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# CTR F

JERRY FRANK

## Transportation: Emerging Realities



## Les Transports: réalités en puissance VOLUME 2

**Canadian Transportation Research Forum  
Proceedings of the 32nd Annual Conference  
Toronto, Ontario May 25-28, 1997**

**Le Groupe de Recherches sur les Transports au Canada  
Actes de la 32ième conférence annuelle  
Toronto, Ontario 25 au 28 mai, 1997**

**Focusing on Growth through High Quality Service  
and Innovative Products at Low Cost**

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**May 27, 1997**

**Facing the funding challenge while keeping the network intact**

In 1993, in view of over \$100 million annual reductions in government funding for passenger rail contained in the Federal budget, VIA faced the difficult choice of either eliminating a quarter of its train services network or taking steps to lower costs dramatically while maintaining and improving service to customers and meeting high quality standards. VIA opted for the latter and this strategy has proven to be the right one. Ridership and revenues are up while operating costs and government funding are down dramatically.

- For most of VIA's history, the company earned only 30 cents of revenue for every dollar of expenses, while requiring very large amounts of funding from the Government of Canada. For example, in 1988 VIA required \$637 million of subsidy (over \$800 million in today's dollars), which in 1990, prompted a 50% cut to its train services network and resulted in reducing funding to \$389 million by 1992.
- By 1996 things had changed. VIA earned 47 cents of revenue for every dollar of expenses, and that will increase to over 60 cents in the next three years. This is reflected in the reduction in government

funding to \$245 million in 1996, and that will be down to \$170 million by 1999. This is in large part due to a cultural change within the corporation concerning finances. In effect, VIA now acts like any other company trying to improve its bottom line and has adopted an aggressive, private enterprise approach towards customer service, revenue generation and cost reduction.

- Over the next few years VIA will focus on the achievement of common goals and objectives as outlined in its 1996-99 Strategic Plan entitled *Service for Success*. This plan confirms VIA's vision "to be the best passenger transportation company in Canada" and its mission "to deliver high quality, low cost passenger service". The strategic plan recognizes the importance of each employee's contribution to the success of the corporation, and makes special efforts to this effect through improved information technology, effective communications and an emphasis on training and celebration of team successes.

### **Emphasis on the bottom line**

Between 1992 and 1996, VIA's bottom line improved by \$126 million annually --- operating costs were reduced by \$97 million while revenue increased by \$29 million. This represents a major turn-around by any standard.

- Further improvements will see operating costs down by a remarkable 24% between 1992 and 1999 (after absorbing another 12% of inflationary pressures on costs) while revenues are projected to increase by 47%. These goals will be achieved through the continued efforts of the corporation to build on the solid financial framework that has been developed.
- In 1996 alone, VIA's funding requirements from the federal government dropped by \$50 million; the largest year over year

reduction since 1990. Total government funding in 1996 was \$245

million, representing a decrease of almost 37% from the 1992 funding.

- By 1999, revenues are projected to be up by another \$45 million (an increase of 24%) while operating costs will be down by another \$19 million (a decrease of 5%) versus 1996 levels (despite the large increase in revenue and ridership).
- VIA's government funding will decrease to \$170 million by 1999, down 60% versus 1992 and 80% versus 1988, in real terms.

The increase in revenue is the result of superior customer services and on-time performance, innovative marketing and promotion initiatives as well as increased train capacity. Costs have been reduced as a result of organizational streamlining, modernization of collective agreements, lower maintenance costs and numerous other productivity measures.

- The streamlining of the organization, which began in 1993, has resulted in the reduction of administrative and management staff by almost 800 or over 60%, saving \$46 million annually.
- New collective agreements have allowed VIA to modernize its labour practices. Shopcraft unions have been consolidated, reducing the number of job classifications and increasing flexibility. The method of payment for running trade employees has changed from a mileage to an hourly basis and assistant conductor positions were eliminated on most trains. Customer service staff in the Corridor has been rationalized. The number of employees eligible to receive employment security has been reduced.
- In 1997, a further step in modernizing VIA's crewing operations will take place with the merger of the conductor and engineer positions thus eliminating 227 train conductor/assistant conductor positions, while improving safety and saving \$15 million annually. The merger, a first in North America, means that the two engineers in the

cab will be responsible for the safe operation of the train and for coordination of emergency response in case of accidents. Passenger-related duties currently performed by the conductor will be handled by customer service employees. Service managers on the Eastern and Western transcontinental trains and a designated in-charge employee on Quebec-Windsor Corridor trains will be responsible for all customer service matters. Furthermore, customer service personnel will be given enhanced safety training to ensure the security of passengers.

- The number of employees stood around 4,500 in 1992. This declined to 3,000 by the end of 1996 and will decline to 2,700 by the end of 1997, all with the same train services network.
- In 1996, VIA retired the last of its steam-heated equipment with the introduction of refurbished and modernized stainless steel cars on its services in northern Manitoba, northern Quebec and southwestern Ontario. (The refurbishment of 33 stainless steel cars was internally-financed through productivity savings.) The refurbished equipment ensures greater reliability and improved comfort for passengers and represents significant savings for VIA. In southwestern Ontario the introduction of the refurbished cars increased VIA's first class capacity by over 40%. The cost of refurbishing the cars was about two thirds of the cost of buying new equipment, resulting in savings of \$30 million. Operating savings are expected to be \$2 million annually.
- The elimination of steam-heated equipment along with better equipment cycling and improved availability and reliability of the fleet have allowed VIA to reduce the number of active cars and locomotives in its fleet to 400 --- 323 cars and 77 locomotives. This compared to 577 pieces of equipment in 1991, a reduction of 31% with the same train services network.

- In June 1996, VIA announced the closing of the Halifax and Toronto maintenance centres which will be completed this spring. The consolidation of maintenance activities in Montreal, Winnipeg and Vancouver will result in annual savings of up to \$7 million. VIA has also introduced various cost reduction initiatives in equipment maintenance including the reduction of unscheduled repairs, improving the quality of work and streamlining maintenance and servicing practices.
- In September 1996, VIA introduced a new economy class food service on all Corridor trains. This service eliminated complimentary snacks while offering a better selection of sandwiches and other items for sale. This change represents an overall annual benefit of \$3.5 million --- \$1.7 million in savings and a \$1.8 million increase in revenue.

### **The customer service results speak for themselves**

Today, with less than 3,000 employees, VIA operates 429 weekly trains serving more than 400 communities across the country. In 1996, VIA carried 3.7 million passengers and earned \$185 million in revenues. While this represents only a 2% increase in the number of riders since 1992, passenger miles are up 9% and total revenue is up by 18% despite extremely competitive markets and difficult economic conditions.

- Passenger satisfaction ratings in 1995 and 1996 averaged 95% (customers who said VIA service met or exceeded their expectations). Of note are the over 30% of passengers on the western and eastern transcontinental trains who reported that the overall train trip exceeded their expectations. And some 35 to 40% of these same passengers reported that VIA exceeded their expectations in terms of value for money.



- Operating performance and service quality have continued to be high. VIA's on-time train performance has averaged 84 to 90% since 1991. Equipment performance has been excellent with 88% equipment availability and equipment reliability averaging 229,000 miles per vehicle, or almost two years, between major defects.
- At the same time safety improved in 1996 versus the previous year. The number of lost-time accidents was reduced by 31% and the number of lost days due to those accidents by 32%. By this spring, all on-train employees will have received the Emergency Response Training Program.

### **Setting --- and achieving --- goals for success through people**

VIA's success has been made possible by the commitment and contributions of all VIA employees, reinforced through effective two-way communications, improved information technology and enhanced training, and celebration of team and individual successes and achievements. It is also a result of total commitment to quality and an emphasis on customer services and cost control. For example, front line staff are given a "License to Serve" which gives precedence to superior customer service at the expense, in certain circumstances, of policies and procedures.

VIA's efforts on these fronts have not gone unnoticed. In 1996, VIA was selected by the Canada Quality Council to chair its public awareness campaign and Canada Quality Month. VIA's campaign theme was "Quality comes from within". VIA's new uniforms and the refurbished stainless steel equipment won international acclaim for outstanding visual design in railway transportation from the Watford Conference of European Railway Architects and Designers.



New strategies to increase ridership and revenues include innovative marketing and promotional programs, excellent on-time performance and equipment reliability, better utilization of equipment to take advantage of peak demand and superior customer service at all levels from economy class to "Silver and Blue" sleeping car service on the western transcontinental train *The Canadian*.

### Launching new products and services

- In June 1996, VIA introduced a frequent-user program called VIA Preference. By year-end, the program had attracted some 50,000 members. In addition to increasing ridership and revenue, the program will build a customer profile base that will allow VIA to develop more cost-effective and focused promotional activities and market research efforts.
- VIA is the first railway in the world to offer an Internet booking and payment system called VIA Resernet. During a two-month test period, over 30,000 users visited the site which resulted in some 1,000 confirmed reservations.
- In 1996, VIA began accepting reservations for coach travel, formerly limited to VIA 1 and sleeping car passengers. This year, a new reservations system will be introduced which will reinforce the linkages already created with the Sabre, Apollo and Worldspan airline reservation systems (representing 35,000 U.S. and 5,000 Canadian travel agents and tens of thousands worldwide) and allow expansion of the international sales network through travel agents. The new system will provide features such as inventory and yield management, with full reservation and seat selection for all classes of service.
- Last year, VIA introduced a two-day, daylight, touring-oriented service on the *Skeena* (Jasper, Alberta-Prince Rupert B.C.) and ridership rose by close to 40% during the key summer season. New and more attractive daylight schedules were introduced for the

northern Quebec services. Along with the Winnipeg-Churchill trains, these services are being promoted to the growing "adventure" and "ecotourism" markets.

- Capacity was increased on both the Eastern and Western transcontinental trains to take advantage of high summer demand. In 1996, bookings by western wholesalers increased peak passenger mile volumes by 18% on *The Canadian* while price promotions in the Maritimes increased year-round passenger volumes by 14%. This summer, the consist of the western transcontinental train between Jasper and Vancouver will be up to 25 cars (almost 1/2 mile long, carrying 500 passengers) as additional sleepers are being assigned to this popular segment.
- Frequencies were added in the Corridor to test the long-distance commuter market in key southern Ontario markets. At the same time, VIA tested the self-propelled European IC3 Flexliner trains which are designed to operate at lower cost. It was found that although the equipment is less expensive to operate, it is not yet economic enough to generate a profit given the low average fares that these commuter markets could sustain, but we may continue the test on the Kingston-Toronto service because of its potential. Nevertheless, VIA will continue to explore options to serve this market segment.

### **Developing partnerships for growth**

- Pricing promotions included a promotion with the International Students' Association which enabled students to more easily qualify for off-peak fares, family fares offering free travel for children to stimulate summer traffic in the Corridor and, as a joint effort with the Canadian Tourism Commission, "Rediscover Canada" fares to encourage round-trip, inter-provincial travel.

- Other promotional efforts included joint sponsorship of ABC TV's Good Morning America's tour of Canada along with the Canadian Tourism Commission, Canadian Airlines International and CP Hotels and Resorts. The show, with an audience of some 30 million, featured segments on rail travel over a five-day period. Seasonal campaigns were launched with tourism authorities across Canada as well as numerous joint travel promotions for specific events and attractions. These kinds of successful promotions will continue this year. VIA is also aiming at the business community in the Corridor this year with a program that will target Chambers of Commerce with executive presentations to members, and sponsorship of events.
- VIA also works closely with industry partners, government and police agencies to improve safety. This includes the Operation Lifesaver campaign to educate the public about the danger of ignoring crossing signals and trespassing. Along with CN, local police forces and representatives from Operation Lifesaver, VIA has participated in an Officer on the Train program, an approach to reducing level crossing incidents. VIA was also a partner in the Canalert research project, a comprehensive study of the factors affecting locomotive engineers' performance. The results will help to improve the health and welfare of employees, enhance railway safety and the security of passengers.

### **Investing for a better future**

- Currently, VIA carries 3 million passengers in the Quebec-Windsor Corridor and this is expected to increase to 3.5 million by 2001. VIA will be introducing changes to both its economy class service throughout the system and VIA 1 (first class) services in the Corridor in response to the need to significantly increase revenues during the coming years. All aspects of passengers' experience from the first phone call to the final farewell are under review. Among the improvements planned for VIA 1 service are visually distinctive interiors providing more seating capacity as well as electrical outlets at

seats, specialized meeting/conference areas and upgraded meal service. Furthermore a state of the art system to track customer complaints, commendations and feedback is under development.

- The public address system on the LRC trains was upgraded last year. As well, VIA introduced a series of improvements to emergency-handling procedures and equipment including trauma kits, new safety and emergency signs and pamphlets, and redesigned emergency lighting systems. This year, LRC cars will have a better margin of safety with a new much more economical, air-only braking system.
- Investment in training continues to be a top priority at VIA. Training programs are focused on safety, customer service and supervision skills, including announcement skills and selling skills. Over 600 participants have taken part in the "Achieving Excellence in Customer Service", a two-day workshop focused on improving direct customer contact and providing people with the tools to create positive and memorable customer experiences. Some 75 employees have completed "Supervising for Service Success", an 11-day program designed to create "missionaries for service". In 1996, individuals and work teams developed and implemented more than 400 Performance Enhancement Projects, designed to make the best use of employees in an environment of innovation and participation as well as recognition of employee efforts.
- Besides the new state-of-the-art reservation system, VIA has invested in other new technologies including an Executive Information System that gives management daily or monthly access to detailed financial, revenue, ridership and operating performance data through their desktop or portable computers. A self-monitoring diagnostics system on LRC cars and F40 locomotives helps the shop floor in the trouble-shooting of failures and assessment of performance.
- A comprehensive review of VIA's network of stations is underway to streamline operating costs and improve station facilities and their related services including their esthetics. The goal is to ensure that VIA operates, upgrades and effectively manages quality passenger service

facilities, satisfying customer and operational requirements at the lowest cost.

### **Confidence in the future**

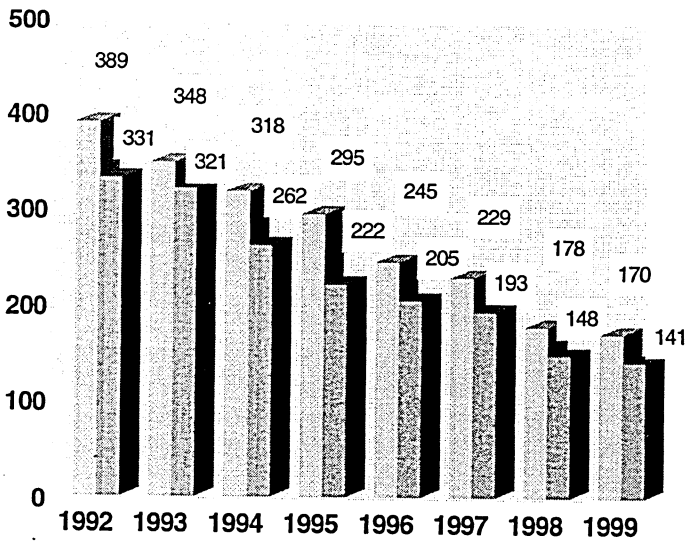
A major priority that VIA faces is developing and funding capital investments which will allow the corporation to meet the more demanding expectations of the travelling public, in a highly competitive market. To meet customer needs for faster trip times, more convenient departures and enhanced on-board amenities - planning for infrastructure improvements and replacement of the fleet must now begin. Our ability to satisfy the demand for more capacity, while continuously lowering costs and generating a positive contribution to the bottom line, depends on targeted capital investments.


VIA still faces challenges in the years ahead if it is to meet its funding targets by the end of this century, but it has turned a very important corner in the past few years and there is no going back. Its revenue and ridership targets are ambitious --- as are its projections for further operating cost savings. This will require a commitment by all employees to continuously improve products and services and find new innovative ways to eliminate waste in the drive towards self-sufficiency. However, there is no doubt that a very important change to the culture of the organization has taken place that will allow these things to happen. And if VIA's strong performance of the past few years is a sign of things to come, there is little doubt that we will succeed.


# VIA RAIL CANADA INC.

## TOTAL GOVERNMENT AND OPERATING FUNDING

Millions of Dollars

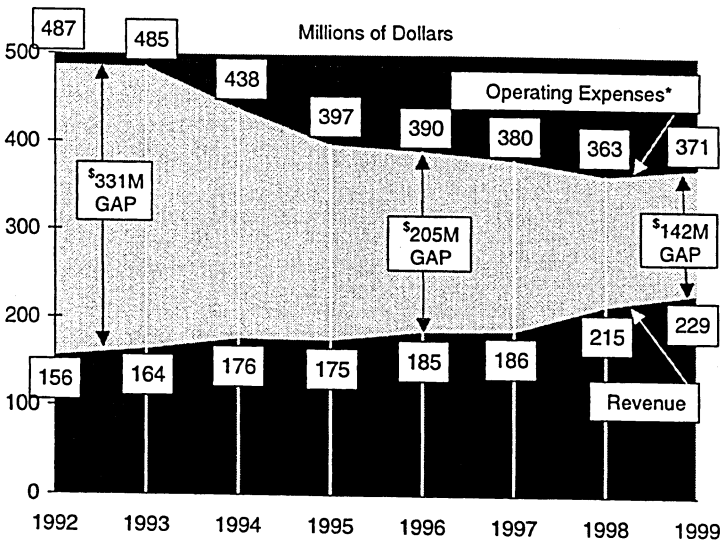


 **Total Government Funding**  
Includes restructuring and capital expenditures


 **Operating Funding**  
Excludes restructuring expenses

# VIA RAIL CANADA INC.

## REVENUE & OPERATING EXPENSES

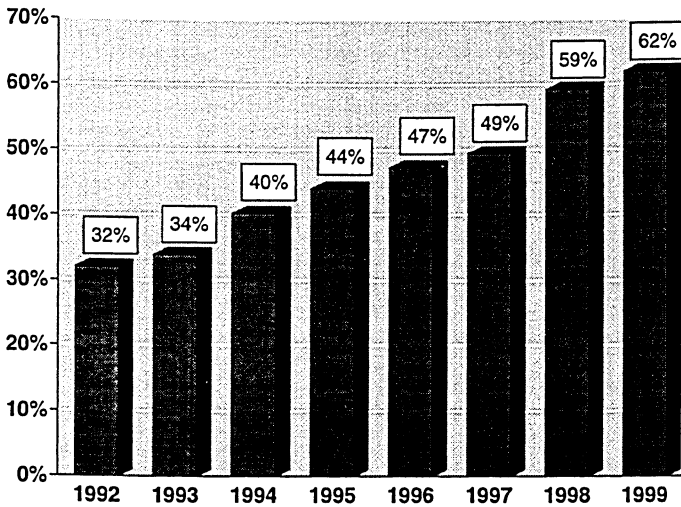


\* Excludes restructuring & non-cash expenses

 Operating Deficit (Gap)



**VIA RAIL CANADA INC.**  
**REVENUE / EXPENSE RATIO**



Excludes restructuring and non-cash expenses