

5. **THE LEADING ROLE OF MARKETING IN RAILWAY CORPORATE PLANNING**

Not all of the region's railways have so far implemented a corporate plan, but an increasing number are embracing a corporate planning philosophy. A well structured, practical corporate plan will ensure that an organization's resources and activities are always directed to the achievement of its own goals on the one hand and those of governments (and by inference taxpayers) on the other. Marketing can and must play a leading role in the corporate planning process by translating customer requirements into railway requirements for human physical and financial resources and management actions. The Railway Marketing Unit will also have a key role, along with top level management in developing the spirit of marketing in other departments of the railway, notably the Civil Engineering, Mechanical Engineering and Operations departments. It is therefore essential that the marketing system should be an integral part of the railway corporate planning structure, which embodies a mixture of "top down" and "bottom up" planning philosophy.

5.1 **Corporate Plan Linkages**

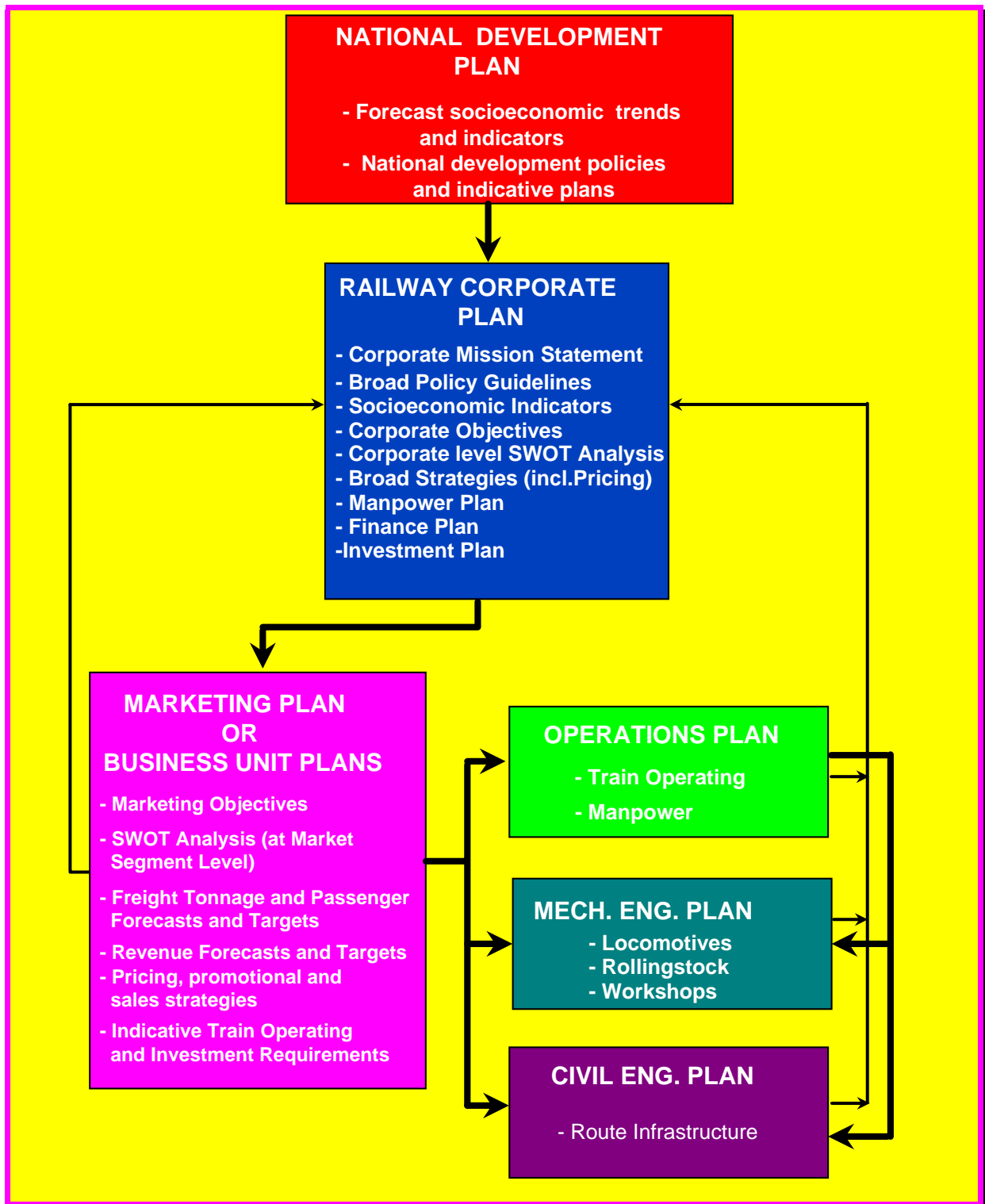
In essence, a corporate plan will link together the plans of the functional departments of a railway within a cohesive framework which will also integrate planning inputs from external sources, such as the National Economic Development or other government plans. One possible approach to a railway corporate planning process is illustrated in figure 5-1. In this process, interlinked plans are prepared at four levels - at the macroeconomic level in the case of the National Economic Development Plan, and at the corporate, marketing or business unit and functional department levels in the case of the railway organization.

The process begins with the **National Economic Development Plan** which will usually be a product of specialist government planning agencies or of Ministries of Finance. National plans are generally prepared for at least a five year time frame. They will usually signal the government's expectations with respect to the cost recovery goals of the railway and in some cases will specify in broad terms the commitment of investment funds to the railway. In addition they will provide government targets for the main macroeconomic indicators (including the general inflation rate and public expenditure limits), as well as a statement of regional development priorities. It is the last element which is of considerable significance to railways, since development priorities will provide some indication of the likely regional distribution of public funding for development. In some cases, National Plans will specify in detail the major infrastructure projects, such as new ports and associated land transport infrastructure, to be promoted as part of a government's regional development policy.

At the next level, the **Railway Corporate Plan** responds to policy guidelines contained in the National Economic Development Plan and provides guidelines in the form of corporate objectives, goals and strategies for the preparation of marketing or business unit plans.

Next in the planning hierarchy below the level of the Corporate Plan, **Marketing or Business Unit** plans have the function of developing pricing, sales and promotional strategies aimed at satisfying customer needs and maximizing revenue for the railway organization. Most importantly, they have the key function of *translating the needs of the marketplace into requirements for railway service and resources in the form of manpower, route infrastructure, locomotives and rollingstock.*

Figure 5-1 The Railway Corporate Planning Process



Service requirements identified in the marketing or business unit plans are then converted into manpower deployment and train operating plans at the level of the Traffic or Operations Department and are incorporated in the **Operations Plan**. The train operating plan in turn provides the basis on which maintenance and investment plans may be prepared by the Mechanical Engineering Department covering requirements for locomotives, rollingstock and workshops facilities and by the Civil Engineering Department covering track, structures and signalling requirements. These requirements are incorporated in the **Mechanical Engineering Plan** and the **Civil Engineering Plan**, respectively.

**Box IV The Corporate Planning Process
in the Indonesian Railway (PERUMKA)**

Since 1991, the Indonesian Railway Company (PERUMKA) has operated in the form of a public corporation in which 100% of the equity is owned by the Indonesian Government.

Ownership of the main infrastructure (track, structures, signalling, telecommunications, and buildings) is vested in the government and ownership of traction, rollingstock and other equipment in PERUMKA. The government makes a direct contribution to the cost of maintaining infrastructure and to the capital cost of passenger rollingstock for economy or third class services which are subject to fare regulation by the government.

The specific form of the financial relationship existing between the government and PERUMKA is embodied in the Railway Corporate Plan, prepared since 1992. An important function of this plan is to project the year by year government funding commitment to PERUMKA..

The PERUMKA Corporate Plan is a five year rolling plan which is revised annually. It takes direction, in the form of forecast socio-economic trends and indicators, national development policies and indicative plans, and broad regulatory policy guidelines, from the National Development Plan, which has a five-year timeframe and is also revised every five years. The Corporate Plan includes: an overall corporate mission statement and corporate objectives; an analysis of past traffic trends and financial performance over a five year period; a corporate-level SWOT analysis; traffic volume and financial (revenue and expenditure) targets for the next five years; corporate-level strategies (including pricing); a manpower plan; a financial plan; and an investment plan. The process is a mixture of "top-down" and "bottom-up" planning, with the Corporate Plan providing guidelines for the development of detailed supporting plans at the functional department level, and the latter feeding back into the key indicators of the Corporate Plan. The Marketing Plans prepared for the freight and passenger businesses by PERUMKA's Operation and Marketing Directorate have a pivotal role in providing base information for the other functional department plans.

The formal process of developing the Corporate Plan is handled by a "cross-functional team" comprising the heads of the functional divisions. The process begins in July of each year and the Corporate Plan is finalized in September, before the presentation of the National Budget.

Source: ESCAP mission to Indonesia, June 1996

Necessarily, there is feedback from the functional department plans to the corporate plan, in order to provide a basis for the preparation of manpower, finance and investment plans at the corporate level. Similarly there is feedback from the Marketing or Business Unit plans to the corporate plan in terms of traffic and revenue forecasts which provide the basis for the

Finance Plan.

Some of the region's railway systems, notably those of South-east Asia, have already implemented a corporate planning structure and system. One such railway system which has made considerable progress with implementation of a corporate planning system is that of Indonesia, as may be seen in Box IV.

In most cases where a corporate planning system has been introduced, it works as shown in figure 5-1, although the planning timeframe and cycle often varies from railway to railway. Usually, the Corporate Plan covers a five-year rolling timeframe, in line with that of the National Economic Development Plans, but lower order plans can sometimes cover an annual timeframe. Similarly, the Corporate Plan is usually revised at intervals less frequent than annually, whereas the lower order plans are usually revised on an annual basis.

Ideally, a corporate plan should also provide a framework for the preparation of annual revenue and expenditure budgets for railways, with the targets of the first year of the corporate plan timeframe providing the budget base.

5.2 Corporate Plan Elements

Important elements of a corporate plan providing guidelines for the marketing and functional department plans are:

◆ ***The Corporate Mission Statement***

This indicates the organization's overall purpose and direction. It answers basic questions such as: "*Why does this organization exist?*" and "*What business should it be in?*" It is necessarily expressed in broad terms, but should not be so broadly phrased as to lack focus. Statements such as "We want to provide the highest quality service at the cheapest fares" will not be particularly helpful to management seeking practical guidelines in order to be able to make difficult decisions. Kotler suggests that the mission statement should define the major *competitive scopes* within which the organization will operate.⁵ These include : the *industry scope* or range of industries in which the organization will consider operating; the *products and applications scope*, or the range of products (services) and applications in which the organization will participate; the *competencies scope*, or the range of technological and other core competencies that the organization will master and apply; the *market segment scope*, or the type of markets or customers the organization will serve; the *vertical scope*, or the extent of vertical integration to be allowed in the organization's activities; and finally, the *geographical scope*, or the range of regions (or countries) in which the organization will operate. Kotler also suggests that the corporate mission statement should stress the *policies* which the organization wishes to apply in

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P Kotler, *Marketing Management, Analysis, Planning, Implementation and Control*, 8th ed. (Prentice Hall, 1994), pp. 67-68.

dealing with customers, suppliers, distributors, competitors and other important groups. Above all, he considers that the mission statement should provide a *vision* and a *direction* for the organization for the next 10-20 years.

The Corporate Mission Statement adopted by Chiltern Railways, one of 25 train operating companies recently established for franchise operation of the passenger train services of the former British Railways, is instructive:

- *Our aim is to be the best passenger railway in the United Kingdom*
- *All day, every day, we aim to offer a reliable, welcoming and value for money service*
- *Our business will prosper because customers use us repeatedly and recommend the service to others*⁶

This mission statement is backed up with more specific statements of the Chiltern Railways' corporate aims, such as : *Our aim is to make serious inroads into the 95 per cent of the population not using the railways: we are competing with the M40 motorway, not the West Coast main line.*

◆ **Corporate Objectives**

While the Corporate Mission Statement should define the broad purpose and direction of the organization in the longer term, the Corporate Objectives will have a more specific focus. They should indicate the specific targets, both physical and financial, to be achieved by the organization within the tenure of the corporate plan. For example, they could incorporate cost recovery objectives, such as “*Reduction of the operating deficit to \$ W million, by year X*” or productivity improvement objectives, such as “*Increase gross tonnes per annum per employee to Y, by year Z*”. They will provide a clear target at which the strategies and plans of all components of the organization will be aimed during the timeframe of the corporate plan.

◆ **Corporate Level SWOT Analysis**

“SWOT” means “Strengths, Weaknesses, Opportunities and Threats”. At the corporate level, a SWOT Analysis should provide an realistic assessment of the strengths, weaknesses, opportunities and threats working for or against the organization in its quest to achieve its corporate objectives. SWOT factors may be assessed in relation both to the organization's external and internal environments. For an external SWOT analysis, the organization would need to assess the likely influence of factors external to the organization which might present opportunities or threats for the organization. An example of an external

⁶ *Modern Railways*, February 1997, p.82.

opportunity might be the imposition by the government of increased road user charges on commercial road transport operators, since this might have the effect of improving the competitiveness of rail in relation to road transport operators. Conversely, an increase in allowable axle loads for trucks might be an externally imposed threat for rail, since it would reduce its competitiveness with road transport. Internal SWOT analyses on the other hand are intended to identify the SWOT factors of the organization, *in relation to those of its major competitors*. They are intended to identify any positive or negative characteristics of the organization which must either be exploited or corrected to enable the organization to achieve its stated corporate objectives. An example of an internal weakness might be the railway's inability to price flexibly in order to obtain additional traffic (when this would be a major strength for the competition). Conversely, an example of an internal strength might be the railway's ability to guarantee the security of freight consignments against damage or pilferage, when its competitors might not be able provide such guarantees.

◆ **Corporate Strategies**

Broad corporate strategies must be devised in order to ensure achievement of the corporate objectives. The important point about corporate strategies is that they must **directly** address specific corporate objectives. Thus, for example if the relevant objective is to reduce the incidence of in-service locomotive failures, the corresponding strategy might be to re-deploy fitters or diesel maintainers to outstations, where they can carry out routine preventative maintenance. Similarly, an objective to improve wagon turnrounds might be addressed by a strategy to increase block train running by offering rate incentives to selected major customers to accumulate loading for block train operation.

◆ **Manpower Plan**

The Manpower plan component of the corporate plan is intended to identify the overall manpower requirement for the railway organization in terms of numbers of employees required by grade/skill category and by location. These manpower requirements should be derived directly from the functional department plans and have their basis in the marketing or business unit plan.

◆ **Finance Plan**

The Finance Plan establishes a basis for managing the organization's cash flow during the tenure of the corporate plan. It incorporates revenue and expenditure forecasts derived directly from the functional department and marketing/business unit plans. Where relevant, it will also set out the forecast requirement for PSO/CSO supplements to revenue during the tenure of the corporate plan.

◆ **Investment Plan**

The Investment Plan details the organization's requirement for investment in new capital assets during the tenure of the corporate plan. The physical requirement

of rollingstock and locomotives, extra track capacity or new line construction, and terminal infrastructure is identified and costed in the plan. Again, these requirements are sourced from the assessment of a train operating plan which has its origins in the appraisal of customer needs in the Marketing plan.

**Box V Sample Corporate Mission Statement,
Corporate Objectives and Corporate Strategies**

1. Corporate Mission Statement

The mission of the XX Railway Company is to provide railway passenger and freight services of a quality and frequency matched to customer requirements throughout the territory of YY, and at fare and freight rate levels which will allow the services to be fully self sustaining

2. Corporate Objectives and related Corporate Strategies

Corporate Objective

Related Corporate Strategy(ies)

Achieve full cost recovery on commercial freight traffics by 2000

De-market LCL traffic through punitive pricing, offer pricing incentives for movement in block train loads, reschedule trains to avoid en-route remarshalling, and shed redundant shunting staff

Achieve full cost recovery on commercial passenger traffics by 2001

Increase fares by X% on all premium passenger services, upgrade coach interiors, introduce new corporate colour scheme and logo on coach exteriors, and introduce new look uniforms for on-train staff

Reduce staffing levels (by Y%) and working expenses (by Z%) of railway workshops by 2001

Implement outsourcing of all consumable locomotive components (such as rewired armatures) and introduce early retirement scheme for displaced personnel

Improve running performance of long distance passenger trains arriving at AA station to 95% of on-time arrivals by 2000

Introduce computerized approach track and platform allocation system and implement efficiency based incentive pay scheme for train control and station staff throughout the network

Box V provides examples of a Corporate Mission Statement, a set of Corporate Objectives and related Corporate Strategies. These elements of the Corporate Plan are distinguishable from those of Marketing or functional department plans in terms of their focus. The former focus on the railway organization as a whole, while the latter focus on individual market segments, services and locations. However, it is important to note that the former are directly derived from, and represent a summation of, the latter.
