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# PRICING POLICY OF KERALA STATE ROAD TRANSPORT CORPORATION- A COMPARATIVE STUDY WITH KARNATAKA STATE ROAD TRANSPORT CORPORATION

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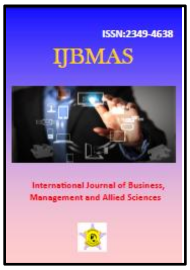


**ABSTRACT**

Public transport presents an interesting situation where the primary objective is that of public service on a self-sustaining basis. With the view to provide affordable, safe and reliable bus service to people both in rural and urban areas, the Road Transport Act was promulgated in 1950. This enabled the State and Central Government to form Road Transport Corporation.

The primary objective of any organization is to maximize its profits. Pricing policy as an instrument to achieve this objective should be formulated in such a way as to maximize the sales revenue and profit. In the short run, a firm not only should be able to recover its total costs, but also should get excess revenue over costs. This will build the morale of the firm and instill the spirit of confidence in its operations.

The fare structure of KSRTC is divided into two- basic fare and minimum fare. Since 1999, fares are being revised on the basis of the National Transport Planning and Research Centre's Price Index for Stage Carriage Operations (PISCO) applicable in Kerala. Fixing of fares is a time consuming process in KSRTC as the decision making is in the Government Level and hence a comparison with the Karnataka State Road Transport Corporation was made where a separate Committee is maintained exclusively for the fare fixation.

The pricing decision matters can be delegated to a separate Committee as that of the Karnataka State. But increase in the fare irregularly may compel the short distance passengers to personal mode of transport and long distance passengers to train services thus weakening the market share of the Corporation. The pricing policy of the KSRTC should be profit oriented and dynamic in order to achieve a better financial performance of Kerala State Road Transport Corporation could adopt an automatic fare revision system without political intervention.

It would be desirable to have an independent regulatory body (like State Electricity Regulatory Commission) to fix the tariff fares specify operations on uneconomical routes, and address grievances of commuters.

Key words: Pricing Policy, Karnataka State Road Transport Corporation, Regulatory Body, Decision Making, Kerala State Road Transport Corporation.

## 1. Introduction

The primary objective of any organization is to maximize its profits. Pricing policy as an instrument to achieve this objective should be formulated in such a way as to maximize the sales revenue and profit. In the short run, a firm not only should be able to recover its total costs, but also should get excess revenue over costs. This will build the morale of the firm and instill the spirit of confidence in its operations.

On the other hand, a non-profit organisation is formed for the purpose of serving a public rather than the pursuit or accumulation of profits for owners or business. The pricing policy of a State Transport Undertaking is to generate revenue that can ensure an efficient and adequate supply of public transport service. Public transport pricing may also be expected to contribute to the reduction of congestion and environmental impact of road traffic, efficient coordination between public transport modes and the reduction of poverty. The main features of poverty are poor connectivity to jobs, services, education and recreational activity. Lack of access to services leads to social exclusion barriers to work, learning, health care, food supply etc. Thus improving access is a must but it has to be affordable. Hence the pricing policy of a public transport organization is not profit oriented but welfare oriented. Its main objective is the development of the society.

## 2. Materials and Methods

**Fare**

The long run sustainability of the sector depends on the full recovery of costs. In the presence of fixed costs, there are various approaches to the full recovery of costs and Kerala has taken the approach of regular fare revision ostensibly to cover costs based on committee recommendations.

Fare is the sum charged for riding in a public conveyance. Since 1999, fares are being revised on the basis of the National Transportation Planning and Research Centre's Price Index for Stage Carriage Operations (PISCO) applicable in Kerala, which is one of the causes of the poor sustainability of the industry. The index considered eight factors which influenced the cost of operation of stage carriages. These components were: (i) fuel, (ii) lubricants, (iii) tyre and tube, (iv) spare parts and maintenance labour, (v) taxes and insurance, (vi) crew wages, (vii) cost of capital, and (viii) depreciation. In Kerala the passenger fares are not left for the market forces to determine; rather the state government regularly appoints committees to study the cost conditions and recommend passenger fares. These recommendations are generally accepted by the government and the service providers charge these fares.

The fare structure of KSRTC is divided into two, namely, basic fare and minimum fare. The bus services of the Corporation is also categorised via City, Ordinary, Fast passenger, Super-fast, Express, Super Express, Deluxe Express, Super Deluxe, AC Air Bus and High-tech Volvo. The basic and the minimum fare of the ordinary and the city service are same and hence the researcher has considered only the ordinary service. The Deluxe Express has started its service in 1992 and the Super Deluxe in the year 1994.The AC Air Bus was introduced in the year 2000 and High-tech Volvo on the year 2004.

In the present study both the base fare and the minimum fare and a Compound Annual Growth Rate is considered to study the variation annual growth rate of the fares. Compound Annual Growth Rate is a business and investing specific term for the smoothed annualized gain of an investment over a given time period.

**Basic Fare**

Basic fare means fare per kilometer in terms of paisa. The basic fare is not applicable for initial fare stage as it will not be economically feasible for the Corporation for the long run. The High-tech Volvo bus service has the highest basic fare with 110paisa which is a long service bus and a luxury coach too. The Ordinary bus service has the lowest basic fare with 55ps as it is for short distance. There was no service for the Express bus during 2010.

Table1 : Basic fare of different Category of KSRTC Bus Services during the period from 1991 to 2012 with corresponding CAGRs

| Sl.No. (1) | Year (2) | Ordinary (3) | Fast Passenger (4) | Super Fast (5) | Express (6) | Super Express (7) | Deluxe Express (8) | Super Deluxe (9) | AC Air Bus (10) | High-tech Volvo (11) |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 1991 | 13 | 16 | | 18 | 20 | | | | |
| 2 | 1992 | 13 | 16 | | 18 | | 20 | | | |
| 3 | 1993 | 15 | 18 | 20 | 22 | 23 | 25 | | | |
| 4 | 1994 | 18 | 20 | 24 | 27 | 28 | 30 | 32 | | |
| 5 | 1995 | 18 | 22 | 24 | 27 | 28 | 30 | 32 | | |
| 6 | 1996 | 22 | 27 | 29 | 27 | 34 | 30 | 39 | | |
| 7 | 1997 | 22 | 27 | 29 | 27 | 34 | 39 | 39 | | |
| 8 | 1998 | 22 | 27 | 29 | 27 | 34 | 39 | 39 | | |
| 9 | 1999 | 28 | 34.5 | 34.5 | 37 | 34 | 43.5 | 50 | | |
| 10 | 2000 | 28 | 24.5 | 24.5 | 37 | 34 | 43.5 | 50 | | |
| 11 | 2001 | 35 | 43 | 43 | 46 | 34 | 54 | 63 | 75 | |
| 12 | 2002 | 35 | 43 | 43 | 46 | 34 | 54 | 63 | 75 | |
| 13 | 2003 | 35 | 43 | 43 | 46 | 34 | 54 | 63 | 75 | |
| 14 | 2004 | 35 | 43 | 43 | 46 | 34 | 54 | 63 | 75 | |
| 15 | 2005 | 48 | 52 | 52 | 55 | 60 | 60 | 70 | 80 | 90 |
| 16 | 2006 | 48 | 52 | 52 | 55 | 60 | 60 | 70 | 80 | 90 |
| 17 | 2007 | 48 | 52 | 52 | 55 | | 60 | 70 | 80 | 80 |
| 18 | 2008 | 55 | 57 | 57 | 60 | | 65 | 75 | 90 | 90 |
| 19 | 2009 | 52 | 55 | 55 | 58 | | 62 | 72 | 85 | 105 |
| 20 | 2010 | 55 | 57 | 57 | | 65 | 65 | 75 | 90 | 110 |
| 21 | 2011 | 55 | 57 | 57 | | 60 | | 75 | 90 | 110 |
| 22 | 2012 | 55 | 57 | 57 | | 60 | | 75 | 90 | 110 |
| | CAGR | 7.11 | 6.24 | 5.67 | 6.72 | 5.37 | 6.77 | 4.85 | 1.67 | 2.91 |

Source: A review of public enterprises in Kerala 1991-2012, Bureau of Public Enterprises, Government of Kerala

The Compound Annual growth rate (CAGR) of the basic fare of different service of the Corporation during the period of study is calculated in the Table4.5 CAGR represents the smoothed annualized gain earned over the investment time horizon. At the end of 1991, the base fare of Ordinary service, Fast Passenger and Super Express was 13ps, 16ps and 20ps respectively. This amount grew at a CAGR (Compound Annual Growth Rate) of 7.11 percent, 6.24 percent and 5.37 percent to approach 55ps, 57ps and 65ps by year-end 2012 respectively. A graphical representation is given below.

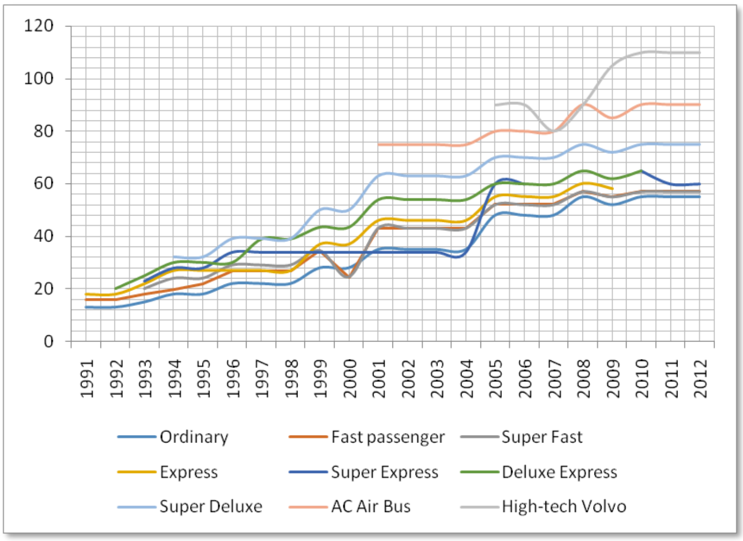


Figure 1 Basic Fare of Different Category of KSRTC Buses during the period from 1991 to 2012

The Corporation was initially moving forward with the services like ordinary, fast passenger and express. But in times taking into consideration the long term journey of the passengers as well as the comfort they demand for the long journey the Corporation has introduced luxury buses like AC Air Bus and High-tech Volvo. The basic fare of these services shows an increasing trend during the period of study and their rates do not change often as in the case of other services of the Corporation.

**Minimum Fare**

Minimum fare is the minimum charge fixed for the fare stages. A fare stage means the distance of the nearest junction after every two kilometers in a particular route. In the current scenario, the minimum charge is applicable for two fare stages. In 2010, High- tech Volvo AC Air bus service has the highest basic fare with 3000 ps and the Ordinary bus service has the lowest basic fare with 400 ps. There was no service for the Express bus during the years 2009 and 2010. The service was also not held for Super Express for the years 2007, 2008 and 2009.

Table 2 Minimum Fare of Different Category of KSRTC Bus Services during the period from 1991 to 2012 with Corresponding CAGRs

| Sl.No. (1) | Year (2) | Ordinary (3) | Fast Passenger (4) | Super-Fast (5) | Express (6) | Super Express (7) | Deluxe Express (8) | Super Deluxe (9) | AC Air Bus (10) | Hightech Volvo (11) |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 1991 | 70 | 150 | | 400 | 500 | | | | |
| 2 | 1992 | 70 | 150 | | 400 | | 500 | | | |
| 3 | 1993 | 80 | 150 | 200 | 400 | 400 | 500 | | | |
| 4 | 1994 | 100 | 150 | 300 | 500 | 500 | 1000 | 1000 | | |
| 5 | 1995 | 100 | 150 | 300 | 500 | 500 | 1000 | 1000 | | |
| 6 | 1996 | 125 | 200 | 300 | 500 | 500 | 1000 | 1000 | | |
| 7 | 1997 | 125 | 200 | 300 | 500 | 500 | 1000 | 1000 | | |
| 8 | 1998 | 125 | 200 | 300 | 500 | 500 | 1000 | 1000 | | |
| 9 | 1999 | 175 | 175 | 250 | 400 | 500 | 700 | 1300 | | |
| 10 | 2000 | 175 | 175 | 250 | 400 | 500 | 700 | 1300 | | |
| 11 | 2001 | 200 | 200 | 300 | 600 | 500 | 1000 | 2000 | 3000 | |
| 12 | 2002 | 200 | 200 | 300 | 600 | 500 | 1000 | 2000 | 3000 | |
| 13 | 2003 | 200 | 200 | 300 | 600 | 500 | 1000 | 2000 | 3000 | |
| 14 | 2004 | 200 | 200 | 300 | 600 | 500 | 1000 | 2000 | 3000 | |
| 15 | 2005 | 300 | 300 | 400 | 600 | 1000 | 1000 | 2000 | 3000 | 3000 |
| 16 | 2006 | 300 | 300 | 400 | 600 | 1000 | 1000 | 2000 | 3000 | 3000 |
| 17 | 2007 | 300 | 300 | 400 | 600 | | 1000 | 2000 | 3000 | 3000 |
| 18 | 2008 | 400 | 400 | 500 | 1000 | | 1500 | 2000 | 3000 | 3000 |
| 19 | 2009 | 350 | 350 | 450 | | | 1000 | 2000 | 3000 | 3000 |
| 20 | 2010 | 400 | 500 | 500 | | 1000 | 1500 | 2000 | 3000 | 3000 |
| 21 | 2011 | 500 | 700 | 1000 | | 1500 | | 2000 | 3000 | 3000 |
| 22 | 2012 | 500 | 700 | 1000 | | 1500 | | 2000 | 3000 | 3000 |
| | CAGR | 9.81 | 7.61 | 8.84 | 5.54 | 5.37 | 6.29 | 3.93 | 0.00 | 0.00 |

Source: A review of public enterprises in Kerala 1991-2012, Bureau of Public Enterprises, Government of Kerala

The Compound Annual growth rate of the minimum fare of different service of the Corporation during the period of study is calculated in the table. Compound Annual Growth rate is the year-over-year growth rate of an investment over a specified period of time. The growth rate is maximum for the ordinary service (9.81) and minimum for Super Deluxe Service (3.93). There is not much variation between Super Express (5.37) and the Express Service (5.54). There is no variation in the minimum fare of the Growth for AC Air Bus and High-tech Volvo during the period of study and hence the CAGR is calculated to be Zero. A graphical representation of Minimum Fare of Different Category of KSRTC Bus Services is given below.

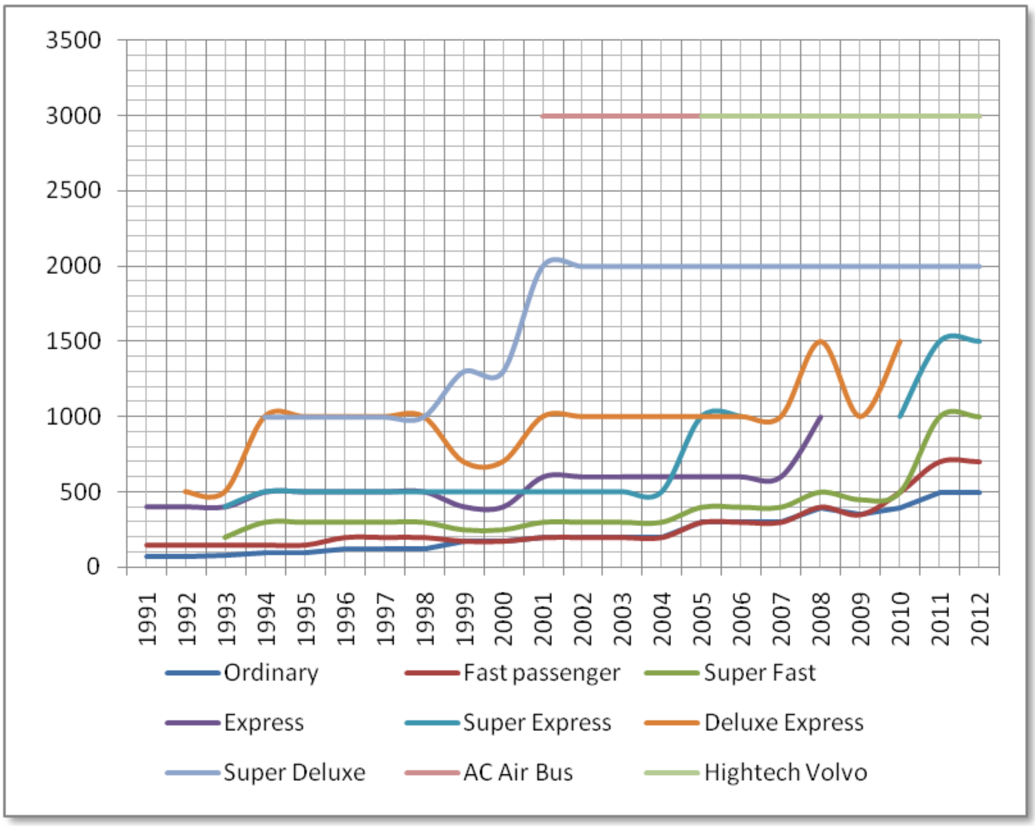


Figure 2 Minimum Fare of Different Category of KSRTC Bus Service during the period from 1991 to 2012

The basic fare during the period of study shows an increasing trend for all the services even though there is a slight change in some years. But when the minimum fare is considered the long journey bus services like Super Deluxe, AC Air Bus and High-tech Volvo fare showed stagnancy in their growth. Thus it can be inferred that, in the case of luxury services, even though the basic fare increase it is not necessary that the minimum fare increases proportionately.

**Pricing policy of Karnataka State Road Transport Corporation**

Out of the 55 State Road Transport Undertakings in India, only Maharashtra, Karnataka and Bangalore are making profit. The Managing Director of Karnataka State Road Transport Corporation was of the opinion that they have an automatic fare revision system since 2002 and getting political approval every time was not necessary. Even after paying an income tax of 30 crores, Karnataka State road Transport Corporation registered a profit of 19.41 crores during 2011-12. Kerala State Road Transport Corporation can also opt for this strategy.

**Conclusions and Suggestions**

The fare structure of KSRTC is divided into two- basic fare and minimum fare. Since 1999, fares are being revised on the basis of the National Transport Planning and Research Centre's Price Index for Stage Carriage Operations (PISCO) applicable in Kerala. The basic fare during the period of study showed an increasing trend for all the services even though there was slight change in some years. Fixing of fares is a time consuming process in KSRTC as the decision making is in the Government Level and hence a comparison with the Karnataka State Road Transport Corporation was made where a separate Committee is maintained exclusively for the fare fixation.

The pricing decision matters can be delegated to a separate Committee as that of the Karnataka State. But increase in the fare irregularly may compel the short distance passengers to personal mode of transport and long distance passengers to train services thus weakening the market share of the Corporation. The pricing policy of the KSRTC should be profit oriented and dynamic in order to achieve a better financial performance of Kerala State Road Transport Corporation could adopt an automatic fare revision system without political intervention.

Public transport buses may also operate on a zero-fare basis, or ticket validation may be through use of on-board/off-board proof-of-payment systems, checked by roaming ticket controllers who board and alight buses at random. It would be desirable to have an independent regulatory body (like State Electricity Regulatory Commission) to fix the tariff fares specify operations on uneconomical routes, and address grievances of commuters

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