

FRANCHISE – A Live & Let Live Option for Public Transport Undertakings in India

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ABSTRACT

Passenger road transport in India has thus far been predominantly under the domain of the public sector. The Road Transport Corporations Act, 1950, paved the way for the upsurge of nationalised bus transport in India. In some of the states in India, nationalisation was accomplished to an extent of 95% of all bus routes. And, these public transport undertakings have monopolistically grown in size with scant regard to efficiency or financial health, primarily due to lack of competition.

However, in the nineties, Indian public transport undertakings have been experiencing a drop in occupancy an onslaught by the ever increasing private operators' fleet of maxi buses, mini buses & jeeps. Also, travel by jeeps seems to have become the travel style of the rural poor. The transport undertakings have no doubt built up their infrastructure for bus depots and workshops as well as for passenger amenities fairly well. But now, all such investments in these infrastructural assets, mobile assets and more importantly, in human assets, are proving to be a financial burden on them and these undertakings are incurring substantial financial losses.

What then is the optimal mix of public and private fleet for a country like India?

The author proposes franchise strategies to commercially exploit their built-up infrastructure based on the experiences of the largest bus operator in India which now faces intense competition from jeeps, maxicabs and buses.

The Public transport undertakings in India have been the major players in the field of passenger road transport until the last decade ended 1989. However, in the 1990s, the fleet under the private sector has been growing at a relatively higher rate than earlier. The growth of the fleet under the public sector has been facilitated by the Road Transport Corporations Act, 1950. Road Transport Corporations got formed in the states under the public sector. These Corporations are known as State Transport Undertakings (STUs). As per the statistics reported for 1996-97 in the Indian Journal Transport Management, July 1997, all STUs in India together owned a fleet of 107514 buses and operated about 10845 million kilometers, earning a total revenue of Rs.75637 million ie., \$ 1767.2 million. The total expenditure amounted to Rs.93705 million or \$ 2189.4 million. Thus, the STUs incurred a total loss of Rs.18,068 million or \$ 422.2 million. The total manpower employed by all these STUs was 755,939, which meant 7.03 men employed per bus.

THE STATE TRANSPORT UNDERTAKINGS IN INDIA – The Past and The Future Prospects:

All STUs carry out most of the fleet maintenance activity themselves. Most of them even own their own workshop for overhauling the sub assemblies like engines, gearboxes, front axle, rear axle, etc., and bus body repairs too. Very few of them contract this activity out. Also, quite a few of the STUs own their own captive tyre retreading plants to meet their own tyre retreading needs. For these reasons, the manpower component of the operating cost accounts for a sizeable proportion of the total cost. Owning all activities directly or indirectly related to their business became the policy of the Road Transport Corporations. They went in to 'make' rather than 'buy' the services they needed such as overhauling the vehicle sub assemblies like engines, gear boxes, rear axles, etc., as also tyre retreading. Consequently, they came to incur heavy costs on manpower. Coupled with the absence of automation or mechanisation for most of their activities, they became labour intensive public sector enterprises. Thus, with costs of all inputs including manpower rising from year to year, and with the bus fare or tariff regulated rather too strictly and biased against them, the STUs started incurring sizeable losses.

While a very few STUs have been able to grapple with the rising costs of manpower and other inputs, many of them are now succumbing to the burgeoning costs. So much so, their very existence is at stake.

While the costs are rising, the revenues of many STUs are not coping commensurately for two reasons. Firstly the increase in tariff, which is meant to neutralise the increase in unit costs of various inputs, is not allowed to be increased in time by the government. Unlike the railways, which have tariff revision as an annual ritual, no such annual relief is accorded to the STUs. Very often the revision of tariff or fare is approved by the state government only once in 2 or 3 years, and in some cases even 5 years. This lagged tariff approval by the government is making STUs to incur heavy losses, too. Secondly, the occupancy in buses has been falling, due mainly to the availability of private transport vehicles of various kinds, namely, buses, vans, contract carriage vehicles, maxicabs and jeeps. Especially, the jeeps are found making heavy inroads unto the revenues of STUs. Instead of being complementary to the mass transportation system provided by the STU, these jeeps, maxicabs, etc., are operated in an unhealthy competition to pinch away the revenues from the state owned buses. For instance, a jeep may be found picking up passengers from stage to stage ahead of a STU bus which comes on a given route as per the time schedule defined in the 'permit' of the STU vehicle. Thus, while the jeep gets full occupancy, the bus which comes after the jeep along the route has to be operated at a far lower occupancy ratio, resulting in financial loss for this bus. This unhealthy and uncontrolled competition has a two way impact. Firstly, the STU starts incurring losses which will ultimately lead to a stunted growth in its fleet. Secondly, while a larger vehicle like a bus implies optimal utilisation of all resources such as manpower, materials such as fuel, tyres, etc., on a per passenger – kilometer basis and also lead to lesser wastage of precious resources, a smaller vehicle such as the jeep implies a sub optimal utilisation of resources or inputs. Thus, unlike the private jeep or maxicab, the STU bus leads to optimised utilisation of societal resources and hence lower resource cost per unit passenger – kilometer of output.

It is therefore to be pondered over whether a developing country like India could afford to under utilise precious resources such as capital, manpower and materials. The under utilisation of these resources in the STUs is the result of increased operation of private buses, maxicabs and jeeps on the bus routes of the STU. Thereby, there is surplus provision of passenger seat kilometers on a given bus route. While the STU acquires more fleet year by year to provide increased service level to the passengers on a given route, as a planned activity, at the same time there is a sudden influx of private vehicles like buses, vans, maxicabs and jeeps on these routes. The STUs are thus caught unawares and their capacity enhancement in the shape of increased seat kilometers goes in vain. Not only does the investment in buses become unproductive for the STU, but also the infrastructural investment in new depots which it opens for the expanded fleet also goes in vain.

This leads to a sub-optimised resource utilisation of almost all the resources in the STUs, while it is not so in the private sector which is totally driven by the profit motive. This is due mainly to the improper regulation by the Road Transport Authority, which is often found wanting in regulating and controlling the plying of buses, maxicabs and, more rampantly, jeeps on the bus routes for which the STU like APS RTC holds a valid route permit by way of an exclusive right.

In India, jeeps are now being bought in larger and larger numbers year by year. The jeep has become a source of self-employment and self-entrepreneurship for the unemployed youth who get even the finance for the jeep by way of easy loans. The jeeps are plied as taxis. And, for the lower income strata passengers, the jeep is a status symbol for travel.

2. VEHICLE POPULATION – The International Scenario

The table to follow shows the vehicle population in a few countries across the world. From this table it could be seen that, in 1996, India had a total of 449,000 buses. However, for a total population of 906 million, the ratio of buses per million population works out to only 496. While India had this ratio, a country like Japan had as many as 19,365 buses per million population, Egypt a meagre 629, Australia 2850, Germany 1095, France 1411, Spain 1209, Malaysia 1767, Czechoslovakia 2037, Singapore 13,385. Thus, in relation to its population, India had a rather low buses to population ratio.

On the contrary, the ratio of cars per million population was 4623 for India, while it was 22,421 for Egypt, 118,506 for Singapore, 132,400 for Malaysia, 324,862 for Czechoslovakia, 371,637 for Spain, 438,898 for France, 486,787 for Australia and 497,615 for Germany. However, for a country like Japan the car ownership was as high as 3,730,158 cars per million.

Table 1: VEHICLE POPULATION IN SOME SELECTED COUNTRIES – 1996
(Figures in Thousands)

Sl. No.	Country	Total Population	No. of Buses	No. of Cars	Cars to Buses Ratio	Buses per Million Population	Cars per Million Population
01.	Australia	18,240	52	8,879	171	2,850	486,787
02.	Czechoslovakia	10,309	21	3,349	159	2,037	324,862
03.	Egypt	60,390	38	1,354	36	629	22,421
04.	Germany	82,186	90	40,897	454	1,095	497,615
05.	Japan	12,600	244	47,000	193	19,365	3,730,158
06.	Malaysia	20,370	36	2,697	75	1,767	132,400
07.	Singapore	3,080	11	365	33	13,385	118,506
08.	Spain	39,700	48	14,754	307	1,209	371,637
09.	France	58,100	82	25,500	311	1,411	438,898
10.	India	906,000	449	4,189	93	496	4,623

Source: (1) Motor Transport Statistics of India, 1996, Ministry of Transport, Govt. of India.

(2) World Road Statistics, 1998, International Road Federation.

Thus, for a country like India, where car ownership, too, is very low, it could be seen that the road bound traffic is catered to by buses to a rather insignificant level, not commensurate with its population. This would imply higher dependence on mass transport system in a country like India. The mobility of passengers gets stifled by way of such low availability of transport vehicles, namely buses. The lower levels of buses per million population in a country like India are due mainly to two reasons. First, the bus transport service in India has been predominantly under the public sector, namely, the state transport undertakings formed under the Road Transport Corporations Act, 1950. And, the capital investments made by these corporations have not been growing year after year. Rather, they have even come down in some states. The road transport expenditure of some of the states in the year 1992-97 and that during 1996-97, when compared, would throw some light in this direction.

Table 2:- ROAD TRANSPORT EXPENDITURE IN SOME STATES OF INDIA
(Figures in Rupees lakhs)

Sl. No.	State	1992-93	1995-96	1996-97	% GROWTH	
					1992-93 to 95-96	1995-96 to 96-97
01.	Andhra Pradesh	10616	22150	19450	+108.6%	-12.2%
02.	Gujarat	3850	895	895	+76.8%	0%
03	Himachal Pradesh	886	1207	981	+36.2%	-18.7%
04.	Karnataka	3200	10751	10015	+236%	-6.8%
05.	Maharashtra	9696	9256	2123	-4.5%	-77.1%
06.	Rajasthan	1169	3492	5463	+198.7%	+56.4%
07.	Uttar Pradesh	5363	5555	4342	+3.5%	-21.8%
08.	West Bengal	1733	3472	2500	+100.3%	-38.9%

Thus we find that the growth in most states for the three year period 1992-93 to 1995-96 has been positive, being negative only in one state namely Maharashtra, a big fleet owning STU, which recorded a growth rate of -4.5%. For the remaining states the growth ranged from +3.5% to +236% for the 5 year period. A midway growth rate was that of the Andhra Pradesh STU which was +108.6%, implying an average annual growth of about 36% per annum, which was quite satisfactory.

However, we find that from 1995-96 to 1996-97 that the growth rate ranged from 0% to -77.1% in the one year period, barring only one state of Rajasthan which had a positive rate of +56.4%, which was indeed very gratifying. The state of Maharashtra recorded a growth of -77.1% whereas the state of Andhra Pradesh, another big STU in India, had a negative growth of -12.2%. Thus, the two biggest STUs in India, which together owned 32,675 buses or 30% of the total fleet of STUs in India, had a negative growth. This surely doesn't augur well for public transport in India.

While the population keeps growing year by year in a developing country like India, more and more people depend on public transport. This increased dependance on public transport has to be taken care of by providing more and more buses year by year, to maintain a reasonable population to buses ratio.

The growth in fleet of STUs is getting stunted mainly on account of the fact that they are mostly incurring substantial losses. There has been no generation profits and hence no growth in internal reserves of the STUs. The reliance on borrowings is increasing, leading to an added financial crunch by way of burdensome costs of interest on capital.

As of 31st March 1996, the total fixed assets of all STUs amounted to Rs.5628 crores or \$ 1.315 billions. Of these assets, 77% were in the shape of rolling stock or buses, 17% in lands and buildings and 2% in Plant & Machinery.

On account of mounting losses, the fleet of STUs is not at all growing commensurately with the population since they are unable to acquire the required number of buses.

The same is the story of all types of buses in the public and private sector, as seen from the table below:

Table 3:- BUS FLEET OWNED BY PUBLIC & PRIVATE SECTORS IN INDIA
(Figures in Thousands)

Year	Public Sector	Private Sector	Total	% Fleet in Public Sector	% Fleet in Private Sector
1961	18.0	38.8	56.8	31.7%	68.3%
1991	106.1	225.0	331.1	32.0%	68.0%
1997	111.0	377.1	488.1	22.7%	77.3%

Thus, the percentage fleet owned by the public sector has declined from 31.7% in 1961 and 32.0% in 1991 to only 22.7% in 1997. It is likely that in the next millenium the private sector fleet may gallop much faster since India is on an uptrend towards privatisation in various sectors of the economy. On the contrary, it is the public sector in India, which has built up or acquired substantial infrastructure over the last four decades and thus has the infrastructural facilities and equipment to maintain the fleet.

An STU like APS RTC, which is the largest fleet owner as on date in India with 18,500 buses, has also had a low rate of growth in the last decade as could be seen from the figures given below.

Sl. No		1989-90	1990-91	1995-96	1996-97
01.	Total Fleet	13,167	14,195	16,248	16,895
02.	% Growth in Fleet per Annum	--	7.8%	2.9%	4.0%

Yet APS RTC has built up substantial infrastructure by of bus depots for fleet maintenance, expansive bus stations by way of passenger amenities. As of March 1996, it had total fixed assets valued at about Rs.1160 crores or \$ 271 mi comprising rolling stock worth \$ 204 mi, lands and buildings worth \$ 50.9 mi. Also, it had plant & machinery worth \$ 15.28 mi. The plant and machinery includes equipment for bus maintenance, for overhauling of buses and subassemblies like engines, gearboxes, etc., for tyre retreading but also computer-based vehicle testing equipment, driving simulator, etc., not to mention its substantial investment in computer systems for both on line and batch applications.

Now let's look to the possibility of growth in fleet in India given the fact that there is not enough investment in fleet made by STUs, either because they do not have the required capital with them, or because there is increasing investment on buses forthcoming from the private sector. Under these circumstances, private sector fleet will grow as per the trend indicated in Table 3.

If this is the reality, what then is the best way to ensure that there is growth in fleet of STUs to utilise the infrastructure available with them.

In this context, franchise of buses needs to be considered as an option for STUs to grow with private entrepreneurs' capital without the need for investing their (STUs') own money to acquire fleet. At the same time this option could be offered to entrepreneurs in such a way that the franchisees continue to make use of the infrastructural facilities such as the bus depots of the STU for maintenance of bus fleet or even workshop for bus or subassembly overhaul on the basis of charge for service provided. They could also let the franchisees use their capacious Bus Stations. This way, the STUs could grow at a healthy rate and provide to the public the growth in fleet commensurate with the growth in population. At the same time, they could effectively utilise their infrastructure and manpower at depots, workshops and bus stations. Such a type of franchise would enable the public sector under the states to take care of even providing employment to the unemployed, apart from infrastructure to be put to use.

GLOBAL FRANCHISE GIANTS

It has been proven that franchise, if administered in an appropriate package can help rapid growth of business. Mc Donald's, KFC, Pizza Hut, etc., are live examples of stupendous growth through franchise. The following statistics, relating to the year 1992, give an idea of the magnitude of their businesses.

Firm	No. of Units	Sales in \$ millions
Mc Donalds Corpn.	11,120	17,535
Kentucky Fried Chicken	7,945	4,900
Pizza Hut	7,684	3,330

Source: S.Shiva Ramu, Franchising, Wheeler Publishing Co., New Delhi, 1997.

By 1995, Mc Donald's had over 13,000 restaurants in 65 countries. Their sales had gone up for the first six months of 1995 to \$ 7.7 billion in USA and to \$ 6.6 billion outside USA.

This phenomenal growth for a firm which had a modest start as a drive-in restaurant promoted by Dick & Mac in 1937 goes to prove that franchise is the sky-rocketing path to attain rapid growth in business. Their motto of 'In business for yourself, not by yourself' is the watchword in these days of intense competition and huge requirements of capital to be invested,

Their business principles are:

- Quality
- Service
- Cleanliness
- Value

Being in fast foods business, they gave priority to the aforesaid four principles which include cleanliness, which is perceived by many a customer to be a very important pre-requisite for them to eat at a restaurant.

Amongst others, we find that both Pepsi and Coca Cola, franchise giants in the domain of foods and bevarages, found India to be a potential market. They launched vigorous advertising compaigns with a view to increase their market shares. In 1993, after a 16 year absence from India, Coca Cola re-entered the Indian market for soft drinks via Parle, which accounted for 60% of the \$ 400 million Indian soft drinks market. A joint venture agreement ensured for Coca Cola that Parle would make available to Coca Cola all of its 60 franchises for production, bottling and distribution. Coca Cola, as well as Pepsi, launched vigorous advertising campaigns to increase their respective market share. As of the first quarter of 1997 Coke had a 13% market share in the Cola segment and Pepsi a share of 27%.** The total Indian market then was about \$ 400 million. These two companies by now have a substantial presence in India, thanks to the aggressive advertising which they do especially during the ever so increasingly popular one day international cricketing events. Incidentally, the competition between Coke & Pepsi led to a revitalisation of the local cola brand, Thums Up.

According to the U.S. Dept. of Commerce, the total retail sales of franchised companies amounted to about \$ 2.1 billion in 1991, being 45% of the total retail sales and that the sales of franchised companies have tripled since 1986.

4. TYPES OF FRANCHISE SCHEMES FOR BUS TRANSPORT IN INDIA:

4.1. OPTION-I : Franchise For Jeeps:

As mentioned in the earlier part of this paper, jeeps are increasingly proliferating on the monopoly of the STU and APS RTC thereby infringing on the monopoly of the STU and causing occupancy in buses of APS RTC to fall down to poorer levels and rendering bus operations uneconomic. Thereby, not only is the STU incurring losses on such routes but also, there is wastage of capacity and resources of the STU operating buses on its licensed routes. The dual operation of buses and jeeps is leading to surplus capacity provision on many of the routes. Hence, jeeps must be brought under the umbrella of the STU with franchise scheme alternatives such as the following.

Source: ** World Investment Report, 1997.

A David Silver, Strategic Partnering Mc Graw Hill Inc., New York, 1995.

4.1.1. Scheme-I:

The jeep operator has to pay Rs.2500 per jeep per month for a 12 hour period of operation from 6 am to 6 pm on routes to be designated by APS RTC between on origin and destination pair. This franchise fee could entitle the jeep operator to have a daily maintenance facility at APS RTC's bus depot(s) limited to check up and rectification of air pressure in tyres, water in radiator, check up for pre-defined essentials such as effectiveness and proper condition of brakes, steering and wheels. In addition, the drivers of the jeep will be trained free of charge at APS RTC for a period of one month.

4.1.2. Scheme-II

This scheme will have the same facilities as for Scheme-I but the duration of operation could be extended to a period of 16 hours ie., from 4 am to 8 pm daily. The franchise fee payable to APS RTC will be Rs.4000 per month.

4.1.3. Scheme-III

A franchise fee of Rs.3500 per month entitling the jeep operator to the facilities under Scheme-I and in addition, to use of the computer system daily for a total time of 1 hour at APS RTC's bus depot for his accounting and/or statistical data capture and analysis purposes.

4.1.4. Scheme-IV

This package will involve a franchise fee structure as follows:

- Annual Fee : Rs.10,000 per annum.
- Charge For Jeep Operator : (i) Rs.0.20 per kilometre in peak traffic months (or)
(ii) Rs.0.10 per kilometre in slack traffic months.

This scheme will entitle him to all facilities as for scheme-I without any limitation as to daily mileage and additionally to the use of computer system at the bus depot of APS RTC for one hour daily.

4.2. Franchise for Buses:

We could have buses franchised as per the following specimen scheme.

The franchisee pays (a) an annual fee of Rs.5000 p.a. and additionally the following charges:

- (a) Rs.0.50 per kilometre for operation of 'Ordinary' or rural buses.
- (b) Rs.0.60 per kilometre for operation of 'Expres' buses.
- (c) Rs.0.75 per kilometre for operation of 'Luxury' buses.
- (d) Rs.1.00 per kilometre for operation of 'Deluxe' buses.
- (e) Rs.1.50 per kilometre for operation of 'Air Conditioned Deluxe' buses.

This franchise scheme will entitle him to the following facilities.

- (i) Free training of newly drivers for a period of one month per person ie., for each individual driver.
- (ii) Free daily check up and daily maintenance at APS RTC depots for items of attention such as water in the radiator, tyre pressure check up, check of steering and check up and correction of tightness of wheel nuts.
- (iii) Use of the computer system for one hour daily at APS RTC's depot without charge.

The aforesaid are a few specimen schemes proposed for the STUs in India such that the STUs not only live but also live in good financial health. At the same time they would let private operators also live in harmonious co-existence with the STUs.

FRANCHISE IN ROAD TRANSPORT

Franchise in transport would enable not only private entrepreneurs to enter the business of passenger road transport more and more freely but also mean survival and growth rendered easier for the public transport undertakings. It could thus be termed as a 'live and let live' option for the STUs wherein a harmonious coexistence of public & private enterprise is made sure.

Various types of franchise schemes for bus transport in countries like India could be thought of keeping in view the background and features of STUs like APS RTC and other large State Transport Undertakings in India.

Road transport franchise is indeed a tricky proposition. This is mainly due to the fact the routes of bus operation can have differing revenue potentials and also varying cost levels. Hence, on account of varying profit margins on the different routes, it is difficult to motivate the bus operator enough to ensure that he continues operating the buses on routes with lower occupancy and hence lower profit potentials. Hence what matters is the incentives that are offered to the franchisees, as also the kind of terms and conditions that bind the franchisee and the franchisor.

5. BENEFITS TO INDIAN STUs THROUGH FRANCHISE:

Through franchise, STUs in India can save themselves from slow perish on account of rapid influx of private vehicles, mainly jeeps, maxicabs and buses. Also, the revenues and profits of APS RTC can grow positively and at more handsome rates through franchise.

For instance, APS RTC could earn an additional revenue every year as follows under the proposed franchise scheme given at 4.1.1. on one of the routes where there is proliferation of about 500 jeeps, namely from Tirupathi to Tirumala, where the world renowned temple of Lord Venkateshwara, the world's richest diety, is situated:

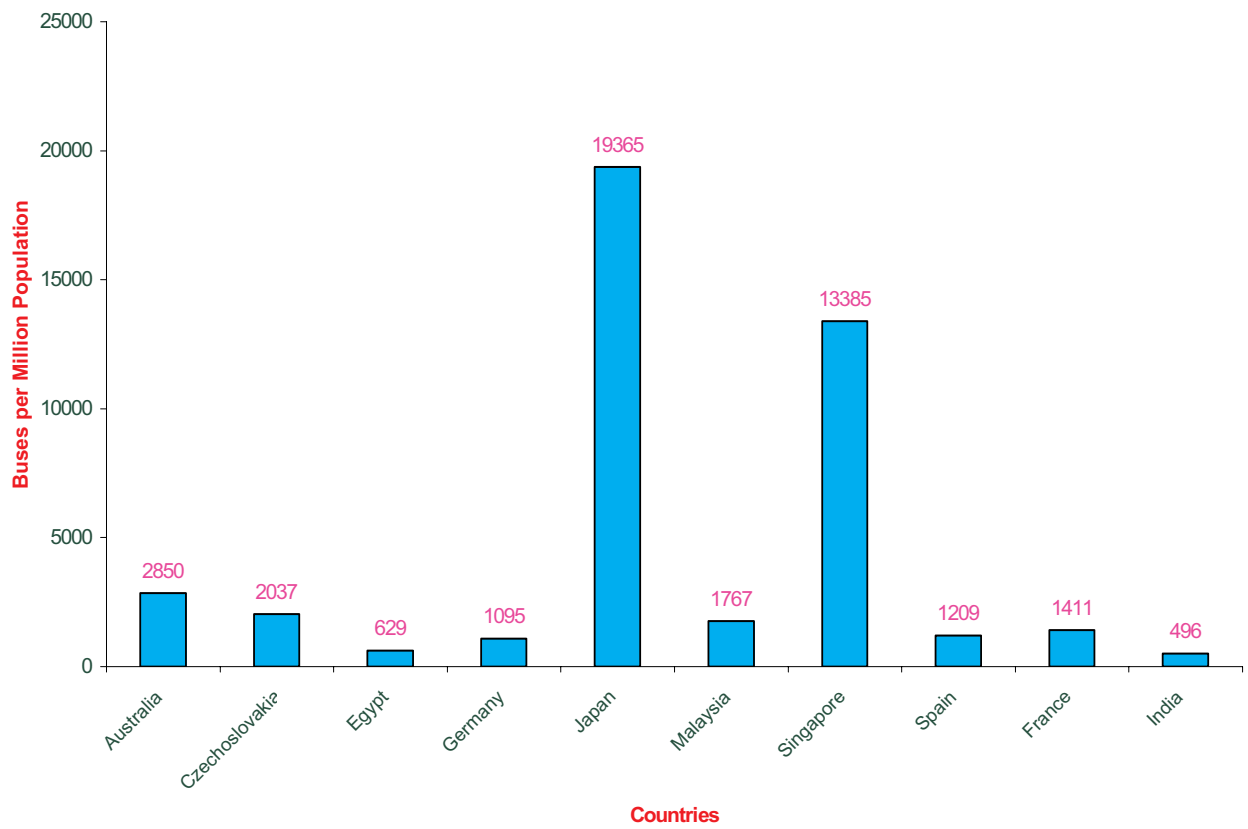
No. of Jeeps	: 500
Monthly Franchise Fee per Jeep	: Rs.2500
Total Franchise Fee : Rs.(500 x 2500 x 12)	= Rs.15 million
Acquiring to APS RTC per annum	= \$ 350,467

Thus, on this single route, the franchise scheme covering 500 buses would bring in an additional revenue of Rs.15 million or about \$ 350,000. Hence, per jeep, an additional revenue per jeep of \$ 700 would accrue. For a total population of say, 10,000 jeeps, covering all routes of APS RTC, the additional revenue would be a phenomenal \$ 7000,000 ie., \$ 7 million, with hardly any significant additional expenditure for the franchisor save on training of drivers and a little on maintenance check-up for jeeps.

This example therefore, proves the power of franchise and its associated monetary benefits. Summing up, franchise appears to be the best available strategic option for not just APS RTC but also for all STUs in India. From the point of view of both the STUs as well as the private jeep or bus operators, it is a worthy 'live and let live option'.

Vive la Franchise!!

VEHICLE POPULATION IN SOME SELECTED COUNTRIES - 1996



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Suren K.Mathur is presently serving as Executive Director with India's, nay, world's largest passenger road transport organisation namely the Andhra Pradesh State Road Transport Corporation of India, which presently owns over 18,500 buses, employs over 130,000 men and has an annual turnover of Rs.20,000 million or \$ 467 million. After obtaining the degree of Bachelor of Mechanical Engineering from the Osmania University, Hyderabad, India, Suren has served the corporation in the positions of Depot Manager and Divisional Manager and later as Regional Manager and Chief Engineer(Computers & I.T.). He proceeded on study leave in 1978 to I.I.M. (Indian Institute of Management), Bangalore, India from where he acquired the doctoral degree of 'FELLOW' in management. Under the Fellow Programme at I.I.M., Bangalore, he specialised in Transportation Management. He attended several training programmes and seminars and presented papers at national and international conferences. He attended a 15-week Management Development Programme in U.K. in 1990 and participated as a member in the meeting of the Advisory Council of Ryan Mc Farland Corporation, U.S.A. at Honolulu in 1991. He has published a couple of papers in Indian journals, such as "Mass Transit Criteria for Cities in Developing Countries", "Wheeling Towards 2000 A.D. with Information Technology", etc..

Suren has extensive experience not only in transportation management but also in MIS and information technology. He has helped APS RTC design, develop and implement several on-line and batch processing applications including an on-line Depot Management System, a GIS System, an on-line Hospital Management System, etc..

