SERVICE INITIATIVES AND SECURITY
OR
A Journey Into The Mind Of A Bus Operator

John Usher
Croydon Bus Service Pty Ltd, Melbourne, Australia

STARTERS

The current Business Mission of my company is:-

> "To Innovate, Develop and Operate Quality Efficient and Effective Public Transport Services, so as to Promote the Welfare of Customers, Staff and Owners in accordance with the B.P.A. Code of Ethics."

This "Mission" is intended to clearly set out to all staff where we are headed. For completeness and realism we should add:-

> "...... and within the current environment created by Government policy and regulations."

Who is involved, and what does "promoting welfare" mean?

It is possible to be fairly certain about the needs of customers - there has been enough research on this subject, but commonsense does just as well. Our customers look for reliable services which are quick (in terms of both waiting and travel time), relatively comfortable, and affordable, not necessarily cheap; people will pay for quality.

Staff are likely to look for reasonable living standards and working conditions, security in their employment, and participation in the planning and organisation of the operation, so that they share ownership in what is happening.

Owners need security of investment; an adequate return, to justify the investment compared with alternatives, and related to relative risk; and cash flows adequate to provide for replacement of depreciating assets on a timely basis - probably at an inflated figure compared with the original purchase price. Some even look for the challenge which operating a bus service in an ever changing environment provides!

To many people not directly involved in the <u>business</u> of operating public transport, the above might seem to be academic and unimportant. However they are the essential foundations of a successful continuing business, and are neglected to the peril of the business. Thus they cannot be negotiable. Public transport companies "........are not suppliers of government services. They must make a normal commercial profit." (UITP, 1995, 1)

SOUP

It is unfortunately not usually possible to be certain of the "....... environment created by Government policy and regulations", at least on a longer term basis. However with the wisdom of hindsight I think it is reasonable to say that the deregulation of bus operation as introduced into the United Kingdom and New Zealand is an abberation on the international scene, and that the more general model for the introduction of an element of competition into the public transport area is a franchise or concession system; competition for the market, rather than in it.

Most governments seem to require more control over many, if not all, aspects of service provision, than that allowed them by full U.K. (outside London) style deregulation, and the franchise or operating concession approach is seen to better give then this control.

The fly in the soup is that, in governments' perceived need to control all three basic aspects of service provision, cost, quantity and quality; they leave the operator with only one variable to work with - quality, or in other words the impact of quality on the cost of operation.

Note the rhetoric with which Australian operators are only too familiar. On one hand, it is said tendering for franchise areas will provide benefits for both passengers and the community at large:-

1. Operators will be able to be more flexible and innovative in the way services are provided, in fact the expectation is for "innovative" services, whatever that means.

2. Quantity and quality of services will be assured, because minimum standards will be specified.

3. Fares and/or fare systems will also be specified, as for instance maximum fares to be charged, and participation in a city wide "Travelcard" type system.

4. And the new arrangements will cost the community less, in terms of contract costs, subsidies, or revenue support.

As a further constraint, in taking over formerly publicly operated franchises, operators may be required to lease the existing vehicles, further limiting vehicle type options and imposing associated costs for the operator.

Last, but not least, to allow purchasing authorities flexibility in defining, and changing the operation, the natural tendency is to set short, rather than longer, contract periods.

MAIN COURSE

In his paper "Operator and Customer Trade Offs in Public Transport Route Design" (Richardson 1994), Prof. Tony Richardson goes fairly deeply into the detail of the inter-relationships between cost, quantity, and quality of operation, and the trade-offs between each of these factors which continually face the operator.

By controlling the fare system, ie. revenue, and by controlling the quantity of service through specification of minimum frequencies and walking distances to services; governments or purchasing authorities leave operators only one balancing variable - quality, above the basic entry standard called up by vehicle safety and operator accreditation standards.

In this environment an operators' concerns must be to ensure that for a given quantity of service, costs are less than revenue. In this situation, who can blame him or her if the cheapest vehicle possible is operated on the minimum service levels, and if market related aspects of service provision, such as the provision of information are neglected.

What then of innovation, meeting customers needs, and operator flexibility?

Will the operator take commercial risks, and by innovation and provision of attractive service, generate more patronage and revenue, and so pay for the cost of such improvements, and make some profit on the side, perhaps?

Or will the operator "play safe", and concentrate on the aspects of the business which affect costs, such as minimal vehicle standards, and only essential operational and marketing initiatives?

And yet the requirement to be innovative and flexible is one that must concern the operator, as the associated business basis should concern the purchasing authority. Change in society means that people's demand for transport has become more diverse, and so far most people have found the best solution to be the car. (UITP 1995,2). In such a market, car manufacturers have met diverse demands by product diversification. So must public transport operators also respond.

My experience is that despite the rhetoric of government, the risks involved have not yet been worthwhile commercially, and do not attract an appropriate response from authorities.

Two examples will illustrate this.

TeleBus - Revenue

For nearly 20 years, our TeleBus service has been operating, passengers using the home pick up/set down service have paid a surcharge, over the normal fare, which revenue is ours. Yet we have been continually denied "approval" to raise this surcharge, despite our commercial decision that an increase would be justified in the market.

TeleBus - Investment

The natural line of development for TeleBus is toward the Swedish "Service Bus" concept, which uses small low floor vehicles, accessing origins and destinations which are difficult to serve with large buses. This service improves the mobility of a wide range of passengers, including those with impared mobility.

What will encourage us to invest in such development of service quality? We need time to amortize the investment, and profit from it.

LoRider - Revenue

Our ability to raise our own revenue on this service, (and so make a contribution to the additional cost of improved service quality) by charging short distance fares lower than the city wide multimode fare is constrained by the unrealistically low multimode fare. Despite a 30% service improvement in patronage over 6 months, the investment in service, equipment and marketing has not yet been justified by the increase in revenue.

LoRider - Investment

The main components of this improvement to service quality is vehicle type and service frequency. What would encourage us to repeat this successful development? Again, the security to give us the ability to amortize the investment, and profit from it.

In both cases, government control over fare revenue, or rather on one hand inflexibility in relating fares to service quality, and on the other a low fare policy, has had a negative impact on the economics of innovative service operation; services which have demonstrated an ability to attract passengers.

And, if this was a franchised operation rather than a licensed one, it would be difficult to justify the investment in appropriate equipment for any period less than at least seven years.

DESSERT

What must be done to make a franchise system commercially attractive, and supportive of innovation? In simple terms, first the franchising/purchasing authority must at least loosen, and better yield control on at least two of the variables, price, quality and quantity.

Second, the concept of security commensurate with the investment risk should be understood, and adequate length of franchise, or other suitable arrangement provided.

Cost/Price Controls

My personal belief is that cost/price controls should be eliminated, because it has been demonstrated that passengers are attracted by quality service, and are prepared to pay extra for it. This respects the realities of an operator's commercial position, and allows room for an operator to trade service quality and innovation against the revenue to be derived from the patronage developed by the innovative service.

What should then be specified by governments or service purchasing authorities is then operator quality - by initial accreditation including standards of operational safety; managerial competence and financial probity, and some general levels of minimum service to be provided. This leaves the operator the market related tools of price, type and quality of service to work with to generate patronage and profit.

Government is protected in two ways. Firstly by setting minimum service standards and secondly by the commercial reality that will drive the operator to maximise patronage and profit, using the full range of market related initiatives at his or her disposal - an inbuilt check on excessive fare increases.

However, there is an ant in the dessert. Most cities of any size now have in place an integrated ticketing system offering easy one ticket intermodal transfer - itself an important factor in attracting people to public transport. Such systems have developed through having one operator in the city, as in Perth, Adelaide and most European cities, or being imposed by government, over a range of operators, as in Melbourne.

In the revenue/price area, the essential challenge, then, is how to maintain an intermodal ticket system, and yet include the ability to use fares as a commercial tool. This is an appropriate subject for discussion, and I later offer some cheeses to sample.

Security Commensurate with Capital Risk

The "deregulated" operator is at least master of his or her destiny, having control over price, quality and quantity of service, and able to make judgements as to the risk involved, and return expected from capital injected.

The position of the franchised operator is not as simple. He or she must assess the implications of the revenue/quality/quantity model under which they are franchised, and relate the financial implications to the investment risk involved, and to the franchise period.

Obviously the longer the franchise period, the more attractive the investment proposition. I suggest that five years is the absolute minimum, and even then some buy-back provision of capital equipment against further loss of franchise may be necessary to encourage an operator to invest in innovation.

CHEESE & BISCUITS

Cheddar

If the intermodal fare scale is such that it reflects the typical longer journey length, and the advantage of intermodal transfers, it will be higher than more local fares. Passengers will then be able to make a market-based choice on which fare to buy. This will impose an upper limit on local operator's fare scales. Shared fare revenue from intermodal traffic will accrue to each participating operator, on an agreed basis.

However mice have normally nibbled at this cheese, and the intermodal fare is usually set artificially low for political reasons. Achieving a commercial local fare is impossible.

Camembert

This cheese is normally softer than cheddar, and must be treated carefully. Perhaps the operator operates a commercial fare scale, ie. a scale of fare which for an established patronage will produce a commercial result at minimum service levels. Government subsidises this commercial fare scale down to a politically acceptable level, on a per passenger basis, and also pays the "commercial" fare for the parts of intermodal journeys taken on an operator's service.

Patronage generated by innovation and quality service initiatives will produce revenue increases at the commercial fare rate.

With adequate, but not excessive refrigeration, including consideration of investment issues, this cheese may be quite palatable.

Gorgonzola

While tasty, this cheese is somewhat smelly. It involves a full cost contract, where the operator is paid for services nominated by the government/purchasing authority. Contrary to expectations incentives are being built into such contracts, by rewarding operators for quality service provided. This is established by regular passenger surveys, and the "top" few operators rewarded by a percentage bonus. Thus careful monitoring can simplify some percieved problems, and render this cheese palatable to all parties.

The merits of other cheeses, including Swiss - an uncertain arrangement with many holes, satisfactory to neither operator or purchasing authority, can be discussed later.

Biscuits

Usually of the dry variety, these underly and support any cheese selected - being the financial capital aspects of the operation. The essential ingredients are an understanding that the level of financial return must be related to the risk involved. The shorter the franchise period the higher the risk involved in expenditure on equipment, and hence the higher return required to support the introduction of innovative services.

Operators should also remember that biscuits do break if production quality is not maintained. Maintenance of operating quality must be a feature of long franchise terms.

COFFEE & MINTS

So we come to the end of our dinner. Despite the menu selection made, depending on whether you are an operator, from government, or a service purchasing authority, or even a consultant, I hope the tastes will linger:-

1. There are business essentials to be considered - by both sides

2. The aims and policies of those contracting operators to provide service cannot ignore those business essentials

3. Innovation in service provision is a useful, indeed essential tool to develop patronage and meet increasingly diverse needs of our passengers, but an operator must feel financially secure to indulge

4. Contractual arrangements which encourage development of patronage building initiatives are possible, but cannot ignore business essentials, and specifically the security of an operator's investment.

Bon appetit!

REFERENCES

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