



How can customer focus be strengthened in competitive tendering?



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ABSTRACT

Award procedures, contract designs and the scope of contracts vary widely in public transport (PT). Notwithstanding obvious improvements of the technical quality, many authorities are not fully satisfied with the outcome of their tendered contracts. Dissatisfaction with patronage development and with the customer focus is widespread. Many contracts are not seen as sufficiently effective in creating a growing PT market share. Enhancing the focus on passenger needs seems essential.

There is no evidence that specific contract types or specific financial incentives can guarantee success in the passenger market. However, although tendered contracts obviously provide strong incentives to reduce costs, they seem to be weak in motivating the operator to care for passengers and create opportunities for expanding the market share of PT.

The paper examines the reasons for these weaknesses, drawing on professional experiences gained in a 15-years period. In particular, it analyses the functioning of the interaction between the authority and the operator and the role of individuals in contract regimes.

The paper develops conclusions for the next generation of contracts and suggestions for further research. The conclusions envisage the development of contractual relationships which strengthen the motivation to care for customers.

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1. Competitive tendering: too little customer focus?

In most developed countries public transport is dependent on public funding to be able to provide coherent networks. After a long period of nationalisation of the industry, in which local and regional monopolies for the operators were established, since the 1980s contracting and the subsequent competitive tendering of public service contracts have become widespread instruments for organising local and regional passenger transport.¹

This paper mainly concentrates on the experiences with contracting and tendering in the European Union. Now, almost 30 years after the beginning of contracting and the subsequent introduction of competitive award procedures, the European Union

has established competitive tendering (“regulated competition”) by Community Law as the principal mode of market organisation.² The paper is largely based on KCW’s³ experience in project work for and with public transport authorities as well as regional and national governments. It also draws on discussions with actors in the public transport industry.

KCW’s consulting activities are focused on German-speaking countries (Germany, Austria and Switzerland). This paper benefits from KCW’s project experience as well as interviews and discussions conducted with representatives of public authorities, companies, and consultants in UK, Sweden, Denmark, Norway, France, the Netherlands, Poland and Slovakia over the last 15 years. It reflects published literature, including experiences in Australia and New Zealand.

1.1. What this paper is not about

Looking at competitive tendering in light of the experience gained in deregulated bus markets (especially in the commercial UK markets) is not dealt with in depth in this paper, except where the experience might help to understand the behaviour of the contract parties. The author believes that strongly customer-focused PT services in deregulated markets seem to evolve particularly where the following factors coincide:

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¹ As has been reported in the Thredbo conferences.

² Regulation (EC) No 1370/2007 of the European Parliament and of the Council of 23 October 2007 on public passenger transport services by rail and by road and repealing Council Regulations (EEC) Nos 1191/69 and 1107/70, OJ L 315, 3.12.2007, p. 1–13.

³ KCW is one of the leading strategy and management consultancies specialised in public transport by road and rail in Germany. KCW’s clients include local authorities, public-transport authorities (PTAs), transport executives and ministries whom we assist in all relevant aspects of their public tasks.

- specific regional and (dense) city structures that promote public transport services;
- complex public transport networks with a low degree of complexity and a high degree of direct passenger journeys per route, especially in mid-sized cities with up to 300,000 inhabitants;
- a pro public transport policy approach;
- long-term stability of framework conditions and of transport policy;
- encouraged entrepreneurs, managers and employees in companies and local authorities; and
- luck.

Under these conditions, the potential for the growth of the passenger market and of fare revenue seems to promote a strong customer and service focus. An in-depth analysis of this topic would be worthwhile, but goes beyond the scope of this paper. It might be interesting to assess how far the same factors can explain the variation in the outcomes both of deregulation and of competitive tendering procedures.

Another question that will not be discussed here is how and to what extent direct awards affect the customer orientation of the operator. Given the increasing political sympathy to direct awarding in municipal public transport systems in Europe, it would be desirable to conduct an in-depth and differentiated investigation on this topic. However, there are specific elements of “trusting partnerships” (particularly discussed in the context of Australia), which are taken into account.⁴

1.2. What this paper is about

This paper focuses on the competitive tendering of public transport services, mainly of bus and local PT services. Competitive tendering is meant including the design of the tendering procedure, contracts and financial stipulations and the collaboration during the contract period. Competitive tendering has proven to be a powerful instrument for removing the inefficiencies and structural deficits of former monopolistic markets (Hensher & Stanley, 2010; Svenska Lokaltrafikföreningen, 2002). It has been used to break up situations in which incumbent operators refused to change their services, although they were perceived by the competent authorities as insufficient in quantity, quality or performance, and for which considerable amounts of public subsidies were spent. But there is no evidence that specific contract types or specific financial incentives can guarantee success in the passenger market.⁵

Contracting, and in particular competitive award procedures, allow the authority to coerce all operators to accept the coordination of services (“integration”) as well as other joint standards required on behalf of the public interest (be they service standards or public interests, such as environmental aims).⁶

In addition, the first tendering rounds generally seem to have the potential to increase customer satisfaction and ridership (Mouwen & Rietveld, 2013).

⁴ Assuming that “trusting partnerships” should be more than good lobby strategies to evade competition for the market, i.e. they should as well promote a stronger customer focus and produce patronage growth, as reported by Stanley (2009), for Melbourne, but explicitly as an alternative to competitive tendering.

⁵ Well illustrated in the ideal contract roundtable discussion, see Hensher et al. (2008).

⁶ Dominant perception in KCW's project experience, e.g. following verbal statements of managers of the regional public transport executives of the regions of Munich (Münchner Verkehrsverbund GmbH) and Frankfurt (Rhein-Main Verkehrsverbund GmbH), in discussions 2012.

Notwithstanding these achievements, many authorities are not fully satisfied with the outcomes of their tendered contracts. Most benefits usually have been reaped after the first tendering round (van de Velde & Wallis, 2013). Authorities are disappointed in the weak development of patronage and the lack of customer focus on the part of the operators.⁷ Existing contracts seem unable to sufficiently increase the PT market share and to achieve long-term improvements in customer satisfaction. A strengthening of the operators' focus on passenger needs is perceived as crucial.⁸

It could be stated that the authorities themselves might have their share in some of these unwanted outcomes of tendering. Often enough, they are accused of focussing mainly on overall cost reduction instead of developing passenger demand. This paper is therefore restricted to cases, in which authorities indeed aim to improve customer orientation and raise passenger demand in public transport and in which authorities have the needed capabilities and resources for achieving these objectives. Even in these cases, authorities are still quite often dissatisfied with the outcome of tenders. Dissatisfaction does not only apply to the results of public service contracts but also to the lack of development in operators' competences (Eerdmans, van Kooij, van de Velde, & Westerink, 2009) and insufficient interest in the long-term development of the public transport (passenger!) market (Svenska Lokaltrafikföreningen, 2002). Other disappointments stem from a perceived lack of entrepreneurship (Achenbach, 2010)⁹ and also a failure to invest in competences and management (Nordstrand, 2005). Criticism is also based on the perceived lack of competences in the authorities' administrations (Dannenfeld, Elsner, & Bahr, 2009).

This paper looks at the reasons for these perceived weaknesses and tries to identify whether and how these can be overcome.

2. No best contract type or best incentive arrangement

In trying to understand the sources of this dissatisfaction with competitive tendering in public transport, it is important to note that there are no generally acknowledged standards. Quite the contrary, award procedures, contract designs, incentive stipulations and the scope of contracts vary widely in public transport. So far, no “best practice” has evolved for using competitive tendering as an instrument to provide maximum benefit (Hensher et al., 2008; Walters & Jansson, 2008).

When one examines variables such as institutional and regulatory settings, legal frameworks, traditions, the local culture of decision-making and the structure of operator markets and competences, it becomes obvious to what extent history and traditions shape the highly diverse local markets.

As a consequence, the award procedures for identifying the best bidder and bid as well as the structure of the public service contracts differ widely. This applies in particular to the following contract features:

- Market opportunities and risks can either be allocated to the competent authorities or to the operators or may be shared between them;
- The selection of the best bid may either be based on the lowest price, the most economic bid regarding price and quality for a

⁷ Verbal statements of many public transport authorities and executives in KCW's project experience.

⁸ See for example Hensher and Stanley (2010); Sinisalo (2007); Eerdmans et al. (2009).

⁹ The author describes the necessity of an increase in entrepreneurship and in improvements regarding quality and customer orientation.

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