

Devolved Management in a Highly Regulated Industry

Go-Ahead CEO Keith Ludeman explains how a flexible strategy and willingness to make changes contributed to success in the UK transportation market

By Graham Clews and Alan Erskine

Keith Ludeman is a chief executive who knows exactly how he wants to run his business. So much so, in fact, that he personally chairs more than 120 board meetings each year, scrutinizing the performance of his Go-Ahead Group's subsidiaries using a

combination of a stack of data and some good old-fashioned eyeballing.

His personal management style is key to the effective execution of Go-Ahead Group's strategy, which focuses solely on operating businesses it understands, in geographi-

cal areas it knows well, by empowering local management to make autonomous decisions.

For the Go-Ahead Group this means devolving a huge slice of decision making to the bus companies, train operators and other transport-service



businesses that make up its portfolio.

This currently includes: franchises to run three railway companies, operating mainly commuter services into London; nine bus companies, chiefly in large towns and cities around England; and airport ground-handling and car-parking services. The operation of the UK public transport system by the private sector is a young business that has only just celebrated its 20th birthday.

Empowering local brands

Ludeman, like Go-Ahead's two previous chief executives, is a first-generation manager in this youthful industry, but with significant experience of running bus companies while they were still part of the public sector. He has continued his predecessors' strategy at Go-Ahead of eschewing a large centralized structure dictating to subsidiary companies, instead pursuing an ethos that public

transport is a local business where Go-Ahead's customers make relatively simple journeys over fairly short distances. Many of those passengers are daily commuters who recognize the local brands they use; Ludeman's goal is to empower those local brands to deliver to their own market in the way they best see fit. "That local focus and understanding of culture in those businesses means we are able to establish good-quality businesses that provide a

Go-Ahead - Key facts

- Headquarters: London, UK
- Employees: 27,500
- Listing: London Stock Exchange, FTSE 250
- Bus Passengers: 1.6 million every day
- Rail Passengers: 0.9 million every day
- Revenue*: £2,199.1 million (2007: £1,826.9)
- Divisions: Bus, Rail, Aviation Services
- Operating Profit**: £144.9 million (2007: £118.1)
- Rail operation is the busiest in the UK and is responsible for nearly 30% of all UK passenger rail journeys.
- Will operate the UK's first high-speed domestic rail service across Kent into London St Pancras, dramatically reducing current journey times.
- 3,400 Buses. Share of London bus market: 20%.
- Aviation division is one of the largest independent providers of aviation cargo and ground handling services in the UK.
- Parking operation 'Meteor' is one of the UK's largest off-street parking operators, managing over 70,000 parking spaces.
- First public transport company to have been officially certified with the Carbon Trust Standard after taking action on climate change.

* For the financial year ended 28 June 2008

** Before amortization and exceptional items. For the financial year ended 28 June 2008

good-quality service and earn us a good-quality margin,” he says.

But how does Ludeman devolve power from the center, while ensuring that Go-Ahead’s subsidiaries turn in strong performances, particularly in an industry where strong government regulation is a common theme?

Although successive UK governments have been happy for private operators to run the UK’s public transport system, they have kept a controlling hand on the tiller through a series of requirements. Operators have to meet a range of benchmarks including reliability, punctuality and cleanliness of services.

The execution of Go-Ahead’s strategy is based on a fastidious attention to detail coupled

with strong oversight from Ludeman himself. He meets with the board of Go-Ahead’s 12 subsidiaries 10 times a year, using a wealth of performance and financial data to ensure the devolved management is on track.

“I really do believe that the guys in the field are far better placed to make the decisions than I am,” he says. “What I need from them is money, in simple terms. So they have to produce a corporate plan for me each year which details how they are going to develop, four-week period by four-week period; how their business will produce a profit; and demonstrate that it will grow every year, unless there is a very good reason why it shouldn’t. “Within their agreed corporate plan, pretty much everything

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is up to the local managing directors. They can raise ticket prices when they want and negotiate their own salary structure with unions. But if they spend too much on wages, for instance, they must claw it back elsewhere.”

Preparing winning bids

The implementation of Go-Ahead’s strategy for each subsidiary is almost entirely predetermined. The rail franchise bids are produced by a team entirely separate from those running the day-to-day bus and rail businesses. It’s a huge cost for Go-Ahead, but it’s an absolutely vital investment.

Ludeman will run a team of 50 staff working for up to eight months preparing a bid and brainstorming ideas for potential growth. It can cost the firm £3 million each time, but winning a single rail franchise will produce a sizable chunk of Go-Ahead’s annual £2.119 billion turnover. Its Southern rail operation, which renewed

its franchise in 2004, for instance, turns over £557 million annually, and no franchise – no business!

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Potential competitors, including some from elsewhere in Europe who have sought to enter this market, have spent vast sums taking advice, largely from consultants, to put their bids together for them, he says, adding, “This can cost £3 million, £4 million, £5 million or £6 million, and in some cases they have nothing to show for it.”

“We now have a very good market knowledge, which may not be a unique selling point, but it is very important,” Ludeman says. “It’s a barrier to entry of a sort and a source of competitive advantage. Some people who used to work for train companies sell their advice as consultants, so

there is an industry around the franchising model. But there is no substitute for your business having the intellectual property itself. And that’s what we have because we do nothing but the UK. I bid for rail franchises personally, I have bid for London bus routes personally, so I understand the process.”

Operating in such highly regulated industries “would probably drive anyone with a strong entrepreneurial bent nuts,” Ludeman says.

Go-Ahead’s rail companies are required to attend four weekly performance-review meetings with the Department for Transport, where they scrutinize a pack of data as detailed as Ludeman uses for his monthly board meetings. The secret to working within these very tightly defined boundaries, Ludeman believes, is to ensure the contract is absolutely right before you sign it. “If you bid an overly ambitious contract, you are always going to struggle

Keith Ludeman's tips on how to run a business in a highly regulated industry

- Ensure local markets are best served by devolving management.
- Give devolved managers the freedom and resources they need to manage effectively.
- Numbers tell you almost everything, but personal management style is also very important.
- Create detailed growth plans for the life of a franchise.
- Invest early in a newly won franchise to harvest the benefits in later years.
- Reputation is everything where franchises are awarded.
- Spend big on preparing franchise bids.
- Know your business inside out.
- Ensure you select effective staff.

to deliver it," he says. "But if you win it at the right price, you've got scope for growing the margins in those businesses." The work that goes into bid preparation is not only vital to win the business, and to make sure that the contract is deliverable, but it also produces a template for growing the business during the short life of a franchise.

This finely detailed pre-planning process results in a formula for developing the new business from the moment the contract is signed.

"It's all in the bid, 100 percent," Ludeman says. "So how do you put a bid together? You look at the revenue on day one of the franchise, put all the macroeconomic drivers into your model. Then you decide what you are going to do with the business to grow the

revenue and make it work. "If you're installing new ticket gates at railway stations, say, you buy the gates, get them installed, make them work, employ the staff, grow the revenue. And there are literally dozens of work-streams in each franchise.

"The quicker you deliver those, the greater the cumulative growth of the business."

After the franchise is won

Once the franchise is secured, the investment obligations start immediately, but revenue generation is the operators' risk. Go-Ahead is investing £26 million in the first two years of its recently won London Midland contract in order to reap the benefits in the remaining five years of the contract.

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Not everything can be done immediately; it may take some time to provide new rolling stock, for example, but refurbishment of railway stations and “softer” developments, such as staff training, will be kicked off immediately.

Ludeman adds that it is “absolutely fundamental” to run the business effectively and efficiently once the franchise has been won. “Don’t try to cut corners: Do it properly and professionally; that then generates you the reputation, generates you the revenue

and wins you new business,” he says. “If you run it badly you might be paying penalties and you lose your reputation. “You always have to be a credible bidder and operator to your procurement agency, in this case the UK’s Department for Transport. If you were to fail in some way, financially or from a safety perspective, you would just never get another franchise.”

Running efficient businesses requires the “empowerment, autonomy, competence and confidence” of individual

management teams, Ludeman believes. Consequently, Go-Ahead invests heavily in staff training to give managers the skill-sets they need to do the job.

The decentralized management structure, he says, produces a stronger esprit de corps at Go-Ahead’s subsidiary companies than at more centralized competitors, and the freedom and autonomy filters down to the staff on the ground. Realistic bid prices give staff more room to move, producing increased motiva-

Go-Ahead Group history

The UK’s public transport industry began its journey into the private sector when the Conservative government broke up and sold off the National Bus Company in the late 1980s. The Go-Ahead Group grew out of that process when the Northern General Bus Company, based in Gateshead in the northeast of England, was bought out by its management in 1987.

The company bought a number of smaller northeast bus companies before making its first major acquisitions of Brighton and Hove Bus and Coach Company, and Oxford Bus Company in the early 1990s. The Group continued to expand and was floated on the London Stock Exchange in May 1994. In the mid-1990s the still-public London bus network was disaggregated into 10 “parcels” and sold off. Go-Ahead bought London Central, and Keith Ludeman led a management buyout of London General, which was then acquired by Go-Ahead 18 months later.

The rapidly expanding group moved into railways when state operator British Railways was privatized in 1994. Go-Ahead bid for two of the 27 train-operating franchises, winning the right to operate the Thames Trains and Thameslink services. Go-Ahead, through its Govia arm, which is a joint venture with French transport firm Keolis SA, now operates three rail franchises: Southeastern, serving southeast London, Kent and Sussex; Southern, operating routes from much of the south of England to London; and London Midland, which operates through the heart of England, connecting London, the Midlands and the North West.

Go-Ahead has also expanded into aviation, operating ground-handling business Aviance UK, as well as Meteor Parking, which provides parking at major UK airports.

tion, Ludeman believes.

“The most important resource you’ve got is your people. Business management books are no substitute for hard-earned experience,” he says. “Resources and equipment are very important. You can have the best people in the world, but give them a bus that breaks down every five minutes and no means of analyzing data, and they won’t be able to run their business. “Without data, managers can’t manage. Invest in your business, don’t expect to get through on a shoestring and give managers the information they need.”

For a firm like Go-Ahead, with a loose structure but very tight scrutiny from the center, managing accounting information is vital.

Ludeman is, he says “only as good as my management accountants.”

Without good-quality data his monthly board meetings become worthless as an exercise in scrutiny.

Growth strategy

Historically, Go-Ahead Group’s growth strategy has been conservative, in contrast to its peers and competitors. First, National Express, Arriva and Stagecoach grew by buying firms in Europe, the US and elsewhere with mixed success. Go-Ahead would only expand within the UK and only where economic growth was predicted, where there could be “organic” growth in the business, and where there

was an intensively operated bus network.

Go-Ahead has since diversified, and it has not rejected the idea of overseas expansion entirely. But for a firm that concentrates so heavily on its primary market, running public transport in countries with significantly higher barriers to entry would represent a major hurdle. And Ludeman says the risk of trying to replicate their models in markets that are not as friendly to public transport may be too great.

His predecessor as chief executive decided that Go-Ahead had reached “critical mass” in the rail and bus business and he moved to acquire more permanent operations to supplement the time-limited franchises. The firm stuck to the “transport service” business by operating ground-handling firms at Heathrow and Gatwick airports, as well as taking over a major airport-parking concern, Meteor Parking. Go-Ahead has also run a taxi business and owned a chain of pubs.

But with such a tried-and-tested system, straying from the business model the firm understands so clearly can be risky.

“Aviation is the business we have least experience with and, unsurprisingly, that is the least performing part of our business.” says Ludeman. In these circumstances the autonomy for individual managing directors, which is usually such a strength for Go-Ahead, can become a weakness if

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the central oversight is blurred through lack of industry knowledge.

Political skills

The UK's privately run public transport system is almost unique in its setup, and the industry's integral relationship with central and local government demands keen political skills from Ludeman and his managing directors out in the field.

"At the local level, establishing a relationship with local councillors, government officials and planning departments is an absolute must for the local managing director. "It's vital," he says.

At a national level, Ludeman meets with the UK's Secretary of State for Transport and the relevant ministers for buses and railways. The current gov-

ernment's system of special advisors, who work closely with ministers, means he has to bring them onside too, and he's equally keen to charm the relevant shadow ministers.

The personal touch

The execution of Ludeman's management strategy is data driven, but he's also a stickler for face-to-face meetings that allow him to use the managerial instinct that's flourished during his career.

"The numbers tell you a lot, and the numbers are not just financial," he says. "Mileage operated, quality of service, how many accidents you've had, what's the punctuality like, how's the customer satisfaction? I've got a whole load of data that tells me how that business is performing and that tells me everything.

"But also you can eyeball your managing directors and know who's bullshitting. I know the good teams and I know the bad teams. I know the best team and I know the worst team. "Video conferencing is a waste of time. It has to be face-to-face, they have to turn up and make an effort to produce all the information; it's a discipline. It takes a lot of time and effort, but it's well worth it."

This style of management works only with a chief executive who knows the business inside out. When Ludeman moves on, Go-Ahead will either have to find a manager cast from a similar mould or run their business differently.

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