Appendix H

Survey of sea-freight customers

Introduction

1. In order to explore the extent of negotiations, the sensitivity to price of the sea-freight customers that use the Irish Sea routes of the parties, and their propensity to switch ferry service providers, the CC commissioned qualitative and quantitative studies from two different market research organizations, ORC International (ORC) and Andrew Irving Associates (AIA). They each have reported on their work and their reports have been made available separately. The purpose of this appendix is to explain why two surveys were commissioned, how they were coordinated and the extent of any limitations on the results.

Rationale for two studies

2. The two studies were complementary but differed in approach. Although both studies asked similar questions, the qualitative study explored interviewees' answers whereas the quantitative study, because of the nature of its closed questions, did not allow respondents to give the reasons for their responses. Thus, the qualitative study provided background information on the context for price negotiation and choice of routes. It was aimed at identifying the range of views and opinions that existed among the customers of the ferry companies. In contrast, the quantitative survey measured how widely particular views were held.

3. The two studies proceeded independently and this allowed a comparison of results from different but complementary survey methodologies. Also, the inquiry timetable constrained the studies to be concurrent. The way that this was managed is explained next.

Who was surveyed

4. Stena and P&O provided the CC with contact details of their customers that use Irish Sea routes, together with the customers' annual expenditures. We combined these lists and removed duplicates so as to have a consolidated list of Stena and P&O customers ranked by expenditure with the parties.

5. The highest-spending customers, namely those with annual expenditure above £50,000, were identified in order to control the sampling process so as to ensure that these customers were surveyed in sufficient number to be able to analyse their responses separately from others.

6. A sampling frame is the list from which a sample is randomly drawn, and two sampling frames were created, one for each study. First, the sampling frame for the qualitative interviews was created by randomly selecting 100 from high-spending and 100 from other customers. Details of these 200 customers and all others with addresses outside the UK or the Irish Republic were sent to AIA to conduct 30 depth interviews. Secondly, the remaining list of customers, identifying those with higher expenditure but excluding all with addresses outside the UK or the Irish Republic, was sent to ORC to conduct 50 interviews with higher-spending customers and 350 interviews with others.

Qualitative depth interviews of 30 sea-freight customers

7. AIA (Andrew Irving Associates) was asked to carry out a qualitative study consisting of 30 20-minute telephone interviews equally balanced in number between high-spending and other Stena and P&O customers using Irish Sea routes. The objectives were to explore current sea-freight transporting behaviour, to examine the use of routes and the viability of alternatives, to understand how payment

arrangements are agreed and to investigate the relative bargaining power of different freight companies. A final objective was to investigate attitudes towards the proposed merger.

8. The study aimed to explore the breadth and range of opinions on these matters. Where a consistent message was expressed it was illustrated in the report written by AIA with verbatim quotations so that the responses could be more fully understood. Such results in themselves would not prove that a view was widely held even if it was expressed by most interviewees. Instead the quantitative study, described next, measured the extent of these opinions.

Quantitative survey of sea-freight customers

9. ORC (ORC International) surveyed 400 customers of the parties who use Irish Sea crossings. Interviews were conducted by computer-automated telephone interviewing (CATI). ORC was asked to ensure that sufficient high-spending customers were interviewed to enable their responses to be compared with other respondents. ORC set quotas and interviewed 50 high-spending customers and 350 other customers. The latter group reported a range of high and low expenditures on sea-freight crossings (although not necessarily with Stena and P&O) and so these were probably more typical of general sea freight users. Overall, six in ten of the sample were hauliers and three in ten were freight forwarders, producers or consignors.

Limitations on the survey results

10. The fact that the sampling frames were constructed from lists of the parties' customers will have influenced the results because logistics organizations that do not use Stena or P&O at all were not interviewed. Thus the studies represent the

views of the parties' customers and are not necessarily representative of all users of sea freight on the Irish Sea.

11. The AIA study was based on 30 depth interviews by an interviewer skilled in eliciting the diversity of opinion among respondents. However, it would be inappropriate to draw any quantitative inferences from this study.

12. The ORC survey was based on a much larger number of 400 participants, and although some responses in the survey related to smaller subsets of this wider base, it was often possible to identify statistically significant differences between subsets and the overall sample. Where there were likely to be relatively large sampling errors, caution was exercised and conclusions were not drawn from the survey evidence alone.

13. The ORC survey identified the type of freight carried by respondents, including the proportion that was accompanied and unaccompanied. ORC found that there was a spectrum ranging from 10 per cent of respondents carrying more than 90 per cent unaccompanied ro/ro to 55 per cent carrying no unaccompanied ro/ro. Questions, such as those relating to switching of freight between routes, did not identify whether the switching was of unaccompanied or accompanied freight or was between these two types. This was done in order not to have an overly complex interview. However, customers' responses could be analysed according to their proportions of business between accompanied and unaccompanied freight and ORC reported where the different types of respondent gave significantly different answers.

14. It is possible in any survey that questions may be open to different interpretations by respondents and so we checked to see if, on average, respondents were answering

reliably. One battery of questions explored the factors that respondents thought were important in the choice of ferry route. These questions did not ask the respondent to rate each factor in respect of the type of freight that their business carried but a relationship between their answers and their businesses would be expected. We analysed these responses and found that the opinions that were expressed correlated with four underlying components. One related to the ferry company and the speed it offered in terms of the speed of its service and its fit with the customer's overall route. This was corroborated by the qualitative research which explained that a close relationship with the ferry company was built to secure the most appropriate crossings. A second related to the availability of timely crossings, a third related to drivers' facilities and comfort, while a fourth was the attraction of low-cost routes. We found that the answers related in a sensible way to the type of respondent. For example, hauliers valued driver comfort but in general other types of respondent and those transporting mostly unaccompanied ro/ro freight did not. Thus there was internal consistency in the survey results.

15. Although price was not the only component driving their choice of route, ORC asked about the likely behaviour of respondents to hypothetical price increases. ORC first identified whether the respondent was likely to respond to a price rise by switching routes and subsequently sought to pinpoint the percentage that would make them switch. Finally, the respondent was asked to estimate the volumes that would be switched to specific routes. As the questions became more specific, fewer respondents were able to give quantitative estimates. Even so, some could quantify their reactions and there was no evidence to suggest that their answers were unreliable.

16. The questions about a hypothetical price increase did not specify particular departures or the duration of the price increase, and used the terms ‘crossing’ and ‘route’ interchangeably. However, they did specify that the increase was specific to a particular route, which ORC had identified as one that the customer used regularly or frequently, and that other prices would not change. Given that the qualitative research found that customers tended to negotiate annually, it would be natural for respondents to have assumed that the price increase related to their next round of negotiation about the use of the particular route or crossing that they had identified as one that they used regularly or frequently.

17. The market research took place when Norse Merchant's parent company was in administration. It is therefore worth considering the extent to which any of the surveyed customers of P&O and Stena, as a result of this knowledge, would have been less inclined to switch to Norse Merchant's services at the time of the survey. Norse Merchant was used by a sizeable number of the participants of the depth interviews. While some said that Norse Merchant had been in administration two years ago, others believed the company was still in administration. Some interviewees mentioned that the Norse Merchant fleet had been partially replaced with vessels of a lesser quality following the financial difficulties. Norse Merchant and Irish Ferries were perceived as being slightly cheaper, though probably less reliable, than Stena and P&O and thus it appeared from the depth interviews that reliability would be likely to affect attitudes rather than the financial state of a ferry company per se. The ORC survey showed that reliability, expressed as a low risk of cancellation or delay, was bound up with the two other factors of having space available when needed on the ferry and the frequency and convenience of sailing times to form a coherent component of choice. Thus, it would appear that, if customers of P&O and Stena expressed less inclination to switch to Norse

Merchant's services at the time of the survey due to their belief that Norse Merchant was in financial difficulties, this would have had a very limited effect on the overall results.

Summary

18. The CC commissioned a qualitative study to provide background information on the context for price negotiation and choice of routes and a quantitative survey to measure how widely particular opinions and preferences were held. Since the studies were targeted at the customers of Stena and P&O the results should be viewed in that light.

19. In addition to the analyses provided in the market research reports of ORC and AIA, which were made available separately on the CC’s web site, we conducted further analyses that included checks on the internal consistency of survey responses. Although there were practical limitations to the research, on average responses were internally consistent and sensible. Where there were likely to be relatively large sampling errors, caution has been exercised and conclusions were not drawn from the survey evidence alone.