

Long Island Rail Road



The beginning

Started in 1834 as a convenient method of transportation, the Long Island Rail Road (LIRR) has always provided high levels of service for its customers throughout the years. The LIRR has since grown into the single largest commuter railroad in the country, servicing over 82 million riders per year.

In 1974, with ridership reaching record levels, lines to purchase monthly tickets were getting longer and commuters were beginning to get frustrated. LIRR policy makers then developed the railroad's first advanced ticketing program, Mail&Ride, as a solution. Mail&Ride was a recurring payment program in which the customer completed a form and submitted a check or money order as means of payment. A monthly ticket was then mailed to the commuter, eliminating the need to stand in line at the train station each month.

"We wanted to focus on servicing our customers, not our paperwork."

—Pete Sklannik
Director
Market Development
Long Island Rail Road

"The program was greeted with a lot of enthusiasm by our customer base," says Pete Sklannik, director of market development for the Long Island Rail Road. Within that first year of operation (April 1975), the program attracted 650 users paying by check. Today, Mail&Ride has over 46,000 participants.

The challenge

While popularity of the Mail&Ride program continued to rise, commuter payments by check were creating more and more headaches as ridership increased. LIRR executives were busy trying to find solutions for bad check debt, processing problems, and the labor intensive trail of paper the program was generating. The railroad's operations team was being overwhelmed with the maintenance required for payment realizations and collection efforts for bounced checks. The seemingly routine process of opening envelopes, depositing checks, maintaining current account balances, and record keeping became more and more demanding as the popularity of the Mail&Ride program increased. Late payments requiring dunning added to the already challenging customer service and accounts receivable process.

Late payments were also a problem because the LIRR was being forced to issue "late fees" and suspend or cancel customer accounts with an increasing frequency. Although account suspensions and cancellations were last resort measures, it was a course of action LIRR executives were hesitant to take due to the negative associations. Even with good checks, payment realizations were taking anywhere from a week to ten days, depending on when the checks were posted. Late payments not only added time to realization, but also to processing and overall management tasks. More importantly, customer service representatives were being bogged down with paperwork, leaving little time to provide proper service to the railroad's customers.

Mail&Ride achieved the lowest number of dunning notices in eight years. Bad debt collection is equally low. Today, with total annual ridership in excess of 82 million, the Mail&Ride program continues to grow. LIRR management knew they needed to find a way to streamline processing and reduce bad check debt in order to properly handle increasing participation. When considering payment card acceptance as a possible solution, the LIRR had three specific goals in mind:

Reduce or eliminate check writing. Late payments or unrealized payments due to insufficient funds were being assessed a "late fee." This practice was perceived by customers as a negative even though they might very well be at fault. By reducing the possibility for late payments and bounced checks there would be a reduced incidence of late fees, thereby creating a more positive customer experience.

Provide an automatic recurring payment option. Most commonly facilitated via bank cards, an automatic payment option is often perceived as a positive benefit by

"Card payment just simplified the whole process. Long lines are slowly becoming a thing of the past, bad check debt is disappearing, and dunning efforts are at an all-time low because payment card processing is more convenient for our customers and more efficient for us."

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—Mitch Menarchem
Manager
Ticket Sales
Long Island Rail Road

the customer. Since processing is faster and costs are minimized by encouraging automation, this translates into higher customer satisfaction and improved operations for the railroad. As of January 2000, Mail&Ride has 37 percent of its customer base enrolled in the automatic payment option. The average payment charged to this option is \$180. This amounts to almost \$3 million in automatic payments, further evidence of the migration from check payments.

Increase levels of productivity. By reducing the amount of paperwork and processing time required to maintain Mail&Ride accounts, LIRR customer service representatives would be able to dedicate more time and effort to servicing customers rather than troubleshooting.

One concern the LIRR had about offering a recurring card payment option was that customers might not be comfortable sending card information through the mail. However, the projected benefits of such a program far outweighed the possible drawbacks for both customers and the railroad. The LIRR's parent company, the Metropolitan Transportation Authority (MTA), began to discuss this program with MasterCard Worldwide and others.

"We felt that implementing a card acceptance program would help to accomplish the goals set forth, and such a program would have positive results for the commuter and our Customer Service Department," says Sklannik. "It did all that and more."

To announce the new payment option, statement inserts were mailed to all existing Mail&Ride participants. What the LIRR did not anticipate were the immediate high levels of participation in the new program. Within the first sixty days of implementation, the level of payment card usage by Mail&Ride customers jumped to 18 percent of all participants. In one year, that percentage grew to 28 percent at an increased rate of nearly one percent per month. The LIRR's customer service representatives were able to function more productively, and customer feedback for the card payment option was extremely positive.

According to the Long Island Rail Road, the projected benefits of recurring card payments are:

- to increase convenience for the commuter
- to ease processing and paperwork
- to increase payment realization

The process

The LIRR pursued card acceptance to provide better customer service and improve operations. The Long Island Rail Road first teamed up with MasterCard in November 1997 and their goals soon began to fall into place.

With the implementation of a card acceptance program, the LIRR noted the following improvements as a direct result:

- It improved customer service immediately, with continued improvement as additional customers take advantage of the card payment option.
- Payments are realized faster (three to five days in most cases), and bad debt has also been dramatically reduced.
- The railroad's approval rating is at an all-time high, indicating there are many more satisfied customers than in previous years.

These improvements can only continue to increase as more customers realize the convenience of card payment. "It has improved our productivity as well as our ability to deliver better customer service, resulting in high levels of customer satisfaction that will continue to improve over time," Sklannik says.

Senior executives at the LIRR feel that teaming up with a company, such as MasterCard, also affords the railroad opportunities to partner with national retailers for value-added programs. For example, a promotion with a home electronics chain offered Mail&Ride subscribers (using MasterCard as a method of payment) a 10 percent discount if they used their MasterCard® card. The LIRR reported that nearly 13 percent of their card users took advantage of the program during that promotion.

As of 1997, Mail&Ride enrollment was nearly 45,000, with growth expected to approach 48,000 due to the addition of the MetroCard transit pass and convenient card payment option. Figures indicate that more than 12,000 Mail&Ride customers currently use a card to pay for their monthly tickets. Those tickets may be purchased via mail or through some ticket vending machines. Not all vending machines currently accept payment cards, but there are plans for universal credit and debit card acceptance in the near future.

As the LIRR expands card acceptance to all ticket vending locations system-wide, improved financial efficiency is sure to continue. "Card acceptance has been an absolute positive for the Mail&Ride program," Sklannik says. "It enables the LIRR to partner with merchants and create another avenue for improved customer relations." Ticket vending machines will obviously see similar improvements as they become more user-friendly and convenient to use.

"Accepting cards
for payment
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Island Rail Road]
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solution."

—Pete Sklannik
Director Market
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The future

"If there's one thing New Yorkers are short on, it's time," says Sklannik. "So for the most part, our customers appreciate the convenience we now offer with the card payment option." This is a recurring theme in the company's expansion plans. From upgrading ticket vending equipment to online capabilities, the LIRR intends to keep up with the times. Payment cards are a big part of that.

Sklannik cites the success of new ticket vending machines that now accept card payments as one of the leading factors for expanding card acceptance into the Mail&Ride program. He believes that accepting payment cards has actually helped to sell the program to LIRR commuters.

Value-added partnering programs with payment card merchants may also help to open many new doors for the railroad, and LIRR executives plan to continue moving forward. "We've only scratched the surface with our partnering with MasterCard," adds Sklannik. "We believe that only greater success can come of it in the future."

Overall, the LIRR feels that their success with the Mail&Ride program can be attributed to the focus they have placed on their customers' needs and the added convenience of the card payment option.

"We have employed a financial practice that both enhances customer satisfaction levels and improves our operations significantly as we move forward," summarizes Sklannik.

"The added benefit was that we were realizing payment immediately by accepting payment cards, rather than waiting for a check, which may never come."

—Pete Sklannik
Director
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