

11TH CONFERENCE ON COMPETITION AND OWNERSHIP IN LAND PASSENGER TRANSPORT

Delft University of Technology (The Netherlands)
20-25 September 2009

RELATIONSHIP AFTER TENDER: TEAMWORK WITH INCENTIVES

Wim Dijkstra, Overijssel Provincial Authority, w. dijkstra@overijssel.nl
Paul Verheijdt, Overijssel Provincial Authority / Conquist Consultancy Agency,
paul.verheijdt@conquist.nl

ABSTRACT

The previous invitation to tender has taught Overijssel provincial public transport authorities that transport companies are directed primarily at reducing costs, while customer focus is mainly oriented at authorities. Following an analysis of tender procedures, Overijssel initiates a new tender process design and a different transport company contract relationship; teamwork with incentives.

INTRODUCTION

The province of Overijssel is one of the eastern provinces of the Netherlands. It is home to 1.1 million people. During the industrial revolution, the eastern region of the province has been subject to a remarkable turnaround, as a bustling textile industry emerged in just a few years. The results of this process are visible today: in a province of a generally rural nature, an extensive belt of cities has come about in the east. The western part of the province consists of the provincial capital city of Zwolle (population: 100,000) and the national Weerribben natural reserve containing the internationally renowned town of Giethoorn.

With regard to public transport, Overijssel is subject to the typical Dutch situation: provincial authorities are responsible for public transport, including that of the capital Zwolle. There is one exception, though: the aforementioned belt of cities in the Twente area governs its own public transport regulations. Presently, Overijssel public transport includes bus transport (regional buses and local buses in Deventer, Kampen, and Zwolle), to which train transport has recently been added (Zwolle – Kampen and Zwolle – Emmen). [map] All bus transport has been contracted out some 6 years ago. We are currently in the process of putting out a new invitation to tender for bus

transport. Trains will be contracted out within the next two years, and preparations for this process are underway. This will be the first invitation to tender for trains.



National Park De Weerribben

THE PREVIOUS TENDER

Previous bus tenders occurred around 2004. This was the first time bus transport was contracted out by provincial authorities. The motto by which the province organised invitations to tender was: development functions and profit responsibilities belong to the transportation company. By doing so, Overijssel lined up with the official basic assumptions of the *Wet personenvervoer* (Dutch personal traffic act) and general Dutch consensus: transport companies are experts at providing public transport, attracting passengers in the process. As companies aim at making profits, they will automatically do their best to draw more travellers. The authorities, on their part, grant concessions, issuing the sole right to exploit public transport. Since passenger revenues will not suffice to fully cover all costs, authorities inviting to tender will make funding available. During the tender process, it became apparent that transport companies offered a great deal of public transport for the ‘pot of money’ made available.

On preparing an invitation to tender, one composes allocation criteria. In doing so, one estimates the points to be distributed. Despite the familiar national trend (companies stooping and bowing to win a tender), it turned out on assessment of tenders that all tenderers were near maximum scores. As provincial authorities, we simply did not expect them to bow so deeply!

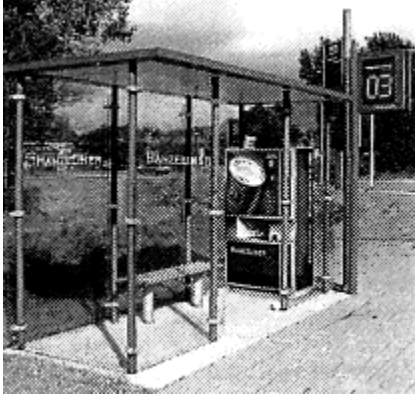
Overall, approximately 25-30% of additional public transport capacity was involved at the same amount of available funding, ensuring that we, as provincial authorities, enjoyed a most pleasant tendering process and were very pleased with the results. This was our first tender in the area, and all those politically responsible were satisfied that so much was now being offered within funding limits.

We also put out an invitation to tender for Zwolle for the first time (up to that point, Zwolle had born personal responsibility for public transport). There was hesitation among local authorities about the fact that provincial authorities were about to just put the city on offer. Moreover, the city itself was starting to set demands of its own, proclaiming wishes it acknowledged – having been personally responsible up to then – to be financially difficult to satisfy. The good results achieved allowed us to increase frequencies of all Zwolle bus connections, and to honour all wishes of local authorities as well. We haven’t been hearing from them since.

AFTER TENDER: EXPERIENCES DURING CONCESSION

Connexion transport company won the concession.

One of the reasons for them to win was offering additional services such as DRIS, emergency buttons, and coffee machines at bus stops [photo]. Many of these services performed poorly, as the photographs indicate.



During concession, however, we started to encounter some difficulties in our dealings with Connexion. Instead of dealing with a transport company doing its best to please customers and increasing passenger numbers in order to generate more income, we were involved with a company focusing single-mindedly on cutting back expenses and making greater profits off the province. Although it may not be unusual for a company to make money, it is unfortunate when this doesn't happen with customer or province interest in mind. Additional bus hours were offered at peak prices; marketing, however promising the stories in the tender may have sounded, just didn't seem to get going; a transport developer appears unable to develop, and items offered such as DRIS and coffee machines simply don't work.

Connexion did at times come up with its own ideas, which seemed rooted in attention to customer needs. At one point, they proposed to have the bus return to the station (instead of going to the garage) after completing the last station-residential area service. Connexion claimed to do so for reasons of improving customer service. However, Connexion interests were involved, too: the garage was located near the station. This way, they would convert their concluding rides into scheduled rides, to be paid for by the province.

All in all, the concession holder turned out to be insufficiently focused on customer and provincial interests, impeding our attempts as a province to effectively and efficiently implement our public transport policy.

ANALYSIS

The new tender process is currently being started up. We wanted to turn experiences with our current concession into learning effects for the new one. How to arrive at a transport company with an eye for customers in the field at a good price/quality ratio? We set out by performing an analysis of the situation:

1. According to law, concession holders are entitled to exclusive rights. As a consequence, healthy competition between transport companies occurs only once every 8 years; during the tender process. After tenders, transport companies enjoy a secured position.
2. In the Netherlands, transport companies will go to great lengths during tenders. Competition is fierce. At the start of the 21st century, transport companies adopted a strategy aimed at acquiring as much turnover as possible. This has resulted in them offering unrealistically low prices. Transport companies therefore try to reduce costs throughout the duration of concessions, as well as trying to increase profits.
3. Reducing costs: this will result in target discrepancies between transport company and province. Authorities will desire good service levels during rush hours. Transport companies will regard rush hour service as expensive. When combined with a certain degree of freedom for the transport company in submitting proposals, this leads to an unbalanced focus of attention.
4. Increasing profits: this, too, will result in target discrepancies between province and transport companies. Passenger revenues cover about 30-40% of costs. Apart from this, a large proportion of costs is 'fixed' (student passes, pupil subscriptions) resulting in profits arriving late or not at all (due to the Dutch distribution of ticket revenues). The idea of transport companies employing a marketing approach to increase passenger revenues has turned out to be an illusion. Increasing profits will be most efficient for transport companies through a direct offer to the province. Again, focus on customers is minimal.

To a certain extent, the points mentioned above are beyond our sphere of influence. With respect to our own previous tender process, we arrived at the following analysis:

1. Supplemental work rates equalled average bus hour rates offered. Transporter profit responsibility meant that this only involved the part remaining after deduction of passenger profits. In practice, these supplemental work rates turned out to be too low to be sufficiently cost-effective for the transporter. On additional rush hour rides, the costs share was too low (due to additional equipment deployed); on additional off-peak hour rides, passenger profits were insufficient.
2. The Connexion transport company enjoys only limited freedom of development, being quite restricted in its options to decide for itself where to implement rides. The relatively high minimum level set by the principal prevented rides being shifted to more profitable routes and periods. Additional

rides proved uneconomic (see 1). In addition, transporter options of attracting more passengers by means of pricing are limited, as are options for promoting travel outside of expensive hours; the Dutch pricing framework is fixed, and the principal determines price levels.

3. Unexpected cost risks have emerged. Steep diesel price-rises are an example, but costs were also increased by road maintenance and additional driving time required on behalf of *sustainable safety* policy ('*duurzaam veilig*'). Finally, the transporter was constantly faced with all sorts of fines as a consequence of failure to (be able to) meet strict standards of punctuality and cancelled rides, among other things.
4. High quality performance will require money and/or attention. Partly due to our lack of professional expertise with regard to management and monitoring, the transporter will usually focus successfully at reasoning away potential fines related to these issues, allowing limited attention to quality of performance to suffice.

As a province, one's aim will be to use public transport for meeting one's mobility targets. We do not intend to run a public transport company ourselves; from our perspective, having a company run public transport remains an interesting option. Only companies are able to efficiently manage a corporate process (deploying equipment; scheduling drivers). However, we have abandoned the notion of a company initiating marketing by and of itself. Focus discrepancies arise due to the Dutch system described above and due to our tender methods, because of which companies will not automatically work towards meeting our own public transport objectives.

POINTS OF CHANGE

The question can then be restated as follows: With these previous experiences in mind, how do we arrange our public transport process (contracting method; agreements to be arrived at with the transport company; division of tasks between transport company and province)? We decided to take the following course:

1. Do not reward price reductions too richly during tenders. The more realistic prices are, the less fuss they will cause later on. Put concretely: in the current tender process, extremely low prices will not automatically result in scoring more points. Companies will need to distinguish themselves by quality, below a certain price level.
2. We take personal responsibility for calculation risks (diesel prices; profit responsibility; national authorities' subsidy contributions).
3. We literally perform the development function together; we will be working in business case teams (explanation in example).

4. We will be taking each other's optimum in account within teams (marketing costs are on our account, but it will be best for the transport company to create an efficient schedule itself).
5. We substantially reward the transport company by means of bonus incentives for matters determining its attitude within the development team and towards customers (principal satisfaction and customer satisfaction). Example text here.

The hazard posed by this approach lies in the possibility of a company that, despite offering a realistic price for transport, will still start fussing during the term of the concession. This is a minor hazard as far as we are concerned, because:

1. The Dutch market is changing. Price competition appears to be a thing of the past (example: latest tender Groningen-Drenthe public transport office). Now that Connexxion is run by a parent company, all transport companies have similar (foreign) parent companies aiming for profit. In addition, a new competitor has entered the field, claiming to specifically intend to win by means of quality;
2. We award bonus incentives for development team attitude during the term;
3. We have strictly defined supplemental work, but we have done so in a way that ensures a realistic sum is received by the transport company (we pay the actual supplement, meaning that we also pay for additional equipment to be purchased on additional rush hour rides).
4. We are in a position where we could switch to other parties a little more easily, now that we have accepted personal profit responsibility.

We think that by adopting this approach, we have found an optimum within legal boundaries. The first tender process using this method is currently underway. We are looking forward to see the outcome!



ANNEX: THE DEVELOPMENT TEAM

Overijssel province will be working with a development team. Development teams contain the following parties:

- Provincial authorities, wearing the hat of a ‘strategic developer’;
- The transporter: ‘architect’ or ‘tactical developer’;
- The main municipalities of the area: Deventer and Zwolle.

Provincial authorities expect transporters to provide representatives with performance obligations and mandates who serve as key figures between the people of the transport company and other parties. By mandate we mean that, from the perspective of the transporter, representatives will:

- Contribute expertise and skill;
- Not have to discuss all questions asked with their ‘management’;
- Be capable of making decisions, and to support them within the transport company.

The transport company will receive a substantial bonus if actual team attitudes match desired attitudes.

The development team will have access to a variable ‘development budget’. This budget is made up of an initial contribution by the provincial authorities, and will be supplemented by contracting windfall and unexpended bonus incentives, among other sources. Our intention is to finance improvements from this budget to the greatest possible extent. GS may decide to draw on other resources on behalf of any alterations that cannot be financed from budget.

Decision: the development team decides by itself. Provincial authorities decide in the event of disputes.