

## MEETING NEW DEMANDS IN THE MARKETPLACE

The nature of the transportation marketplace itself is changing, especially in Eastern Canada and the Montreal-Ottawa-Toronto triangle. Intense competition and price wars characterized these markets throughout 2004, with the arrival of new, low-fare air services. In many cases, these services have made sharp inroads into VIA's traditional markets. At the same time, shifting markets have opened new opportunities for VIA to realign and focus on the strengths of passenger rail to meet customer needs, in ways that other passenger services cannot duplicate.

### REPOSITIONING PASSENGER RAIL IN THE EAST

Passenger rail has provided a core transportation service in Eastern Canada for more than a century. But the demand for traditional passenger rail service has been falling consistently for many years. In 2003, the decline accelerated, with passenger volumes on the *Ocean* down 30 per cent compared to the year 2000. The decline continued in 2004.

Much of that decline is due to competition from discount airlines. In terms of price, speed, and scheduled frequencies, rail can simply not deliver the same kind of basic transportation service the airlines are providing today.

At the same time, passenger rail remains an important travel option for many communities served by the *Ocean*, and we are committed to finding new ways to improve the service's financial performance. In 2004, we conducted extensive research with tour operators, customers and employees to find better ways for passenger rail to respond to the changing market in Eastern Canada, and better ways to support the needs of the region.

We found that there is a significant demand for a high-quality tourism service throughout the Maritime provinces. Provided that the service delivers an exceptional travel experience — the kind of experience not possible on a plane or a bus — such a service has a place in the regional tourism industry. While maintaining its role in the region's transportation system, a high-yield tourism service would generate significant revenue growth, helping to reduce the costs of providing year-round intercity transportation.

As a result, VIA is repositioning the *Ocean* to fill this market niche. The new *Easterly* class will provide attentive customer service and a unique learning travel experience, meeting the expectations of customers. On-board activities will include enriched cultural and learning opportunities, with entertainment and educational content tied to regional culture, history and geography. Dining will reinforce the cultural connection, with regionally-inspired cuisine and an animated personal-service touch. The newly introduced Renaissance passenger cars will be decorated to reflect Atlantic themes and culture.

The objective is to create an experience that surrounds the customer with a rich feeling of Atlantic Canada from the moment they board the train — and maintain that experience with high-quality service throughout the journey. The result will be the transformation of a basic transportation service into a viable transportation and tourism service, closely tied to the heritage of Eastern Quebec, New Brunswick and Nova Scotia. And it will be a service uniquely aligned to the market — one that no competitor can provide.

The repositioned *Easterly* class service will be introduced in June 2005. By 2008, it is expected to increase VIA's Eastern revenues by 62 per cent over 2003.

This project is similar to the highly-successful repositioning of service on board the *Canadian*, between Toronto and Vancouver, in the 1990s. The introduction of *Silver and Blue*<sup>™</sup> class, a high-end tourism service in the West, met with immediate acclaim and improved financial performance, with demand often outpacing capacity. In 2004, VIA's Western service posted the highest revenue gains of all VIA's services. The Western service team will monitor the implementation of the new Eastern service closely, and apply what they learn to further improve *Silver and Blue* class.

## **MARKETING OUR STRENGTHS**

Passenger rail has also been challenged by airlines in the Montreal-Ottawa-Toronto triangle, with discount airfares and frequent service cutting into VIA's market base, especially among business travellers.

Whether or not this market has the capacity to sustain the current level of air services over the long run is open to debate. There is no question, however, that the airlines are offering a very different kind of service than passenger rail — bare-bones, no-frills transportation that cannot match the comfort and personal service available on the train.

We believe that the market needs the passenger rail alternative. Rail provides fast, downtown-to-downtown travel between major centres while serving many smaller communities along the way. Those who board our trains — especially business travellers — enjoy the value of making the most productive use of travel time, with wireless Internet access coming on board, laptop plug-ins, freedom to use their cell phones, or even conduct business meetings while travelling in comfort. Others welcome the opportunity to stretch out and relax. Whether travelling on business or not, all of our customers appreciate the level of attentive, personal service that has earned VIA an international reputation as a leader in passenger rail.

In the spring of 2004, we launched an innovative marketing campaign, "It's Only Human," emphasizing these unique benefits of passenger rail travel. At the same time, employees increased efforts to deliver those benefits consistently, and improve the quality of service even further. Those efforts are showing results and, we believe, will continue to attract customers back to passenger rail in 2005 and onwards.

## **RESPONSIVE, HIGH-QUALITY SERVICE**

To ensure our place in the market, VIA must constantly focus on improving customer service in all parts of Canada. It is the key competitive advantage that sets passenger rail apart. It is an advantage that begins from our first contact with the customer — on the telephone, at our stations, or through our highly-successful website — as well as service on board the train.

Many customers have asked for convenient, fast access to train information, reservations and ticketing. The 33 self-service ticketing kiosks we introduced in stations throughout the Corridor during 2003 have proved very successful, and we continue to explore ways to make self-service options easily available to those customers who choose this option. We have also continued to improve our website, by ensuring that personal assistance from a “live” service representative is available on demand. Ongoing improvements to telephone sales operations enhanced service further, while reducing costs.

Our cross-functional regional Service Teams, created in 2001, have brought decision-making processes closer to the markets and the customers they serve, improving VIA’s ability to respond to the new needs of travellers. Following focused sessions with the management team, the roles and responsibilities of these teams were clarified and realigned in 2004, to speed up responses to customer concerns and Service Team initiatives.

Front-line employees received a follow-up session of VIA’s successful “Achieving Excellence in Customer Service” training program in 2004. At the same time, VIA introduced a new emphasis on “soft skills,” such as department, communication, planning, interpersonal and organizational skills.