Article

Union Railways: Selling Advertising Rights on Trains and Stations

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Abstract

Continuous losses had forced Union Railways (UR) to look for possible sources of incremental revenues, and selling advertising space on UR trains and stations seemed one such lucrative option. However, despite multiple attempts, UR was unable to receive reasonable bids from the market. The team tasked to execute the auction was at a loss to understand why the market had shown little interest when everyone knew that UR assets had substantial passenger footfall and time exposure. Not only this, UR faced greater disappointment when it arranged a brand conference where top multinational brand executives participated and shared scepticism for the project. An added source of confusion was the fact that few other organisations, both in the public and private sector, were able to execute similar projects with substantial success. Realising the gravity of the situation, UR solicited the help of external consultants to evaluate the process and identify reasons and corrective measures so that advertisement space rights could be auctioned off.

Keywords

Public Marketing, B-B Marketing, Target Market, Product Definition, Product Clarity, Promotion.

> 'Ahmad Bhatti, federal minister for railways, Federal Minister for Railways directed the officials to prepare a plan at the earliest to earn revenue through placing advertisements at rail wagons and railway stations.' The briefing continued for nine hours from 10 A.M. to 7 P.M. in which senior officials of the ministry participated.
>
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Discussion Questions

1. Can railway assets serve as interesting locations for product/brand advertising?
2. Who is the target market? How do they feel about this project?
3. Why has UR failed to attract interesting bids so far? Identify reasons.
4. How is Railway's project of creating advertising space different from that of NAA and Swift Express?
5. How can UR create interesting advertising spots?

It was a foggy evening on 20 February 2014 and Fazal Khan,[1] deputy manager at commercial department of Union Railways (UR), was sitting in his office staring at the 12 June 2013 newspaper. The paper carried news headlines of the minister's briefing where he committed to revive UR and generate additional revenues by selling advertising rights on railway stations and rail wagons. Soon after the briefing, the commercial department of UR was tasked with the responsibility of auctioning advertising rights on select trains and stations. Fazal Khan was put in charge of the project.

In spite of hectic efforts by Fazal Khan and his team, they were unable to generate reasonable bids from the market. They had advertised twice for bids but on both occasions UR received lacklustre response from the market. Consequently, the bid process had to be aborted completely. The sale of advertising space[2] was of utmost importance to the minister as he wished to generate more revenues and curtail the financial woes of the organization. The operating ratio was at 194 per cent (see Exhibit 1), which was way above the 80 per cent benchmark for financially sustainable railway organizations in other countries.

Frustrated by the lack of progress, Fazal Khan decided to approach a group of external consultants to help him. Fazal Khan met the consultants and explained that it was a rare occurrence for UR that an auction received lacklustre response from the market and that also on two different occasions. He asked the consultants to evaluate why the auction bidding process had failed twice. Was there actually a market for advertising space on UR assets? If so, then what was holding buyers to come up with reasonable bids? Could there be a marketing strategy that could help UR to sell advertising space?

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Brief History of Union Railways

It was the British colonists who first established a railway network in the country, Nepa. The first pathway was planned to connect the seaport at Korum with the biggest metropolis in the north, i.e., Rajpur. The earliest reported statistics (i.e., during 1950-55) showed that at inception, UR employed 100,734 employees, transported 78.9 million passengers/annum (UN Nepa Population estimate of 1955: 41.1 million people) and carried 9.2 million tons of freight/annum. It earned 37.6 per cent of its revenues from 85 thousand passenger train journeys and 53.5 per cent of revenues from 71 thousand freight train journeys. Railway operations experienced growth till 1970s when it had an employee force of 137,730 employees, transported 145 million passengers/annum (UN Nepa Population estimate of 1975: 68.4 million people) and carried 13.3 million tons of freight/annum. The revenue mix between passenger (annual: 164 thousand journeys) and freight trains (annual: 65.4 thousand journeys) further improved in favour of the more profitable freight trains, i.e., 30.3 per cent: 64.4 per cent. However, the growth trajectory halted in 1980s and since then the organization had continuously been struggling to restore its operational excellence of yesteryears. In fiscal year (FY) 2012–13, UR with its workforce of 81,880 employees had hit the bottom of their operational output in the history of the organization, both for passenger and freight business. It ran 33 thousand passenger train journeys to transport 41.9 million passengers (UN Nepa Population estimate of 2011: 173.6 million people) and 1.4 thousand freights train journeys to carry nearly 1.01 million tons of freight only. The revenue mix had also swung strongly in favour of the unprofitable passenger train business such that it contributed 74.9 per cent to revenues and freight trains contributed 11 per cent only.

Railway Marketing Departments

At UR, various marketing functions were handled by three different departments, namely, Marketing, REDAMCO and Commercial. Management of these departments comprised Civil Services of Nepa (CSN) officers who were selected through a national test organized to shortlist inductees for many different government departments such as Customs, Police, Federal Board of Revenue (FBR), District Management Groups, etc.

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Marketing Department

The department was headed by a chief marketing manager who was responsible for the revenue and pricing strategy for freight (per ton carriage rate) and passenger (ticketing) train operations. The department regularly conducted a competitive analysis of the logistics and transportation industry and evaluated how UR was delivering value to its customers relative to its competitors. In addition, the department executed agreements under the newly introduced regime of Public Private Partnership and Track Access and worked to identify new markets for services offered by UR.

Real Estate Development and Marketing Company (REDAMCO)

Real Estate Development and Marketing Company (REDAMCO), established in the year 2000, was initially a subdivision of the marketing department. However, on 12 March 2012, it was incorporated as an independent company with the Securities and Exchange Authority Nepa (SEAN). Their primary function was to look after the real estate affairs of the organization and to generate revenues by effectively using the lands owned by UR.

In FY 2012–2013, the company completed six real estate projects and generated Nepa Rupees (NR) from it. In addition, they also initiated two other projects. The first was auctioning exclusive brand selling rights on UR-owned properties (that is, train stations and in trains); for example, Aquafina as the sole mineral water to be sold at UR properties. The second project was the auctioning of billboards that were installed at high traffic flow locations owned by UR. This broadening of activities resulted in additional revenues and by December 2013, REDAMCO had already generated NR 502 million.

Commercial Department

The primary responsibility of the commercial department was to sell tickets and ensure quality of services to UR passengers. The department was headed by a chief commercial manager (CCM) who was assisted by twelve subordinates working across twelve divisions (geographical zones defined by UR) of Nepa. Over the years, the department had taken significant initiatives to ensure better customer service and secure revenues. For example, they successfully installed a barcode system that helped UR employees to charge accurate fares from passengers, avoid unofficial discounts and reduce the prevalence of fake tickets. Furthermore, the department also succeeded in installing a computerized system across major stations of Nepa that helped limit malpractices such as revenue leakages, losses due to inaccurate cancellations and reduce the prevalence of ticketless passengers.

Within UR, the department was appreciated for taking progressive initiatives and successfully executing them. It was in this spirit that in September 2013, the task of selling UR billboard rights was reassigned from REDAMCO to the department. The minister had believed that far more revenues could have been generated from billboard sales than what had been achieved by REDAMCO. Subsequently, in October 2013, the department was also assigned the complimentary task of selling advertising space at UR train stations and on trains. Fazal Khan, deputy CCM, was made in charge of the project and asked to execute the project as soon as possible and report the progress to the CCM and the minister.

Union Railways'core Businesses and Assets[3]

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Passenger and freight train operations were the two core businesses of UR. To support these core businesses, UR owned operational assets which were classified into four categories, that is, stations, locomotives, coaches and freight wagons (see Exhibit 1). In FY 2012–13, 558 railway stations, 493 locomotives, 1540 coaches to transport passengers and another 245 to deliver passenger luggage, parcels, mail, automobiles, and 16,635 freight wagons were operational with UR.

Freight Trains

Freight trains formed the financial backbone of UR. These trains were profitable and income from their operations were used to subsidize the passenger train business. Freight trains generated revenues by transporting both locally produced/manufactured goods within the country as well as imported items such as petroleum products, coal, lubricants, fertilizers, etc. On an average, 9.2 million tons were carried during FY 1950–1955 and 13.3 million tons during FY 1975–1980 when the operations hit its peak. However, freight operations suffered heavily during recent years and in FY 2012–2013, UR witnessed its lowest ever freight carriage of 1.01 million tons only, for a revenue of PKR 1700/ton.

Passenger Trains and Classes

Passenger trains provided inter-city connectivity to the public. Generally, passenger trains operated on subsidy from the Government of Nepa and were considered an inexpensive source of transportation for the masses. These train operations involved considerable public goodwill, and operational issues were actively reported in leading newspapers of the country. Over the years, passenger train operations had also suffered. On average, 78.9 million passengers were reported between the years 1950–55, with numbers hitting a peak of 145.7 million PKR during FY 1975–1980 and finally ebbing back to a significantly reduced flow of 41.9 million passengers during FY 2012–2013 (see Exhibit 2).

Passenger trains had various classes that varied in comfort and price for the passengers. During FY 2012–2013, 2.3 per cent of total passengers travelled in the premium classes (see Exhibits 3a and 3b) that included business class, air-conditioned sleeper and sitter classes, and first class. The upholstery and interior of these classes (see Exhibit 4a) were much better than that of the more economical sections of the train. The cabins had sliding doors, which opened in narrow but tidy corridors (see Exhibit 4b). Each cabin had six bunk beds that could be folded if they were not being used for sleeping. During travel, passengers often read books/newspapers, used laptops or frequently chatted with each other. A few passengers stood at the end of corridors where they could smoke, talk on cell phones and chat freely with fellow passengers. In order to facilitate the passengers, each train had a separate dinning bogie (see Exhibit 4c) where passengers could have snacks and freshly prepared meals.

Most of the passengers during the year FY 2012–2013, travelled in the economy (92.94 per cent) and the second classes (4.75 per cent). The economy class was characterized by its vibrancy and crowded ambience. On one side of the bogie, there were seats adjacent to windows while on the other side there were door-less cubicles with bunk beds (see Exhibit 4d). Passengers travelling with families often tied cloths or sheets to segregate their cubicles from the passageway. Some passengers stood at the end of the corridors either to chat or walk between train coaches or to use toilettes (see Exhibit 4e). Passengers in the economy class mostly spent their time playing games, chatting with family members or socializing with fellow passengers.

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Railway Stations

UR owned and operated a vast number of railway stations to assist passenger travel and freight transportation all over the country. The province of Sharaam and Sardan had the largest concentration of operational stations, followed by the province of Faseer and Bandra having few. The coastal areas had the lowest number.

Major stations, such as Korum Cantt and Rajpur, had their premises start with a parking area where individuals accompanying passengers parked their cars. As not all passengers owned cars, therefore, a dedicated rickshaw/taxi stand was also located close to the main entrance (see Exhibit 5a). Stations usually had a shade built at the entrance where booking and inquiry counters were located to facilitate passengers (see Exhibit 5b). Digital boards with up-to-date arrival/departure information were fixed close to these counters (see Exhibit 5c). This area also served as a waiting zone. People travelling in economy classes were often seen sitting on the floor with a few placing sheets and sleeping on them. For passengers travelling in upper classes (Business and AC), dedicated waiting rooms were built for male and female passengers. Immediately after the waiting area, one entered the platform zone (see Exhibit 5d). These platforms hosted many small canteens that sold basic snack items, cold drinks and warm beverages. Major stations such as Korum and Rajpur also had outlets of international food chains such as McDonalds and Pizza Hut. Generally, the closer the platform was to the waiting area, the more facilities (for example, bookstalls, better food outlets, etc.) it had. These platforms were zones where one could see passengers sitting and conversing on benches, washing dishes during train stopovers, buying food, etc. To traverse between platforms, passengers used overhead bridges.

Nepa's Advertising Industry

Inter-media Competition

Business spending on advertising had grown over the last few years. Industry spending stood at PKR 47.04 billion for FY 2012–2013 with an average growth rate of 21 per cent during the last year. The spending was distributed across five principal media,[4] that is, TV (57 per cent), print (30 per cent), outdoor and brand activation (8 per cent), radio (3 per cent) and the Internet (1 per cent) (see Exhibit 6a).

In spite of the high base spending in television and print during FY 2012–2013, the two mediums still experienced the highest growth, that is, 24 per cent and 23 per cent respectively, over the last year. They were followed by outdoor and brand activation and radio with growth rates of 17 per cent and

18 per cent, respectively. Surprisingly, with all the hype surrounding social media and Internet diffusion, Nepa's brands seemed less bullish on it as growth for it was a meagre 6 per cent over the last year. Interestingly, brands that were active in one medium did not necessarily advertise heavily in others. For example, Coca-Cola, Surf D, and Ariel (laundry detergents) were the top advertisers on television, while City Television, Beautiful Homes, and Super Action TV were the top advertisers in print media (see Exhibit 6b).

Out-of-home (OOH) Advertisement Spot Buying Process

In FY 2012–2013, OOH was the third most preferred advertising medium for advertisers after TV and print. An advantage of OOH advertising was that while other media (TV, print, the Internet and radio) advertising heavily depended on consumers' media consumption habits, OOH advertising engaged consumers when they were outdoors for their daily activities. OOH activities included advertising on billboards (static, digital, mobile), posters, bus/taxi flexes, kiosks, street advertising, etc. As a myriad of OOH outlets and spots were available in the market, therefore, large organizations[5] (for example, multi-national corporations [MNCs], established local brands) normally hired intermediaries, commonly referred to as 'agencies' to purchase advertisement spots on their behalf for their outdoor campaigns. These agencies primarily reduced the hassle for their clients (brand managers) by reducing complexity in media buying that involved selection between multiple mediums (for example, TV versus print versus OOH), multiple outlets within each medium (for example, site vendors[6] 'A' or 'B' for OOH, Millennium TV or City News), and multiple spots within each outlet (billboards owned by site vendor A at two different traffic signals on the same road; a Millennium TV advertisement spot at 08 00 am or at 09 30 pm).

In a typical scenario, the brand manager appointed an agency to run their nationwide OOH campaign and conducted a campaign briefing session to cover details on product, target market (demographics), prescribed budget and campaign starting dates. After the briefing session, the agency developed an OOH media plan (containing various sites of single/different vendors along with their negotiated rates, locations, sizes, etc.) and shared it with the client. After analyzing and/or revising, the client provided a formal approval to start the campaign on a prescribed date. This was followed by the agency working on printing the skin (flex to be displayed on board) and ensuring timely delivery to site vendors. When the campaign was launched, the agency collected visuals on a daily basis and eventually shared it with the client in a report format. Thus, by engaging agencies, brand managers significantly simplified their media buying and execution as they did not need to deal with vendors, negotiate rates, lock sites, provide skins (material on which the advertisement is printed) for display, and sort out execution and payment issues related to multiple vendors.

For attractive spots, agencies participated in auctions to lease the spot on an annual basis from site owners. For such self-leased spots, agencies typically charged a profit margin between 15 to 25 per cent. However, most spot purchases involved multiple intermediaries, for example, a client (brand manager) bought an advertising spot from an agency, who in turn bought it from a site vendor holding an annual lease of the spot from the site owner (that is, site owners—site vendor—agency—client). In such cases, agencies charged a commission in the range of 3–10 per cent. Normally, hundreds of site vendors marketed their billboards to agencies and sometimes to clients directly for display. These vendors developed PowerPoint (PPTs) slides with actual visuals of the sites, its details (size, location, traffic count, target market A/B/C along with the monthly/annual display rates) and then circulated them through emails on weekly basis to the targeted agencies/clients or even other vendors.

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OOH in the Transportation Sector

Few companies in the transportation sector had used their site locations to their advantage and had developed OOH advertising opportunities at their sites. These companies, as site owners, either auctioned off a multi-year lease to site vendors or sold it directly to end-consumers (that is, brand managers, agencies). National Aviation Authority and Swift Express were two such organizations which had successfully executed OOH advertising projects and served as active competitors to other OOH media outlets. Their brief overview is provided in the following section:

National Aviation Authority, (NAA) Nepa

NAA, Nepa, was a government-owned regulatory authority responsible for all national aviation activities of the country. It owned and operated all airports (except the privately owned Torangi airport) and aerodromes. Zartash International Airport in Korum city, the largest international and domestic airport of Nepa, served as its head office. In 2014–2015, it looked after air traffic activities of almost fifteen airlines operating in Nepa (such as, Emirates, Etihad, Saudi Airlines, etc.) out of which four were local, that is, Oceatic Airways, Air Sky, Air Nepa, and Hummingbird Air.

At NAA, the OOH initiative was propelled by the fact that placing advertisements at airports provided a significant source of revenue to NAAs all over the world. Airports gave the opportunity of better exposure and subsequent ad-retention than most other locations. The audience at the airports consisted of passengers and greeters who typically stayed inside or around the terminal building for a relatively longer period of time waiting for the boarding procedures or for the arrival/departure of their family members, respectively. Thus, for advertised brands, the time exposure was massive.

During FY 2002–2003, NAA had worked to auction advertising rights at the Falad International Airport in Rajpur city. They executed the process in two phases. In the first phase, NAA had identified attractive advertising spots and shortlisted their target market. Potential advertisement spots were identified by considering basic factors of exposure angle and traffic flow. They then identified the most suitable advertisement type (billboards, mopies, wall-mounted advertisements, pole signs, trolleys, Avio bridges) for these spots. For example, pole/pillar signs dampened the aesthetics of lounges and made it look cluttered, therefore, high wall-mounted advertisements were used. These spots were then grouped to make multiple bundles, for example, bundle 1: spots in the international lounge, bundle 2: spots in domestic lounge, etc., so that they could be auctioned off to multiple site vendors in order to encourage wider market participation (i.e., not only big players), and diversify the financial default risk. As for their target market, they settled on choosing specialist advertising/media companies for sale. It was decided that advertisement rights for these spots would be auctioned out to specialist media buying agencies/site vendors in wholesale (e.g., an entire bundle with all the advertisement spots in it) through a multi-year contract. Consequently, these site vendors would be responsible for retailing (direct sales to end consumers) the spots to prospective clients. The middleman structure suited NAA because retailing and managing advertising spots on a daily basis required specialized human resources and skill sets. Therefore, it was convenient to let specialist companies (media buying agencies/site vendors) manage these spots in return for a certain fee. In addition, this arrangement was in line with the best practices across global airports.

In the second phase, NAA sold these developed assets to the market. As it was a novel initiative in the Nepa's market, therefore, it was important to build awareness and excitement among the target segment for the project. Due to the nature of the product (novel product) and the dynamics of buying and selling (industrial bulk sales, long-term commitments, significant advance payments, etc.), personal selling was actively used to entice potential investors. Personal contacts were made with key individuals in media agencies. Subsequently, information and proposals on advertising spots were shared with them, and they

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were encouraged to participate in the bidding process. An iterative process was used to sort out industry concerns on terms and conditions of the bidding process all the while remaining within the ambit of the Public Procurement Regulatory Authority (PPRA) and NAA rules.[7] All these hectic efforts led to some participation from the industry (see Exhibit 7 for an example on Lahore Airport participation) in the first auction conducted during late 2002 and early 2003. Some bundles were auctioned, while others received lacklustre response. These un-auctioned bundles were re-evaluated and industry concerns were then addressed. Subsequently, they were successfully auctioned off in the second attempt which was held in two months following the first one.

The commercial value of these spots had gained substantial attention from brand advertisers as many major brands such as Patterns by Azure Fabrics, Toyota Motors, Savings Bank Limited, Standard Chartered and Community Bank Limited started to advertise at these locations.

Swift Express

Swift Express (bus service which operated nationally), which started its operations in 1999, was the biggest transport service company in Nepa. Its high-quality busses, courteous staff and bus departure/arrival punctuality gave it a strong competitive advantage over others. The primary operation of the company was to provide inter-city connectivity to passengers across Nepa. In addition, it also operated an intra-city bus operation in Rajpur only and a Swift cab service to facilitate pick and drop of passengers to/from their terminals.

Fuel price escalation during FY 2010 had substantially eroded company's profitability, especially for its intra-city operations where fare prices were strictly regulated by the government of Sharaam. With pressure from the government to keep fare prices stagnant, Swift Express embarked on an initiative to generate alternative streams of revenues. In 2012, a new marketing director, Waheed Baig was hired to streamline marketing activities of the company and evaluate possible opportunities to generate incremental revenues. Waheed Baig and his team decided to create advertising spots at their terminals and generate revenues by letting brands advertise on it. It was expected that such opportunities would attract advertisers because, being the most reputed inter-city transport, Swift Express had a substantial total of nearly 6 million passengers per year, with the city of Rajpur (approx. 300,000 passengers per month) and Nizamabad (approx. 200,000 passengers/month) being the two most frequented terminals.

In order to promote their advertising spots, Asim Iqbal and his team followed a two-tiered marketing approach. First, the team directly approached established brands and personally communicated the available opportunity for advertising at Swift's locations. The team prepared and presented a list of possible options for their brand managers. These included terminal branding, bus branding, in-bus television advertising, brand activation/experiential marketing, tuck-shop branding, in-bus magazine named *Hamari Manzilen*, ticket branding, refreshment box and napkin branding, product placement, etc. (refer to Exhibits 8a, 8b, 8c and 8d). Throughout their dealing, the team kept an open approach. If mutual consensus was established, they even offered that new spots and options could be created. In addition, active advertisers were offered strategic alliances with the company. For example, a strategic alliance was penned with Tfone after which all Swift Express officials owned Tfone connections only and in return Tfone agreed to advertise with Swift Express. Similar, alliances also materialized with Coca-Cola, NTCL, Shell and Healthy Foods. Such alliances permitted Swift to construct a pool of active buyers that it could service directly. Second, a reputable advertising/media agency was introduced as an intermediary and assigned the task to bring in other brands on board. Both the intermediary and Swift Express worked in close collaboration in order to avoid any duplication of efforts or passing inconsistent messages to the market. The ratio of direct to indirect sales was 70 per cent to 30 per cent.

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UR Advertisement Space Bidding

Soon after taking over the responsibility for the project, Fazal Khan and his team solicited the first bid (see Exhibit 9a for bidding procedures) on 15 December 2013. The request for bid proposals was advertised in all major newspapers (see Exhibit 9b). In this bid, potential marketing/media companies were invited for the auction of two major railway stations, that is, Rajpur and Korum Cantt, and two primary trains, that is, Rawal Mail and Korangi Express (see Exhibit 9c). These two stations were the biggest and the busiest stations of the country. They had massive passenger flows and provided nearly similar facilities. The two trains were also major assets and were considered the pride of UR as they carried the maximum number of passengers around the nation. Rawal Mail covered the longest-running route connecting Korum (southernmost city) with Malikwar (northernmost city connected by rail). It was also the fastest train on this route and covered the entire journey in 32 hours. Likewise, the Korangi Express covered the second-longest route from Nizamabad to Korum and had the maximum number of station stops, that is, 24, connecting every important town on the way. According to the bid document, a successful bidder could only brand the interior of the Rawal Mail and Korangi Express.

As UR lacked expertise in managing day-to-day operations of retailing advertisement spots to prospective buyers, they aimed to auction the advertising rights of an entire station or a train to a prospective bidder for an initial period of two years. The bidder was expected to develop advertisement spots by himself while adhering to the guidelines prescribed in the bid document (see Exhibit 9c), and then eventually retail the spots at a profit to prospective buyers. In order to ensure that more established companies were given preference, the selection criteria were designed so that (*a*) companies that had executed five similar projects; (*b*) had successful experience of marketing campaigns in major cities; and (*c*) had a minimum of five years of experience were to be given priority. In addition, foreign experience was considered to be an added advantage. Although, the commercial team had limited prior experience in selling advertising rights, they worked diligently to draft terms and conditions. However, companies did not submit their bids by the deadline.

In the second attempt, the CCM of Union Railways solicited the bid with 15 February 2014 as the deadline. The team believed that the market did not respond well probably because it was unaware of the project's potential. To invigorate the interest of the marketing/media agencies for the project and to gauge its potential for the bidders, the team organized a brand conference on the 5 February 2014. The conference was attended by executives from top brands of Nepa, leading marketing agencies, representative from UR and the minister of railways.

During the conference, brand executives of Pepsi Co and Sweet Foods, raised concerns about how their exclusive brand selling right contracts (for example, Aquafina/ Sweet Foods being the sole mineral water/juice to be sold at Union Railway stations and trains) would be adversely impacted by the project. Executives from Silver Leaf and Nestle, brainstormed possible locations that could be of interest to advertisers, while some other participants suggested ideas to the extent of branding toilet seats. Another aspect highlighted during the conference was that billboards at the parking area captured audience of low-priced products. This customer segment was of limited interest to most brands and the project may not be so exciting for the majority in the market. It was asserted that UR advertising spaces were in competition with every possible tool of outdoor advertising. Therefore, it must be competitively priced. Extending the discussion on pricing, another media agency proposed public–private profit sharing option. The idea did not appeal to UR representatives as they were more interested in licensing the rights completely and not be involved with the day-to-day operations. In addition, government of Nepa's Public Procurement Regulation Authority (PPRA) rules required that sales should take place through an auction process and pre-set collaborations were often made controversial and thus difficult to materialize.

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Immediately following the brand conference, a second bid–tender deadline approached. Only two marketing companies submitted their bids and, unfortunately, both had to be disqualified at the very first stage of bid evaluation, that is, the technical competency check. Both the companies did not meet the minimum criteria set by UR for the award of the contract. Subsequent market checks by Fazal Khan and his team showed clearly that the market was reluctant to bid for the new project.

Non-stop Struggle

Fazal Khan, while sipping his tea, explained to the consultants that it was not difficult to comprehend. Other companies, both in the public and private sector, had successfully completed similar projects. The market had responded positively to such offers before, however, UR was unable to receive qualified price bids for their auction. Putting his cup aside, he re-emphasized the importance of the project to the minister and requested the consultants to help in sorting out this mess.

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Exhibit 1. Principal Statistics of Union Railways

Plant & Equipment	Unit	2011–2012	2012–2013
Route	Km	7791	7791
Track	Km	11,755	11,755
Locomotives	No.	522	493
Coaches	No.	1584	1540
Other Coaches	No.	239	245
Freight Wagons	No.	17,611	16,635
Railway Stations (Excluding Halts)	No.	558	558
Volume of Traffic			
Passengers Carried	'000	41,097	41,957
Passenger-km	'000	16,093,350	17,388,413
Tons of Freight Carried	'000	1323	1016
Ton–km	*'000	402,481	419,241
Ton–Kilometres Freight and Coaching Combined	'000	1,003,036	997,327
Freight Wagons Loaded	No.	61,392	46,640
Financial Results			
Gross Earnings	*'000	15,444,393	18,069,546
Total Ordinary Working Expenses	*'000	31,443,343	35,123,742
Operating Ratio	*Provisional %	203.59	194.36

Source: Year Book 2012–2013, Union Railways.
*provisional figures

Exhibit 2. Table of Passengers Carried and Kilometres Covered

During the year 2012–2013, Union Railways carried 41,957,324 passengers making a total of 17,388,413,987 passenger-kilometres, averaging 414 kilometres (km) per passenger. These figures include passengers travelling on reduced-fare tickets but excluding those travelling on free passes. Year-wise figures are shown below:

Year	Passengers Carried ('000)	Passenger Km (km) ('000)	Average Km travelled by a Passenger	Revenue Per Passenger (NR)
1950–1955 Avg.	78,942	6,778,538	85.9	1.5
1955–1960 Avg.	102,657	8,064,025	78.5	1.56
1960–1965 Avg.	126,284	9,533,593	75.5	1.55
1965–1970 Avg.	130,475	10,025,201	76.9	1.83
1970–1975 Avg.	134,076	10,792,170	80.5	2.36
1975–1980 Avg.	145,710	15,111,969	103.71	4.47
1980–1985 Avg.	113,474	17,402,638	153.4	11.32
1985–1990 Avg.	82,319	18,483,168	224.5	21.15
1990–1995 Avg.	69,084	17,828,907	258.1	40.76
1995–2000 Avg.	67,964	18,853,609	277.4	65.22
2000–2005 Avg.	72,828	21,992,225	301.9	101.87
2005–2010 Avg.	80,557	20,970,516	312.9	139.24
2010–2011	64,903	20,618,829	317.68	184.36
2011–2012	41,097	16,093,350	391.59	271.07
2012–2013	41,957	17,388,413	414.43	322.62

Source: Year Book 2012–2013, Union Railways.

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Exhibit 3a. Class-wise Passenger Distribution at the Inception (1950–55) and at the Peak of Passenger Train Operations (1975–1976)

Year	Air-Conditioned %	First Class %	Upper-Class Rail Cars %	Second Class %	Third Class %	Total No. ('000)
1950–1955 Average	0.09	0.54	..	4.58	94.8	78,942
1975–1976	0.06	0.22	0.05	4.17	95.5	147,317

Source: Year Book 2012–2013, Union Railways.

Exhibit 3b. Class-wise Passenger Distribution for the Last Five Years (2008–2013)

Average Year	AC Class Sleeper %	AC Class Sitter %	First Class Sleeper %	AC Lower Business %	AC Lower %	Economy Class %	Second Class %	Total No. ('000)
2007–2008	0.08	0.03	0.12	0.29	2.73	62.73	33.68	79,984
2008–2009	0.08	0.33	0.08	0.56	2.26	64.41	32.29	82,542
2009–2010	0.08	0.36	0.04	0.66	1.2	69.83	27.83	74,933
2010–2011	0.06	0.34	0.05	0.67	1.28	74.8	22.8	64,903
2011–2012	0.07	0.3	0.04	0.08	1.06	90.88	6.85	41,097
2012–2013	0.07	0.25	0.03	0.68	1.27	92.94	4.75	41,957

Source: Year Book 2012–2013, Union Railways.

Exhibit 4a. Air-conditioned Class Cabin

Exhibit 4b. Air-conditioned Corridor

Exhibit 4c. Train's Dining Area

Exhibit 4d (i). Economy Class

Exhibit 4d (ii). Economy Class

Exhibit 4e. Economy Class—End of Corridor (Toilet Area)

Source: Company Documents.

Exhibit 5a. Parking Area

Exhibit 5b. Entrance

Exhibit 5c. Station Reception

Exhibit 5d. Station Platform

Source: Company Documents.

Exhibit 6a. Total Advertising Expenditure

Media FY 2012–2013	NR (bn)	% Share of Total Expenditure	% Increase from Last Year
TV	26.81	57	24
Print	14.06	30	23
Outdoor and Brand Activation	3.50	8	17
Radio	1.60	3	18
Internet	1.07	2	6
Total	47.04	100	22

Source: *Aurora* magazine.

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Exhibit 6b. Top Ten Brands of Print and Television Media

Top 10 Brands on Print Media	Top Ten Brands on Television
Geo	Coca-Cola
Bahria Town	Surf Excel
Express	Ariel
HBL (Corporate)	Mountain Dew
Channel 5	Head and Shoulders
Park View	Telenor Talkshawk
Aaj News	Ufone
NBP (Corporate)	Telebrands
Waqt	Dettol Soap
Ufone (Corporate)	Safeguard

Source: *Aurora* magazine.

Exhibit 7. First Advertising Spot Auction Participation Statistics for Falad International Airport International Airport, Rajpur

(Data of 2002)

Location	Forms Purchased	Participants	Bid Status
International Departure/Arrival Lounge	4	2	Bid Accepted
Domestic Departure/Arrival Lounge	5	3	Bid Accepted
Car Parking	3	0	No Result;
Exit Road	4	0	No Result
Entry Road	3	0	No Result
Avio Bridges	3	2	Bid Accepted

Source: Company Documents.

Exhibit 8a. Terminal Parking Area of Swift Express

Exhibit 8b. Terminal Outdoor Waiting Area of Swift Express

Exhibit 8c. Terminal Indoor Waiting Area of Swift Express

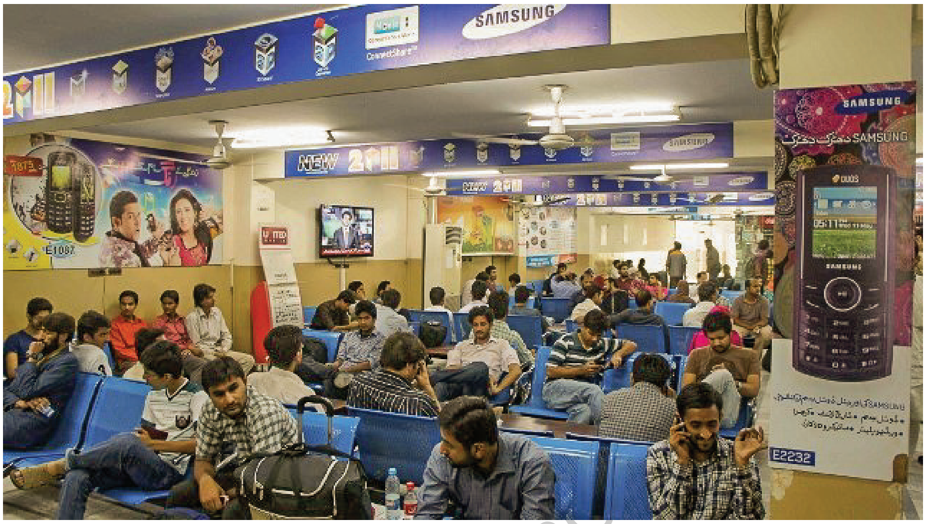

Exhibit 8d. Daewoo Intra-city Buses

Source: Company Documents.

Exhibit 9a. Bidding Procedure at Union Railways

All government organizations (for example, Union Railways, Oceatic Airways, etc.) and departments of the government of Nepa were required to follow the Public Procurement Regulatory Authority (PPRA) for their commercial dealings. PPRA was an autonomous government body that prescribed practices in order to ensure quality, accountability and transparency in commercial dealings.

Union Railways decided to use a Single Stage–Two Envelope[8] tendering procedure for advertising space auction. In this procedure, the bid package consisted of two envelopes; one contained the technical proposal and the other contained the financial proposal. The objective was to pre-qualify technically proficient bidders by first assessing the 'technical proposal' only. Bidders who were disqualified at this stage were given back their financial bids un-opened, while those who qualified were then vetted out for most suitable financial offer (that is, the lowest for a procurement tender, the highest for sales tender).

In order to ensure maximum participation, the procuring company ensured a gap of 15 days between bid advertisement in the newspaper and bid submission deadline. During these 15 days, interested parties were asked to purchase the 'Bid Document' at a nominal fee as it contained all the intricate details about the transaction along with terms and conditions that would govern it. Some firms who considered terms and conditions unfavourable dropped out at this post-bid document purchase stage, while those still interested submitted their bids in a package by the due date.

Exhibit 9b. Bid Advertisement

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Union Railways

INVITATION OF BIDS
for branding and advertising Opportunities
in Union Railways' Stations & Trains

Union Railways is offering a unique opportunity of branding and advertisement. Union Railways carries around 45 million passengers annually that hold a great marketing potential. Union Railways intends to hire services of reputed Marketing/Advertisement Companies for Branding of Trains and Branding/Advertisement on Railway stations as given below.

Railway Stations:
i) Korum Cantt ii) Rajpur

Railway Trains:
i) 1-Up/2Dn (Rawal Mall) ii) 7-Up/8-Dn (Korangi Express)

Further Details are given as under:

- The interested firms/companies can obtain the Bid Documents at a cost of Nepa Rupees 1000/- (non-refundable) for Trains and stations separately, consisting of conditions, evaluation criteria and format of Technical & Financial Proposals from the office (mentioned below) during office hours.
- Selection of firms shall be carried out as per PPRA rules. Competitive bidding will be conducted in accodance with the single stage: two envelops bidding process.
- Sealed Technical Proposals and Financial Bids in separate envelops in a single package (for Stations Branding and Train branding separately) must reach the below mentioned address latest by 11:00 AM on
- All Technical Proposals will be opened publicly in the office mentioned below on 11:30 AM in the presence of bidders or their representatives who may choose to be present.
- Financial Proposal will be opened following Technical Proposals evaluation on a date & time which will be conveyed in advance to those bidders whose Technical Proposals are declared as responsive.

Dy. Chief Commercial Manager
Union Railways, Headquarters Office, Rajpur
Tel: 000-99204096 Fax: 000-9920060
Cell: 0000-81000822, 0777-4001976
www.unionrail.com

Exhibit 9c. Bid Document Snippets Related to Advertised Assets

1. Marketing Scope for Stations

Union railways desire to present its two major railway stations (Korum Cantt and Rajpur) for marketing opportunities. These monumental public places attract millions of people annually and hold a great marketing potential. The successful bidder shall have the rights to place, install, erect, hang and maintain the advertisement units, skins or boards on the premises.

No. of Passengers for July, 2012 to June, 2013

Station Name	Rajpur	Korum
Total	2,837,045	2,368,644

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2. Marketing Scope for Trains

Union railways desire to present its two major railway trains, that is, the Rawal Mail and Korangi Express for branding opportunities. These historical trains are the pride of Union Railways and thousands of people travel through them monthly. These trains hold a great marketing potential. The successful bidder shall have the right to brand the interior of these trains.

Train Passengers 2012–2013

	No. of Passengers
Rawal Mail	1,401,053
Korangi Express	1,253,381

3. Scope of the Contract and Limitations of Advertisement/Branding

3.1 This Contract is for the Branding (interior side) of railway trains (Rawal Mail and Korangi Express) for marketing opportunities. These historical trains are the pride of Union Railways and thousands of people travel through them monthly. These trains hold a great marketing potential. The successful bidder shall have the right to brand the *interior* of these trains.

3.2 he marketing agent shall have the right to brand the premises. All skins which have been placed upon the said premises by the marketing agent shall, except as otherwise provided, remain the property of and may be removed by the marketing agent at any time prior to or within a reasonable time after the expiry of the term hereof or any extension thereof.

3.3 The marketing agent will make sure that during the branding process the structure of railway train will not be damaged. No advertisement can be painted on the walls. After expiry or termination of the contract (whichever is applicable), the train will be restored in its original form. Restoration of train shall be a prerequisite for releasing the performance security.

3.4 The marketing agent shall keep all branding skins and related installations in good condition and promptly carry out necessary repair, if required.

3.5 The marketing agent shall comply with all laws, regulations, ordinances and rules including but not limited to any and all environmental laws, rules and regulations, applicable to the installation of the branding/advertisement.

3.6 The marketing agent shall not place in or on, or bring in or on, to the premises, any hazardous substance as such term is defined under law.
3.7 The marketing agent shall not brand or advertise any skin or do any activity which is unlawful, offensive, politically or racially motivated.
3.8 The marketing agent shall not install any branding skin which creates hindrance to the train operation and inconvenience to the passengers and railway officials.
3.9 All necessary installation shall be performed by the marketing agent or its authorized representatives/agents, at its sole cost and expense, in strict conformity with all applicable laws, rules & regulations.
3.10 All the expenses pertaining to the installation and operation of train branding/advertisement shall be the sole responsibility of the marketing agent and no claim, whatsoever shall be made to the client in this regard. The client is indemnified from all sorts of third party claims.
3.11 The marketing agent shall indemnify the client and all of client's officers and employees (all of such entities collectively being included in the term 'Client' for the purposes of this paragraph) from and against any liability arising out of marketing agent's use of, or act or omission in connection with the premises. Such indemnification shall include but not be limited to reimbursing the client for all damages, costs, fees (including attorney's fee), expenses and claims made against client to indemnify client arising out of the marketing agent's use of the premises. The obligations of the marketing agent to indemnify the client and hold the client harmless shall be applicable until the termination of this contract agreement.

4 Period of Contract

4.1 The period of contract shall be two years plus initial two months grace period for mobilization, form the date of signing of the contract.
4.2 The contract period is extendable for one year, after expiry of the original 26 months period, subject to satisfactory performance of the marketing agent and with mutual consent of both the parties.

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5 Increase of Fee

5.1 There shall be no increase in the accepted fee, to be paid to the client for the first year plus two months grace period.
5.2 For the second year the fee shall be increased by 20 per cent of the base amount of first year.
5.3 For the third year (if the Contract is extended) the fee shall be increased by 40 per cent of the base amount of first year.

6 Payment of Fee to the Client

6.1 There shall be no fee for the mobilization/grace period of initial two months, after signing of the Contract. However, the marketing agent shall be allowed to make preparatory work for trains for branding/advertisement, including installation of any branding/advertisement material.

6.2 The marketing agent shall pay to the client the accepted fee for each quarter in advance.
6.3 Quarterly distribution of annual fee for the first/base year:

Quarter 1	10 % of Annual Fee
Quarter 2	20 % of Annual Fee
Quarter 3	30 % of Annual Fee
Quarter 4	40 % of Annual Fee

6.4 Quarterly distribution of annual fee for the second year, and third year (if the contract is extended) will be in four equal instalments.

7 Amicable Settlement of Disputes

The parties shall use their best efforts to settle amicably all disputes arising out of or in connection with this contract or its interpretation by direct informal negotiation. If, after fourteen (14) days, from the commencement of such informal negotiations, the client and the marketing agent have been unable to resolve a dispute, the matter shall be referred to general manager/operations of Union Railways for resolution of the same.

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Notes

1. All names in the case have been changed. The case is exclusively prepared for academic discussions and does not represent effective or ineffective handling of a situation.
2. Advertisement space = an area where advertisement spots can be identified and created.
3. Besides core operations, UR also administered few non-core businesses/operations (such as hospitals, schools, sports boards, etc.) that had been set up primarily for the aid and welfare of UR employees.
4. Media (singular: Medium) = TV, print, outdoor and brand activation, radio and the Internet. Media Outlets = Different organizations providing ad spots within a medium, for example, Millennium TV, City News, Nepa Times, etc., for TV.
   Advertisement spot—A defined location/time-slot designated for advertising.
5. Smaller companies often do not engage agencies and prefer to contact site vendors directly.
6. Site vendors were those who had annual lease to sell the advertisement spot to potential buyers. Quite often than not, site vendors were different from site owners. Site owners were those who owned the location and had auctioned the selling rights to site vendors.
7. Being a public sector organization, NAA was bound to follow PPRA rules and NAA policies.
8. For open competitive bidding, PPRA allows four bidding procedures, that is, Single Stage–One Envelope, Single Stage–Two Envelope, Two Stage–One Envelope, Two Stage–Two Envelope. For details see: http://www.ppra.org.pk/Rules.asp (point 36)