

2. WHAT IS MARKETING?

2.1 Definition

Business education literature abounds in definitions, but few, if any, of the more popular definitions of **marketing** offer any practical insight into what the concept might mean in the business environments to which it is to be applied. One such popular definition of marketing is that advanced by Philip Kotler, a well known authority on the subject. His definition is that marketing is:

A social and managerial process by which individuals and groups obtain what they want and need through creating, offering, and exchanging products of value with others¹

This is a very broad definition, intended to apply to all commercial activities found in an economy, regardless of their nature and differences. Nevertheless, the very existence of such differences is likely to require fundamentally different approaches to all management functions, including marketing.

Railways are a service industry, hence the railway employees responsible for delivery of service are conspicuous to users and indeed are directly accountable to users for service quality. In this sense, they differ for example from manufacturing industries, where those responsible for creation of the product are usually not visible to consumers and where there is a clear distinction between production and marketing activities. For railways, as with most service industries, the production and marketing of the product (which in this case is actually a service, or services) are practically inseparable. Inevitably, a much higher proportion of the workforce in service industries will be engaged in what might be termed “marketing related activities”, than will be the case in manufacturing industries. The marketing management function in railway organizations is therefore likely to have a primary role of leading the planning, mobilization and application of the organization’s resources - human, physical and financial - for the achievement of corporate goals.

Nevertheless, marketing in the railway environment will have the same essential focus on the twin key issues of **customer satisfaction** and **profitability** as has marketing in any other environment. Thus, the main aim of marketing in any environment will be to reconcile the needs of customers for a minimum quality and quantity of product or service with the need for the producer or service provider for profit. This does **not** mean, however, that it will be in the best interests of the organization to satisfy the needs of **all** customers, all of the time.

¹ P Kotler, *Marketing Management, Analysis, Planning, Implementation and Control*, 8th ed.(Prentice Hall, 1994), p.6.

There will inevitably be some customers whose business will not be profitable for the organization. The role of marketing in such circumstances will be to determine and implement measures to improve the net worth of that business to the organization, and failing this, to implement a plan for withdrawal from the business. It should be noted that such an approach contrasts with the still popular misconception that marketing is all about sales maximization. While a sales maximizing strategy usually leads to increased revenue, it could also mean reduced profit for the organization. Thus, marketing is not always about sales maximization; it is, however, ***always*** about profit maximization, or loss minimization, as the case may be.

Taking into account the special characteristics of railways, “***marketing***” in a railway environment can be defined as:

A method and process for planning, mobilizing and applying the resources of the railway in order to satisfy customer demand and to realize a profit for the railway

2.2 The “Marketing Mix”, or the Seven P’s

There is still a popular misconception that the term “marketing” is interchangeable with “sales” and “advertising”. That is only partly true. In fact, marketing includes the full range of activities needed to achieve voluntary and ***profitable*** exchanges of products or services between two parties.

These activities are aimed at changing one or more of four variables known as the ***Marketing Mix***, with the intention of improving the organization’s profitability. These variables, also known as the ***Seven P’s***, are Product, Price, Promotion, Place, People, Processes and Physical Evidence. It is useful to describe each of these variables in terms of their meaning in a *railway marketing* environment.

2.2.1 Product

For railways, this is the service offered to customers, both existing and prospective. However, the term also implies some notion of the ***attributes*** of a service - its basic design, or its essential features; its presentation, or how it is packaged; its associated support level (which is usually related to the capacity of the organization to deliver an acceptable standard of support for the product, or service); and its branding, or its association with a particular image or identity.

The core products of railway organizations are ***transportation services***, but increasingly railway organizations are diversifying their activities in fields which are not wholly related to their core business, such as commercial property, or real estate, development. The product descriptions covered here are, however, related to the core business of railways, since it is these core businesses which in the past have suffered most

from the absence of systematic marketing techniques and which in the future stand to benefit most from their application.

For a railway passenger service, the design and presentation characteristics of the product are generally: the route covered; the service frequency; the achieved transit time (or interval between departure and arrival); the carriage seating standard and configuration; the decor, cleanliness and riding comfort of the rolling stock; the nature and standard of meals provided enroute; the comfort, cleanliness and convenience of station or terminal facilities; and the convenience of connections with other rail services or with other transport modes.

For a railway freight service, the design and presentation characteristics of the product are generally: the route covered; the service frequency; the operational reliability of the service (e.g. adherence to scheduled transit time, etc); the security provided for consignments (e.g. against pilferage and damage); the convenience and efficiency of loading/unloading facilities at rail freight terminals; and the availability of a convenient delivery service to the final destination (i.e. door-door delivery service).

2.2.2 Price

This denotes the published or negotiated value of the exchange transaction for a product or service. It should be noted that price must represent value to both parties - to the producer or service provider in terms of the profit margin yielded and to customers in terms of the value for money derived from consumption of the commodity or service.

For a railway passenger service, the price of the service, or the fare, paid by passengers is usually graduated by distance - the longer the distance travelled, the lower the charge per kilometre - although often the charges are broadbanded within intervals of distance, e.g. one charge for 0-30 km; another (lesser) charge for 31-70 km, and so on. In addition, fare rates usually vary with the standard of service used - for example, a first class seat might cost more than double a third class seat, while a deluxe sleeping berth might cost fifty per cent more than a deluxe seat, etc.

In some cases, governments control the maximum level of fares charged for different categories of service, while railway organizations have the ability to discount fares below these maximae, in order to generate more business or to modify demand in some way, e.g. by transferring demand from heavy to light traffic periods. Discounts may be provided for: ticket bulk purchases (e.g. weekly, monthly, yearly tickets); off-peak travel (time of day or seasonal); group travel and tours; student/old age pensioner/other pensioner travel. In a small number of cases, railway organizations have the ability both to adjust the maximum level of passenger fares and to offer discounts off these fares.

For a railway freight service, the price or tariff to be paid by customers for the transport of their consignments is usually expressed as a rate per tonne-km, although freight tariffs can also include charges for other services rendered by the railway, such as the loading/unloading of freight consignments, in which case the charging unit will be different, e.g. tonnes loaded or unloaded. In common with passenger charges, unit freight rates usually decline with the increase of distance, but as in the case of passenger charges may also be broadbanded within distance intervals.

Unlike passenger tariffs, which are almost without exception published charges, freight charges may be either published or negotiated rates. If they are published rates, they will generally appear in the railway organization's standard schedule of charges, and will be available to all customers. If they are the result of a process of commercial negotiations between the railway organization and individual customers, or groups of customers, they will generally be incorporated in long term haulage contracts between the two parties, and will not generally be disclosed to other parties. By definition, negotiated rates will be available only to the contracting customers, subject to their agreeing to meet certain other contractual conditions.

Freight tariffs are less likely to be subject to control by government than passenger tariffs, yet government imposed ceilings on published freight tariffs are not uncommon throughout the region. In most cases, railway organizations have the ability to offer discounts off the level of freight tariffs in order to expand business, and in a majority of cases they also have the ability to increase the level of freight tariffs in order to recover cost increases.

2.2.3 Promotion

This is the result of all activities aimed at enhancing customer awareness of, and stimulating demand for, products or services. Typically, these activities include: advertising in all of its forms (point-of-sale, direct mailing, print media and broadcast media); sales force representation; and PR (public relations).

In the context of railway marketing, promotional techniques are becoming more widely used for passenger business, but are as yet relatively little used in the case of freight business.

Of the different forms of promotion, *sales representation* has been the most widely used in railway business. However, railway sales forces have mainly had a passive or reactive, rather than a proactive, role, servicing existing customers rather than seeking out and securing new customers, order taking rather than order generating. Furthermore, these sales forces have not been organized in a way which would assist them to actively promote railway services and secure new business.

Only a relatively few railway organizations have encouraged *market segment specialization* by their sales personnel, with the result that most railway sales forces have not been able to develop the specialized knowledge of individual market segments needed to be able to effectively sell railway services to these segments. The lack of specialization is particularly evident in passenger marketing cells, where all too often sales force activity has no specific focus of any sort. Indeed in many railway systems of the region, there is no passenger sales force at all and selling activity is confined to ticketing or reservations offices, which in reality have an "order taking" function.

There is now clearly an urgent need to focus railway sales force activity on individual market segments and at the same time to ensure that this activity is fully co-ordinated with other forms of promotional activity, such as advertising.

The reticence of railway managements in the recent past to commit to the development of co-ordinated promotional campaigns for their core transportation business is partly explained by budget limitations and some degree of scepticism that promotion can be effective in increasing the volume of this business. Increasing competition (particularly from road passenger and freight transport operators), will however dictate a change in this attitude. Railway managements can be expected in future to allocate an increasing proportion of their operating budgets to promotion. At the same time, they can be expected to employ more sophisticated techniques (such as on-board passenger sample surveys) to measure the effectiveness and reach of their promotional campaigns, in order to maximize the value of future campaigns.

2.2.4 Place

“Place” means not just the locations of producer facilities, but the locations of all points of sale at which customers may have access to the product or service. In the case of railways, these will include not only passenger stations and freight terminals, but corporate/regional/divisional headquarters, centralized railway reservations offices, hotels, travel agents, and freight forwarders’ offices and terminals.

In the wider sense, “place” will mean channels of distribution for the product. Outside of the railway organization itself, the most effective channels of distribution for the railway “product” are likely to be travel agents in the case of rail passenger services and freight forwarders, in the case of rail freight services. The main advantage of using external channels of distribution is that business volume can be maximized through a relatively small number of direct customers, who act as wholesalers, on-selling space on trains to a much larger group of final consumers, accepting the credit and business risk and arranging storage and feeder transport (to/from railheads), where required. By directing a greater proportion of their business through such “wholesalers”, railway managements can often achieve significant reductions in their operating costs, with commensurate improvements in the overall corporate financial result.

2.2.5 People

It almost goes without saying that people are a railway organization’s most important resource. So it is that a railway’s people resources will be vitally important to the realization of its marketing goals. It will not matter how advanced and sophisticated are a railway organization’s management systems if the railway’s existing and potential customers do not feel that railway staff are listening and responding to their needs.

What is required, therefore, is *total customer awareness* from the very top to the lowest levels of staff in the railway organization. Inevitably, this in turn will require that a customer awareness culture be instilled throughout the railway organization by its senior management, who in most cases must first make the mental transition themselves, or be prepared to be swept aside by personnel who already have.

2.2.6 Processes

Railway processes, especially operational processes, have evolved over the 170-year history of the development of the railway as a common transport mode. In many instances these processes have changed in response to the development of competing transport modes, especially road transport. An example of change spurred on by the increasing availability of door to door services provided by road transport has been the demise of the collection and re-marshalling of casual wagons from private sidings and its replacement by the operation of block trains between intermodal terminals.

What is important is that the processes must be compatible with serving the needs of railway customers. If a customer requires regular and frequent despatch of his loading on scheduled fast freight trains, then a railway's policy of operating infrequent, slower and longer trains will obviously be incompatible with these needs and the railway must be prepared to change its process accordingly. The process in effect is an integral part of the railway's delivery of its product (i.e. service) and will have a crucial role in determining whether in the end the product will satisfy customers.

2.2.7 Physical Evidence

Physical Evidence refers to the physical evidence available to customers in the layout and presentation of railway facilities that their needs are actually being met. The design, layout and signage of passenger stations, for example, must be such as to convey the impression to travellers that the railway really wants their business. This it will do by ensuring that platforms, concourses, ticket/reservations offices, waiting rooms, toilets, baggage lockers, bus interchange and transfer facilities, etc, will be comfortable and convenient for *all* categories of travellers to use. These facilities also have a critical influence on customer acceptance of the railway product.

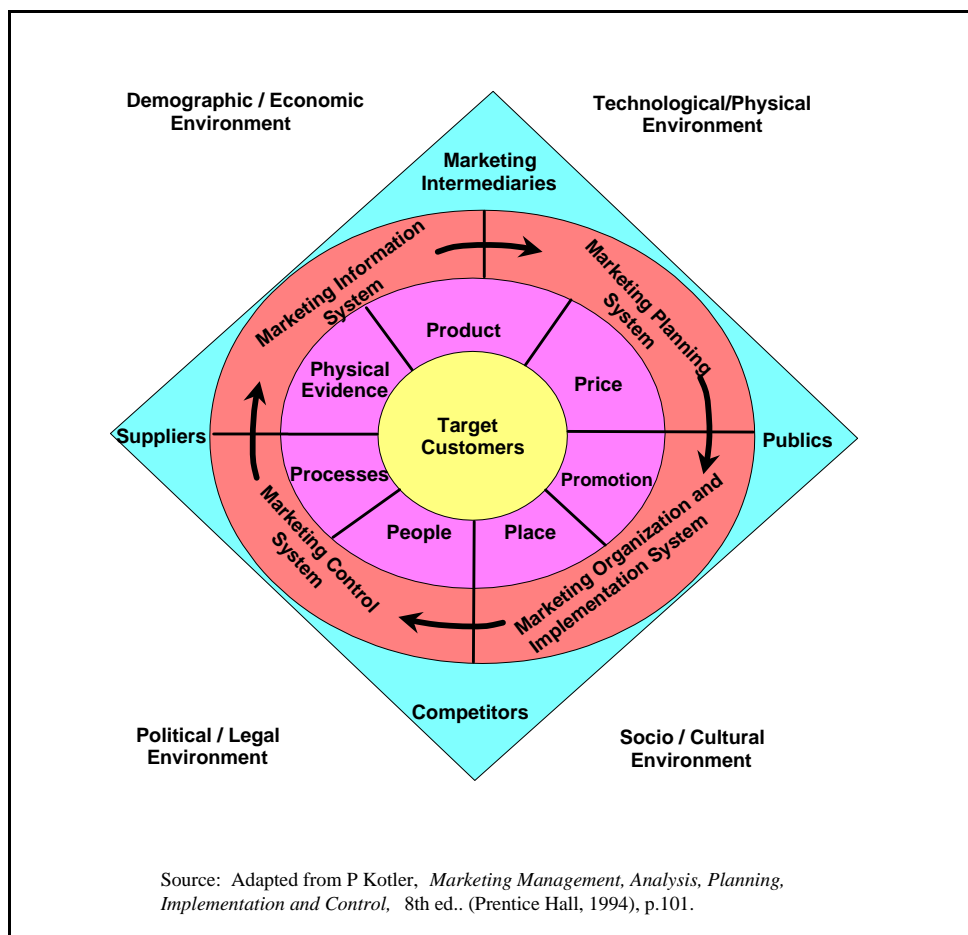
2.3 An Overview of the Marketing Management Process in a Railway Environment

Marketing seeks to improve corporate profitability by modifying the Marketing Mix, consisting of the four variables, the **Seven P's**, just described, in order to satisfy customer wants and needs. Clearly, units of the organization other than the Marketing or Commercial department will also have an important "Marketing" role. In the case of railways, those departments with a primary role in service delivery - mainly the Operations, Mechanical Engineering and Civil Engineering Departments - can crucially affect the quality and other characteristics of the Seven P's, and hence will have an important influence on the marketability of the railway product. However, it is the Marketing or Commercial Department which must take primary responsibility for translating the needs of customers into service requirements which it must then communicate to the service providers, and for ensuring that the delivery of services satisfies customer needs.

Figure 2-1 illustrates the main factors influencing the process of Marketing Management in any commercial organization. The single most important factor is the wants and needs of the organization's target customers, and hence these are shown at the

epicentre of the diagram. The wants and needs of the target customers determine the specifications of the marketing mix, which is embodied in the Marketing Management System (comprising systems of Marketing Planning, Organization/Implementation and Control), as illustrated in the third innermost ring of the diagram. However, Marketing Management in developing a strategy to satisfy the needs of its target market must also adapt to a *microenvironment*, as shown at the corners of the rectangle in the diagram, consisting of marketing intermediaries (or distribution channels), suppliers, competitors and publics (including stakeholders²). It must further adapt to a *macroenvironment*, shown at the outer extremities of the diagram, consisting of demographic and economic forces, political and legal forces, technological/physical forces, and social and cultural forces. Thus, Marketing Management must take into account all of the actors and forces in the marketing environment in developing its strategy to serve the target market. This applies as much in the case of a large global corporation as it does in the case of a small domestic business, and within this range certainly applies to railway organizations.

Figure 2-1 Influences on Marketing Management



² *Stakeholders* are parties who are not customers of the organization, but are in some way affected by its activities. In the case of railways, stakeholders might conceivably be taxpayers, environmental pressure groups, or even local residents, with properties adjoining railway lines, who might be affected in some way by railway operations.