MARKETING STRATEGY OF CROATIAN RAILWAY FREIGHT TRANSPORT UNDER CONDITIONS OF LIBERALISATION

***Jadranka Bendeković* [1], *Zlatko Martić* [2] & *Dora Vuletić* [3]**

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Summary

This paper describes the Croatian railway freight transport market and its adjustment to the oncoming process of liberalisation. Primary and secondary research has been carried out for the purpose of shaping a marketing strategy for rail freight transport in the process of liberalising the railway industry. The hypothesis that Porter's model of five competitive forces can be successfully implemented in the Croatian transportation market has been confirmed. The Croatian railway transport market is not saturated, and there is space for its dynamic development in the near future when railway liberalisation process starts in Croatia.

In the proposed model, the Croatian Railways Cargo should take a central position as coordinator of cooperation between buyers and suppliers at the place of multimodal transport operator in the provision of services "from door to door" as a common product. The goal of Croatian Railways Cargo would be to maintain a minimum of fixed costs and to achieve greater business flexibility in a dynamic environment. Research results have confirmed that a commercial market orientation of Croatian Railways Cargo and its collaboration with ports, suppliers and sub-suppliers, can place them at the leading position on the Croatian and Central and Southeast European freight transport markets.

It is reasonable to expect that rail freight transport will play a more significant role on the liberalised transportation market than today. It can also be expected that foreign railway operators will take up a certain amount of the Croatian transport market (via X

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[1] Jadranka Bendeković, Ph.D., Associate Professor, Faculty of Economics and Business, University of Zagreb, E-mail:jadranka.bendekovic@efzg.hr

[2] Zlatko Martić, M.Sc., HZ – Croatian Railways, Railways Cargo d.o.o., Zagreb, E-mail: zlatko.martic@zg.t-com.hr

[3] Dora Vuletić, MA Faculty of Economics and Business, University of Zagreb, E-mail:dora.vuletic@efzg.hr

and V Pan-European corridors) and that they will try to impose themselves as competitive rail freight transport operators.

Key words: *liberalisation, railway transport market, operator, competitive advantage, strategy, Croatia, European Union.*

1. INTRODUCTION

In most European markets, the railway transport market has been considered a natural monopoly for a long time, while national railway companies have been considered leading players. The separation of railway infrastructure from railway transport has been defined by EU Directives. In Croatia, the Railway Act provides for the separation of Croatian Railways through the model of separating infrastructure management from the provision of transportation services. This would enable the creation of a unique EU market in this sector. In order to achieve a unique European transport market, it is necessary to integrate national railway markets, and one of the major steps in doing this is liberalising and opening the market of rail transport.

The main objective of this paper is to investigate ways in which rail freight transport (Croatian Railways Cargo – HŽ Cargo) can be successfully positioned as a competitive carrier in continental transport of the area of Central and Southeast Europe, especially during the process of liberalising the railway industry.

A qualitative approach has been used in this research, which has been corroborated by in-depth interviews with available experts. A significant limitation is the fact that there are very few papers dealing with the problems of railway freight transport in terms of liberalising the transport market in Croatia by using a marketing approach. Even government institutions do not possess all relevant information in a structured form. The results of this research should be interpreted by taking account of these limitations.

2. RAILWAY FREIGHT TRANSPORT AND MARKET LIBERALISATION

2.1. Internal market of railway freight transport

Internal (national, local) transport market is in correlation with the influence of transport in one country. National transport develops under national and legal rules that are in most cases harmonised with international legal rules. In the process of deregulation and privatisation a lot of national transport systems are increasingly losing their national characteristics, which is especially typical for small and medium-sized countries (Zelenika, 2001).

Croatian Railways Cargo enjoys a monopoly in the railway freight transport covering the territory of Croatia. Monopoly implies that there is just one bidder, and in this market this bidder is the company Croatian Railways Cargo. As a national carrier it offers its services on the supply side, while on the demand side there are a lot of users of those services.

In a monopolistic situation like this one, Croatian Railways Cargo has the opportunity of choosing clients and freight that will be transported. A situation like this leads to discontent on the demand side, which as a consequence leads to the appearance of some foreign operators that will intervene and regulate the relation between supply and demand.

The main competitors of railway freight transportation are domestic maritime carriers for large cargo and road carriers for goods of higher value. In situations in which more modes of transport occur on the supply side, relations between them can be formed as a branch or inter-branch duopoly (Bogovic, 2006).

According to this fact and to the European Union recommendations, in the next period, transition countries for which it is evident that they have a relatively developed road and air transport as opposed to railway transport, should adopt appropriate development strategies through the national transport plan and improve partnerships between transition countries according to the already designed and established European Union standards (Zelenika, 2001).

Croatia adopted a new Railway Act which regulates the market of services in railway transport and is based on the principle of separating infrastructure management and transport. The separation of specific business areas, as well as the separation of secondary activities creates conditions for organizing a new railway transport system suitable for the conditions on the liberalised transport market of the European Union.

2.2. Railway freight transport market in terms of liberalisation

Liberalisation of transport is defined as the process of lifting institutional and other restrictions and barriers to transportation services on national and international transport markets (Zelenika, 2001). It implies that further development and growth of transport companies on the transport market will depend on fair play of competitors and reduction of transport costs, as well as rationalisation in the production of transport services. Even though liberalisation implies sustainable transport development, developed western countries accept the process of transport liberalisation with much caution because of its position in the European transport market, but also because of strict legal rules. This is not true for less developed countries or transition countries, as they combat for complete implementation of the fundamental principles of transport liberalisation. Gradual expansion of the European Union to the East and the elimination of restrictions to trade as well as other restrictions, presents transport companies with opportunities, particularly in the enlarged European transport market. However, they should not ignore the dangers that can occur as a result of more competition.

Transport companies from transition countries must create a legal and economic framework for gradual adjustment and connection to the integrated and liberalised European transport market. Otherwise not only will their growth and development be brought into question, but also their mere survival on the turbulent transport market (Zelenika, 2001). In such a constellation of relations on the integrated and liberalised transport market, many transport companies will resort to the production of a smaller volume of special transportation services.

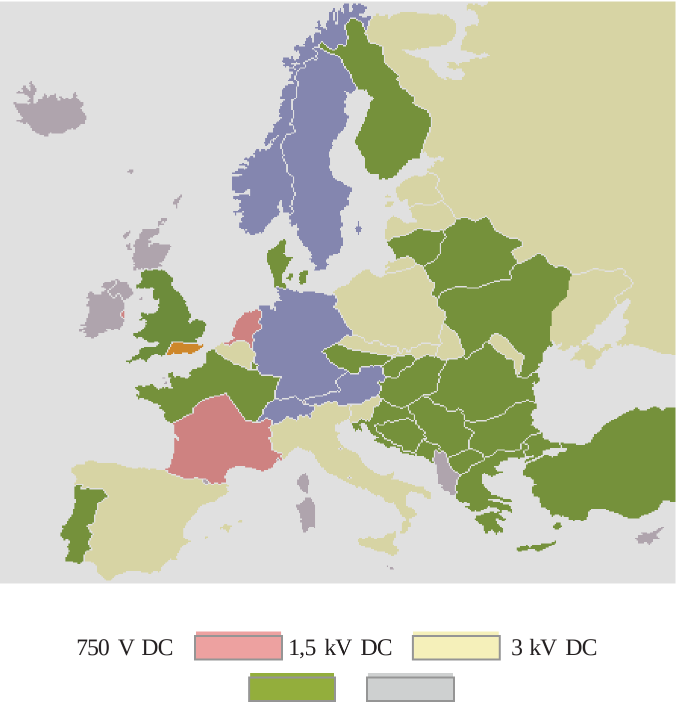
2.3. Specificities of railway freight transport market

An important characteristic of the European rail network is that it is well serviced and developed in Western and Central Europe, while countries from Eastern and Southern Europe tend to have less coverage and more infrastructure problems. It is also relevant to mention the differences in the signalling systems and electrification of the rail network, because there are different forms of power-supply such as AC (alternating electricity) and DC (direct electricity) voltages that fluctuate from 750 to 25000 volts. These differences additionally slow down and prevent the simplification of cross-border business transactions.

Most railways use the standard width of rail of 1435 mm, but some countries like Spain and the former members of the Soviet Union use the width of 1520 mm. The electrification system differs between countries. Since 1912, 15 kV AC is used in Germany, Austria, Switzerland, Norway and Sweden, 1500 V in the Netherlands, and 1500 V DC and 25 kV AC in France (just like in Southeast European countries). All this contributes to the challenge of building Pan-European vehicles, which is most commonly thought of as an impractical and expensive project.

Figure 1 shows the difference in the electrification systems between European countries, from which we can see that the electrification system of Croatian Railways is the same as in part of Central and Southeast Europe.

Figure 1: Differences between the electrification systems in European countries



Source: http://ec.europa.eu/transport/infrastructure/index_en.htm, 9/11/2011

EU Directives define the guidelines for the development of an integrated European railway network since some of the mentioned differences can be exceeded. In all countries except Russia and those that are built in Spain and Portugal, standard rail width of 1435 mm is used. Also, all European countries except Germany and Austria use the electrification of 25 kV AC. The construction of an integrated rail network that will be finished until 2020 envisages the possibility of travelling by train from Italy to England, Portugal or the Netherlands without the need for more systematic locomotives (multi-voltage systems).

Multiple incompatible signalling systems represent an additional barrier for railway traffic between different countries. Countries in the European Union have 19 different signalling systems. The unique signalling system - European Train Control System (ETCS) is a project of the European Union with the aim of ensuring the integration of signalling systems across Europe. The specification was written in 1996 as a response to the EU Directive 96/48/EC. ETCS was developed within the European Rail Traffic Management System (ERTMS) initiative and has been tested by several railway companies since 1999 (www.ertms.com).

The mentioned characteristics represent important elements in achieving competitive advantages in the creation of marketing strategies, since through them Railways Cargo obtains its potential for positioning itself on the market of Central and Southeast Europe.

2.4. The social aspects of liberalising the rail transport market

The process of liberalisation in general puts enormous pressure on employers, who are in charge of implementing restructuring changes in a company. Liberalisation mostly entails privatization of state companies but the state may still have a share in the companies that have gone through the process of liberalisation. Liberalisation of railway transport will probably lead to layoffs and downsizing while the remaining workers will continue working without wage increases. This can result in reduced motivation and dissatisfaction of employees.

Most employers in the EU seek to ensure that the activities of workers are organised which helps increase competitiveness and success in the market. This results in the division of economic risk and responsibility in a liberalised market. Until recently, this relationship was reduced to defining secure conditions and status for workers and trade unions. This relationship implies controlling labour relations under the idea of common competitive success. It is evident that there are differences among models. These differences are particularly evident in the structure of worker councils, the size of organizations in which they operate, the role of trade unions, the content and morality of the right to be informed and consulted, the existence of the right to co-determination and the number of employees who are covered by the influence of worker councils.

It is important to mention the Council Directive 2001/86/EC in force from 8 October 2004, which defines the rights and ways of involving workers in the process of information and consultation in European trade associations (eur-lex.europa.eu).

There are also directives aiming at specific job protection, and are connected to the harmonization of legislation between Member States in view of workers' rights during status changes. There is also a Directive that regulates the protection of workers' rights in cases of insolvency or inability of the employer to pay its obligations. This Directive provides for the establishment of a general framework for informing and consulting the European Commission (EC). Directives are intended to assist in the restructuring process to ensure the creation of efficient companies and to reduce the social consequences of decisions. They were designed to stimulate entrepreneurship and establishment of a greater degree of social protection.

The European Union has focused its attention on the social consequences of transnational corporate restructuring of companies, which arose because of the need for a market economy and the necessity of establishing large companies who can act as "global players" in the global market. Removal of barriers on the economic plan and stimulation of productivity encouraged the members of the European Union to have higher social standards. Through its Directives, the Union provided for standards that are acceptable to all its members, but that are flexible enough to allow its members and future members enough space for improvement and a greater degree of protection at the national level.

2.5. Competitive environment in the liberalised market

In order to achieve a uniquely liberalised European transport market, during the 90s the European Union launched significant structural reforms in the market of railway cargo transportation with the aim of gradually opening its national markets, railway services and eliminating state monopolies.

Market liberalisation has been adopted by the European Union and it is based on its Directives. The essence of the approach is the separation of national railway companies into state-owned companies which manage the railway infrastructure and several railway companies (privately-owned operators) that provide transportation services in an infrastructure network of one state under the same conditions. Equal entry is ensured to all operators through authorized access based on the conclusion of contracts with the company managing the railway infrastructure. This aims to facilitate competition between providers of services in the market that compete for their customers.

Such unstoppable advance of liberalisation of the EU transport market requires urgent changes to legal rules for international rail traffic between EU and other countries. Those rules are regulated through the Convention concerning International Carriage by Rail - COTIF (Ministry of Foreign and European Affairs, 2007).

Main traffic problems present in the EU today are the domination of road traffic compared to other types of transport, pollution, lower quality and numerous roads in peripheral regions (especially in new member states) and insufficient correlation between regional and national transport systems. To reduce the mentioned problems, the concept of sustainable transport development is being created, and it promotes a more intensive use of transport branches that are less harmful to the environment, as well as the development of an integrated transport combining road and rail transport, sea and rail transport, and rail and air transport.

Therefore, it can be concluded that market liberalisation of railway freight transport in the Republic of Croatia will be exposed to strong competition in terms of: a) Competition from other modes of transport (road, inland waterways); b) Competition from operators of multimodal transport and logistics operators; c) Competition from domestic and foreign operators.

Competitiveness and efficiency of railway transport in Europe and Croatia is of crucial interest for the global business community, because constant growth of world trade has led to increased demand. To satisfy these requirements, companies are increasingly depending on market-oriented users. Consequently, it seems that only the railway system that is liberalised and opened to competition can achieve its full potential as an irreplaceable component in the intermodal transport chain. Generally it can be said that only market-oriented railway transport with acceptable price, speed and environmental acceptability can compete with other modes of transport.

3. RESEARCH OF RAILWAY FREIGHT TRANSPORT MARKET IN CROATIA

3.1. Approach to research

Identifying the problems of railway freight transport and the Croatian transport market in the process of liberalisation forms a base for a marketing strategy. In order to identify all the problems, primary research was conducted in form of in-depth interviews and the following looked into:

1. The main elements necessary for forming a marketing strategy for railway freight transport in Croatia in the conditions of liberalisation of transport markets
2. Competitive advantages of Croatian Railways Cargo as opposed to other operators and modes of transport
3. Saturation of the transport market and the possibility of positioning Croatian Railways Cargo on the territory of Central and Southeast Europe

Porter's five competitive forces model was used in the primary research, in order to determine if a company will be a successful competitor, based on the following elements (Porter, 1985):

1. Potential entrants (risk of entry of new competitors)
2. Suppliers (negotiated force of suppliers)
3. Buyers (negotiated force of buyers)
4. Substitutes (possibility of alternative goods and services)
5. Competitors in industry (rivalry between existing companies)

Operationally, the influence of particular forces has been considered in order to obtain the answers to basic questions of strategy. Responses to those questions indicate the applicability of three generic strategies (low prices and costs, differentiation, focusing) and the degree to which they are present on the railway transport market.

Research was carried out through interview reminders, while interview was the form of communication. An interview reminder included 36 questions and all of them were open-type with an uncovered aim. Respondents were informed about the goals of the research. The interview reminder was tested on an appropriate sample of 5 respondents who did not participate in further research, and was divided into 6 groups of questions. Interviews lasted from 20 to 45 minutes.

Research was conducted from September to October of 2010. It was conducted on convenience sample of selected experts from transport or those who are in some way connected to transport, based on subjective decision of researcher. In this research have participated 25 persons of whom 22 were men and 3 were women. Respondents were different professions, experiences and ages (20% was from 30 to 40 years old; 32% from 40 to 50 years old and 48% from 50 to 60 years old). Respondents were directors, members of Board and managers in transport companies or logistics departments.

3.2. Research results

3.2.1. Competitive forces

a) Negotiating force of buyers on the railway freight market

Under today's conditions of supply considerably exceeding demand, as is the case for the transport sector, the negotiated force of buyers is huge. This is primarily perceived through their pressure on prices. Price sensitivity of buyers is very high as the purchase of transport service forms a major part of the costs. There is constant pressure on decreasing deadlines for deliveries and innovations for improving functionality and quality as well as monitoring the newest trends related to the protection of environment and other regulations. If buyers are well informed, their negotiated force is even stronger.

Experts also point out that buyers can significantly influence the development strategy of Croatian Railways Cargo as they are crucial for the development of the economy and of transport. It could be also said that buyers are regulators of business of Croatian Railways Cargo as they decide which freight would be transported and in which directions.

To a large extent, railway freight transport and other modes of transport have the same users or buyers. According to the opinion of experts they include:

1. Businesses and large buyers who transport massive freight (Agrokor, INA, HEP, Petrokemija, Cemex)
2. Organizers of transportation
3. Buyers that have massive freight, who decide on the mode of transport depending on the price

4. Shipping agents, ports, transport companies and factories
5. All users that transport raw materials for production processes
6. All users in the transport of finished goods
7. Silos for storage of freight
8. Van companies, logistics, agents, importers and exporters
9. Shippers

The majority of interviewed experts specified that it was only the orientation of Croatian Railways Cargo towards specific market segments, adaptation of supply to buyers' needs, rationalisation of capacities and use of better technologies that could ensure a better performance of Croatian Railways Cargo.

b) Negotiating force of suppliers on the railway freight market

On average, in railway freight transport, 60% of selling value of a service is related to purchasing costs (costs of traction and infrastructure). The rest of the value is related to labour costs (own and of co-workers), financing and fixed costs.

The margin on transport services almost doesn't exist because of unexpected costs or because it was defined in advance in order to use capacities at times of strong price competition. Thus railway freight transport operates on the verge of cost effectiveness or with losses.

It is the opinion of experts that suppliers from the logistic sectors (costs of electricity, gas, cleaning and similar) don't have a significant influence. However, the largest suppliers (traction, infrastructure and railway workshops) can influence transport costs and the quality of service.

It could be concluded that in railway transport, the negotiating force of suppliers is extremely strong and that companies transporting freight by rail can't have a significant effect on reducing their fixed costs. Experts believe that the influence of suppliers could only be reduced if some of them were purchased or integrated.

c) Possibility of new competitors entering the railway freight transport market

Majority of experts believe that in the process of liberalisation of railway transport there will be space for at least one operator which could be imposed as a national operator in Croatia. The new operator should be powerful and innovative, since the internal market is very specific. Some of them even say that this will not happen, because the majority of foreign operators will only use transit routes – corridors in the first phase, and that services of national operators will be used on the internal market. Experts emphasize that the company Croatian Railways Cargo has already taken up the distribution channels and that new competitors will have huge difficulties in overcoming these barriers. If Croatian Railways Cargo does not make further investments in the construction and customization of services and capacities to keep a satisfactory level of customers' loyalty, then this will enable the entrance of new competitors. In this case, only the Government could obstruct the entry of new competitors through policies, laws and regulations, such as the Railway Safety Act, Competition Act, Environmental Protection Act and other similar measures that new competitors need to respect. Because of all the possible barriers, the experts' opinion is that in the process of liberalisation of the railway transport market, railway freight transport market will experience most competition from multimodal transport operators and logistics operators.

d) Rivalry among existing competitors

According to the Croatian Railway Act, Croatian Railways are divided into three national operators (Croatian Railways Cargo, Train Pulling and Croatian Railways Passenger Transport). In the experts' opinion, they significantly influence one another, because Croatian Railways Passenger Transport owns the wagons and Croatian Railways Train Pulling owns the locomotives. At the moment they are just partly dependent, but on a liberalised market they would be competitors. This division influences the lowering of service quality, but the liberalisation of railway transport market would allow the entry of foreign operators whose arrival would enhance rivalry and increase the quality that would influence the railway transport market in a positive manner. However, most experts think that liberalisation of the transport market would, apart from causing rivalry in the railway transport, cause rivalries between other modes of transportation which would lead to a higher quality and reduce the price of transport services. Croatian Railways Cargo has more advantages than its competitors, since foreign operators that might come to our market have to make enormous strategic investments.

e) Substitutes on the railway transport market

Any mode of transport could be a substitute to railway transport. Since railway transport has the lowest price for long distances, threats from alternative products is very low. The respondents' opinion is that only unfair competition could be a possible danger.

Based on previously defined facts about the competitive forces on the Croatian railway freight transport market, the following could be noted:

1. **Negotiated force of buyers.** Big customers, shipping agents, logistics, shippers or some other type of customers can influence the performance of Croatian Railways Cargo in the process of liberalisation.
2. **Negotiated force of suppliers**. Suppliers, especially suppliers of Croatian Railways Infrastructure and Croatian Railways Train Pulling can influence Croatian Railways Cargo in the process of liberalisation.
3. **Threats of new entrants**. There are undoubtedly technical and business possibilities for the arrival of new competitors.
4. **Rivalry between existing competitors.** They will imitate each other and they will have a strong mutual influence.
5. **Threats of substitutes.** The role of Croatian Railways Cargo could be reduced in the process of liberalisation because of the appearance of substitutes and unfair competition.

Based on the results of primary research, it can be concluded that Porter's five competitive forces model can successfully be implemented in analysing competitive forces in the process of liberalisation on the railway transport market in Croatia.

3.2.2. Market saturation at the beginning of implementation of liberalisation

The current status on the transport market indicates that there is potential for market development and that this development will follow economic development. If new operators want to succeed, they will have to take at least part of the market share from existing operators. Research results show that the Croatian transport market isn't saturated and that it will dynamically develop during its liberalisation.

Respondents also claimed that the Croatian market is not saturated. Therefore, it could be said that there are no serious reasons which could obstruct liberalisation of the railway transport market.

Results indicate that the rapidity of market development will significantly depend on the degree and rapidity of technological development and on the usage of new methods and transport modes on the transport market. Liberalisation of the railway transport market opens new possibilities for business development of existing and new operators. Existing operators have an opportunity for growth if they follow new trends and defend their current position. As opposed to this, if they do not invest, they can lose even the existing market share.

3.2.3. Strategies of Croatian Railways Cargo in the process of liberalisation

During the research, respondents were also able to indicate their opinion about the applicability of Porter's strategies of competitive advantages on the liberalised railway transport market.

a) Cost leadership strategy

If it has used the cost leadership strategy, the main goal of the company is to have lower cost than its competitors. There are many reasons why an individual company may have a cost advantage. A cost advantage is possible even when the competitive companies produce similar products (Barney, 2008). In the process of liberalisation of the transport market, cost leadership can be a competitive advantage for Croatian Railways Cargo. In the general opinion of the respondents, this strategy could negatively affect service quality. It is possible to reduce costs through greater operational efficiency, but quality of service should not be reduced. Some of the respondents said that this would be a good strategy if it is implemented in combination with the focus strategy.

When using this strategy, buyers are not able to influence the reduction of prices, since prices are already very low. The attitude of the respondents is that Croatian

Railways Cargo should have a high market share and 'door to door' service if they want to succeed with this strategy. There is a huge risk in the fact that buyers always expect the same reduction of prices (Ravald et al., 1996). If the competitive advantage is based on cost leadership it should be sustainable or based on a satisfactory level of profitability.

b) Differentiation strategy

This strategy is based on higher service value in relation to competitors' (Renko, 2009). Grant (2010) claims that a company is differentiated from its competitors when it provides something unique and valuable that does not necessarily involve a low price. Successful differentiation of a product can lead to reduced costs (Hill, 1988). Experts remark that it can't be expected to have a significant price differentiation on the market, since operators that are coming are eminent companies which offer quality service for a reasonable price. Results of this strategy can be seen in the long run. The key to the success of profitable and efficient business is the share of growth on the market. As this strategy requires higher quality and higher price, experts thought that Croatian Railways Cargo can't succeed if it uses only this strategy.

c) Focus strategy

This strategy can bring competitive advantages, and Deutschland Railways (Deutsch Bahn-DB) serve as a good example since this company has successfully focused on the transport market of Central and Eastern Europe. This area is structurally attractive and offers above average profit (www.deutschebahn.com). Some experts believe that Croatian Railways Cargo should focus on large customers with low prices that should at least guarantee to cover fixed costs. By using this strategy, competition with others could be avoided. Most experts stated that this strategy is the strategy of the future and that Croatian Railways Cargo should use it but not just on the Croatian market since it is too small. Therefore, changes in the size of the segments and customer preferences can greatly affect the survival of businesses.

Those three specified strategies could be implemented individually or in combination on the Croatian railway transport market but with different consequences. Through interviews experts have given different responses. They had the possibility to opt for more than one answer and most of them did it. All 25 respondents said that the most useful strategy is the cost leadership strategy, 6 of them opted for a combination of the cost leadership strategy and differentiation strategy and the rest of them for the combination of cost leadership strategy and focus strategy. In general, it can be concluded that in the process of liberalising the Croatian transport market, the most acceptable strategy for individual implementation would be the cost leadership strategy. This is followed by the combination of cost leadership strategy and differentiation strategy. It is evident that the rational development of Croatian Railways Cargo should be based on the implementation of cost leadership strategy with occasional use of differentiation strategy and focus strategy.

4. STRATEGY MODEL OF CROATIAN RAILWAYS CARGO

4.1. Results of the SWOT analysis for Croatian Railways Cargo

Internal and external elements that affect or will affect the formation of strategies of Croatian Railways Cargo are analysed through a SWOT model and the basic results of this analysis are listed below.

S- Strengths of Croatian Railways Cargo
• **Long-standing tradition** • **Experience on the transport market** • **Employees** (large number of quality people with good knowledge and experience) • **Large capacities** (wagons, storages and industrial tracks) • **Monopolistic position on the market** • **Cheaper transport** (lower consumption of energy; transport of large quantities for lower prices) • **Higher safety of railway transport in relation to other modes of transport** • **Environmental acceptability of railway transport** (environmental protection; taking less space as opposed to other modes of transport) • **Qualitative connection of the whole European area with neighbouring countries and regions** (synchronization with European railway network)
W- Weakness of Croatian Railways Cargo
• **Bad organisation** (slow reaction to changes; unfamiliar to new market conditions and competitors; inappropriate reputation) • **Surplus of employees** (unused potential of employees; success criteria does not exist; work assignments are not defined; experience and knowledge are not appreciated; old staff on high positions; too many people taking the credit; poor working environment and low motivation for working) • **High business costs** • **Too large system** (number of employees too high (around 2.500); too many transport vehicles; loafing on the job) • **Neglected research, innovation and development**
O- Opportunities of Croatian Railways Cargo
• **Successful implementation of restructuring** (higher management quality; rationalization of business; reduction of employed people; possibilities for business integration) • **Financial stability** (market adjustment; possibility to increase revenue by offering complete services) • **High customer loyalty** (appearance of customer saturation because of conventional customer services, monitoring of trends and customer reactions) • **Better use of capacities and advantages** (Croatian Railways Cargo should strengthen its advantages, but also should not compete with other modes of transport; better use of human resources; expansion in the region as Croatian Railways Cargo is a brand known in Central and Southeast Europe; better use of Croatian geo-traffic position by increased use of ports, favourable changes of laws and other regulations; new markets; strategic joining with ports, other railway boards and port operators; increased presence in Bosnia and Herzegovina, Serbia and Montenegro)
T- Threats for Croatian Railways Cargo
• **Dependency on legal regulation** (elimination of subsidies; liberalisation of the railway transport market because of pressure from the European Union; partial privatisation) • **Employees** (departure of large number of good quality employees to competing companies; bad performance if the rights and obligations of each worker are not defined) • **Financial problems** (income drop due to legal restrictions; income drop if costs are not reduced and if resources are not used better) • **Market and business disruptions** (development of road network and improvement of existing roads; possible new competitors; strengthening of existing competitors; delay in restructuring; slowness in business; political changes; unfavourable economic situation; innovations from competitors) • **Orientation of traffic flows to other directions**

Respondents' general conclusion is that Croatian Railways Cargo does not use marketing in its business activities or uses it only partially, but not in the right way and not to a sufficient extent. Because of increased competition, the role of marketing is stronger and Croatian Railways Cargo should turn to the marketing concept because of this fact.

4.2. Formation of the strategy model for Croatian Railways Cargo

A company decides about its' vision and mission on the basis of its experience, reflection and conducted research. After that it decides about its target group based on the results of the conducted market research. It is also necessary to respect the provisions of the Competition Act, the Railway Safety Act and other relevant regulations. Factors analysed in the framework of five competitive forces can influence the formation of a strategy. Relations with them should be developed as much as possible, but it is also necessary to monitor the users of services. Another important relationship is the one with suppliers, particularly with Croatian Railways Infrastructure and Croatian Railways-drawn trains, as well as with sub-contractors who may have a significant impact on the Croatian Railways Cargo, particularly on a liberalised transport market. Appearance of new competitors and substitutes can cause big problems to Croatian Railways Cargo in the process of liberalising the transport market. The emergence of new operators, the development of multimodal transport operators and connection with other modes of transport should be taken into account, but also the appearance of substitutes that are rail competitors.

In order to make railway cargo transport competitive with other operators and other modes of transportation, and in order to solve at least part of the problems of managing, organizing, financing, transport services and human resources, the model of marketing strategy is proposed, whose main characteristics are cost rationalization and flexibility. This should ensure successful positioning of Croatian Railways Cargo as the leader in the transport market in Croatia and in the part of Central and Southeast Europe. The aim is to build a successful and competitive land transporter, based on Porter's model of five competitive forces and the combination of three generic strategies, particularly the minimum cost strategy that is achieved by employing resources through networking rather than ownership over non-productive capacities.

According to this model, the goal of Croatian Railways Cargo would be to maintain a minimum of fixed costs and to achieve greater business flexibility in a dynamic environment. Rationalisation of costs can be achieved through activities of business cooperation that can be accomplished for a lower price than if Croatian Railways Cargo performed them independently. The minimum fixed cost leadership strategy implies a developed network of specialized suppliers and subcontractors that would require additional capacities (acquisition of wagons and locomotives) by Croatian Railways Cargo and would raise its costs in proportion to their employment on a particular project.

In the proposed model, Croatian Railways Cargo takes a central position as a coordinator of cooperation between buyers and suppliers (partners and subcontractors) at the place of multimodal transport operator in the provision of services "from door to door" as a common product. The base of Croatian Railways Cargo business is to maintain core competencies which would form basic business functions and those functions that are necessary for the provision of transport services, while other support activities would be taken outside Croatian Railways Cargo.

The manufacturing activity of Croatian Railways Cargo would be reduced to its core activity- cargo transport "from door to door" with the provision of all supporting activities (print of documentation, wagon orders, transportation to the final customer, etc.). Its coordination importance would be extremely large. Therefore, unlike the current model that is strictly focused on the production and transportation from the forwarding to the destination station without accompanying content, the new role of the Croatian Railways Cargo would include the elements of special services based on knowledge, experience and competences which would lead to an increase of added value. The base for development would be continuous investment in research, new design solutions and intellectual capital. Suppliers of locomotives, wagon capacities and infrastructure routes are a prerequisite for the functioning of this system.

Greater flexibility should influence easier customization of product range to market needs along with the necessary recognition of market opportunities. Facilitated organization based on a cost leadership strategy should enable selection of projects through comparison of transportation costs and costs of available business models. If this analysis determined that transportation cost can not be covered by the sales price, it means that analysed transport is not part of the portfolio that fits Croatian Railways Cargo and more suitable project should be looked for.

4.3. Expected effects of the Croatian Railways Cargo strategy

After implementing its marketing strategy, Croatian Railways Cargo can expect to increase revenue by spreading to the unoccupied parts of the Central and Southeast European market, to increase the added value and to decrease costs as a result of business reorganization. Due to the entry of Croatian Railways Cargo to the transport market of Central and Southeast Europe and the accession of Croatia to the European Union, European operators will become its' largest competitors along with other modes of transport. Consequently, complete liberalisation of transport markets can be expected, as well as the equalization of business conditions, market growth, collaboration and support in the financing of valid projects (particularly from the development and innovation funds).

Maintenance of minimal fixed costs would mitigate the negative effects of possible market fluctuations and the cyclical character of the industry in employing capacities, and it would transfer the problem of qualified labour force to subcontractors, who would be more flexible in solving that problem. By focusing on its core logistic activity, Croatian Railways Cargo would liberate itself of inefficient activities and the excessive number of administrative staff. The elimination of unprofitable activities would contribute to an increase in dynamics by establishing capacities that would sell their products and services to Croatian Railways Cargo at prices as they exist on the European market.

This model necessarily requires organizational changes such as abandoning or mitigating functional specialization, centralization, etc. The organizational structures of the Croatian Railways are centralized, very deep and sluggish, and with a high proportion of unproductive workers who are a burden on the business and preclude fast action and adjustment to the liberalised market. A flexible system based on the project approach requires the adoption of new knowledge. Unlike before, leaders of project teams carry the responsibility for project success and should, along with technical knowledge and experience, also perform managerial functions of choosing, motivating and stimulating creative associates for developing sub-projects, solutions and completing assignments. The Board should encourage internal entrepreneurship and simultaneous cooperation and competitiveness of project teams with appropriate compensation systems to prevent the outflow of quality workforce.

The base for the functioning of this dynamic model is conditioned by a developed supporting industry, subcontractors and suppliers from regions and countries, but also from the whole world if domestic entities are not able to provide adequate resources, quality and price. Therefore, it is extremely important to define marketing strategies that would transform Croatian Railways Cargo into a multimodal transport operator that would be successfully positioned as a leader in the liberalised transport market of Croatia and part of the Central and Southeast Europe.

Although the responsibility for the final product is in the hands of Croatian Railways Cargo, this model envisages a clearer division of responsibilities for parts of the projects between suppliers and Croatian Railways Cargo. In this model it is necessary to continually strengthen cooperation, and in addition to the deliveries of wagons and locomotives, this cooperation should involve subcontractors at the beginning stages of project development, common guarantees to final users, etc. This responsibility would be expressed through the existence of efficient, high-quality and flexible contractors capable of deliveries of their products and services globally, and through the downfall of those uncompetitive.

The negative consequence of achieving flexibility, as well as the biggest disadvantage of this model is the necessary reduction of the railway structure, primarily by reducing the number of workers and changes at all hierarchical levels. Since the state is the major owner of Croatian Railways, and since it performs a socially and politically sensitive activity, and because of the pressure from the European Commission for implementing drastic measures, it can be expected that rational motives would overcome political.

The model is largely dependent on external factors, on various networks of partners which are formed for each project based on the needs of the project. For this model, reliability of all participants in the chain is particularly important. It can be increased through a development strategy of Croatian Railways Cargo at the national level.

Everything mentioned happens in the existing market and influences it, but also encourages the changes that Croatian Railways Cargo should be able to recognize in the process of liberalisation if it wants to be competitive on the transport market. Political actors in the country are important factors in the formation of a strategy, and one should not neglect the influence of powerful individuals and independent experts who can have a big impact. Some other factors on the transport market may also have a significant influence in forming a marketing strategy. It is possible to form a marketing strategy after conducting a research, and evaluating the potential impact of various factors on the strategy and competitiveness of Railways Cargo. The implementation of such a strategy presents a big opportunity for Croatian Railways Cargo to become the leading company on the liberalised transport market.

5. CONCLUSION

Croatian railway cargo transport and the company Croatian Railways Cargo is a monopoly and it doesn't have competitors. In July 2013, the Republic of Croatia became a member of European Union, and during its accession process it implemented a large number of laws that transpose the Directives of the European Union. Those new laws also include the Railway Act that provides for the liberalisation of the railway transport system. Implementation of this act opens up new business opportunities and enables and encourages competition. The new Railway Act opens up the possibility for other domestic and foreign operators to enter the Croatian railway transport market.

Research results show that the railway freight market in Croatia is not saturated and that it has the opportunity for development in terms of liberalisation of the transport market. Therefore, it is necessary that Croatian Railways Cargo considers adopting and implementing a strategy to take account of the new conditions. This strategy should be based on maintaining minimum fixed costs of transportation and on more flexible organization with mandatory retention of high-value jobs. The specified model would require networking and strategic partnerships as an alternative model of organization, in order to reduce the cost of railway freight transport, to facilitate financing, to reduce staff deficits and to adjust the product line with market demands and opportunities of Croatian Railways Cargo. Manufacturing activity of Croatian Railways Cargo would be reduced, along with providing the necessary capacities for transport, on its core activity- cargo transport "from door to door" with the provision of all supporting activities. Therefore, unlike the current model that is strictly focused on the production and transportation from the forwarding to the destination station without accompanying content, the new role of the Croatian Railways Cargo will include the elements of special services based on knowledge, experience and competences which would lead to increase the added value.

Profitability of the railway carrier, creation of a brand of Croatian transport logistics, increase in exports, contribution to the transfer of knowledge and ensuring competitiveness of the Croatian transport sector can be achieved by differentiating the product range and focusing on individual parts of the market, on human potentials, but first of all on educated and professionally capable management. Development of cooperation with ports, suppliers, subcontractors, and other modes of transportation will make it possible for railway freight to be able to achieve successful business ideas and plans. Without such a strategy there is a possibility that national railway operators will disappear because of liberalisation.

Based on the results of the conducted research, it can be concluded that in the process of liberalisation of the railway transport system, Croatian Railways Cargo could not only survive, but could develop into a competitive carrier in Croatia and in the area of Central and Southeast Europe, and that it can be successfully positioned on the liberalised transport market as a leader. The success of Croatian Railways Cargo will primarily depend on the quality of defining goals, strategies and tactics in the process of business development.

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MARKETINŠKA STRATEGIJA TERETNOG ŽELJEZNIČKOG PRIJEVOZA U UVJETIMA LIBERALIZACIJE

Jadranka Bendeković [4]***, Zlatko Martić*** [5] **&** ***Dora Vuletić*** [6]

Sažetak

Ovaj rad opisuje tržište hrvatskog teretnog željezničkog prijevoza te njegovu prilagodbu nadolazećem procesu liberalizacije. Provedeno je primarno i sekundarno istraživanje s ciljem oblikovanja marketinške strategije teretnog željezničkog prijevoza u procesu liberalizacije željeznica. Potvrđena je hipoteza kako se Porterov model pet konkurentnih snaga može uspješno primijeniti na prijevozno tržište u Hrvatskoj. Hrvatsko tržište željezničkog prijevoza nije zasićeno te postoji mogućnost njegovog dinamičnog razvoja kada u bliskoj budućnosti u Hrvatskoj započne proces liberalizacije željeznica.

U predloženom modelu, HŽ Cargo trebao bi preuzeti središnji položaj koordinatora suradnje između kupaca i dobavljača na mjestu multimodalnog prijevoznog operatera za pružanje usluga "od vrata do vrata" kao zajedničkog proizvoda . Cilj HŽ Carga bio bi održavanje minimalnih fiksnih troškova i postizanje veće poslovne fleksibilnosti u dinamičnom okruženju . Rezultati istraživanja potvrdili su da komercijalna tržišna orijentacija HŽ Carga i njihova suradnja s lukama, dobavljačima i pod-dobavljačima, može ih dovesti na vodeću poziciju na hrvatskom tržištu prijevoza tereta kao i tržištima zemalja srednje i jugoistočne Europe.

Bilo bi razumno očekivati da će teretni željeznički prijevoz igrati značajniju ulogu na liberaliziranom tržištu od one koju ima danas. Također se može očekivati da će strani željeznički operatori zauzeti određeni dio hrvatskog prijevoznog prostora (putem pan-europskih koridora X i V) te da će se pokušati nametnuti kao konkurentni operatori u teretnom željezničkom prijevozu.

Ključne riječi: *liberalizacija, tržište željezničkog prijevoza, operator, konkurentna prednost, strategija, Hrvatska, Europska unija.*

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[4] Dr.sc. Jadranka Bendekovic, izvanredni profesor, Ekonomski fakultet, Sveučilište u Zagrebu, E-mail:jadranka.bendekovic@efzg.hr

[5] Mr. sc. Zlatko Martić, Hrvatske željeznice, HŽ Cargo d.o.o., Zagreb, E-mail: zlatko.martic@zg.t-com.hr

[6] Dora Vuletić, mag.oec., Ekonomski fakultet, Sveučilište u Zagrebu, E-mail:dora.vuletic@efzg.hr