CURRENT PROBLEMS OF MARKETING MANAGEMENT OF CZECH RAILWAYS

Bohumil ŘEZNÍČEK, František ORAVA

The Department of Transport Management, Marketing and Logistics

The Czech Railways consider marketing to be a system, which results in success on the market. To discover customers' attitude and interest it is advisable to use such methods that would continue those marketing methods of products development control. As far as transport and transportation systems are concerned we have to understand the word marketing in its narrowed meaning, that means customer marketing. We have been moving in competitive world and there are other transport systems and forwarders that means that a customer is being offered by them and they compete against each other. Markets' saturating is usually followed with a change in the plant's behaviour. It has to shift to such a position where it devotes itself to the activities of competitors/products, strategy, pricing policy/ more than to its customer. The transportation policy used to concentrate on voluminous, collective transport of substrates. That is why long train units with low frequency were required. This policy was the main commercial activity of the Czech Railways for a long time. After November 1989 there were economical changes. The Czech Railways joined the economy that started to use the rules of free market. Concentrating only on one sort of product that means on the transport of collective consignments brings about the risk that in case of losing the market share and then reducing bulk transport of substrates means profit losses but in fact with the same costs. This situation has already been known for several years, as statistical data show. Only little was done for offering new products and for finding new clients.

As opposed to EU the Czech Republic has not defined rail transport as public interest and the state subsidies only the passenger service. It is possible to consider the freight traffic as a matter of commercial enterprise. That is why the freight traffic is one of the Czech Railways' enterprise segments. From the point of view of receipts it is the decisive segment. The freight rail transport receipts amount to about 75% of all the Czech Railways' receipts.
The performance and receipts of the Czech Railways' freight transport can be considered from two points of view:

1. production - as the basic and almost the only one financial resource for the whole Czech Railways' activity,
2. commercially - as a relatively independent segment of enterprise which pays for all the other subdeliveries of other parts of the Czech Railways.

At present there is a crucial lack of finance necessary for the Czech Railways mere existence and there the production view predominates. It results in nearly total absence of technical equipment for freight rail transport reproduction (especially wagons) and that is why receipts are endangered in the near future.

There are two ways how to raise the freight transport receipts:

a) to raise the volume of receipts by increasing transport efficiency, but this can be reached only in successful road and external rail competition
b) by raising transportation charge which is conditioned by high quality of services required at such prices.

In addition to the programme of hard costs restrictions there is a realistic solution to set up another programme of the same importance that will orientate the whole enterprise of the Czech Railways on customers and receipts from them. Without such a programme the freight rail transport does not stand a lot of chance in a process of real transformation of the Czech Railways on the free transport market.

In fact we can devide the freight rail transport customers into 4 categories.

- **permanent and regular** - especially those connected to the Czech Railways network with railway siding, having at their disposal or purchasing mostly so called bulk substrates in such quantity that can hardly be transported in another way than by rail. In their relation railway predominates. This cathegory of customers is organized first of all in a division of plants transport of the Union of industry and transportation and demands in a very strict and „lobby“ way individual transportation charges and they are trying to get the Czech Railways in a position of the state service to private sector at state money,

- **casual** - some of them are also connected with a rail siding, their goods are rather piece ones in individual wagons and in smaller quantities. In their commercial relations predominate road transport, railway is for them only a supplement and only in case if it is profitable for them. These customers are not tied up to the railway in any way, it is necessary for sales managers to keep the Czech Railways in touch with them, to be able to offer interesting services and transportation charges. This cathegory can do without the Czech Railways quite easily,

- **potential** - they usually do not know anything and so do not feel the necessity to use the railway. They are often discouraged by the public opinion about railway service. This is aided with a total absence of advertisements of freight Czech Railways' transport. These customers are the most discriminating. To satisfy them is often beyond possibilities and abilities of the current Czech Railways as far as the quality and the transportation charge are concerned,

- **dispatching and forwarding companies** - they are skilled customers, specialized and very discriminating. They are able to bring to railway causal and potential customers and their orders, but only in case that the Czech Railways

Bohumil Řezníček, František Orava: Current probes of marketing management of Czech Railways

- 250 -
propose such quality and price which are expected by the customers. Although dispatching way of transport organization rather presses down the price level of the Czech Railways, because a share for the carrier has to be also left out of the final customer price. It is able with the support of supplementary services arranged outside the sphere of the Czech Railways to bring to railways also such transport that the Czech Railways would never obtain.

The position of the Czech Railways on the market is defined by two basic factors

1. quality of a transfer,

2. transportation.

Freight rail transport of the Czech Railways organizes the transport of wagon consignments by two basic technological processes

- in integral forwarding trains from the forwarding station right to the destination station
- individually - in trains among shunting yards with preceding transfer from forwarding stations and taking consignments again to the destination stations.

The concentration of transport flow mainly of bulk substrates to forwarding trains will depend on:

- the concentration of industry and its commercial relations with customers
- activities of external carriers on the Czech Railways' network who uses it in principle in an integral transport unit - a train.

An optimization of the relationship between the freight transport and the transport receipts requires especially organizing following:

- increasing share of consignments transported in forwarding trains (both integral and group ones)
- streamlining - forming of trains business

Cancelling stations with the competence of forwarding offices is a permanent process which began in 1980s.

Radical changes in a position of the Czech Railways on the transport market also caused so called „regionalization“ /that means forming regions/ of railway network and assumed changes for its functioning.

As opposed to external carriers on rail lines of the Czech Railways, those new private ones for the freight transport have been cooperating with each other. Regional rail lines that were decided to be offered on hiring or privatization do not obviously represent a large continuous network. That is why the majority of transport will be followed with the Czech Railways’ transport /the same in opposite direction.

Hiring and privatization do not necessarily mean decreasing of the Czech Railways transport in tons /only in tkm and in receipts/. Mutual relations between the Czech Railways and carriers on the new private lines will be based on standard business relations.

The Law about the Czech Railways, No. 266, dating 14th December 1994 allows entering the network of the national and regional railways to everybody who meets the conditions for franchising. This access is very liberal, because it lays on the entrepreneur the duty to allow the entrance on the railway track to every subject who complied the given conditions in such a degree that he/she was granted a licence by the Railway authority.
This liberal law, in fact, more liberal than in EU countries, actually constrains the Czech Railways to enable the entrance on their railway track for their competitors. On one hand, this unusual situation develops competitive environment, on the other hand, it lowers possible incomes of the Czech Railways and poses higher claims for loss coverage. No proactive marketing approach is required to promote this stage by the Czech Railways.

The relation between the Czech Railways and external carriers is full of contradictions and double-dealing. An external carrier is at the same time:
- a customer of the railway track and train transport business
- a competitor in goods transportation business (sometimes even passenger)

There is no solution of this dualism in current organisational structure of the Czech Railways. The duplicity of the relation between the Czech Railways and external carriers provided a base for understanding the role of operational units, most of them preferring external carriers to their own enterprise’s needs considering goods transportation. However, in 1997, external carriers took from the Czech Railways the transportation in the amount of about 3.6 million tons, which presented return loss about 360 million Czech crowns.

Goods transportation prosperity is linked with the stage and structure of the fleet. The future revenue output is impeded because of the necessity of fleet renovation with new modern railway carriages. Regarding the needed goods wagons and their age structure, there is the necessity of buying approximately 2000 new vans per year. Since the year 1991, however, it has been bought mere 463 vans, on average 66 vans per year only.

Customers require modern wagons, comparable to those offered by other European railways. Again, the real situation is, that two thirds of the Czech Railways van fleet will not be able to suit the international regulations after 1st January 2000 and will not be allowed to go abroad without a grand reconstruction.

There has been a great decline in proportion of bulk substrates shipments in goods traffic, owing to the dependency on gross national product. The requirements for the transportation of individual shipments have been increasing gradually. At the same time, delivery frequency is higher.

In the future, transportation of bulk substrates in long integrated trains, as well as international transportation, with regard to revenues, will represent the crucial portion for railway transport. The main task is, to maintain or intensify the part in the market by means of active marketing strategy, respectively, aiming against the external carriers in the Czech Railways network. The market being stagnant, the intensification can be carried out only off other kind of transport. To become an attractive partner in this part of the goods traffic market, it is necessary for the Czech Railways to improve the quality, and, first of all, to insist on speed, time and reliability of transportation.

The change of demand has led to the change of train pattern, respectively, from integrated long trains with long intervals to short trains, sequenced according to carriage shipments with a guaranteed delivery time.

The structure of the Czech Railway offer must be comparable in quality with road transport. Requirements development for transport enables the introduction of transport systems door-to-door, just in time and combined unescorted systems.

The development of EU transportation market recognizes the basic strategy for the following stages:
- offering logistics costs minimisation

Bohumil Řezníček, František Orava: Current problems of marketing management of Czech Railways
- minimising external costs (noise, transport accidents consequences, time waste owing to congestion), being provided by a company so far, and, on behalf of the market harmonisation, to internalise them (especially, by means of taxes, charges and obligatory insurance).

According to the European Commission’s data, the external costs rate charged in ECU/tkm amounts approximately 1% from the total external transportation costs, by referencing the railway transport. Evidently, these data are considered to be signal for the harmonisation of the Czech Republic’s market.

The Czech Railways goods traffic is offering and keeping on the following types of transportation:
- carriage shipments and, besides common shipments transportation, also special single offers of transportation in preferential trains and in direct dispatching trains,
- big containers, this type of transportation is organised on the railway by the operators,
- road vehicles with a drivers, so-called ROLLS, namely in the selected relations according to the operator’s orders.

In the next period, attention will have been directed toward the use of common business policy with foreign railways, orientated towards the smoothest dispatching across the boarder, co-operation with customers, when offering direct trains of logistics character, and extending of transportation for the operators of the combined transport.

For the elimination of the negative influences, affecting the customers’ decision making choice between the road and rail transportation, the Czech Railways, henceforth, will offer competitive services realised by means of douane, bonded warehouses, dispatch activities, loading, unloading, and, if need be, goods cartage and distribution, in perspective.

The Czech Railways business strategy in the fields of goods transportation must provide in the future:
1. goods transport offers in the system door-to-door,
2. delivery time guaranteed, being specified in the transportation treaty,
3. time reduction of the total delivery time,
4. combined transportation and building logistics centres (escorted and unescorted transport).

The development of the Czech Railways goods transportation will depend on many of the mining and productive resources, as well as on the consumers, spread round the whole territory of the Czech Republic.

Goods transportation market is full at present time, therefore stagnant. It is a market belonging to several carriers, mutually changeable in an easy way. Obviously, rail and road transport are the two strongest partners. Nevertheless, the Czech Railways’ position on the market is continually dimming. Consequently, passive marketing strategy is needed to be changed into active strategy, rather, it is viewed not only as defending one’s own position passively, but, struggling for its extension in an active way.

Lektoroval: Prof. Ing. František Kovář, CSc.
Předloženo v únoru 1999.
REFERENCES:


Résumé

SOUČASNÉ PROBLÉMY MARKETINGU MANAGEMENTU ČESKÝCH DRAH

Bohumil ŘEZNÍČEK, František ORAVA

Příspěvek je zaměřen na současné problémy marketingové strategie Českých drah. Jsou analyzovány základní problémy Českých drah jako marketingového objektu. Je zde prezentována možná obchodní strategie s ohledem na rozvoj výstupu přepravy, ekonomické prostředí jakož i na požadavky na přepravu zboží.

Summary

CURRENT PROBLEMS OF MARKETING MANAGEMENT OF CZECH RAILWAYS

Bohumil ŘEZNÍČEK, František ORAVA

The contribution is aimed at the up-to-date problems of the Czech Railways marketing strategy. The basic problems of the Czech Railways as a marketing object are analysed. A possible business strategy is presented, regarding transportation output development, economical environment, as well as goods transportation requirements.

Zusammenfassung

GLEICHZEITIGE PROBLEME DER MARKETING MANAGEMENT DER TSCHECHISCHEN BAHNEN

Bohumil ŘEZNÍČEK, František ORAVA