

MARKETING OF PUBLIC TRANSPORT SERVICES TO ACHIEVE PATRONAGE GROWTH IN A MULTI-PRIVATE OPERATOR ENVIRONMENT

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ABSTRACT

In Melbourne (Australia's second largest city), Metlink is both a brand name used to unify the public transport system and a marketing company that delivers campaigns to increase usage of the system.

The brand name is used to convey to the community that the separate public transport services are part of a unified and coordinated system, despite different operators being involved in service delivery – one train, one tram and around 25 bus companies.

The Company, Metlink Victoria Pty Ltd, was formed in 2004 and is jointly owned by the train and tram franchisees, with the bus industry having equivalent representation to the shareholders in nominating two Directors to the Board. It handles network-wide functions and activities which, from an industry perspective, are best managed on a coordinated basis and where the community expects a single point of contact. It operates via a series of tactical level partnerships, involving variously the authority (State Government) and various operators, filling a common void in multi-private sector service delivery models.

So far the process has been very successful; strong patronage growth has been achieved and fare evasion has been substantially reduced, both assisted by Metlink's marketing initiatives. Also, robust relationships have been established with all operators, with special effort being applied with bus operators to bring the perceived status and role of bus services to a higher level. Some of Metlink's roles are now being extended State-wide.

The length of service delivery contracts is emerging as an important factor influencing how well operators can focus on systemic issues. Contracts that are too short (e.g. five years) can discourage system thinking and co-operation, to the detriment of achieving maximum added value from the expertise of all industry participants.

INTRODUCTION

Melbourne is Australia's second largest city, with a population of about 3.6 million. Geographically it is a very large city, covering well over 2,000 square kilometres. For many generations Melbourne has had a public transport network that depends on the integrated contributions of suburban trains (14 radial lines), trams/light rail (23 inner metropolitan routes) and many local bus services (over 300 individual routes). Public transport fares/ticketing has been multi-modal since the 1970's.

In a relatively short number of years Metlink has become the system's brand name, used to unify the different modes and routes in the eyes of customers. Metlink Victoria Pty Ltd is a specialist company that is charged with achieving that unification and delivering the marketing and customer information campaigns that contribute to usage growth. Patronage growth of bus services and enhanced connectivity between those services and the train/tram network is particularly crucial.

INDUSTRY BACKGROUND

Train and Tram

Metlink's formation and role is the product of events that commenced in the 1990's. Melbourne's, and all of Victoria's, train and tram services were then operated by a single State-owned agency, the Public Transport Corporation, although historically separate operators had previously been involved (at one point the Victorian Railways and the Melbourne and Metropolitan Tramways Board; and later the Metropolitan Transit Authority and the State Transport Authority). The PTC reported to the State Government for funding and strategic planning purposes via the Director of Transport and the appropriate Minister.

During the 1990's the PTC came under strong pressure to reduce costs and was eventually corporatised into separate business units – with six entities having an operating focus, and other entities covering business support roles. In 1999 the PTC and its corporatised entities was abolished and the five passenger train/tram networks were franchised out to private operators. The sixth prior operating entity – a freight rail operator – was sold outright.

The five passenger rail franchises comprised two tram operations, two metropolitan train networks and the regional train network of V/Line Passenger. The tram and metropolitan train franchises were divided on an essentially geographic basis within Melbourne. Part of this history and the subsequent developments was well summarised in a paper to Thredbo 8 (Hensher and Stanley, 2005).

Bus

With the exception of a small number of bus services still provided by the PTC early in the 1990's, all bus services in Melbourne have been privately owned and operated for many years. The ex-PTC routes were contracted to private operators in the mid 1990's.

The ownership pattern of the various private bus operators has undergone consolidation since the 1970's. Whereas there were then about 60 separate companies, there are now less than half that number, market consolidation being a continuing process. The question of who owns the fundamental property rights in the privately established bus routes/services remains a contentious issue for the bus industry and Government. Another paper to this conference (Stanley, 2007) indicates how this matter is currently being managed, with funding and service level issues dealt with in long term contracts between the operators and the Government, typically for 10 years. The contractual arrangements will build in industry agreement to the future tendering of cross town trunk services in return for investment-led growth in local services provided by existing operators.

System Integration

Until the 1990's, Melbourne has a method of system integration and identification that had evolved over quite some years, but not necessarily with any sophisticated or even intentional brand development. Until the 1970's the modes would most often simply have been referred to as 'the railways' or 'the tramways'. From the time of the suburban train/tram operator being the Metropolitan Transit Authority, the system became known as 'The Met'. This approximately coincided with zone based multi-modal fares being implemented. Despite the advent of multi-modal fares, 'The Met' was still perceived as a more relevant brand for train and tram services than for bus routes. The bus operators were in fact contracted to the Metropolitan Transit Authority but marketing and publicity were not then a key element of those contracts and customers would have continued to identify bus routes by the name of the individual local provider.

Later, when a new magnetic stripe ticketing system was introduced, the tickets becoming known as 'Metcards'. As much as anything else, 'The Met' and 'Metcards' served to distinguish metropolitan public transport from its regional cousin, V/Line Passenger, which has been able to retain its brand name in relatively similar terms for much longer, and accordingly has built up strong brand allegiance from customers.

FORMATION OF METLINK

The 1999 passenger rail franchising process turned out to have certain shortcomings. The events between 1999 and 2002 have been extensively analysed in other papers (e.g. Hensher and Stanley, 2005; Metlink, 2006; Stanley, 2006) and will not be further examined here.

In December 2002, the UK parent company of National Express Australia – the operator of one of the two tram franchises, one of the two metropolitan train franchises and the V/Line Passenger franchise – withdrew its support for the Australian companies, which therefore had to be placed into receivership. The separate operators of the remaining two franchises, one tram and one train, had also identified that the franchises were not sustainable as then structured.

Whilst the National Express franchises were in receivership, the State Government, now of a different political persuasion to the Government that had held power in 1999, re-examined the questions of (1) whether it would continue with franchised operations at all and (2) whether franchising would be based on the same model of two operators of each metropolitan mode.

The Government decided:

- to continue with a franchise model for metropolitan rail services;
- to have only one operator of each rail mode;
- to open negotiations with the remaining franchisees (Connex – trains and Yarra Trams – trams) to amalgamate the previous National Express operations into their franchises;
- to refine various provisions in the franchise agreements; and
- to return the regional rail franchise to a Government owned entity, still called V/Line Passenger.

In parallel with reaching these decisions, the Government decided that customer understanding of the overall public transport network had been compromised under the 1999

franchise model – to a certain extent the different operators had been allowed to apply branding and marketing as they had seen fit. It was seen as vital that a range of customer information, marketing and related functions should be conducted just once, on a coordinated basis. Hence acceptance of the formation of Metlink, and refinement of its intended scope of activities, became a significant component of the re-franchising negotiations with Connex and Yarra Trams.

At the same time, the Victorian Government decided that it would also be beneficial if the private operators could, on occasion, take a collective view via Metlink of broader system development issues, presenting a common public transport industry opinion back to Government and externally to wider stakeholders and commentators. This would provide Government with a single organisation with which to discuss system-wide planning and policy issues, simultaneously encouraging operators to see themselves as part of a broader system. One shortcoming of the previous franchising set-up had been that the system was “lost” in the franchising of individual services.

The Thredbo conference series has pioneered discussion of processes and relationships between the authority and operators, using the well-established distinction between strategic, tactical and operational stages (STO). In these discussions, the fact that “the operator” may in fact be several different operators, each providing a part of the total system, is seldom considered. The way operators might come together at the tactical, or system planning level, to co-ordinate various activities, which require such an approach to maximise effectiveness, has largely escaped attention. Metlink essentially occupies this unique space in Melbourne. It is there to focus on systemic marketing, planning and advocacy issues, from the collective viewpoint of the private operators, working closely with the authority (the Victorian Department of Infrastructure).

Metlink’s position relative to the other industry participants is summarised in figure 1.

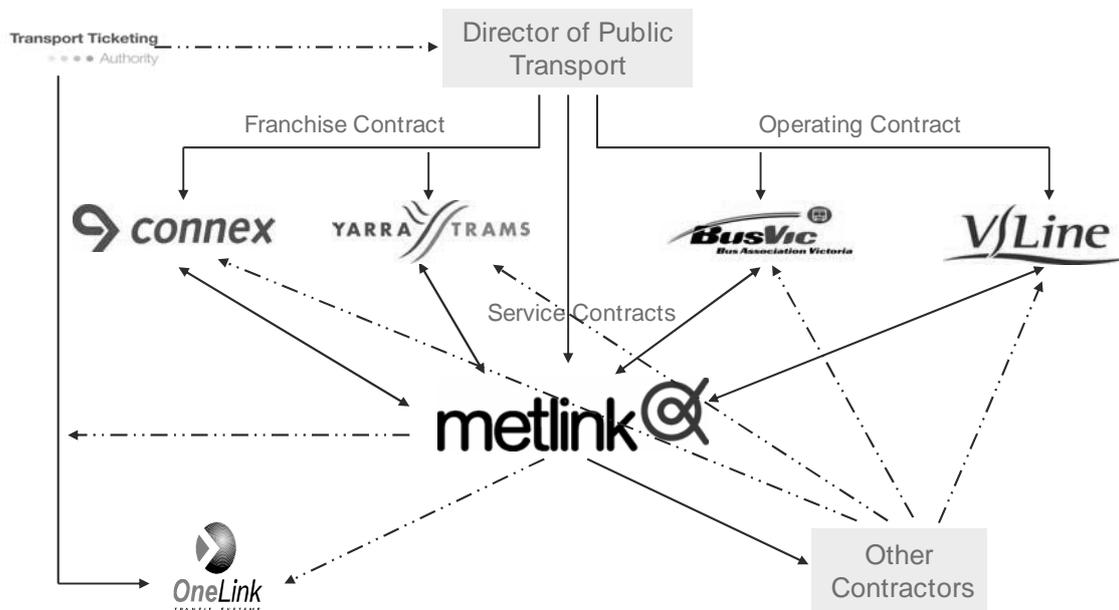


Figure 1: Industry structure in Victoria

This chart shows that Metlink delivers certain services to V/Line Passenger as well as to the metropolitan operators (e.g. the call centre, website and journey planner are all state-wide facilities).

CHARACTERISTICS OF METLINK'S STRUCTURE: BUS INDUSTRY INVOLVEMENT

Whilst Metlink was formed out of the processes necessary to stabilise the train and tram networks, it was agreed at an early stage that metropolitan bus operations should be equally involved (or almost equally – see below). As Metlink was to be formed to carry out functions that unify the industry in the eyes of its customers, it was decided to be vital that the industry itself should own and manage the company. The company was formed without any Government shareholding, with ownership to be 50/50 between Connex and Yarra Trams, the train and tram operators respectively.

The Board of Directors was to comprise two Directors from each of Connex and Yarra Trams and also two from the Bus Industry. An Independent Chairman rounded out the Board to 7 Directors. The CEO was to be an employee of the Company, but not a Director. (V/Line Passenger is invited to attend Board meetings as an observer when interface issues between metropolitan and regional services are discussed.).

The two shareholders were required to subscribe an agreed amount of capital to establish Metlink giving it the foundation to undertake its responsibilities and implement annual Business Plans. It was expected, and contractually required, that the Business Plans would have a strong focus on achieving patronage and revenue growth and this related back to the refined rail franchises, under which an equal share in farebox revenue was to be paid to the tram and train operator as an offset against the subsidies that would otherwise be required. This fixed revenue sharing formula has been successful in avoiding disputes about the revenue proportion that should be attributed to each mode and encourages operators to work together to grow the common pool.

As mentioned above, bus operators are not shareholders of Metlink but in every other sense they have equivalent status to the shareholders. The shareholding difference relates to the different nature of the contracts under which services are being provided. Current bus operator contracts are gross cost contracts without any revenue risk, whereas the train and tram contracts include revenue risk. It was agreed that bus shareholding would be appropriate when the bus contracts became more akin to the rail franchises, with stronger elements of incentive and usage/revenue risk. This is likely to emerge in the new contracts that will apply from January 2008.

METLINK OBJECTIVES

In any large multi-operator metropolitan public transport network, there are a number of network-wide functions and activities which, from an industry perspective, are most effectively delivered on a coordinated basis, across all operators. More importantly still, it is reasonable to assume that the community at large expects there to be a single point of contact for many of these roles. In Melbourne, Metlink delivers those functions.

In many ways, from a structural point of view, Metlink is the embodiment of modern public transport organisational structures – being established and functioning in accordance with a

series of tactical level partnerships between the State Government and Metlink and between Metlink and the constituent operators.

The industry participants are required to manage and support Metlink, and contracts with the operators formalise the obligation to own and govern Metlink, and ensure that the company has the resources and expertise to deliver system-wide marketing campaigns, together with co-ordinated passenger information and systemic planning, development and advocacy work. On the other hand most of the funding is obtained from Government; with the predominant requirement of the whole arrangement being like-mindedness between the operators, Metlink and the Director of Public Transport as to priorities, projects and campaigns.

A key focus of the multi-party partnership is the delivery of strong and unified marketing messages, supported by appropriate passenger information dissemination. The contract with the Director of Public Transport specifies the extent of the required marketing services, but allows Metlink, and therefore the industry, the major say in how those functions are delivered.

To ensure the objectives are being delivered to the satisfaction of all stakeholders, Metlink convenes a series of Working Groups and Committees. These include groups with a focus on, for example, Ticketing Improvements, Sales and Revenue Trends, Marketing, Communications and Passenger Information.

The overriding point of this whole series of tactical contracts is plainly to allow the system to achieve patronage growth. Evidence that these tactics have worked includes:

- strong patronage growth has been achieved, partly attributable to systemic marketing initiatives;
- fare evasion, once out of control, has been reined in;
- it is widely recognised that dramatically improved signage and passenger information is available for customers; and
- robust relationships have been developed between operators across various levels of their organisations, with special effort being applied to integrating bus operators/operations more closely into the overall system. In part, this is to raise the perceived status and role of bus services to a much higher level (traditionally buses in Melbourne have been third in the hierarchy behind train and tram services), recognising the expanded role buses must play in a city where over 60% of the population does not have train or tram services nearby and where service levels have lagged considerably behind their rail counterparts. This is now changing rapidly.

STATUS AND FUTURE OF BUS INDUSTRY

The bus industry's contracts with the Government expire in December 2007, and negotiations are well advanced to develop a refreshed franchise Agreement. A separate paper to this Conference (Stanley, 2007), outlines characteristics expected to be reflected in the new contracts. Two key aspects of relevance to the Metlink partnership are the inclusion of patronage/revenue risks in the bus contracts, which may trigger the option of bus industry shareholding in Metlink, and the use of a key performance indicator related to the timely and accurate provision of information on service/timetable changes from operators to Metlink, to permit updating of customer information channels.

The advent of these new contracts will allow the relationship between Metlink and the bus industry to reach a new maturity.

IMPORTANCE OF PARTNERSHIP BETWEEN METLINK AND BUS INDUSTRY

As already mentioned above, there is a sense in which Melbourne's bus services have always been seen as the "third mode", ranking behind train and tram both in the public mind and sometimes in the mind of policy makers and commentators. However, with over 60% of Melbournians having only bus services nearby, and much population growth occurring in areas served only by bus, raising the image and profile of bus services is an integral part of delivering future public transport services in Melbourne.

Two key rationales for this expanded role for buses are the contributions that buses can make to reducing:

- social exclusion that is mobility/accessibility-related in out suburban areas; and
- congestion and associated environmental cost of peak hour car use.

But for these underlying policy settings to return the maximum benefit in terms of return for investment, there has to be a step change in usage of bus services and in related customer satisfaction. This partly depends on the community appreciating the bus mode as a mature and key component of the overall Public Transport network.

At the same time as bus network coverage is being expanded and service levels improved, marketing of the new/improved services is therefore being considerably increased, with the bus industry working in close consultation with Government and Metlink to plan and deliver these programs. System-wide promotion of new/improved services is being managed and delivered by Metlink using funds provided by Government. Local marketing of service enhancements is the operator's responsibility, supported by the bus industry association, which is co-ordinating programs across local operators.

The tactical partnership between Metlink and the bus industry will also focus on:

- website and journey planner – to some extent people in Melbourne have a lifelong inbuilt knowledge of tram/train routes due to the visibility of the steel tracks. The website/journey planner can overcome some of this for bus services.
- signage - stop specific timetable information and a unified approach to bus stop flags will be available across the bus network on a consistent and integrated basis by 2008.
- development of a real time information platform – this will most likely be delivered as a by-product of the GPS information being generated by the Smartcard ticketing project.
- marketing of service improvements and new services – as discussed above, the imperative of growing bus service usage is a major focus.
- coordination of complaint handling processes – Metlink coordinates the processing of complaints, so that customers of any bus company will experience a similar approach.
- information from market research and surveys – these surveys and research cover both time series data and one-off investigations.
- production of customer maps and other printed collateral – bus services are "closest" to the various local communities of Melbourne, and maps in particular

are being made more usable and understandable through the joint efforts of Metlink, the operators and local government authorities.

- lobbying and advocacy – Metlink and the bus industry association can add a much louder voice to the efforts of individual operators.
- call centre coordination – the call centre is already an integrated facility, but in conjunction with the bus industry a number of value-adding services will be considered.

Via these activities Metlink and the bus operators of Melbourne are confident that the Melbourne community will understand and use their network of bus services far more in future than they have until now. All three modes will cooperate more than ever to deliver seamless travel opportunities for Melbourne's passengers.

SHORT-TERM CONTRACTS AND SYSTEM THINKING

One challenge to the Metlink delivery model is emerging as the current short (5 year) contracts under which train and tram services are being provided. These short term contracts were largely a reaction to the shortcomings of the initial 1999 rail franchises with longer term contracts being a desirable outcome in the next round. Five year contracts mean that operators are heavily focused, for much of the contract period, on their own renewal circumstances. This can discourage broad and creative thinking and may inhibit expression of opinions about system development issues, especially where such thinking may be contrary to the public views of the government of the day.

Marketing issues are less exposed to this problem than system development and advocacy issues. But for marketing and passenger information to be most effective, medium term thinking is also required especially if new and emerging technologies are to be invested in and deployed for the maximum customer benefit.

If private operators are to co-operate on systemic issues such as marketing, system development and advocacy on behalf of public transport, contracts of longer than five years seem essential. The skills that exist within operators in these areas is partly lost to the community if operators are excessively inwardly focused, because of short term contracts.

CONCLUSION

It is well understood in modern industries of all types, that properly specified, tactical partnerships between specialist companies can deliver real benefits for all parties.

In public transport provision, such partnerships have historically been between operators and vehicle manufacturers, operators and maintenance companies or between operators and engineering/infrastructure providers. However, as contracted service delivery from private operators becomes more common, the importance of developing delivery models that foster co-operation and system thinking among the individual private providers becomes increasingly important.

Metlink provides compelling evidence that an operator-run marketing company can work with its individual constituent operators and the State authority to deliver growth outcomes, improved customer relationships and progressive system thinking. To adequately foster systemic thinking, service delivery contracts need to be for long enough to encourage

operators to think broadly and for long-term sustainable outcomes. Ten years is likely to be around the right term for this purpose.

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