

6 Views of British Bus

6.1. This chapter summarizes the views of British Bus given in hearings and in written submissions.

British Bus: evolution and development strategy

6.2. British Bus told us that British Bus Plc was incorporated on 19 October 1992: it had evolved out of the bus operating division of Drawlane, and was founded by the executive management team created to direct that division.

6.3. British Bus acquired the whole of the issued share capital of six bus operating companies on 10 December 1992; these included four which operate in and around the designated area (namely Midland Red North, NWRC, Bee Line and Crosville Wales). The company also acquired Stevensons (in 1994), which has some operations in the designated area, before the acquisition of Arrowline. In 1994 the business was reorganized and BBG was established as a holding company to oversee the financial operations of the company.

6.4. A business plan and budget were centrally agreed, but management and operations were under local control, and few central guidelines were given to subsidiaries on competitive strategy and route expansion. Individual operating companies had a considerable degree of autonomy. In contrast, growth by acquisition was determined by BBG's policy. There was a director of corporate strategy, concerned with major acquisitions and diversification.

Competition among bus operators

6.5. The nature of competition differed in different parts of the specified area. British Bus drew a distinction between South Manchester and the four Cheshire districts. In an urban area with high-frequency bus services people would be more likely to use buses than in rural areas. Customer attitudes and requirements varied between these two types of area; but the variations could be addressed by experienced operators. Also, the county council would have a more substantial role in rural areas, subsidizing local networks and links between the rural areas and the towns which served them.

6.6. In South Manchester there was considerable competition from the major operator in the area, GMBS, and from a number of smaller companies. Cheshire was predominantly rural and there was not the same level of competition; in Macclesfield, for example, there were geographical reasons for this- the hills of the Peak District reduced competition from the east. However, FirstBus was the main competitor in Congleton and Crewe, and there was also developing head-to-head competition with British Bus from Nova Scotia, in the Winsford area. British Bus commented that there were few barriers to entry into the bus business. British Bus itself was seeking new markets just outside the designated area in Warrington, and had introduced a network of services there with a number of novel fare discounts. British Bus added that WBT's response had been to move outside Warrington to compete with other British Bus services.

6.7. The British Bus move into the market in Warrington was a local initiative, suggested by NWRC during an annual financial review: WBT was the only reasonably sized urban transport operation in the North-West which appeared to have no competition. NWRC pointed out the opportunity: but effective competition in a new area with a long-established incumbent operator would require investment which the main Board would have to agree.

6.8. In approaching a traditional market British Bus had followed established routes, and generally used existing route numbers with a prefix figure '1' for identification. In commenting on the criticism noted in the media, that scheduling was close to that of incumbents, British Bus pointed out that where existing frequencies were of ten minutes or less, its services could not be far removed in time from the existing timetable.

6.9. British Bus commented on the degree of loyalty to the incumbent operator. As it gained operational experience in the area it began to focus resources on the New Town, where loyalty to the incumbent was less, rather than the older part of Warrington. The current fleets operating on routes in or near Warrington, excluding inter-urban routes, were 40 for British Bus and about 70 for WBT.

6.10. British Bus said that its fares strategy in Warrington was based on the WBT single fare when it entered the market in January 1995. For a promotional period it offered return trips for the single fare rate. Another promotional offer was free carriage for concessionary fare holders for about six weeks. Free rides were offered to all passengers for the two days prior to the official opening of services. But the main element of the fares strategy was the single fare, around which initiatives or offers could be deployed. British Bus added that fares in Warrington had been among the highest in the Merseyside and Greater Manchester areas. Following the introductory period it had moved to a £1 return fare, against a single fare of 64p; a discount not available before its move into the market. This should, however, be seen in perspective: only 3 or 4 per cent of ticket sales (in cash terms) came from the sale of return tickets.

6.11. British Bus commented on the allegations made by WBT to the Transport Select Committee that, when British Bus began to compete in the Warrington market in January 1995, it had issued an ultimatum to the incumbent operator about selling its business or being driven out of the market. British Bus denied this. British Bus had written to all municipal companies asking if they were interested in selling their businesses; where there had been no reply, or a negative reply, it was for the local subsidiary to decide whether to compete. British Bus had seen an opportunity to increase its market share, and it had done so.

6.12. British Bus had expected an operational response to its entry into the market, and WBT had responded by moving outside its traditional market on to inter-urban services in competition with British Bus. This was seen by British Bus as the key element of the response, though WBT had also introduced travelcards, and had offered cheaper fare rates on the new services outside the borough.

6.13. British Bus had not implemented any response to competition from Nova Scotia. In the face of such competition it had simply continued to maintain reliability and punctuality. It felt that any further initiative was simply not needed.

6.14. British Bus would not normally expect subsidiaries to compete with each other for tendered services, but to discuss which could provide a better service and a better price, and put in the most competitive bid. This did mean, British Bus agreed, that as a result of the merger the number of bids would fall. On route applications it was expected that subsidiaries would act in the best interests of BBG. British Bus quoted the example of NWRC wishing to create a link between Liverpool and North Wales, and the Crosville Wales subsidiary formulating a proposal to link the same areas; clearly, between the two subsidiaries an agreement to provide an effective service could be reached.

6.15. British Bus commented that the significance of fare levels varied. A rival company (not in the specified area) had increased fares, and British Bus, which ran a number of routes in direct competition, had held fares level, expecting to gain passengers and hence increase revenue. This had not happened. Another subsidiary, in Northumbria, had reduced fares to seek higher revenue: but after an initial decrease revenue stabilized at the former level. On the other hand, increasing fares did not necessarily increase revenue; British Bus had found from experience and had also heard elsewhere in the market-place that in some places a penny on fares could lead to a decrease in passenger usage.

6.16. There was no central strategy for setting fares within British Bus. Fares should to a great degree be established through competition and through local decision. There had been an increase in fares for former Star Line services in October 1995 by local British Bus management, but this was after a two-

year period in which Star Line fares had remained unchanged. Generally, British Bus felt that its fare increases for services in the specified area had remained in line with those of other operators; while on subsidized routes fares were largely determined by the tendering authorities, which maintained some uniformity. British Bus added that it did not keep data on fare increases by district. Fare increases tended to be the same across all districts for one operating subsidiary.

The merger and its consequences

6.17. British Bus was approached by Mr Simon Fawcett, the owner of Arrowline, on the possibility of an acquisition of his company. As a high-quality, low-cost organization, which had new vehicles and established commercial routes, and which had been particularly successful in the tendering market in Greater Manchester, it was an attractive proposition. British Bus also felt that Star Line's coaching activities and airport-related work could be further developed. It saw significant growth potential arising from Star Line's existing links with Manchester Airport; and experience acquired in this area of business activity could be applied elsewhere. British Bus was not only interested in moving passengers (eg from terminal to aircraft, or following diversion to Manchester of flights scheduled for other UK airports), it was equally interested in carrying aircrew: from airport to airport, between aircraft and terminal and so on. Star Line's success and local reputation were such that British Bus had retained its identity when marketing its services.

6.18. A significant proportion of Star Line's mileage in South Manchester was the result of competitive tendering; but in Cheshire the proportion was much lower. It was unlikely that Star Line's customers would have noticed any difference in the pattern of activity since the merger: service patterns had remained generally unchanged. British Bus was now planning to move the Knutsford base to Wythenshawe. This would bring vehicles closer to the major market in South Manchester, and would also make it easier to recruit staff, which was difficult in semi-rural Knutsford.

6.19. British Bus felt that opportunities for expansion in Cheshire were limited. There were a number of traditional routes, and most passenger movements or potential passenger movements were well catered for. The local service in and around Knutsford, introduced by the previous owner of Star Line, had at one time existed in the past but had been abandoned. British Bus saw value in developing in South Manchester, in particular, the Star Line passenger transport business related to Manchester Airport. It would continue to compete for tendered work in Cheshire and Greater Manchester but would look to convert some tendered work to a commercial basis.

6.20. The merger had improved terms and conditions for Star Line staff. Hourly rates and holiday and Bank Holiday payment arrangements had been improved, and death benefit and profit-related pay introduced. There had been no redundancies. The merger had provided British Bus with new buses, and there were also cost savings. British Bus had noted no response from competitors that might be clearly attributed to the merger. No significant changes to services were planned. British Bus added that it had not noted any public reaction to the merger. It saw scope to develop passenger benefits through, for example, ticket inter-availability. In terms of competition, the merger had no consequences in South Manchester, where competitive pressure was intense.

6.21. In Cheshire the situation was stable and British Bus saw no reason why that situation should change. In Macclesfield, British Bus said that the merger had increased its market share: but the new level was comparable to the levels of market share previously attained in other districts in Cheshire which had not elicited disapproval. In any event, bus mileage was very low in the four Cheshire districts, so that a significant percentage increase in the company's market share in those districts would represent only a small actual increase in activity. As to tenders in Macclesfield, British Bus said that it would be damaging to its relationship with the tendering authority to pitch its prices high. It would want to maintain its share of the business.

Jurisdiction

6.22. British Bus said that there were no districts adjacent to the area specified in the terms of reference which would be affected or potentially affected by the merger. It had excluded Crosville Wales from the data provided on subsidiaries because, while on the Cheshire fringe, it was some distance from the area under investigation. The basis of the definition of the area specified in the terms of reference was not clear: British Bus had had to assume that the area had been so defined because British Bus subsidiaries operated there. Some of the districts included in the specified area had no Star Line operations. In the event that the MMC had to reconsider the structure of the specified area, British Bus suggested that the area should be reduced. It had never understood why the district of Crewe & Nantwich was included, as there were no Star Line routes there. As to the share of supply test, the MMC would have to make up their own minds; and British Bus said that, in the Cheshire districts particularly, the size of the population did not suggest that the specified area was a substantial part of the UK. This was also true of the number of bus users in the Cheshire districts; while in South Manchester British Bus was a minority operator. British Bus agreed that turnover was a better measure of supply of bus services (for the purpose of implementing the share of supply test) than vehicle mileage; it did not wish to propose any other measures for that purpose. British Bus added, however, that it would be difficult for the MMC to find a more substantial comparator than concessionary fare revenues.

6.23. Commenting on the MMC's notification to British Bus of the legal requirement to scrutinize alternative areas, as it appeared possible that the share of supply test was not met, it said that it was not overly concerned about what the area should be, provided that the selection of a new area did not entail further work and delay the eventual decision.

Remedies

6.24. British Bus said that in the event of divestment being recommended there was no obvious buyer for Star Line. Though in principle a sale was always possible, purchase by another major operator could end up in a further referral. Divestment of part of the former Star Line services in the Macclesfield district, in the event of a detriment being found there, was also possible, though this would not be welcome. On the possibility of giving undertakings-of a regulatory, anti-predation or profit disclosure nature-British Bus said that it would of course wish to avoid these if possible, but the concept was acceptable. The company wished to work within the spirit as well as the letter of the law. Should it be decided that such remedies were necessary, it would give whatever undertakings seemed appropriate.

D J MORRIS (*Chairman*)

I S BARTER

R H F CROFT

S EILON

M R PROSSER

A J NIEDUSZYNSKI (*Secretary*)

9 February 1996