4 The market

Introduction

4.1. In this chapter we describe the market for local bus services in the designated area. Although Dumfries & Galloway is part of the area referred to us in our terms of reference, we have decided that it would be inappropriate to include it in the area on which we should focus (`the designated area'-see paragraph 2.34). We therefore do not deal with Dumfries & Galloway in this chapter. We start with background information on the designated area (paragraphs 4.2 and 4.3) and continue with an examination of modes of transport there (paragraphs 4.4 to 4.24) and of bus services in particular (paragraphs 4.25 to 4.67). We then finally consider entry conditions to the market for bus services (paragraphs 4.68 to 4.81).

The designated area

4.2. The designated area comprises eight local authority districts in Strathclyde region, namely Cunninghame, Kilmarnock & Loudoun, Inverclyde, Renfrew, Eastwood, East Kilbride, Cumnock & Doon Valley and Kyle & Carrick. This area, which is shown in Figure 4.1, covers some 0.4 million hectares (1.8 per cent of the geographical area of the UK) and has a population of 0.81 million (1.4 per cent of the total UK population).

4.3. The average population density of the designated area is 1.9 persons per hectare compared with a UK figure of 2.4 persons per hectare. Table 4.1 shows that within the designated area there is considerable variation in density ranging from Renfrew, with 6.5 persons per hectare, to Cumnock & Doon Valley, which is comparatively sparsely populated with a density of only 0.5 persons per hectare.

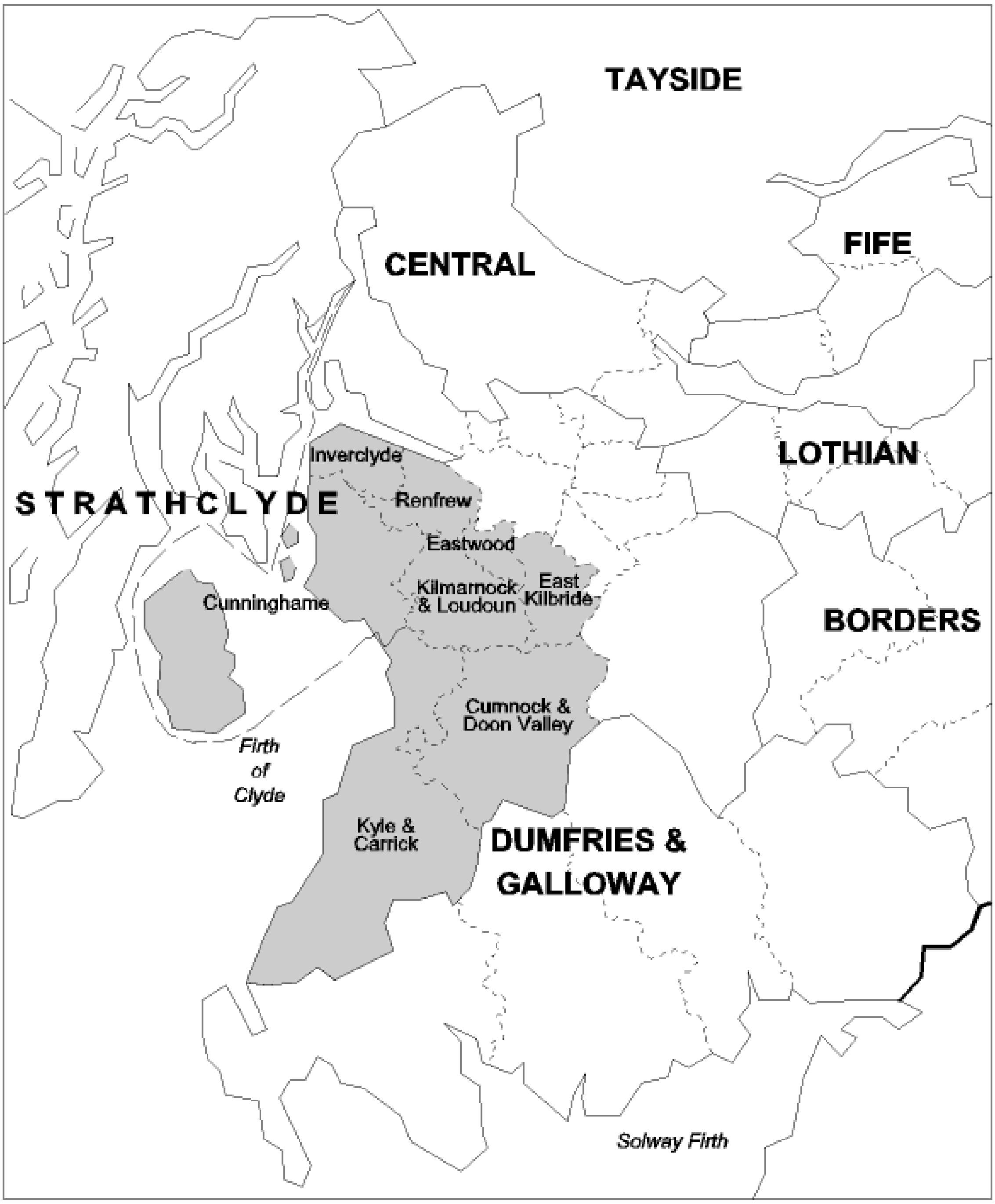
TABLE 4.1 **Population density in the UK and in the designated area, 1994**

	Population	*Area (hectares)*	*Density (heads per hectare)*
Cunninghame	139,090	87,859	1.6
Kilmarnock & Loudoun	80,920	37,813	2.1
Inverclyde	89,380	15,779	5.7
Renfrew	201,690	30,885	6.5
Eastwood	62,670	11,563	5.4
East Kilbride	85,180	27,748	3.1
Cumnock & Doon Valley	42,630	89,055	0.5
Kyle & Carrick	114,360	132,156	0.9
Total for the designated area	814,920	432,858	1.9
UK	58,394,616	24,410,000	2.4

Source: The Municipal Yearbook 1995. Population figures are 1994 estimates (based on the 1991 Census). The estimated population figure for the UK is for 1994 and has been provided by the Office of Population Censuses and Surveys.

FIGURE 4.1

The designated area



Source: MMC.

Modes of transport in the designated area

Overview of modes of transport

4.4. In this section we describe the characteristics and relative importance of the various modes of transport used in the designated area. We then summarize the policies of SPTE which through its financial support for local transport services in Strathclyde plays an important role in the local transport market (see paragraph 3.14).

4.5. Table 4.2 shows the different modes of transport used for travel to work by those residing in each of the districts in the designated area.

TABLE 4.2 **Mode of transport used for travel to work in the designated area and Great Britain, 1991**

	Percentage of employees and self-employed persons travelling by:						
	Train or underground	*Bus*	*Car*	*Motor/pedal cycle*	*Foot*	*Other*	*Total*
Cunninghame	3.3	13.3	61.2	1.6	13.1	7.5	100
Kilmarnock & Loudoun	1.4	13.6	63.7	0.8	14.3	6.2	100
Inverclyde	3.6	21.1	55.4	0.5	13.8	5.6	100
Renfrew	5.3	19.8	57.4	1.0	11.6	4.9	100
Eastwood	7.0	8.9	72.9	0.7	4.7	5.8	100
East Kilbride	2.6	17.4	63.5	0.6	10.8	5.1	100
Cumnock & Doon Valley	0.5	12.3	60.9	0.7	14.8	10.8	100
Kyle & Carrick	2.4	12.5	60.4	2.2	13.5	9.0	100
Designated area	3.6	15.7	61.0	1.1	12.1	6.5	100
Great Britain	5.8	9.9	60.8	3.0	11.8	8.7	100

Source: 1991 Census returns, Report on Strathclyde Region Part 2.

Notes:
1. If respondents used more than one mode, the Census records the mode with the greatest distance. If they travelled by different modes on different days, the Census includes the most frequently used mode.
2. The `other' category includes people working at home and those whose mode of transport was not stated.

4.6. Table 4.2 illustrates, *inter alia*, the relative importance of car and bus for journeys to work commencing in the designated area. In 1991 cars were used for 61 per cent of journeys to work, in line with the Great Britain average. The corresponding figure for bus travel (15.7 per cent) was well above the Great Britain average of 9.9 per cent. Use of buses for travel to work was also above the Great Britain average in seven of the eight districts. Use of rail, by contrast, was well below the Great Britain average. Four times as many people travel to work by bus than by train in the designated area, compared with less than twice as many in Great Britain as a whole.

4.7. The relative importance of different modes varies significantly between districts. In Cumnock & Doon Valley under 13 per cent of people used rail and bus combined compared with 25 per cent for both Inverclyde and Renfrew. For bus travel alone the proportions range from 9 per cent in Eastwood to 21 per cent in Inverclyde.

4.8. In the district of Eastwood in the outer southern suburbs of Glasgow, 73 per cent of people travelled to work by car compared with 55 per cent in Inverclyde and 57 per cent in Renfrew.

Cars

4.9. Table 4.3 shows the percentage of households with car(s) available, district by district. In 1991 there were 310 cars registered per 1,000 population in the designated area, compared with a figure of 363 for Great Britain as a whole. Between 1981 and 1991 the rate of growth of car ownership in the designated area was below that for Great Britain, even though starting from a lower base. There are considerable variations between the districts.

TABLE 4.3 **Car availability by district**

	Percentage of households *with car(s) available* *1981*	*1991*	*Increase* *%*
Cunninghame	50.6	56.2	11.1
Kilmarnock & Loudoun	54.6	58.7	7.5
Inverclyde	42.4	47.2	11.3
Renfrew	49.5	53.5	8.1
Eastwood	78.5	82.2	4.7
East Kilbride	61.8	65.4	5.8
Cumnock & Doon Valley	49.6	55.3	11.5
Kyle & Carrick	59.1	63.5	8.1
Designated area	55.8	60.3	8.5
Great Britain	60.6	66.6	9.9

Source: General Register for Scotland, Census Monitor for Strathclyde region 1991.

4.10. The highest level of car ownership is in the more affluent district of Eastwood where over 82 per cent of households had a car available. The lowest levels occur in the less affluent districts of Inverclyde (47 per cent) and Renfrew (53 per cent).

Rail

4.11. The rail network in the designated area provides mainly commuter services into Glasgow City, but also some leisure connections to seaside towns; it amounts to over 100 route miles. Rail is not, however, very significant in the area as a whole as a transport mode, accounting for under 4 per cent of all travel to work journeys. As elsewhere in Strathclyde, SPTE supports rail services on behalf of Strathclyde Regional Council. As a condition for providing the subsidy, it determines the fares, timetables, service levels and investment.

4.12. Stagecoach told us that Western Scottish competes with rail services in the Kilmarnock & Loudoun district, between Kilmarnock, Kilmaurs and Stewarton; in Cumnock & Doon Valley between Auchinleck and New Cumnock; and in Kyle & Carrick and Cunninghame districts on the Girvan-Ayr-Kilwinning-Ardrossan lines. All the former commercial services operated by A1 Service between Ardrossan, Irvine and Kilmarnock compete with rail services. Service 27 provides a rail connection service at Kilwinning railway station. There is, however, no direct competition with rail on the majority of routes in the designated area run by Western Scottish and A1 Service combined.

4.13. In early 1995 Stagecoach registered an interest in bidding for the ScotRail franchise, which includes the rail services in the designated area, as part of the planned privatization of rail services. Invitations to tender for the franchise are expected to be issued during 1996.

4.14. Despite the fact that the train is subsidized by SPTE, rail fares are in general markedly higher than bus fares. Stagecoach instanced a journey from Kilwinning to Irvine as one where rail is a real alternative to the commercial bus service. Table 4.4 shows that rail is significantly more expensive than bus; it is considerably faster but much less frequent.

TABLE 4.4 **Kilwinning to Irvine: rail and bus compared**

	Rail	*Bus*
Fare: Single journey (£)	1.10	73
Return journey (£)	1.80	1.10
Frequency per hour	2	13
Journey time in minutes	5	12

Source: SPTE.

Taxis

4.15. Taxi services, both hackney cabs and minicabs, provide an element of competition with local bus services in the designated area. Currently there are over 600 licensed taxis in the eight districts. Without a detailed origin and destination survey it is difficult to assess the extent of direct competition with bus services. Taxi fares are much higher than bus fares, the minimum fare per mile ranging from £1.20 to £1.65 depending on the district, but Stagecoach told us that it is common practice in some cases for taxis to be shared between up to four people each going to different destinations. This use of shared and multi-destination taxi journeys reduces the gap in fares between bus and taxi.

4.16. Stagecoach told us that in order to counter the competition from taxis, its train connection services in both Ayr and Kilmarnock were organized so that there was a bus on the main town centre stand throughout the hours of the day during which trains operate.

Subsidized transport services

4.17. In the designated area (as elsewhere in Strathclyde) some public transport services are provided with the help of subsidies from SPTE. These subsidies cover a number of bus, rail and taxi services.

4.18. As regards bus travel, there are four main ways in which SPTE provides support: through tendered services, schools contracts, Dial-a-Bus schemes and a concessionary travel scheme.

4.19. First, SPTE provides subsidies for services which are considered socially necessary but are not provided on a commercial basis. It invites operators to tender on the so-called `net basis', under which the operator keeps the passenger revenue and bids for a subsidy and thus takes the revenue risk. A tariff scale is set by SPTE which establishes the maximum fares per mile.

4.20. Secondly, children who are eligible for assistance with their journeys to school travel free on school transport services. Potential operators therefore bid for a sum to cover the whole of the revenue. The supply of, and competition for, tendered services and schools contracts are discussed in paragraphs 4.55 to 4.63.

4.21. Thirdly, Dial-a-Bus schemes provide a door-to-door bus service for people with impaired mobility. Western Scottish participates in the scheme in Kilmarnock.

4.22. Since 1989/90 the level of SPTE support for tendered, schools and Dial-a-Bus services combined has fallen in cash as well as in real terms. Between 1992/93 and 1993/94 for the whole of the Strathclyde region the level of support per bus mile fell from 54p to 50p (in nominal terms).

4.23. Fourthly, SPTE administers a concessionary travel scheme. Travel cards are available to the elderly and disabled and entitle them to travel up to ten miles on bus, rail, underground and ferry for the concessionary fare of 30p. For journeys over ten miles half fare is charged on rail, while on bus services full fare is charged for the portion of the journey over ten miles. Payments are made to operators to reimburse them for the loss of revenue on tickets sold, subject to a deduction to allow for the extra traffic generated.

4.24. In the year ending 31 March 1994, 57 operators participated in the concessionary travel scheme in the designated area and in total received payment of just over £11 million. SBH received 55 per cent of the total, Clydeside Buses 16 per cent and Western Scottish 12 per cent. Only two other operators received more than 1 per cent: A1 Service received 3.3 per cent and AA Buses 2.6 per cent.

The supply of local bus services in the designated area

4.25. SPTE records 66 registered bus operators as running services in the designated area. However, only five of these (counting Western Scottish and A1 Service separately) run a substantial number of commercial services. Four of the five (Western Scottish, A1 Service, Clydeside Buses and SBH) are also part of major bus groups. The services of these larger operators do not generally overlap with each other. The following paragraphs briefly describe the two bus companies involved in the merger, the two other larger operators in the designated area, and three smaller operators that play a significant role in one or more of the three districts where the routes of Western Scottish and A1 Service overlap.

Western Scottish

4.26. Western Scottish operates in a wide area south of Glasgow extending to the Solway Firth in the south and to the Firth of Clyde in the west. It also operates in the islands of Arran and Bute and on the Cowal Peninsula to the north-west of Glasgow. It has depots at Ayr, Cumnock, Kilmarnock and Brodick on the Isle of Arran. Within the designated area it provides most of the bus services in the districts of Cumnock & Doon Valley, Kilmarnock & Loudoun, and Kyle & Carrick. Its operations are discussed in paragraphs 4.49 to 4.54 and 4.60 to 4.63. Before the merger with A1 Service it had a total of 331 buses.

4.27. Stagecoach told us that apart from the acquisition of Arran Transport and before the merger with A1 Service there had been no major changes to the commercial bus network of Western Scottish since 1992. As a result of the merger with A1 Service, Western Scottish had curtailed two services to avoid unnecessary duplication on the section between Irvine and Kilmarnock. No further changes were currently envisaged.

A1 Service

4.28. A1 Service operates mainly in the districts of Cunninghame and Kilmarnock & Loudoun. Its operations are discussed in paragraphs 4.49 to 4.54 and 4.60 to 4.63. Before the merger it employed some 80 vehicles, 50 of which were used for local commercial services and 30 for schools contract work. It had no depot and members made their own arrangements for parking the buses when not in use. Stagecoach took up a lease on a depot at Ardrossan in January 1995 for the buses used on the former A1 Service routes.

4.29. The company now operates very similar services and routes to those operated before the merger. One exception is a pair of services introduced in November 1994 to a new ASDA Superstore in Irvine. These were withdrawn after the merger: Stagecoach said that they had proved to be uneconomical.

Clydeside Buses

4.30. Clydeside Buses, previously called Clydeside 2000, operates 280 buses based at depots in Paisley, Inchinnan, Johnstone and Greenock. The company, formerly part of the SBG and sold to its management and employees in 1991, experienced financial and operating difficulties in 1994 and was acquired in November 1994 by British Bus, one of the emerging large operators, which has a UK total of some 4,400 buses overall. Within the designated area it operates principally in the districts of Renfrew and Inverclyde but has a small presence in Cunninghame, one of the three overlap districts. On 10 August 1995 Clydeside Buses closed its depot at Largs in Cunninghame district, where six of its buses had been based, and withdrew one service in the area. Clydeside Buses is one of the operators in the Coastlink 535 service (described in paragraph 4.52).

SBH

4.31. SBH is the former Glasgow municipal bus operation of Strathclyde Regional Council and was the subject of a management and employee buy-out in 1993. Its business consists principally of the supply of bus services in the Glasgow conurbation, and most of this is in the district of Glasgow City. In October 1994 SBH acquired Kelvin Central Buses Limited, a former SBG subsidiary whose principal area of operations was in the towns to the north and east of the Glasgow conurbation. This transaction was the subject of a previous MMC merger inquiry.[1] The merged company now has some 1,300 buses.

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[1]*S B Holdings Limited and Kelvin Central Buses Limited: a report on the merger situation*, Cm 2829, HMSO, April 1995.

Within the designated area it is the principal operator in the districts of East Kilbride and Eastwood.

AA Buses

4.32. Dodds of Troon Ltd, which began operating bus services in 1930 as an offshoot of the original A1 Service consortium, trades as AA Buses and Dodds Coaches. The company operates a total of 60 vehicles-45 buses (including 10 minibuses) and 15 coaches. From its depot in Ayr AA Buses operates ten routes in the districts of Cumnock & Doon Valley, Cunninghame and Kyle & Carrick, and competes with Western Scottish on eight of them. In March 1995 it began a new service on the route between Ayr and Dalmellington in Kyle & Carrick district after Western Scottish had been barred from that route by the Traffic Commissioner for one year from February 1995 for running unregistered services. In July 1995 AA Buses was one of the operators that established the Coastlink 535 service (see paragraph 4.52).

Clyde Coast

4.33. Clyde Coast, a family company, considers itself as essentially a coach operator; its transport business until recently was split 65:35 between coaches and buses; it also has interests in retailing and distribution outlets. It began operating local bus services in 1919. Until recently it operated 30 buses from a single depot at Ardrossan; its eight routes were located in the districts of Cunninghame, Inverclyde and Kilmarnock & Loudoun. Its main area of overlap with Western Scottish was on the Ardrossan-Kilmarnock route. The company ran three commuter services to Glasgow, the rest being local services.

4.34. Clyde Coast was another of the group of operators that established the Coastlink 535 service (see paragraph 4.52). It rented buses-initially two, subsequently increased to four-from Western Scottish for the purpose. In September 1995, during the course of this inquiry, Clyde Coast sold four minibuses and seven registrations of commercial services to Western Scottish. Its only services are now the Coastlink 535 service, on which it has now taken over the share of Stagecoach A1 Service as well as retaining its own, and a tendered local service operating between Stewarton and Beith.

Shuttle Buses

4.35. Shuttle Buses is a small family business which commenced bus operations in January 1990. It owns 15 single-decker buses and two double-deckers; 12 of the buses are used for local bus services and the remainder for contract and private hire. Its activities are confined to the districts of Cunninghame, Kilmarnock & Loudoun and Kyle & Carrick. Eleven of the 12 buses that operate local services are based at a depot in Kilwinning and the other one at Galston.

Ashton Coach Hire

4.36. Ashton Coach Hire began operating local bus services in July 1994. Operating from a depot in Port Glasgow, it owns 12 minibuses which provide commercial services in the districts of Cunninghame, Inverclyde and Kyle & Carrick. The services run between Greenock and Ayr via Irvine, and between Greenock and Wemyss Bay via Gourock. The `Coastline 585' service from Greenock to Ayr has faced strong competition since July 1995 from a joint service run by three (originally four) operators (see paragraph 4.52).

Market shares

Shares in the designated area

4.37. In a recent monopoly inquiry[1] the MMC took the view that in the case of local bus services there was no single ideal way of measuring supply. An ideal measure needed to reflect the number of passengers as well as the length and other characteristics of their journeys. One measure that came close to satisfying these requirements was passenger miles, but bus operators did not collect the data that would allow such a measure to be used. Measures which by contrast were generally available were registered bus mileage and turnover. Bus mileage, however, had two drawbacks: first, it was a capacity measure and not directly one of supply; and secondly, it did not take into account different route characteristics. Turnover on the other hand both incorporated the number of passengers and took account of the length and nature of their journeys (by in effect weighting each journey by the relevant fare). Turnover was therefore seen as the preferred measure. We take the same view in this inquiry: bus mileage may be acceptable as an approximate measure in certain circumstances but turnover is a more accurate reflection of the supply of bus services.

4.38. The main drawback with turnover-and the reason why it has not been used in previous merger inquiries as the measure of supply (even though some data may have been collected)-is the time and difficulty associated with assembling reliable data. If turnover figures are to be accurate, considerable effort needs to be employed in ensuring that they take account of concessionary fare schemes, prepaid ticket schemes and tendered services.

4.39. In previous merger inquiries it was clear that the shares of the relevant companies would be well above 25 per cent (the figure relevant for determining a qualifying merger situation) on the basis of bus mileage, and it was considered unnecessary to seek to assemble accurate turnover data; the mileage measure would be adequate. In the present inquiry, however, indicators of operators' shares of supply that were available at an early stage suggested that the determination of jurisdiction might not be so clear-cut. We therefore collected data on both bases.

4.40. We obtained data on bus mileage in the designated area from two sources: we carried out our own survey of operators, and at the same time we asked SPTE to provide us with estimates based on its own system of computerized mapping. We recognize that because we derived our data on a different basis from SPTE there might be differences between the two sets of figures, not only because of differences of coverage but also because estimates for particular operators could themselves differ.

4.41. The figures for individual operators derived from our survey are likely in our view to be more accurate than those of SPTE, as the latter are estimates derived by the indirect method of computerized mapping and represent mileage forecast from timetables rather than the actual mileage run. We have therefore used the figures from our own survey where available. However, while survey figures were obtained from the large and medium-sized operators and some small operators, most of the small operators did not supply data-or at least data adequate for our purpose. We therefore turned to SPTE's figures (which are said to cover all operators in the area) to provide an estimate of the remaining operators. SPTE's figures for individual operators were generally lower than our survey figures. We therefore calculated the ratio of survey mileage to SPTE mileage for the operators common to both sources and applied it to the SPTE figures for the operators who had not responded to the survey. The outcome was an `Others' category of 22.3 per cent of total mileage.

4.42. The shares of supply based on this approach are set out in Table 4.5. It shows that in May 1995 (the most recent month before the start of our inquiry) Western Scottish supplied 20.2 per cent of bus services in the designated area and A1 Service 4.0 per cent, giving Stagecoach a combined total of 24.2 per cent. If, having regard to the shareholding of Stagecoach in SBH (see paragraph 2.43), the latter's share of supply were added to those of Western Scottish and A1 Service, the total share would rise to 35.0 per cent.

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[1] *The supply of bus services in the north-east of England*, Cm 2933, HMSO, August 1995-see in particular paragraphs 2.4 to 2.6.

4.43. As regards the turnover measure, our survey provided the same degree of coverage of operators as for mileage. There were, however, no SPTE figures for turnover that could be used to estimate the size of the `Others' category. We considered that the best way to estimate a figure for that category (ie those operators that did not respond to our survey) was to use the average revenue per mile of operators whose figures were available from the survey. We considered whether all or only some of the operators whose figures were available should be used to form this comparator group. It seemed clear that we should exclude Western Scottish, SBH and Clydeside Buses as major companies operating large networks, and there was also a case for excluding operators of medium-sized networks like A1 Service and AA Buses as their operations were unlike those of the very small operators who formed the vast majority of those who had not responded to the survey. We were not persuaded on balance by the case for exclusion in the latter case, and we therefore chose as the comparator group all the operators who had responded to our survey except for Western Scottish, SBH and Clydeside Buses. We then calculated the revenue per mile (it came to 98p) for this group and applied it to the appropriate mileage figure to generate an estimate of the total turnover for those operators that had not responded. The outcome was to add a category of `Other operators' that contributes 18.9 per cent of total revenue. (If the comparator group had also excluded A1 Service and AA Buses, the revenue per mile for the group would have been 73p and the share of the `Other operators' would then have been 14.9 per cent.)

4.44. The operators' shares of supply on this basis are shown in Table 4.5. It shows that in May 1995 Western Scottish had a share, based on revenue, of 26.0 per cent in the designated area and A1 Service a share of 6.5 per cent, giving Stagecoach a combined share of 32.5 per cent. The addition of SBH to these figures would increase the total share to 47.9 per cent. (Had we used the second approach to defining the comparator group, as described in the last sentence of the previous paragraph, the combined share of Western Scottish and A1 Service would have been 33.9 per cent while the addition of SBH would have increased the share to 49.9 per cent.)

TABLE 4.5 **Bus mileage and revenue for operators in the designated area for the four weeks ending 27 May 1995**

Operators	*Mileage*	*%*	*Revenue*	*%*
Western Scottish	709,808	20.2	1,035,667	26.0
A1 Service	141,544	4.0	257,786	6.5
SBH	381,798	10.8	611,736	15.4
Clydeside Buses	916,000	26.0	855,000	21.5
AA Buses	187,000	5.3	166,100	4.2
McGill's Bus Service Ltd	50,000	1.4	[	
Clyde Coast	106,109	3.0		
Avondale Coaches	71,696	2.0	*Figures omitted.*	
Ashton Coach Hire	71,400	2.0	*See note on*	
Shuttle Buses	32,800	0.9	*page iv.*	
Rowe of Muirkirk	28,000	0.8		
Wynter-M	16,200	0.5		]
Six small operators*	29,673	0.8	21,869	0.6
Others (estimated)	778,463	22.3	759,835	18.9
Total	3,520,491	100.0	3,979,086	100.0

Source: MMC based on company and SPTE data.

*Each with less than 10,000 miles.

Shares by district

4.45. There are three districts of the designated area where both Western Scottish and A1 Service operated both before and after the merger. Table 4.6 sets out operators' shares[1] in each of these districts in May 1995. It shows that in Cunninghame district, where almost 70 per cent of A1 Service's mileage was run, A1 Service supplied 18 per cent of services and Western Scottish 10 per cent, while in the

[1]For individual districts figures are available only on the bus mileage and not on the turnover basis.

other main district where both operated, Kilmarnock & Loudoun, they supplied 11 per cent and 70 per cent respectively. In Kyle & Carrick, A1 Service had only a minimal presence, whereas Western Scottish provided well over 50 per cent of the total services. In total, Western Scottish and A1 Service ran half of all mileage in these three districts as a whole. By comparison only two other operators had more than 5 per cent: AA Buses with 12 per cent, and Clyde Coast with 7 per cent.

TABLE 4.6 **Bus mileage by operator, in Cunninghame, Kilmarnock & Loudoun and Kyle & Carrick districts, for the four weeks ending 27 May 1995**

Bus operator	*Cunninghame*	*% share*	*Kilmarnock & Loudoun*	*% share*	*Kyle & Carrick*	*% share*	*Total per operator*	*% share*
Stagecoach	155,908	27.8	301,046	80.7	260,520	53.8	717,474	50.6
of which:								
Western Scottish	57,686	10.3	261,007	70.0	257,237	53.2	575,930	40.6
A1 Service	98,222	17.5	40,039	10.7	3,283	0.7	141,544	10.0
Clydeside Buses	24,580	4.4	-	-	-	-	24580	1.7
AA Buses	71,600	12.8	-	-	97,400	20.1	169,000	11.9
Clyde Coast	98,705	17.6	6,764	1.8	-	-	105,469	7.4
Ashton Coach Hire	46,000	8.2	-	-	12,700	2.6	58,700	4.1
Shuttle Buses	29,100	5.2	800	0.2	2,900	0.6	32,800	2.3
Rowe of Muirkirk	-	-	2,000	0.5	-	-	2,000	0.1
Wynter-M	16,200	2.9	-	-	-	-	16,200	1.1
Marbill Coach Services Ltd	-	-	1,700	0.5	-	-	1,700	0.1
Others*	118,571	21.1	60,788	16.3	110,286	22.8	289,645	20.4
Total	560,664	100.0	373,098	100.0	483,806	100.0	1,417,568	100.0

Source: MMC.

*Figures for `Others' are derived from SPTE data and are weighted by the ratio of MMC questionnaire respondents' mileage to the SPTE mileage for the same operators. The `Others' data for the three districts are weighted in the same proportion as each district represents in the SPTE total mileage for the three districts.

4.46. Of the three districts Cunninghame had the largest number of operators and was the only one where more than one other operator (ie apart from Western Scottish and A1 Service) had a share of over 5 per cent: Clyde Coast had 18 per cent, AA Buses 13 per cent, Ashton Coach Hire 8 per cent and Shuttle Buses 5 per cent.

Competition in the supply of bus services

Commercial services

4.47. To look in greater detail at the extent of actual or potential competition between A1 Service and Western Scottish before the merger, we asked Stagecoach to provide information on routes where there had been some element of overlap between the two companies.

4.48. Stagecoach told us that there was an overlap between A1 Service and Western Scottish on the four routes shown in Table 4.7.

TABLE 4.7 **Overlap routes between A1 Service and Western Scottish**

Western Scottish route number	*Western Scottish route*
10	Kilmarnock-Troon, hourly includes Kilmarnock-Dundonald
13	Kilmarnock-Kilbirnie, hourly includes Kilmarnock-Kilwinning
14	Kilmarnock-Beith, hourly includes Kilmarnock-Kilwinning
16	Kilmarnock-Ardrossan Harbour, four per day

Source: Stagecoach.

4.49. The most important overlap in mileage terms occurred between Kilmarnock and Ardrossan, where the services of A1 Service operated every ten minutes, whilst Western Scottish followed a broadly similar route between Kilmarnock and Kilwinning (approximately two-thirds of the distance to Ardrossan), plus a four-times-a-day service between Kilmarnock and Ardrossan Harbour to connect with the Arran ferry (as illustrated in Figure 4.2).

4.50. Stagecoach told us that the Western Scottish services were aimed primarily at the residents of Kilmarnock whereas A1 Service's were more for the residents of Ardrossan and Irvine. Western Scottish had tended to regard the main Kilmarnock-Ardrossan route as being A1 Service's and it had not devoted much effort to attracting passengers on that route. It said that A1 Service normally took the initiative in changing fares on the route and that Western Scottish had tended to follow A1 Service on fares.

4.51. Stagecoach told us that since the beginning of 1992 there had been no significant changes by either Western Scottish or A1 Service on overlap routes. In terms of competition, the only section of route where this really existed was between Kilmarnock and Kilwinning where Western Scottish services 13 and 14 operated on a combined 30-minute frequency using single-deck buses, whilst A1 Service operated its Kilmarnock-Ardrossan service with a frequency of ten minutes or less using double-deck buses. Fares on this route had been static for some time with those of Western Scottish generally being slightly more expensive. The majority of passengers travelled with A1 Service given its higher frequency.

4.52. Since the beginning of 1992 only two operators have commenced commercial bus services in the three overlap districts. One is Ashton Coach Hire (see paragraph 4.36) and the other Neill's Buses. As mentioned in paragraph 4.36, the 585 Coastline service of Ashton Coach Hire faced competition early in July 1995 from a joint service called the `Coastlink 535', which was operated by four companies (namely AA Buses, Clyde Coast, Clydeside Buses, Stagecoach and A1 Service). On 19 July Ashton Coach Hire obtained an interim interdict in the Court of Session against AA Buses, Clyde Coast and Stagecoach A1 Service (Clydeside Buses operated on a somewhat different route from the other three) on the basis of a petition alleging that the companies were using a similar name, number and livery to that of Ashton Coach Hire and that this amounted to an attempt to pass off their buses as the 585 Coastline service. All four companies then ceased using the name `Coastlink 535' and altered the livery of their buses. Stagecoach A1 Service had, however, decided to withdraw from the service even before it began operation: its deregistration was notified on 16 June and took effect early in August. The views of Stagecoach on these events are set out in paragraph 6.14.

4.53. As for the second new entrant, Neill's Buses is based in Kilmarnock and operates a 30-minute service from Kilmaurs to Kilmarnock Town Centre on Mondays to Saturdays, from 08.00 to 17.00. Western Scottish provides a service on this route with 20-minute frequency and fares are similar for both operators.

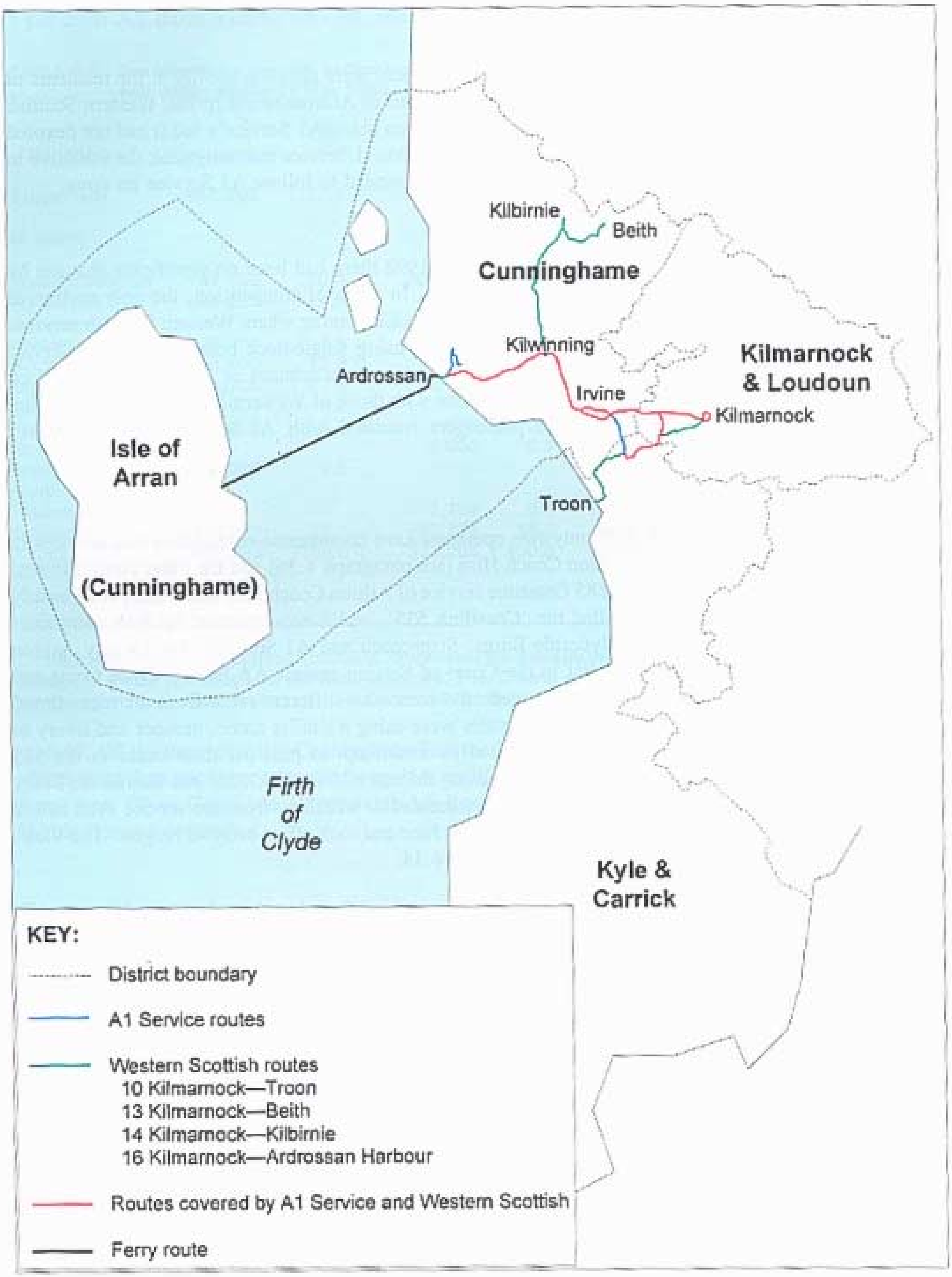
4.54. There have been no new entrants competing on the routes of A1 Service since 1992.

Tendered services

4.55. In the designated area as a whole subsidized mileage forms a comparatively small proportion of total bus mileage, though in some of the districts it accounts for a more significant proportion while in others it is negligible. For the whole area the proportion is 6.5 per cent, with the figures for districts ranging from over 24 per cent in Cumnock & Doon Valley to under 1.5 per cent in Inverclyde. In the three districts where Western Scottish and A1 Service both operate the proportion exceeds 10 per cent overall but varies considerably between the three districts. Table 4.8 sets out both total mileage and the subsidized share for each of the districts of the designated area.

FIGURE 4.2

Bus routes in the designated area common to Western Scottish and A1 Service



Source: MMC.

TABLE 4.8 **Annual registered bus mileage by district, March 1994**

	Unsubsidized	*Subsidized*	*Totals*	*Percentage subsidized*
Cunninghame	4,913,040	556,415	5,469,455	10.2
Kilmarnock & Loudoun	3,126,388	120,519	3,246,907	3.7
Inverclyde	5,745,193	82,223	5,827,416	1.4
Renfrew	10,895,847	317,630	11,213,477	2.8
Eastwood	1,411,526	27,032	1,438,558	1.9
East Kilbride	3,777,550	181,342	3,958,892	4.6
Cumnock & Doon Valley	1,489,382	474,192	1,963,574	24.1
Kyle & Carrick	4,325,578	728,746	5,054,324	14.4
Designated area	35,684,504	2,488,099	38,172,603	6.5

Source: SPTE.

4.56. A1 Service was not an active operator in the tendered market in the recent past, though it had operated the service between Irvine and Kilbirnie/Beith until 1993 and had tendered for, but failed to win, some others.

Schools contracts

4.57. Strathclyde Regional Council has adopted a policy of providing free transport for primary schoolchildren who live more than one mile from school and for secondary schoolchildren who live more than two miles away. SPTE arranges for the provision of this free transport. This is done by seeking competitive tenders from providers of transport services (which includes not only bus services but also rail services, ferries, taxis and private cars).

4.58. Table 4.9 shows the distribution of school transport by district within the designated area at December 1992. As the table shows, the majority of contracts are for separate school services but in other cases contracts are let for operators to provide free transport for schoolchildren on local services, whether commercial or tendered.

TABLE 4.9 **School transport by district: number of contracts at December 1992**

District	*Schools only*	*Local commercial/ school*	*Local tendered/ school*	*Total*
Cunninghame	109	56	11	176
Kilmarnock & Loudoun	90	15	1	106
Inverclyde	34	8	0	42
Renfrew	62	29	0	91
Eastwood	25	5	0	30
East Kilbride	51	9	0	60
Cumnock & Doon Valley	81	14	4	99
Kyle & Carrick	101	55	7	163
Total for designated area	553	191	23	767
Total for Strathclyde region	1,289	387	79	1,755

Source: SPTE.

4.59. The designated area accounted for 44 per cent of the number of schools contracts in Strathclyde region. The Cunninghame district by itself accounted for just over 10 per cent of contracts.

4.60. In order to examine the roles played by Western Scottish and A1 Service in schools contracts, we asked SPTE to provide information on numbers of bids made by those two companies. In the three calendar years 1992 to 1994, at least one of the two were bidders for a total of 168 contracts, of which 148 were separate schools contracts. Within this latter group both A1 Service and Western Scottish put in bids in 107 cases. There were a large number of bidders in total in the area in which A1 Service operated, but the average number of bidders per contract (for the total of 168 contracts) was slightly under four. In 1992 (ie before Stagecoach acquired Western Scottish) A1 Service won a number of schools contracts that had previously been held by Western Scottish. SPTE told us that at January 1995 A1 Service held some 50 schools contracts.

4.61. SPTE has been willing to accept bids for groups of contracts (rather than for individual contracts) from an operator as this reduces tendering costs. Both Western Scottish and A1 Service have taken advantage of this and offered a range of different packages, sometimes including particular contracts in more than one package.

4.62. Stagecoach told us that in the recent past a substantial proportion of A1 Service's business in terms of vehicle allocation had consisted of schools contracts but that this formed only a small proportion in terms of mileage operated.

4.63. Current schools contracts fall due for renewal in 1996. Stagecoach told us that competition for these would be stronger since the former members of A1 Service would be able to bid for them and as a result of the sale of the business had greater resources. However, five of the ten A1 Service members have left the bus industry. In the view of SPTE the remainder would be under some disadvantage in bidding for schools contracts since the restrictive covenant debars them from operating any local service until 1998 and an operator can make cost savings if it has schools contracts and local services in the same area. The former A1 Service members themselves did not make this point to us.

Fares and fare levels

4.64. Before its acquisition by Stagecoach in July 1994 Western Scottish had a reputation for relatively high fares. SPTE provided data showing that Western Scottish had a higher level of deductions from concessionary fare payments than any other major operator in Strathclyde on account of fares exceeding the maximum fare scales.

4.65. There has been no increase in fare scales on either Western Scottish or A1 Service routes since their respective acquisitions by Stagecoach.

4.66. Stagecoach told us that it intended to see Western Scottish become better known as a low-fare, high-quality operator. The company's policy was to freeze fares in nominal terms wherever possible, though fuel duty increases were sometimes passed on. It aimed to limit any increase in fares to below inflation.

4.67. The ability of an operator to raise the level of its fares depends in part on the extent of competition and in part on the elasticity of demand. In an earlier report[1] the MMC accepted, on the basis of a body of economic research, that the elasticity was well below one (expressed as an absolute value), ie an increase in the level of fares was likely to lead to a reduction in the number of passengers smaller in percentage terms than the fare increase and hence to an increase in revenue. We see no reason to depart from this view of the inelasticity of demand in respect to relatively small changes in fares as applied to a network as a whole. Stagecoach told us (as described in paragraph 6.21) of fare experiments in which large reductions led to increases in passenger numbers even larger in percentage terms than the fall in fares. These experiments related, however, to individual routes and times rather than to the whole network.

Entry conditions

4.68. Entry conditions into bus markets have frequently been characterized as easy. The sector has been seen as a good example of `contestability', ie market conditions in which the sunk costs that attend both entry and exit are low if not insignificant. The thinking behind this is that a bus market could be entered-at least on the small scale-by transferring the main business assets (ie buses) into the area from elsewhere, and exit could be accomplished in the same way. This scenario assumes that the new entrant

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[1]*The supply of bus services in the north-east of England*, Cm 2933, HMSO, August 1995-in particular, paragraphs 4.14 to 4.16.

is already operating in another bus market. But even for an entrepreneur entering the bus business *de novo* start-up costs would be limited, as buses can be purchased cheaply on the second-hand market or hired. Entry is also easy from a regulatory aspect, in that the requirements are few (as described in paragraph 3.9).

4.69. Bus operators can start with relatively simple operations (eg private hire services), before going on to schools contracts and then moving into the more complex business of registered commercial services and bidding for tendered service contracts. Running commercial or tendered services may sometimes bring advantages, SPTE told us, to the operator bidding for schools contracts, but it remains the case that there are widespread opportunities for small companies in the bus industry. This ease of entry for small companies is apparent from the present inquiry: even within the designated area alone there are more than 100 small companies (if we include those that only provide schools services), and many of them operate with only a few buses and in a narrowly defined locality.

4.70. As mentioned in paragraph 4.68, exit from the market for the small-scale operator is easy in the sense that buses (the operator's main assets) can be transferred to other markets, either local bus services in another part of the country or private hire or coach services. If the operator's buses are hired or leased, it would not even be necessary to find other uses for them. Other assets, for example interests in depots or maintenance facilities, are usually very limited for the small operator. Owners of bus businesses may also sometimes have the opportunity to exit from the market in a more profitable way, ie by selling the business as a whole to another operator. In some cases the price paid for the business includes a substantial element of goodwill.

4.71. Although it is easy to enter the market on a small scale, it appears to be much more difficult to expand and thereby create a major network. While there may still be some room for innovation in terms of routes (though it is now nine years since deregulation created these opportunities), expansion on to new routes has usually to be at the expense of another operator. While it is not difficult for an operator to establish an initial position on a new route or routes, it is not so easy to sustain such a position in the face of retaliation by the incumbent operator: fare reductions and increases in service frequency are likely to lead to lower revenues and higher running costs for the entrant as well as for the incumbent operator. Building up a network by adding extra routes, ie by organic growth, is therefore likely to be a strategy that at best is both expensive and risky.

4.72. There are also diseconomies of scale to be taken into account, which in practice make it more difficult to expand from being a small-scale operator with a few routes or contracts to become a medium-scale operator with a significant network. The latter tends to require higher unit costs in respect of both labour and overheads.[1] The medium-scale operator is also likely to have higher unit costs than large bus companies, which have access to economies of size (in particular in relation to the procurement of buses, finance and insurance costs). These cost advantages are accentuated when a large bus company is also more efficient than the average operator (as is often the case with Stagecoach subsidiaries).

4.73. It is not therefore surprising that major entry into new areas is more often brought about through the acquisition of an existing operator that already has a significant network rather than by building up a new network of routes by competitive means. Again this is reflected in the designated area. The two leading operators (SBH and Western Scottish) inherited their networks from the days before deregulation. Both Western Scottish and Clydeside Buses (the third largest operator in the area) were acquired by major bus groups.

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[1]Unit costs for different sizes of operator were discussed in paragraphs 3.38 to 3.45 of the MMC report *The supply of bus services in the north-east of England*.

Barriers to entry

4.74. Entry conditions in the narrow sense may therefore be relatively easy, but at the same time growth (other than by acquisition) appears to be more difficult. In this context we consider a number of aspects of bus markets that have in particular circumstances been seen as significant barriers to entry or growth. The main ones are:

- access to bus stations;
- the availability of depots and maintenance facilities;
- prepaid ticket schemes;
- arrangements for passenger information; and
- the reputation of incumbent operators for aggressive behaviour in defence of their territories.

4.75. To start with access to bus stations, the OFT carried out an investigation shortly after deregulation into restrictions on the use of Newport Bus Station in the Isle of Wight.[1] A similar problem was one of the subjects of the MMC investigation into bus services in Mid and West Kent.[2] As for depots and maintenance facilities, one of the main concerns of the MMC investigation into buses in Lancaster[3] was the role of one of the main depots in the town. In the present inquiry, however, our attention has not been drawn to any problems of bus station access or availability of depots that might be seen as affecting competition in the designated area. Nor, for the same reason, have we considered as a possible barrier to entry in this inquiry the existence of prepaid ticketing schemes or the arrangements for passenger information. As regards the former, any possible effects of the prepaid ticket schemes operated by Western Scottish in creating difficulties for new entrants or small operators would to some degree be offset by the multi-operator ticket schemes administered by SPTE which make it easier for passengers to switch between operators.

Reputation as a barrier to entry

4.76. The only potential barrier to entry that appears of significance in this inquiry is the last one listed in paragraph 4.74, namely reputation (and in this case the reputation acquired by Stagecoach). The existence of a reputation that acts as a deterrent to entry is an important element in the scenario of muted competition that the MMC set out in paragraphs 2.153 to 2.158 of their report on bus services in the north-east of England. Large companies may think that it is not worthwhile to compete with operators in contiguous areas if they are subsidiaries of other large companies-while other bus operators may expect that they would be worsted if they took on a large company.

4.77. The chances of success from the use of aggressive or predatory tactics have been a matter of debate among academic economists. The issues are to what extent and under what conditions aggressive or predatory methods are likely to be effective-and hence the extent to which a reputation for such behaviour can be plausible. Some economists (for example, F M Scherer[4]) take the view that predation-and hence a reputation for it-are not only plausible but also may under certain conditions be effective in removing competitors. Other economists, particularly those of the `Chicago School' (for example, Richard Posner and Frank Easterbrook), see successful predation as unlikely on the ground that it will not usually be a profitable strategy; they therefore view a reputation for predation as implausible.

4.78. The reputation of Stagecoach does not depend particularly on its behaviour in the designated area but reflects behaviour in the various bus markets in the UK where Stagecoach operates. Matters to be taken into account in an assessment of the nature and effect of Stagecoach's reputation are the competitive behaviour of the company (including investigations by and reports of the competition

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[1]*The Southern Vectis Omnibus Company Ltd: refusal to allow access to Newport Bus Station, Isle of Wight*: *a report by the Director General of Fair Trading on an investigation under section 3 of the Competition Act 1980, 17 February 1988.*

[2]*The Supply of Bus Services in Mid and West Kent*, Cm 2309, HMSO, August 1993.

[3]*Stagecoach Holdings plc and Lancaster City Transport Limited: a report on the merger situation between Stagecoach Holdings plc and Lancaster City Transport Limited*, Cm 2423, HMSO, December 1993.

[4]Joint author with David Ross of the standard text *Industrial Market Structure and Economic Performance*, published by Houghton Mifflin Company, 1990.

authorities on that subject) and accounts in the media relating to the same matters. The former provide elements on which reputation is based, and the latter furnish the means by which others in the bus industry may come to form their views on that reputation.

4.79. The main cases in which the competition authorities have investigated the behaviour of Stagecoach and concluded that it was predatory are two investigations by the OFT under the Competition Act, relating to behaviour in Cupar (in Fife) and Bognor Regis, and one investigation by the MMC,[1] which covered certain events in Darlington and South Shields. While there have also been a number of occasions when the behaviour of Stagecoach has been investigated by the OFT and not found to be predatory, this may not have such an impact on the Stagecoach reputation as the cases just quoted.

4.80. One of the main ways in which news and information is transmitted through the bus industry is the trade press. Publications like *Coach and Bus Week* are widely read in the industry and carry news (including, among many other types of item, the decisions and views of the competition authorities) relating to events throughout Great Britain. In addition to the trade press there are occasionally stories in the national press, and on radio and television, about events in the bus world. Stagecoach has sometimes featured in these, for example in relation to the events in Darlington that the MMC investigated.

4.81. The views of the local operators, and indeed passengers, about the competitive stance of Western Scottish/Stagecoach A1 Service are likely to reflect not only the reputation of Stagecoach (derived as it may be from events that occurred in various parts of Great Britain) but also the behaviour of the subsidiary in its own operating area. We have heard both from operators and from passengers of the critical response that greeted the introduction of the Coastlink 535 service-with Stagecoach A1 Service as one of the four operators-in competition with the 585 Coastline service of Ashton Coach Hire (see paragraph 4.52). The fact that the joint service was seen to have adopted a similar name, number and livery contributed to the view that a small operator had been the subject of unfair competition, and Western Scottish/Stagecoach was seen as a participator, and perhaps the leader, in this attack.

[1]*The supply of bus services in the north-east of England*.