

6. THE RAILWAY MARKETING PLAN

Apart from its importance as the primary source of input of customer related data as well as of traffic and revenue forecasts to the Corporate Plan, the Marketing Plan has a vital role as the vehicle for expression of: the organization's commercial objectives; the strategies for realization of these objectives; and the actions (with assigned responsibilities) necessary to implement the strategies. Necessarily, the focus of the Marketing Plan is at the level of individual traffic, or market, segments, and indeed an important element of the Marketing Plan is the definition of these segments. Realization of objectives set for individual segments will collectively result in achievement of the overall corporate objectives as identified in the Corporate Plan. A essential requirement of any Marketing Plan is that it must be both **practical** and **actionable**.

6.1 Market Segmentation

A good Marketing Plan must contain techniques for segmenting the market.

Markets consist of buyers and buyers are **not** homogeneous in terms of their demographic profiles, wants, purchasing power, geographical location, buying attitudes, and buying practices. Therefore it is unlikely that a broad marketing strategy applied across the entire spectrum of a railway's customers will succeed, because the needs of some (or probably most) customers will not be met in this process.

By contrast, separate marketing strategies focussed on individual customer groups, each consisting of customers with similar characteristics and needs, are more likely to succeed. These customer groups are called *market segments* and the process of identifying and separating these groups for the purposes of developing marketing plans and strategies and of managing sales force activities is called *market segmentation*.

Any, or all, of the six above-listed characteristics may be used to segment a market. In the case of railways, however, a two-tier process is likely to be involved.

First, the railway's customers will be segmented into *broad market or business groups*, such as:

- ◆ *Commuters*⁷
- ◆ *Medium-Long Distance Passengers*⁸
- ◆ *Freight Customers*
- ◆ *Parcels and Express Freight Customers*

⁷ This term is normally used to describe passengers who use railway services to travel between their homes in the suburbs of a city and their places of employment in the city centre. Typically, such journeys cover distances of no more than 100 km.

⁸ Generally used to denote passengers using rail to travel over distances of greater than 100 km, often between major cities.

- ◆ *Commercial Property Lessors*
- ◆ *Others (e.g. advertisers using railway property)*

Next, these broad groups will be divided into market segments.

For *Commuter* traffic, it is unlikely that there will be any need for further subdivision of the market, although in the case of a few of the region's railways (notably that of Indonesia), premium or first class commuter services are provided with the aim of capturing higher income business travellers, who might otherwise use private automobiles.

For *Medium-Long Distance Passenger* traffic, segments based on demographic/income characteristics may be appropriate. Again, some of the region's railways have focussed on business travellers⁹, while some (e.g. the Indian railways) have very successfully targeted group tour travellers and in conjunction with tour and hospitality agencies have developed specialized services to cater for the needs of this segment. Many of the region's railways have an obligation to provide "welfare significant" services, such as economy class services catering to the needs of low and lower middle income passengers and linking villages with key provincial centres, key provincial centres with other key provincial centres, and key provincial centres with the capital.

Within the higher income, business or tourist segments thus identified in the Medium-Long Distance Passenger market, there may be a further subdivision into service-based segments (e.g. air-conditioned sitting car services and air-conditioned sleeping car services).

For *Freight* customers, the subdivision into market segments is likely to be based on a combination of commodity type and handling mode (bulk, breakbulk and container). Almost all of the region's railways now identify container traffic as a segment in its own right. Other segments are mainly commodity-based. For example, in addition to containers, the Thai and Malaysian railways identify about 14-15 commodity based segments and the Indian Railways 10 or 11 commodity based segments. Each freight segment generally has its own requirements in terms of loading/transport cycle, wagon type, handling method and tariff (price). The commodity segments actually identified will be of particular significance to the railway seeking to segment its markets.

While there appears to be no obvious basis for the segmentation of parcels and express freight traffic, it is likely that this market may be subdivided on the basis of time-sensitivity (e.g. overnight delivery, second day delivery, etc.).

The Commercial Property Leasing market will desirably be segmented in terms of end use, e.g. Warehousing, Retail Trade, Office accommodation, Hotel accommodation, etc., and possibly also in terms of lease tenure (short, medium and long term).

⁹ Such as the Indonesian Railways with their *Parahyungan* and *Argogede* executive services between Jakarta and Bandung, and the Indian Railways with their *Shatabdi* and *Rajdhani* premium services between significant business centres and between the capital and significant business centres, respectively.

6.2 Purpose, Structure and Content of the Railway Marketing Plan

The formal *Marketing Plan* is one of the most important outputs of the marketing process. As indicated previously, it is desirable, if not essential, that the Marketing Plan should be developed as an integral part of a Railway Corporate Plan, and that it should identify marketing objectives and strategies which will support the achievement of the corporate objectives, as outlined in the Corporate Plan. However, unlike the Corporate Plan which will not normally be revised every year, the Marketing Plan should be revised annually, although it should also cover a longer planning timeframe (e.g. five years).

The purpose of the plan will be to: review past sales and profit performance; assess the potential of the railway for improved performance and traffic growth, relative to competitors; define or re-define (as necessary) marketing objectives; specify sales, pricing and promotional strategies to achieve growth projected in the plan; develop a programme of action to put the plan into effect; and establish methods and systems to monitor performance against the plan.

Box VI provides a possible approach to formulation of a Railway Marketing Plan. The structure and content of the plan, as illustrated in this box, reflect its purpose as stated above. The following paragraphs expand on the contents of the plan under the individual headings contained in the box.

6.2.1 *Executive Summary*

This is almost self-explanatory. It should provide top level corporate management with the ability to gain a quick appreciation of the salient features of the plan and of its key strategies and recommendations.

6.2.2 *Past Performance Review*

This review should reveal the performance of the railway over the past five years in relation to each identified market segment. Performance elements reviewed should include:

- ◆ *The total market volume*, or the total transportation volume, in each segment. For example, for Commuter Traffic, this might be the total number of commuter passenger journeys per year and the total commuter passenger kilometres per year, by all modes, within the defined commuter catchment area
- ◆ *The railway system volume and percentage share of the total market volume*, in each segment. In the case of the Commuter Traffic example, this would be the number of commuter rail passenger journeys per year, the total commuter rail passenger kilometres per year and the rail percentage share of the total commuter journeys and commuter passenger kilometres (for all modes), within the defined commuter catchment area
- ◆ *The revenue earned, the financial contribution* (revenue less long run marginal costs) *derived from that revenue, and the contribution rate* (e.g. contribution per passenger, passenger km, freight tonne or tonne km) , for each segment. In the Commuter Traffic case, this would be the total fare revenue per year generated by rail commuter

traffic within the defined commuter catchment area and the financial contribution attributable to that traffic (i.e. fare revenue less attributable long run marginal costs)

Box VI Structure and Content of the Railway Marketing Plan

SECTION	CONTENT
1. Executive summary	Brief overview of the proposed plan for quick vetting by top management
2. Past Performance Review	For each market segment, 5 year historical trend in market volume (traffic), railway system volume, and railway system revenue and financial contribution
3. SWOT Analysis	For each market segment, analysis of strengths, weaknesses, opportunities and threats facing the railway system as compared with its competitors
4. Marketing Objectives	For each defined market segment, definition (or re-definition) of marketing objectives
5. Marketing Strategies	For each market segment, statement of sales, pricing and promotional strategies aimed at achieving the plan's objectives
6. Action Programmes	Answers to questions: What will be done? Who will do it? When will it be done? How much will it cost?
7. Projected Sales and Profit	For each market segment, projection of traffic volume, revenue and financial contribution resulting from plan implementation
8. Resource Requirements	For each market segment, identification of requirements for terminals, track and signalling, motive power, passenger and freight rollingstock, and operational labour
9. Marketing Audit	Specification of method and systems for auditing performance against plan

Adapted from P Kotler, "Marketing Management, Analysis, Planning, Implementation and Control", 8th ed. (Prentice Hall 1994), p.104.

What is important in such a performance review is the **trend** in the various indicators. For example, has the rail market share in a particular segment increased, remained static, or reduced over the period reviewed? What has been the trend in financial contribution for a particular segment, relative to the trend in rail market share? [A rising trend in market share can often correspond with a falling trend in financial contribution rate, if the railway is forced by competition to trade off margin for volume by dropping its charges].

The performance review must provide a suitable foundation for the formulation of the marketing objectives and strategies.

6.2.3 SWOT Analysis

An analysis of the strengths, weaknesses, opportunities and threats confronting the railway *and its major competitors* in each market segment is an important element of the Marketing Plan. The purpose of this analysis, generally termed a *SWOT Analysis*, is to provide as objective an assessment as possible of the competitive status of the railway *in each market segment*. Factors normally considered in the SWOT Analysis include: the current and projected market shares of the railway and its major competitors; the relative financial strengths of the railway and its major competitors; the price and service sensitivity of demand and the relative abilities of the railway and its competitors to respond to customer price and service requirements; the technological strengths and weaknesses of the railway and its major competitors; and the opportunities presented for product/service diversification. Box VII illustrates an approach to completing a SWOT Analysis at the level of an individual market segment.

In common with the Past Performance Review, the SWOT Analysis must establish an adequate foundation for the formulation of Marketing Objectives and Strategies. For example, the *opportunities* identified in the case of individual market segments should provide an indication of the sort of objectives and strategies which are likely to be most appropriate for those segments.

It has to be noted that a detailed knowledge of competitors will be essential for the preparation of a good SWOT Analysis.

Box VII SWOT Analysis for a Rail Market Segment			
Market Segment: Containers			
SWOT Factor	Railway (Market Share: 15%)	Principal Competitors (Combined Market Share: 75%)	
		Road Transport Company A	Road Transport Company B
Strengths			
Financial Backing		Strong. is a subsidiary of diversified trading company X, with annual turnover and profit in 1995 of.....	Strong. Annual turnover and profit in 1995 of
Marketplace Linkages	Availability of abundant low cost land near up country stations provides possibility for ICD development	Control of warehousing activities provides ready access to freight forwarding joint venture business	Is subsidiary of shipping line Y and can control "in house" container transport business
Service Reliability		Delivery schedules met for 90% of consignments in 1995	Delivery schedules met for 95% of consignments in 1995

Transport Cost		Container haulage charges 20% lower than rail in '95	Container haulage charges 15% lower than rail in '95
Consignment Security	Damage to only 0.5% of consignments and no claims for pilferage in '95		
Weaknesses	<i>Note: In general, there will be an inverse relationship between the weaknesses of rail and the strengths of its competitors (i.e. the weaknesses of rail will be the strengths of its competitors and vice versa)</i>		
Opportunities	Strong possibility for rail to capture 90% of container traffic in thecorridor, by introducing block container trains operating near passenger speeds under contract rates and conditions	Involvement in warehousing offers opportunity for ICD investment and operation at locations, with consequent ability to secure "footloose" third party container haulage business	
Threats-	Likely increase in allowable gross weights of road vehicles and possible introduction of double road trailers will threaten dominant rail share of container movement in the corridor		

6.2.4 Marketing Objectives

As with the other elements of the Marketing Plan, the *Marketing Objectives* must be market segment related.

It is also essential that these objectives be:

- ◆ *practical and realistic* - i.e. capable of being achieved within the likely resource limitations facing the railway
- ◆ *linked to overall Corporate Objectives*; and **most** importantly
- ◆ *relevant and responsive to the actual needs of customers*

Marketing objectives must reflect the principal thrusts of the Corporate Plan. Two

examples of the formulation of marketing objectives in support of overall corporate goals are provided in the contrasting approaches of the Malaysian and Thai railways to the development of their respective landbanks.

The Malaysian railway (KTMB) has identified the commercial development of its landbank as a significant business opportunity, and indeed has established a strategic business unit, the Property SBU, for the purpose of exploiting this opportunity. For KTMB, property revenue already accounts for 21 per cent of operating income, and is growing significantly faster than revenue from any other source. In fact, property is expected to surpass the core transportation business as a source of revenue for KTMB, and accordingly marketing objectives and strategies are being developed by the Property SBU to target specific segments of the commercial property market.¹⁰

The Thai Railway (SRT), on the other hand, recently adopted a policy of developing its landbank for the main purpose of supporting its core transportation activities.¹¹ While it has within its organization structure a unit specializing in property management (*the Property Management and Development Bureau*), this unit has the authority to lease land to commercial property developers only after the needs of the railway's transportation businesses have been met. Revenue from property leasing currently accounts for only 8 per cent of the SRT's total operating income, but notwithstanding a focus on internal needs, is nevertheless expected to grow by 50 per cent over the two year period to 1998.

The need for marketing objectives and related strategies to focus directly on customer needs is well demonstrated by a recent case in Australia, as reflected in box VIII.

¹⁰ *Country Report for Malaysia*, October 1996

¹¹ *Bangkok Post*, Property Section, 22 November 1996

Box VIII Making Marketing Objectives Relevant to Customer Needs

In 1992, the National Rail Corporation was formed as a limited liability company to take over the operation of all interstate rail freight traffic from the four state government owned and one federal government owned rail systems in Australia. The government rail systems held 100 % of the shares in the new company and contributed the manpower and physical resources (including locomotives, wagons and terminal infrastructure) needed for its operation.

Among other things, the enabling legislation which created the NRC gave the organization commercial freedom to select from all interstate train operating activities those segments of the market in which it wanted to continue to participate and those from which it wanted to withdraw. Exercising this freedom, the NRC made a decision to progressively withdraw from the transportation of general freight in covered vans, or boxcars. This was to be achieved by setting tariffs at punitive levels in order encourage a shift of this traffic out of boxcars and into containers, which were perceived by the NRC to offer better profit potential for the future, as well as by reducing the operating priorities for van traffic.

One significant factor which this decision overlooked was that there was a demonstrated continuing (and growing) demand for transcontinental van services from national freight forwarding companies which owned rail connected warehouses in Melbourne and Perth. These companies had over the years developed efficient services based around the use of vans for directly conveying on behalf of LCL customers palletised cargo between rail sidings at either end of the transcontinental journey. A move into containers did not suit these companies or their customers, given their use of rail connected warehouses and given that the width of ISO containers is sufficient to accommodate 1.9 pallets, or in practical terms only one pallet. The outcome was that at least one forwarding company was able, with the support of the government rail systems, to introduce its own dedicated transcontinental trains on a limited weekly frequency. The company claims that it is not satisfying all of the demand on offer.

This case demonstrates very clearly that railways need to have a good understanding of their customers' business before committing themselves to marketing objectives and strategies which could deprive them of profitable business in future. In this case, the market challenged the conventional wisdom that containers offer an acceptable answer to the transport needs of **all** general freight customers and conveyed a message to the railway that customer needs had to be fully understood.

Source: Network Quarterly (Australian Railway Association Magazine), October-November 1995

6.2.5 Marketing Strategies

As with Marketing Objectives, the strategies devised to achieve these objectives must be practical, actionable (realistically capable of implementation) and, above all, relevant and responsive to customer needs. They must also relate directly to marketing objectives identified for each market segment.

Marketing strategies include actions taken to modify elements of the marketing mix - product, price, place and promotion - in order to achieve marketing objectives.

The Indian Railways provides an example of one of the region's railway systems which has defined clear objectives for each of its market segments and has then

successfully applied strategies to achieve these objectives. The main problem faced by the Indian Railways is a serious shortage of route capacity. Far from having insufficient traffic on its trunk routes, the Indian Railways suffers an excess of traffic in relation to the capacity of these routes. Operating priority on these routes is given to passenger trains, and freight trains incur major delays and frequent cancellations as a result. Since bulk traffics account for 94 per cent of the freight tonnage carried by Indian Railways, empty running has also become endemic.

In an effort to fill empty bulk trains with revenue earning traffic, thereby also reducing the number of freight trains and the pressure imposed on limited route capacity, the Indian Railways has successfully applied price and service incentives for backhaul traffic. One example is the backloading of autocarrier wagons with imported tractors. Cars manufactured for export at the Maruti plant near New Delhi are despatched in trainloads of autocarrier wagons. The wagon blocks deployed in this traffic had hitherto been returned empty, but commercial incentives offered by the railway have succeeded in securing backloading in the form of imported tractors arriving at Bombay port for distribution to the northern areas of India. The traffic in the backhaul direction is marginally costed and runs to tight schedules in order to maintain despatch reliability for the automobile traffic ex Delhi.

Other backloading opportunities are under current investigation by the Indian Railways, including the backloading of empty coal wagons with limestone traffic from Rajasthan in the northwest to steel plants in the Delhi area and the movement of fertilizer in wagons used in the reverse direction for the movement of coal.

6.2.6 Action Programmes

Another important element of the Marketing Plan is the statement of actions needed to put the plan into effect and the assignment of responsibilities for these actions. This feature of the Marketing Plan recognizes the vital role of Marketing in leading and co-ordinating all of the railway activities aimed at delivery of railway services to satisfy customer needs. Thus, actions will be required of all functional departments, but especially the Operations, Mechanical Engineering and Civil Engineering departments, to support achievement of the organization's commercial objectives. For example, if high standards of locomotive availability are necessary in order support frequent high volume traffics, then the Marketing Plan will require actions on the part of the Chief Mechanical Engineer and his staff to assure the necessary level of availability.

6.2.7 Traffic, Revenue and Profit Projections

Forecasts of traffic volume, revenue and financial contribution are important outputs of a Marketing Plan (and important inputs to the Corporate Plan). They are market segment-related and are usually prepared as annual totals over a five year timescale. In most organizations, their preparation will be the responsibility of the Marketing Planning Manager and his staff.

While sophisticated mathematical models may be employed to generate traffic

forecasts, experience has shown that these techniques rarely produce reliable results. Better results have usually been obtained when the traffic forecasts prepared by railways have been based on information received from customers in the case of freight traffic and on a combination of government demographic studies and market surveys in the case of passenger traffic. In the case of freight traffic, there is no better substitute for the production and/or distribution plans of customers (or potential customers) as a basis for traffic forecasts, but access to this information depends upon the establishment of a strong working relationship between a railway's customers and its salesforce .

Preparation of revenue forecasts is a comparatively uncomplicated task. It requires making assumptions about the inflation of passenger fares and freight rates and applying the projected rates to the physical traffic forecasts.

Forecasts of market segment financial contributions are vital inputs for the forecasts of the corporate profit and loss position in the Corporate Plan. Their preparation depends upon the availability of suitable up-to-date estimates of traffic costs, by market segment. (Chapter 8 addresses the issues associated with the production and interpretation of these cost estimates).

6.2.8 Determination of Railway Resource Requirements

The key role of the Marketing Plan in providing information on customer requirements as a basis for determining the railway's needs of human and physical resources was emphasized in chapter 5.

This is not to suggest, however, that the Marketing Plan will be capable of identifying all of these needs. For example, the number and type of locomotives required in a railway system's fleet must be determined as part of a specialized locomotive fleet planning process which will incorporate information on train sizes, train scheduling, maintenance scheduling and running performance characteristics, in addition to traffic forecasts by route. Marketing inputs will nevertheless be vital for the preparation of functional department plans on a consistent foundation of traffic forecasts which reflect actual customer needs. In addition, the Marketing Plan must be capable of directly transferring to these functional department plans details of customer needs for specialized resources, such as specialized wagons or specialized equipment for the loading and discharge of wagons.

6.2.9 Marketing Audit

The measure of the worth of a plan, especially a Marketing Plan, is not its quality in terms of content and presentation but rather the extent to which its objectives were achieved and whether it materially contributed to the achievement of overall corporate goals. A plan cannot be satisfactorily implemented unless the action programmes it incorporates are actually put into effect. Therefore it is essential that the implementation of the plan be monitored or audited against its stated objectives.

The Marketing Plan must contain details of the methods and systems to be employed

in carrying out this audit. Factors to be audited include not only revenue achieved against plan, but physical performance factors such as operating punctuality in the case of passenger trains or percentage of wagon orders satisfied in the case of freight traffic. Responsibility for auditing performance against plan should rest with a multidisciplinary (or inter-departmental) committee within the railway, since achievement of Marketing Objectives (as observed previously) will depend upon the actions of personnel from every functional department, not merely of Marketing personnel.

The auditing process must be assisted by the availability of a comprehensive and up-to-date Marketing Information system. The desirable features of such a system are covered in chapter 9.