



Business structure at IR

Lou Thompson/Jit Sondhi
Vienna Railway Roundtable
January 21-23, 2003

Objective of Business Structure Change

- ◆ IAS (or GAAP) accounting standards are crucial. This only gives good numbers, it does not provide market definition or focus
- ◆ Improve IR's market focus by bringing costs and revenues together at appropriate levels (Profit centers for specific businesses) – **government manages by cost centers, competitive businesses manage by profit centers**
- ◆ Improve efficiency and profitability by growing the traffic and reducing costs
- ◆ Better response to market-driven customer needs
- ◆ Credible justification of PSO requests
- ◆ Greater managerial autonomy and pricing flexibility

Initial Business Structure – Zonal Level

- ◆ **Zonal Accounting** separation to yield **profit** centers for:
 - Freight Interzonal (crosses zonal boundaries)
 - Freight Intrazonal (within zone)
 - Passenger Interzonal (long haul intercity services, Rajdhani, Shatabdi and mail and express trains)
 - Passenger Intrazonal (short haul, regional)
 - Suburban EMU (Mumbai, Kolkata, Chennai, Delhi?)
 - Infrastructure (cost center, users charged access fees)
 - Rolling stock can be placed with the operator or could be managed separately as Zonal cost centers (like Infrastructure)
- ◆ Appoint Zonal level managers for each business profit center
- ◆ Zonal railway managers arbitrate disputes among operators and infrastructure and rolling stock managers. Operators can buy rolling stock services from other Zones or outside

Initial Business Structure – National Level

- ◆ **Accounting** profit centers at the **national** level for interzonal (long haul) passenger and interzonal freight. Note similarity to Concor
- ◆ There may be national level managers for those services taken immediately to national level
- ◆ Infrastructure charges should be non-discriminatory as between Zonal and National trains
- ◆ National level business entity (profit center) looking after passenger and freight activities at Zonal level
- ◆ Appoint national level managers

Evolution in Business Structure (which MIS **must** support)

- ◆ Selected interzonal passenger trains eventually managed directly at national level. Zonal railways provide operating services for a fee, national product managers will have profit responsibility.
- ◆ Selected interzonal freight flows managed at national level as with passengers
- ◆ Suburban services (MRVC) increasingly distinct from IR, with more local funding (PSO agreement with States)
- ◆ Social passenger services (inter and intra zonal) subject of PSO agreements with state or national governments
- ◆ Some strategic lines and/or services will be supported by Government (PSO for investment and operations)

Longer Range Developments

(which MIS **must also** be able to support)

- ◆ Zones will always manage infrastructure and truly local services (freight and passenger)
- ◆ More assets and responsibility for operations on interzonal trains will eventually be shifted to national level

Changing the Interaction between National Profit Centers and Zonal Management

- ◆ Regroup zones – boundaries and number – in order to reduce transfer costs at Zonal boundaries (where not already resolved by national operators). What function, other than politics, do Zones serve?
- ◆ Intra-rail competition? If yes, how?
 - Possibilities: trackage rights, system wide licenses
- ◆ Use of LRDSS data for analysis is **critical**
 - Need good traffic flow data, system model to flow the data, and costing models to analyze impact of alternatives on earnings

Strategic Planning Issues

- ◆ Role of the private sector in operating services such as branch lines?
- ◆ Spin off of non-rail activities?

Business Management Issues

- ◆ How to manage businesses in a Government context (hire/fire, bonuses, etc)?
- ◆ Human skills development for profit center management (training and consultant support)?
- ◆ Right-sizing the labor force?