



# SPUTNIC Newsletter

Issue 3, November 2008

## Strategies for Public Transport in Cities

### Fourth Working Group Meeting, October 2008, Czech Republic

The 4th SPUTNIC working group meeting took place October 9-10 in Prague, Czech Republic.

The participants discussed public transport challenges in four working groups. The Market Organisation working group addressed issues such as contracts, incentives and monitoring, while the Customer Relations working group focused on monitoring and analysis of the public transport market. Experts in the Corporate Management working group spent both days on a thoroughgoing discussion of strategic corporate management while the Equipment and Operational Aspects group spent their time on the following topics: supply and demand for second-hand rolling stock and spare parts as well as fleet management.

The meeting concluded with a field trip on October 11 organised by Public Transport Company Prague (DPP). The trip included a visit to the dispatching centre for Prague's metro, tram and bus systems and a tour of DPP's metro system, which required extensive repairs following the disastrous 2002 flood.



The new above-ground Strizkov metro station in Prague, 2008



The International Association of Public Transport (UITP) – coordinator of SPUTNIC – is looking for public transport operators in the New European Union Member States willing to learn more about the development in the sector.

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## Get It in Writing

### Market Organisation cluster focuses on public service contracts

The experts of the Market Organisation cluster focused their attention on the relationship between commissioning authorities and public transport operators. The discussion was divided into the sub-topics:

- public service contracts (PSC);
- incentives within PSCs; and
- monitoring schemes for gauging the operator's performance.

Discussion was driven by presentations by several cluster experts, taking in experiences from Sofia, Gothenburg, Amsterdam and Prague among others.

Despite the undisputed benefits of public service contracts, many cities in Europe run public transport services without a

contract. In other cases, a contract does exist but the city cannot reap all of its potential benefits, for instance because its term is too short or because it is seen as a mere formality and not as useful document.

It is hoped that the new EU Regulation 1370/2007 will improve the situation as it makes public service contracts compulsory and includes provisions fostering greater transparency in the contractual relationships between authorities and operators. Under the regulation, a proper contract has become a basic condition for access to third-party financing of investments.

When designing a public service contract, it is important to define the public transport policy aims and the

desired market organisation (including the operator's level of freedom).

Such contracts vary widely in nature among European cities, and there is no single solution that fits all. Every contract must be designed according to the local framework conditions.

With customers demanding greater quality in public transport, there is a clear trend to include incentives in public service contracts. Incentives can take the form of bonus payments linked to quality or customer/revenue indicators, but can also include the threat of competition or the prospect of not having a contract extended. Incentives have to be designed carefully if they are to produce the desired effects and avoid unexpected negative consequences.

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A monitoring scheme should be part of any contract. Such a scheme serves several purposes, at once gauging how well the contract stipulations are met, providing a basis for incentive calculations and helping to guide contract management. Monitoring is also valuable for benchmarking purposes and identifying quality and performance gaps.

There are different methods for capturing monitoring data, and each serves a different purpose. Direct performance measurements are generally used as a basis for penalties while customer satisfaction surveys are the preferred tool to calculate bonuses.

The use of so-called mystery shoppers, who pose as normal customers and then provide detailed feedback about their experiences, can provide both positive and negative incentives.

CEN standards EN 13816 and 15140 on service quality and quality measurement are good starting points for the development of monitoring schemes. The results of the monitoring should be made public in order to spur quality competition. While monitoring schemes are a necessary adjunct to contracts, the relationship between authorities and operators should always be a cooperative one — for the benefit of the customer.



**Discussions in the Market Organisation working group, Prague 2008**

## Knowledge Is Power

### Customer Relations cluster sees a gaining appreciation for market research in Eastern Europe

Discussion of the expert survey showed that the differences between Western and Eastern European cities are smaller than differences within individual countries. There were good and bad examples in both Western and Eastern Europe.

The main point of the discussion was “what is the public transport market”. There are two approaches: one from the transport, the other from the economic point of view. From the transport point of view, it is still common practice to neglect an important segment of the market by comparing public transport with only motorised personal modes and not with walking and cycling. While leaving out walking and cycling gives public transport a higher market share (signifying greater importance), it ignores two modes which can be important supporters of public transport.

The question of who should be responsible and who is responsible for the monitoring of the public transport market was discussed in very detail. It was agreed that in most cases the organisation responsible for selling the tickets has the greatest interest in monitoring the public transport market. The fact that public transport is subsidised also has a significant impact on the monitoring.

In cases where subsidies are provided based on vehicle kilometres, the inte-



**Customer Relations clusters sees a gaining appreciation for market research in Eastern Europe**

rest of public transport operators and authorities to keep their customers and to gain new customers is significantly reduced as is their interest in monitoring the market.

Therefore the provision of subsidies should always be connected with the guarantee to keep and gain customers and to provide high-quality services.

The importance of customer satisfaction and its measurement is critical, as discussed in previous meetings.

Experts concurred that surveys should focus not only on existing customers but also on the expectations of potential customers. It was emphasised that in Eastern Europe expectations with respect

to public transport services are growing, as people travel and learn about the level of services in Western Europe.

A special point in the discussion was the need for education of public transport employees to encourage more “civilised” behaviour. This might reduce the number of customer complaints and negative experiences.

Monitoring and analysis of the transport market provides the:

- basis for knowledge about customers;
- foundation for all marketing and services; and
- data concerning expectations of customers.

Important lessons learnt are the need to reduce the number of tools and to instead concentrate on key indicators. When implementing surveys, adequate time should be allocated for data analysis. Also, market analysis should promote decisions not delay them.

In order to find out more about the wishes of people it is necessary to collect not only quantitative but also qualitative information.

Generally speaking, market research is relatively new for Eastern European countries but nevertheless there is a rising appreciation for monitoring among both users and non-users.

## Strategic Planning Embraced by Most Public Transport Companies

**Corporate Management experts say long-term planning universal, but implementation is another matter**

The Corporate Management working group, eight experts from six EU member countries and three representatives of the cluster partners, made a thorough study on the topic of strategic corporate management. The main questions were: How are public transport companies handling their strategic planning process and how are they ensuring the effective implementation of their strategy?

Furthermore, what kinds of management methods are used and what are the results?

Experts also investigated what they like and dislike in the strategic management approaches of their respective companies. Here is a compilation of responses:

### Like

- Our strategy is clear, reliable and executable
- Cooperation during the whole preparation process (bottom-up)
- Communication of our strategy, including our ambitions
- Clear mission and vision statements, also announced on our intranet

- Pressure by top management to think strategically
- Restructuring of the company included synergy
- Successful financial management
- We used balanced goals
- Good reporting system at operational level
- The operational plan for maintenance
- Common-solution approach
- Customer centred
- It is short and comprehensive
- The strategic planning process itself. It is the best opportunity to formulate major questions, which is important not only for the board, but for all managers and personnel

### Dislike

- It has not been written down yet and spelled out in more detail
- We always have to think about the political aspects of our strategy
- The way we implemented it
- Too much focus on the core business



**Corporate Management working group, Prague 2008**

- Marketing strategy is rather weak
- Lack of cooperation among business units
- Immeasurable goals
- Shortage of money to cover goals
- High pressure on outsourcing
- Communication of the strategy
- Our strategy cannot be discussed (top-down approach)
- Inconsistency in the partial goals

## When Second Hand Is the First Choice

**The Equipment and Operational Aspects cluster determined that used equipment is an economic choice, provided spare parts are available**

The Equipment and Operational Aspects cluster narrowed in on two topics. The main one concerned supply and demand for second-hand rolling stock and its spare part supply while a secondary discussion covered fleet management.

### Second-hand rolling stock and its spare parts supply

Even rail-bound systems such as tram lines can be renewed through the purchase of second-hand rolling stock.

Buying new rolling stock requires strong financial resources and heavy investments while the second-hand option

looks to be much cheaper — at least at first glance. Since financial resources are limited in most cases, a clear and sophisticated investment strategy is compulsory.

The recommended approach depends on the time horizons, as follows:

- Short-term goal: purchase of second-hand rolling stock
- Mid-term goal: modernisation or refurbishment of existing vehicles
- Long-term goal: purchase of new rolling stock

No matter what approach is taken, renovation of infrastructure

must be carried out in parallel. The golden rule in rolling stock upgrades is: "Modernisation of rolling stock follows modernisation of infrastructure." In addition, the public transport owner must develop the network and carry out marketing, communication and branding of the public transport company.

The range of possible solutions for second-hand rolling stock runs from the one-dollar solution (buying vehicles as they are) to a complete and sustainable turn-key solution. With the turn-key solution, the operator buys more planning security.

But this security carries a price.



To ensure that upgrading of rolling stock is effective, there are two main challenges: the provision of spare parts and the homogenisation and standardisation of the existing fleets by selling and acquiring second-hand rolling stock.

Spare parts present a particular problem for rolling stock produced in Central and Eastern Europe as many of the manufacturers no longer exist and alternative sources must be identified.

## Fleet management

The main objectives of a fleet management system are, on the one hand, better quality and increased attractiveness of public transport and, on the other hand, better efficiency and, therewith, reduced costs.

Since the fleet only earns revenues when vehicles are in operation, increased vehicle availability and faster operational speeds are, in most cases, the chief reasons that public transport companies

adopt fleet management systems.

Punctuality and effectiveness are the main elements of service quality and must be raised to customers' expectations. Only then will customers be more willing to pay for the service. Other tools such as passenger information systems, ticketing systems, and monitoring and locating systems are potential bonuses of fleet management systems and can also contribute to better quality and increased revenues.

## Recession May Have Upside for Public Transport

By Greg Spencer

If increased prosperity undermined the dominance of public transport in Central and Eastern Europe, might a recession turn things back around?

For publicly subsidised services like public transport, the recession may have an upside, according to some participants at a recent public transport meeting in Prague. But for every optimist was at least one doubter, who said motorists can't be coaxed out of their air-conditioned cocoons.

This discussion enlivened the final meeting of SPUTNIC, an EU-supported public transport project fostering know-how transfer from Western Europe to the new and candidate states of the union.

Among the optimists was Stratos Papadimitriou, a public transport expert from the University of Piraeus, Greece. "This is an opportunity for public transport to provide people with not only a more sustainable means of transport but also a more economic one," Papadimitriou said.

If the financial crisis develops into a general economic recession, it will lead to a net decline in traveling, he predicted. But of the kilometres still traveled, a greater share will be on public transport.

Radu Popescu, general manager for the Public Transport Company Ploiesti, agreed this would be a logical expectation. However, he said public transport authorities need to be proactive to lock in market-share gains. "In order to do that, you need to ensure a minimum level of comfort and certain speeds," Popescu said. "But without the public commitment and investment, this won't happen."

Less optimistic was Guido Bruggeman, a consultant and former officer of the European Bank for Reconstruction and Development. "I expect that the financial crisis will have almost no impact on car use — at least among those who already have a car," Bruggeman said. "They will not shift suddenly to public transport as they have already their car."

The banking crisis poses other questions for public transport. Experts at the SPUTNIC meeting were of two minds. Some believed the region remains on solid ground, as its banks have good fundamentals and the region, in general, is benefiting from substantial subsidies from Structural and Cohesion Funds.

But that isn't to say the region is insulated from the credit crunch.

Zoltan Adam Nemeth, manager of EU projects for the Szeged Transport Company in Hungary, noted that Cohesion Fund projects require local co-financing, which will be more difficult now.

Szeged is in the midst of a EUR 13 million investment to get nine trams and 10 trolleybuses. The Cohesion Fund would provide all but 13% of the capital, but that 13% might still be tough to cover. "We did the financial planning for this in 2005-06 based on credit conditions then, so we don't know what the impact will be."

## Next Steps

### SPUTNIC is entering its final orbital rotation

After the 4th Working Group Meeting the SPUTNIC team is summarizing the obtained results and process the findings for the Second Plenary

Session which will take place in early 2009. At this meeting the conclusions will be endorsed and verified by a broader audience of PT stakeholders.

The final conference on July 3 2009 in Brussels will present the final reports and outcomes of the project.

If you have any comments or any questions, or if you would like further information, please visit the project website [www.sputnicproject.eu](http://www.sputnicproject.eu) or contact Sebastian Emig at [sebastian.emig@uitp.org](mailto:sebastian.emig@uitp.org)

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