CHAPTER-5

INFERENCES, CONCLUSIONS AND SUGGESTIONS

Pricing of a product serves multiple purposes like recovery of cost, generation of revenue, distribution of resources, compliance of demand etc. Analysis of data of Indian Railways regarding the Railway's share of traffic, resource mobilization, losses in passenger business, cross subsidisation, etc. shows that the pricing policy of Indian Railways appears to be wanting in most of the fronts.

Though the theoretical understanding of the various attributes of costing and pricing is well founded as has been seen in the historical evolution of pricing strategy but there appears to be a wide gap in the practice of theory. The belief in the organization about the adequacy of the present pricing policy thus needs to be revisited. This inference is further strengthened by the fact that whereas on the one hand despite increase in input costs there has been no increase in passenger fares on the other the freight rates have been kept much higher than the cost thereby negating the concept of cost of service.

In the context of Indian Railways, operational improvements do not get reflected in financial gains primarily because pricing decisions are not governed by cost. The financial justification for improvements thus remains only on paper. It is thus necessary that pricing be aligned with the cost of service.

Increase in passenger fares has gone begging and freight rates have been increased over a period of time. There is hardly any correlation between the cost of service and the price for the same. The skewed pricing has resulted in Railway loosing its market share in freight business, insipid growth in revenue vis-à-vis robust increase in expenditure culminating in precarious financial position.

It is felt that the policy of tariff enhancement mainly for revenue generation needs to be replaced with a well defined pricing policy which is sustained and adhered to over time. This would keep all the stakeholders in the loop and any reductions or increase would not come as a surprise thereby mitigating uncertainty in business decisions.

Various actions and attributes of an organization play an important role in determining the prices. Any strategy to influence and fix prices thus cannot be determined in isolation. The way

accounts are maintained, costing is done, tariffs are calculated and regulated, all have a bearing on the pricing policy.

The mandarins in Railway cannot afford to take refuge in the Hamletian dilemma of 'to do or not to do', for the latter option is no longer available. With all the powers available to the Ministry and the Board it would be imperative in self interest to take tough decisions urgently before others force their decisions on it as is happening in Kingfisher Airlines and Greece.

Keeping in view these aspects and the learning from the various issues deliberated in the previous chapters an attempt has been made to suggest some actionable points for Indian Railways. Some of these may not be new but are being reiterated as they are relevant to the scope of the present study.

5.1. Accounting, Costing, Regulatory and other Organizational Issues

1. As seen in the theoretical discussion in Chapter-2 and data analysis in Chapter-3, it is essential to fix realistic tariff to recover the cost and to increase or maintain market share. However, in order to do so, it is necessary to first ascertain the cost and do a proper scientific and transparent cost analysis. The most important ingredient of ensuring the integrity of

costing is to capture scrupulously the cost details in the accounting and costing framework.

2. Despite India being touted as the software superpower and Indian Railways being a pioneer in the use of computerization, the use of IT for Accounting, Costing and decision making is largely wanting. The computerization of accounting activities has been done in piecemeal and haphazardly. This has resulted in the accounting units using different software to do accounting work preventing seamless flow of data for collations and decision making.

   In the context of this dissertation it would not be out of place to recommend expeditious roll out of centralized accounting software which would ensure real time, on-line data processing. This is essential to change the work culture in the Accounting and costing departments as even today much of the manpower is used for data collation, compilation and reconciliation whereas these tasks should be accomplished by a robust IT infrastructure. The manpower resource in these departments should be used for more meaningful work like data analysis, systems innovation and data based decision making.

3. Though there is a costing cell however, for a long time no meaningful studies have been conducted to modernize, streamline and improve the costing methodology. Since a large portion of costs are in the nature of joint costs it is imperative that the basis of cost apportionment are constantly revisited to fine tune the same with change in traffic, technology, etc. Indian Railways may consider using outside talent and combine it with in house domain expertise to continuously upgrade its costing, statistical and MIS systems and methodology.

4. Indian Railways need to spend money in serious research on pricing, market, perception, etc. A search on the internet reveals insightful articles on various Railway systems of the world however, for IR there are very few scholarly articles. Research provides a scientific base for decision making processes as such its importance cannot be overemphasized.

5. Despite being empowered by the Parliament through the Indian Railway Act, 1989, quite often the Railway Board has not been able to take an apolitical and data based decision on fixing the tariff.

It is in this context that setting up of an independent Rail Tariff Regulatory Authority may be considered that has been

suggested by Planning Commission and Ministry of Finance also. This would help Railways to fix tariff on a rational basis, remove distortions in the intermodal mix of transport. An independent regulatory body may help in unshackling the tariff fixing exercise from the political considerations.

The regulatory body would examine the cost claims of the Railways and based upon the justification agree for fixing of tariff and also for any subsidy to be borne by the Union Government. This would ensure that infructuous expenditure incurred by Railways is curtailed and only the necessary costs are incurred. This would also provide a fair deal to the customer, Government and Railways.

5.2. Passenger Business

6. Detailed analysis in section 3.4.5 shows that 3-tier AC is nearly 13% more profitable than 2nd AC sleeper in the present fare structure. Indian Railways should utilise this insight and aggresively induct more and more 3-tier AC coaches. This can insight can be further expanded and in the hgher category efforts should be made for rapid scaling up of Airconditioned coaches and reduction of non-airconditioned coaches.

7. Creation of Premium or niche services which cater to the specific needs of the customers especially in the passenger business segment is the order of the day. In Freight traffic innovations to cater to customer's need in the form of specialized wagons like tank wagons, containers, hopper wagons, automobile wagons, services like two pint rakes, mini rakes have been done. Similar efforts for the passenger traffic have either not been done or not exploited to its full potential. There is a need to create services and products by customer segmentation and profiling and then charging the prices accordingly. Industry after industry have shown that the appetite for quality has increased and today the discerning user with higher disposable income does not mind paying money provided the services pander to his needs. This untapped potential in passenger traffic could be an innovative way of recovering joint costs and reduce cross subsidy from freight traffic.

8. There is wide gap waiting to be exploited between the luxury train services which cost about Rs.30,000 per day per passenger and run of the mill regular train services in which the premium 1st AC service costs as less as about Rs.3000 per day

per passenger. If 2nd AC prices are compared then the gap widens even more. A day long journey can be made more useful, utilitarian and pleasurable for the passenger by providing services like spa, massage, game kiosks, libraries, movie rentals etc. Reduction in fare prices could act as an added advantage and what is lost in fare reduction can be made good by sale of such services. Perhaps IRCTC or a State Tourism Corporation or a private hospitality sector player can be roped in for experimentation and incubation of this possibility.

9. Indian Railways need to pluck more than a leaf from the bouquet of innovations done by the European Railroads. In the Indian context iDTGV model appears to be a suitable one which can be replicated across important sections like Pune-Mumbai, Surat-Mumbai, Vadodara-Mumbai, Delhi-Lucknow etc.

10. Cost cutting measures by efficient use of technology are essential. PRS centers, booking counters are money guzzlers and it is high time that the proliferation of the same is reduced. This can be done by making internet based booking more affordable and easy and also by outsourcing the work of booking offices.

11. Yield management is a technique used by Airlines especially the Low Cost Airlines to increase revenue and charge differential fares depending upon the time of booking, origin-destination pair etc. The system has been used profitably by French Railway and can be replicated on Indian Railways especially on Rajdhani, Shtabdi, Duronto, Garib Rath etc. The system would not only help in increasing revenues but also increase capacity utilization and reduction of losses per trip.

12. In many countries including USA the passenger Railway system is in loss. The losses are however, not cross subsidized by freight services but the loss is borne by the Union government and the losses as well as subsidies are debated in the parliament (senate in USA). All stakeholders in India also needs to understand that from the point of view of economics, efficient National transportation system and for providing competitive freight transport, the arrangement of cross subsidization should be done away with and the losses if any on account of passenger services should be borne by the Indian Government.

13. However, since the above is a complex issue and may take protracted discussion across fora, in the meanwhile cross

subsidy if any should be by generation of additional revenues from alternate sources of revenue and not by inflating the freight tariff as the latter erodes the competitive edge of the Railways. In this direction lessons can be learned from Japan Railways where alternate sources in some cases contribute as high as 80% of total revenues. RLDA which had been created with the express mandate for exploiting the land resources seems to have not risen up to the occasion and should be reenergized.

14. Indian Railways need to aggressively drive home the point at all levels i.e. customers, media, political etc. bringing out the need for a more market based pricing of its products especially in the passenger segment. This would help in creating a conducive environment for regularly updating of passenger fares similar to what has been done by the petroleum industry.

5.3. Freight Business

15. Indian Railways should explore the feasibility of linking its fares to the WPI so that the prices get increased - say every six months - as and when the WPI gets increased. The increase may not be 100% of the WPI but by a factor that can be decided by doing a proper correlation of the impact of WPI on Railways costs. Suitable margin can also be built in to force Railways to

absorb some costs by technological and productivity enhancement measurement.

16. Railway has used the twin concepts of cost of service and value of service for fixing the tariff. A third principle namely speed of service should also be explored for fixing of fares. This concept has been used for charging super fast charges but needs to be fully exploited in the case of Shatabdi, Rajdhani and Duronto trains. Likewise additional supplemental charges in freight can be levied for expeditious delivery. Supplementary charges however, should have to be correlated to the class of the commodity. This concept however, should be applied to all the commodities and not selectively to only a few commodities as was done for container trains in 2009-2010.

17. As has been elaborated in great detail in section 4.3.2, , ARR have followed a policy of deregulation of tariff setting and by bringing in productivity enhancements have resulted in providing a cheap and efficient freight transport service which is the envy of the whole world. There are many opportunities in Indian Railways also where productivity can be improved and the resultant benefit passed on to the customers. However, this

is possible only if the prices are linked to the costs which, is not the case as of now.

18. Freight traffic is often characterized with short period of high demands. Pricing optimization modeled on demand analysis can yield substantive revenue enhancement. A case in point is the pricing for iron-ore-for-export resorted to by Railways during the boom period of its export. An institutionalized mechanism is needed to study the economic environment and spot the areas where pricing optimization can be done.

19. Similar to the strategy adopted by truck industry, OD, or route based charges can be enhanced or reduced for busy and slack OD points or routes respectively. This would help in substantial generation of resources and also in streamlining the movement of traffic.

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