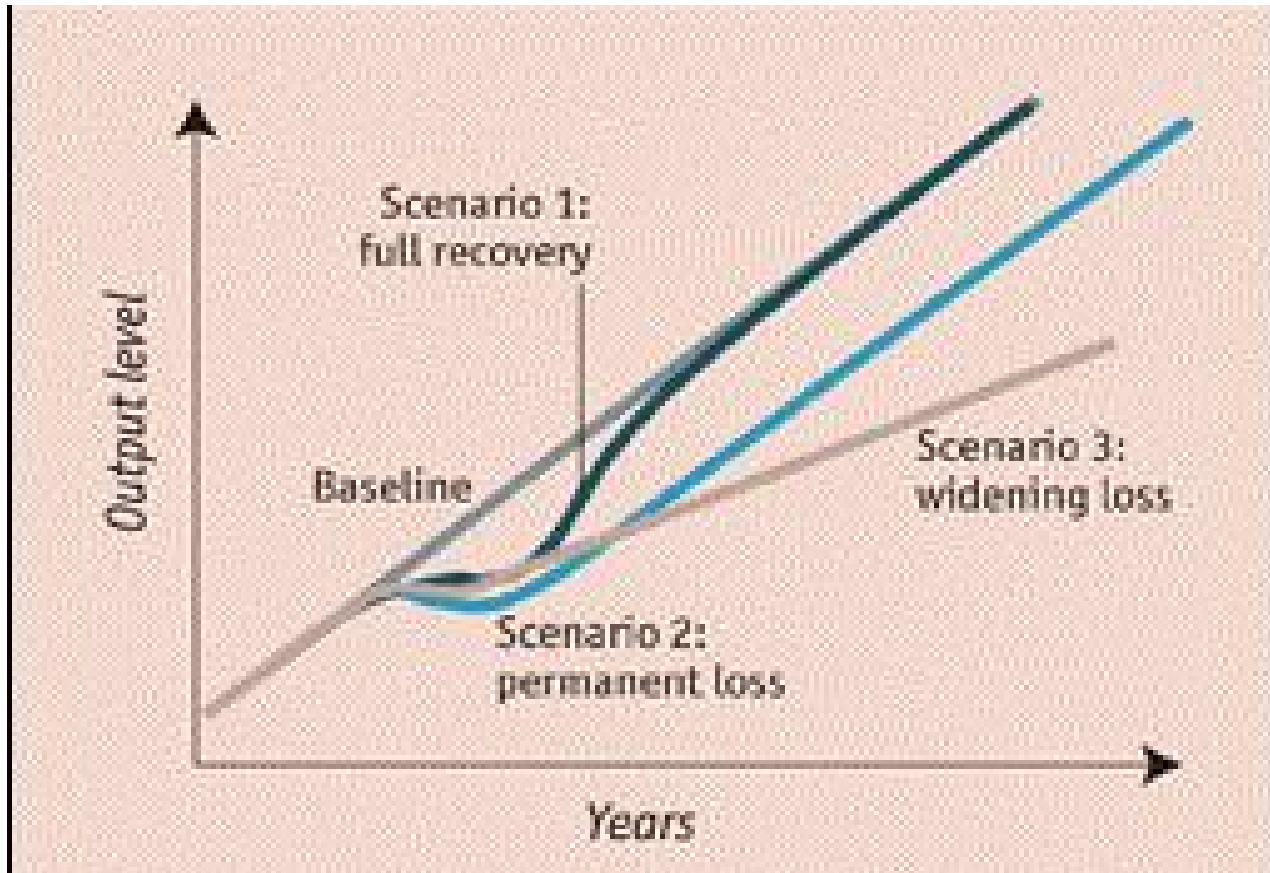
1. Volumes of European trade dropped over 2008–2009 by **35** p.c.
2. Volumes of European railways shrunk by **35–40** p.c.  
(depending on commodity segments)
3. Volumes of truck–carried freight went down by **20–28** p.c.  
( depending on commodity segments and geographic regions  
markets)
4. Dramatic growth in freight carrying overcapacity
5. Growth in fuel costs and electricity prices
6. Disastrous fall in freight rates and profitability of transport  
and logistics companies
7. Many small and medium–sized companies went out of  
business



## Understanding and Responding to the Crisis through:

- Analyses of One's Own Financial Condition and
  - Competitive Re-assessment for
  - Surviving in Highly Challenging Business Environment
- or
- Capitalizing on New Opportunities

# Three Scenarios for Market Development Trajectories



# Defensive or Offensive Approach

- Depending on the company's
1. financial condition (solidity, structure of balance sheet, cash flow stability, etc., ) and
  2. competitive position ( cost structure, service– market positioning and quality of technologic and human capital
- one can recommend


*Defensive or Offensive Strategy*

- **Defensive** approach applies to those with poor financial health and/or threatened competitive position:
- **Stabilize and survive** by consolidating operations in most profitable market segments, ensuring stable funding and improving cash flows
  - **Strengthen and improve** by streamlining and/or enhancing service provision process and strategic cost-cutting (through elimination of e.g., non-performing assets)

# Defensive Counter-actions for Improvement of Financial and Competitive Standing




 Improving/  
leveraging  
balance sheet



 Divestment/removal of  
non-performing assets  
 Staff rotation

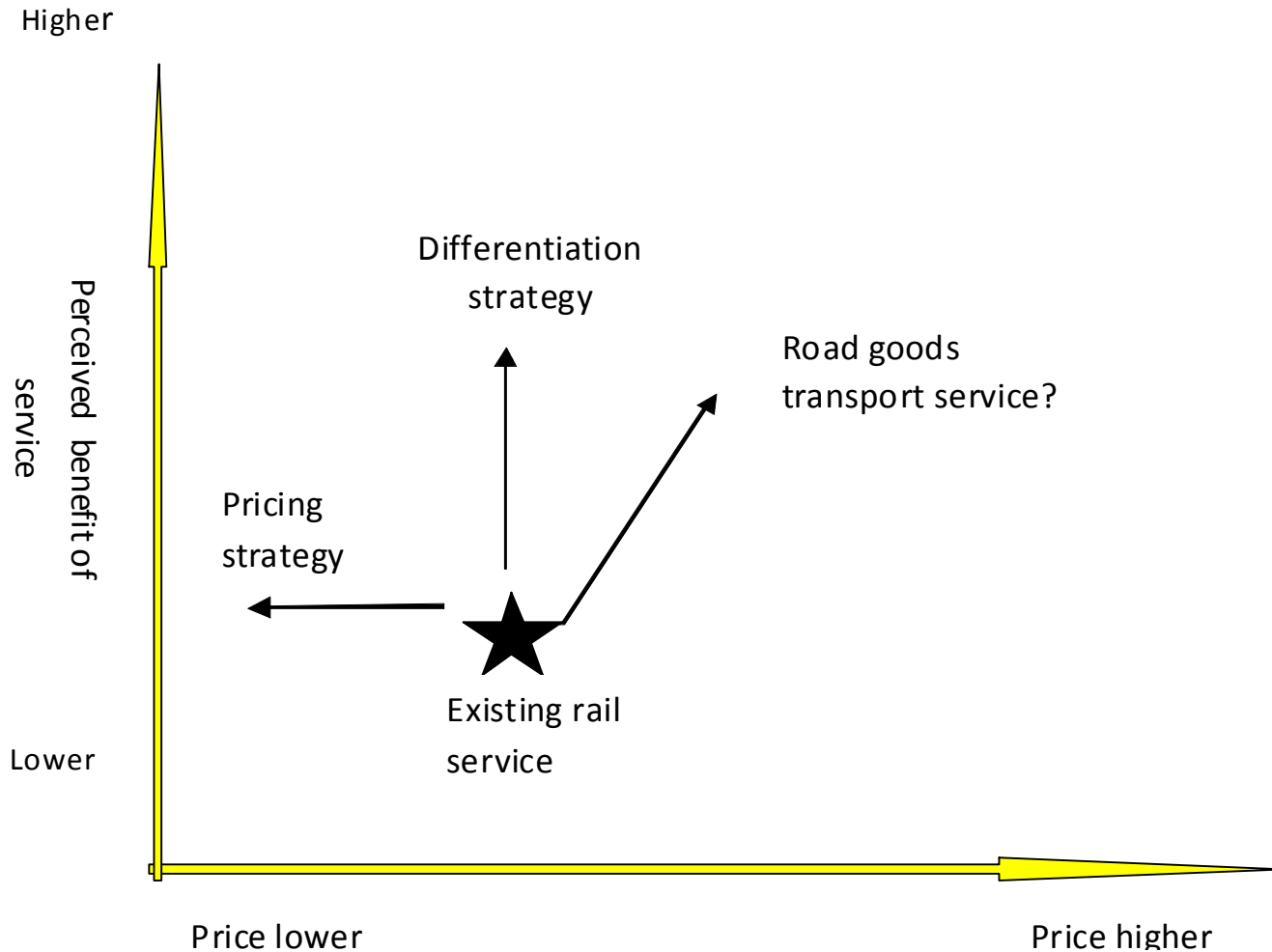
 Expenditure  
reductions



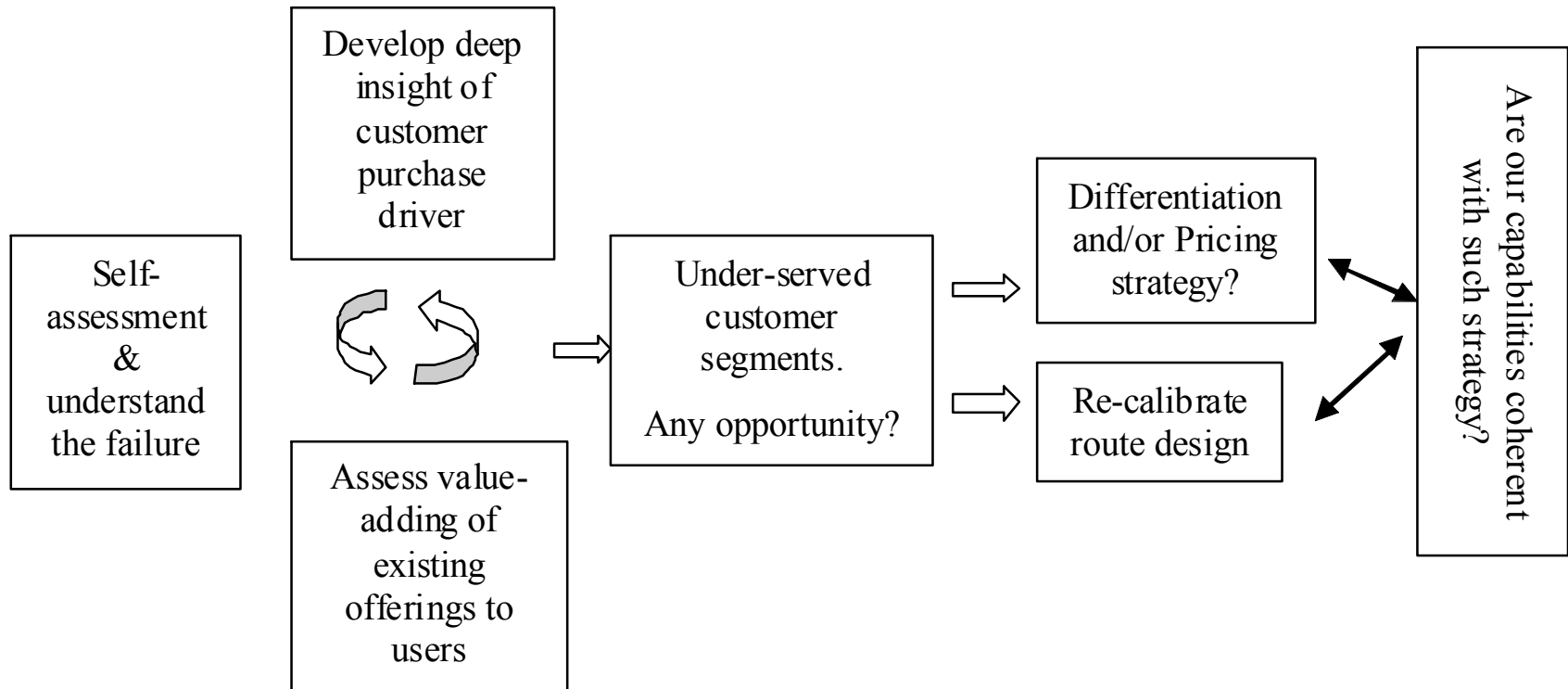
 Labor cost  
management  
Network Optimization  
 Streamlining of  
operations through IT  
 Overhead reduction

- Offensive approach applies to those with strong balance sheet, and positive and undisturbed cash flows.
- ***Leverage the position***  
*using strong balance sheet and cash-flows utilize merging opportunities, fine-tune business portfolio, make investments and expand into new service niches and/or market segments*

# RETRACK Competitive re-assessment



# RETRACK Competitive Re-positioning





# Dealing with Crisis



Thank you for your attention !

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