

4. THE PLACE OF MARKETING IN THE RAILWAY ORGANIZATION

The position of the marketing unit in the railway organization chart and the structure of the marketing unit itself are important considerations, since they indicate very clearly the significance attached to the role of Marketing within the corporate organization and largely determine the effectiveness of the marketing function in achieving corporate goals.

Of course, more than a few of the region's railway organizations do not incorporate a Marketing unit in any form. It is important, therefore, that when they do develop a Marketing capability, careful consideration should be given to the structure of their Marketing unit, the reporting relationships within this unit, and the reporting relationships between this Marketing unit and the senior corporate management positions in the overall organization.

The structure and form of organization adopted desirably should permit:

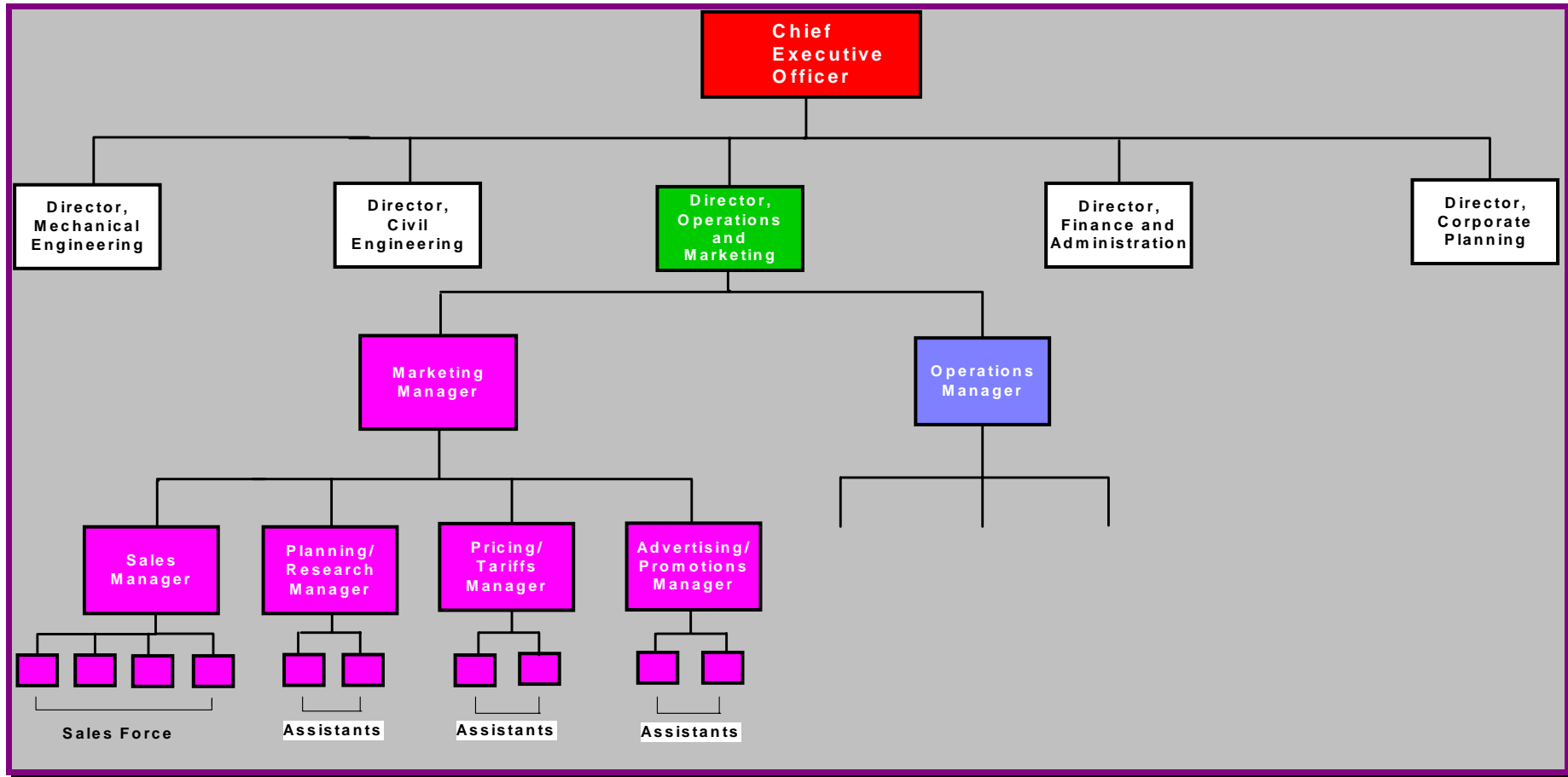
- (i) Close and frequent communications between the Chief Executive Officer and the head of the Marketing unit, with both persons accepting a leading role in promoting a customer oriented marketing culture throughout the organization. (This is likely to require that the *reporting line* from the Chief Executive Officer to the head of the Marketing unit be as short as possible);
- (ii) Effective co-ordination of railway commercial and operational activities, perhaps suggesting that both functions should be integrated in an organizational sense;
- (iii) Integration of all elements of the marketing mix under a single management function, suggesting that responsibility for sales, market research and planning, pricing, advertising and promotion, and physical distribution, should be centralized within the marketing unit.

4.1 The Position of Marketing Within the Corporate Structure

There are numerous models which can provide guidance for the organization of the marketing function within the overall corporate structure of railway organizations. However, three organizational models appear to have so far to have found favour within the region. They are:

- ◆ Marketing as a functional department
- ◆ Marketing as a service department
- ◆ Marketing as a strategic business unit

The first of these models, the *functional department model*, is the most commonly applied form of organization for railways and is illustrated in figure 4-1. This form of organization has been adopted by a majority of the region's railways which have introduced a marketing/commercial function. It was also used extensively in Australia before a majority of



the government owned railway systems in that country adopted a strategic business unit approach. The distinct advantage of this model is that integrates the railway marketing and operations functions under the management of a single senior corporate manager, who reports directly to the Chief Executive Officer. Of all the organizational models available, this type of arrangement is most likely to ensure that the activities of staff primarily responsible for *maintaining an interface with railway customers* and of staff primarily responsible for *service delivery* are effectively harmonized and co-ordinated. Amongst other things, this form of organization should facilitate (but cannot of itself ensure) effective and frequent communication between the personnel involved in each of these two functions.

The second-listed form of organization, *Marketing as a service department*, involves a more passive role for Marketing in the corporate organization. Generally, this model integrates Marketing with the Corporate Planning function, under a single senior corporate manager reporting directly to the Chief Executive Officer. While this has the advantage of integrating the lead planning role of marketing within the corporate planning structure, it could threaten the close contact which should exist between marketing staff and railway customers, thereby reducing the marketing plan to an “academic” exercise, devoid of customer inputs. It should be noted also that, almost by definition, a Corporate Planning unit within any organization has a co-ordinating function - it must assemble planning inputs from all other units in the organization. Arguably, such a unit would be no less effective in discharging this role if Marketing were to be organizationally independent of it, in the sense that Marketing would be just like any other unit of the organization, contributing planning inputs under the co-ordination of the central Corporate Planning unit.

The last listed form of organization, *Marketing as a strategic business unit*, represents an extension of the concept of a product or brand-based organization, as featured in many Marketing textbooks and as applied mostly in the field of consumer product marketing in many western developed countries. From a railway perspective, it involves structuring an organization around key units of its business, which for the most part are capable of being managed separately. These units may be groups of core business services, such as *Passenger* and *Freight* services, or diversified activities, such as *Real Estate* or *Commercial Property Development*.

In the railway sector, however, few business segments are discrete in an operational sense and hence most consume shared resources such as track, signalling and motive power. Nevertheless, there are very often advantages in managing as separate units those businesses for which a large proportion of the resources consumed are specific to those businesses. For example, the costs associated with passenger stations and related facilities, as well as those associated with the passenger rollingstock fleet constitute a relatively large share of the total costs of operating passenger services, and specialized management of these resources is possible and desirable. Similar observations may be made about freight traffic, in respect of the management of marshalling yards, freight terminals, freight rollingstock and other freight dedicated resources.

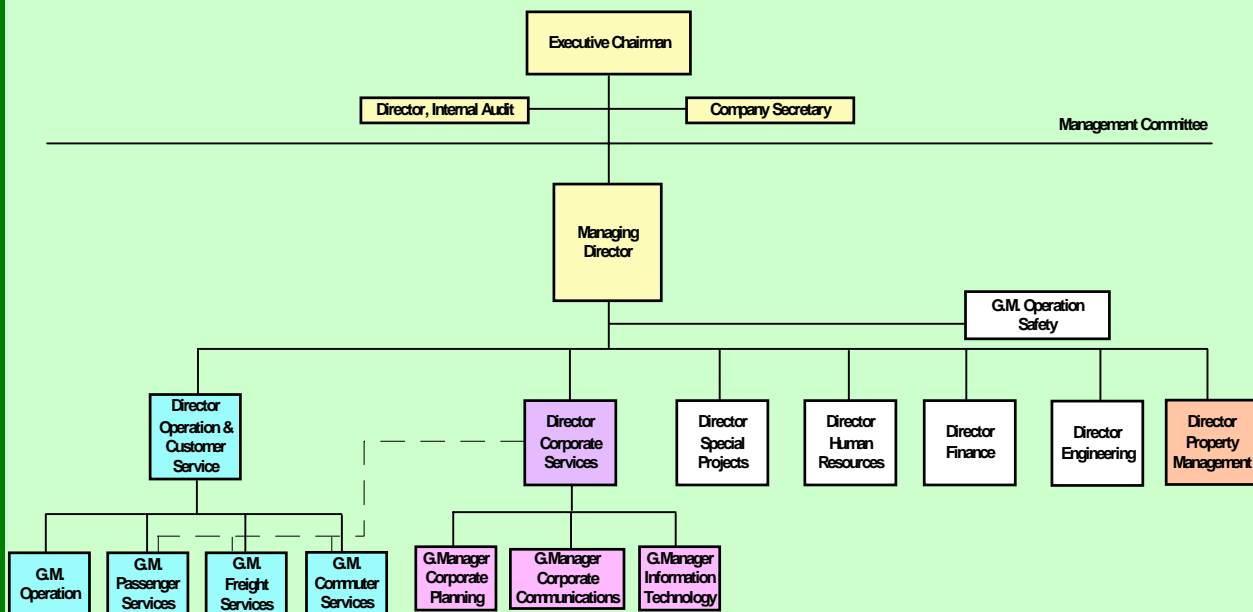
In addition, the passenger and freight elements of railway business invariably require dedicated pricing policies, sales efforts and promotional campaigns. For this and the abovementioned reasons, better management of passenger, freight and other specialized elements of railway business (e.g. parcels, real estate) can possibly be achieved by separating them into *Strategic Business Units*, each with its own marketing and operational management components.

Of course it is possible to opt for various combinations of each of these three organizational forms. One railway which has adopted a hybrid form of organization is the Malayan Railway (KTM Berhad). The organizational structure of this railway combines features of the third listed form of organization (business units) with features of the second listed type of organization (marketing as a service department), as is described in box III.

Box III

Organization Structure of KTM Berhad

In 1992, the Malayan Railway or Keretapi Tanah Melayu (KTM) was separated from direct government budgetary control and restructured as a business enterprise under government ownership. The new corporatized organization, designated KTM Berhad, was built around an entirely new organization structure, which included *Strategic Business Units*, or SBU's, but also embodied some features of an organization with a Marketing cell functioning as service department. The shape of the new organization is represented in the following diagram:



There are four SBU's, of which three - Passenger Services, Freight Services and Commuter Services have a reporting line to the Director, Operation and Customer Service who is also responsible for the Operations or Traffic function. The fourth SBU, Property, has a reporting line to the Director, Property Management. The three core business SBU's integrate marketing functions with some operating functions which are specific to their business (e.g.. the Freight SBU has responsibility for wagon distribution, the Passenger SBU has responsibility for ticketing, etc). Responsibility for advertising and promotion is, however, exercised by the Corporate Services Division, which is also responsible for coordinating the preparation of the 5 year Corporate and annual Business Plans (with planning inputs from the SBU's which must prepare their own annual marketing plans). For this reason, the SBU's have a "dotted" reporting line to the Director, Corporate Services.

Source: Country Report for Malaysia

The geographical size of the railway system will clearly have a strong influence on the type of organization structure which is adopted. If it is considered desirable to integrate the marketing and operations functions, large regionalized railways need to have an organization structure which is duplicated at headquarters and regional level. For example, in the Indian Railways both functions are within the responsibility of the Board Member for Traffic at Headquarters level and he has assisting him an Additional Member (Traffic) and an Additional Member (Commercial), each with their own departmental organizations. This structure is duplicated in each of the nine zonal, or regional, railways, with an Operations Manager (responsible for operating functions) and a Commercial Manager (responsible for marketing functions), both having their own departmental organizations and reporting directly to the General Manager of the zonal railway, but with an informal reporting line to their respective counterparts at headquarters. Only by organizational duplication of this type can effective, and vital, coordination of operations and marketing functions be assured right down to the level of the smallest field unit in such a large organization.

However, there are, both within and outside the region, examples of large railway systems which have opted for complete separation of management responsibility for the marketing and operations functions. One such is the National Rail Corporation Ltd of Australia which transports all interstate rail freight. It has a Corporate Headquarters located in Sydney, a Marketing Headquarters located in Melbourne, and an Operations Headquarters located in Adelaide (which is some 778 km by rail from Melbourne). The heads of the Marketing and Operations Divisions report directly to the Managing Director, based in Sydney. In this organization, only the operations and engineering functions are regionalized. To a large extent, the geographical environment in which the NRC operates, with a major concentration of railway customers in the east of the country, has dictated its organizational form but the separation of the units responsible for customer service from those responsible for customer liaison will mean that there will be additional pressure on the Managing Director (the Chief Executive Officer) to ensure that service delivery meets customer expectations.

4.2 Structure of the Marketing Unit

The structure of a typical Railway Marketing Department is also shown in figure 4-1. This structure is relevant to any of the organizational arrangements discussed in the foregoing section. Thus, it would be as applicable to a Marketing unit structured as a functional or service department as it would be to a Marketing unit structured as part of a Strategic Business Unit.

It is important that the Marketing unit should have responsibility for all seven elements of the Marketing mix. The unit will normally have four sections, each under a section manager, with responsibility for Sales, Planning/Market Research, Pricing and Advertising/Promotion. If justified by the workload, it may also be desirable to have a fifth department to provide advice to customers in logistics and materials handling matters (including the layout of rail loading/unloading facilities). Alternatively, responsibility for this function can rest with the Sales section.