

Competition from rail

1. This appendix sets out how we assessed competition from rail and the extent to which rail acts as a constraint on megabus, Scottish Citylink and the joint venture. It includes consideration of (a) generalized costs, (b) methods by which megabus and Scottish Citylink set their fares, and (c) conclusions on competition between rail and coach in previous CC transport merger inquiries. This analysis was only part of our assessment of competition from rail on each flow (as set out in Appendix J). For each flow we considered (in no particular order):
 - (a) the generalized cost of coach travel and rail travel (which takes into account frequency, journey times, fares and other factors);
 - (b) the relationship between changes in coach and rail fares and service levels and coach passenger numbers, to the extent that data was available;
 - (c) the methods by which the parties set their fares, including a ‘rule of thumb’ described by Stagecoach in the context of setting megabus fares in relation to rail fares taking into account differences in journey times; and
 - (d) other developments on a flow (for example, potential changes to rail services in the future).

Generalized costs

2. A passenger’s choice of mode of travel and ability to substitute between different modes are likely to depend on a number of factors including:
 - (a) the cost of the journey;
 - (b) the journey time, including, if public transport is used, the time spent travelling from the passenger’s starting point to the initial boarding point (such as a rail station or bus stop);
 - (c) the time spent travelling from the final station or stop to the passenger’s ultimate destination;
 - (d) the frequency and directness of the services available and the ease of interchange; and
 - (e) other factors such as personal preference, whether the passenger is travelling alone or in a group, the amount of luggage and the reliability of different modes.
3. These factors are sometimes included in a wider measure of ‘generalized cost’ of a journey, including a passenger’s valuation of time spent travelling. The key components of generalized costs are in-vehicle time, walk time, wait time, interchange penalties,¹ fares and mode penalty.² Generalized cost can be expressed as a generalized journey time in minutes, with the cost of the fare converted into a number

¹This is a time ‘penalty’ that is added for interconnecting between services.

²This is a time ‘penalty’ that is usually added for comparing public transport with private transport.

of minutes based on estimates of the passengers' values of time. For example, the value used by TAS³ for the cost of time was £4.35 an hour in the peak period. The Department for Transport uses £4.46 an hour for non-working time per person and £5.04 an hour for non-working time per person for commuters.⁴ The CC used this same value of just over £5 an hour in the NEG/Greater Anglia inquiry. However, when assessing generalized costs there are normally uncertainties about the value of components and which components to take into account. Moreover, the value of time varies by the type of traveller and the type of journey being undertaken. For example, the value of time will be lower than £5 an hour for off-peak travel or leisure travel, the type of travel that we are primarily considering in this inquiry.

CC analysis of generalized costs

4. To assess generalized costs in this inquiry we focused on fares and journey time from station to station (factors (a) and (b) in paragraph 2). To reflect the fact that some coach flows on the Saltire Cross require an interchange at Perth (part of factor (d) in paragraph 2), we added 10 minutes⁵ to the coach journey time on some flows (notably Glasgow–Inverness, Edinburgh–Dundee, and Edinburgh–Aberdeen) for both megabus and Scottish Citylink pre- and post-joint-venture.
5. For simplicity, in our analysis we ignored the following generalized cost factors set out in paragraph 2:
 - (a) Factor (c). Walk time should not be a significant factor in the consideration of generalized costs when the journeys are long distance and rail and coach stations are, in the case of the flows we considered in detail, almost always located close to one another.⁶
 - (b) Frequency or wait time (factor (d)). The difference between coach and rail wait times can arguably be assumed to be zero in this case, irrespective of the relative frequencies of coach and rail services, because typically we are comparing tickets bought for specific times of coach or rail services (ie the ticket is only valid on that coach or train and one does not just turn up and wait for the next available coach or train). Moreover, since rail frequencies and coach frequencies (when combined across the parties) are broadly comparable, the cost associated with waiting time should be broadly the same for both modes (since there is no reason why a coach passenger would turn up earlier for a coach journey than a rail passenger would for a rail journey).
 - (c) Other factors (factor (e)). We were not able to quantify other factors (such as whether rail provides more comfort and is considered a 'premium' service). Instead, we took these factors into account as part of our judgement in interpreting the implied value of time and assessing whether specific rail and coach services compete.
6. We assessed the extent to which comparisons between rail and coach fares and journey times imply a value of time that is more or less than benchmark figures for the value of time (for example, £5.04 an hour in paragraph 3):

³ *Competition in the UK Passenger Transport Industry*, August 2004, TAS Partnership, page 12.

⁴ Given in 2002 prices and values and taken from *Value of Time*, Department for Transport, TAG Unit 3.5.6, June 2005.

⁵ As used in *Competition in the UK Passenger Transport Industry*, August 2004, TAS Partnership, page 13.

⁶ For flows to Perth, we have not made any adjustment for the difference between megabus journeys to Broxden Park and Ride and train journeys to the station in the city centre. If taken into account, this would increase the coach journey time slightly and increase the fare by £1, since this is the price of a ticket on the bus between Broxden Park and Ride and Perth city centre. However, the parties noted that the Park and Ride service may offer a time benefit to many passengers. Given these offsetting factors, we did not consider that this would alter our findings.

- (a) if the value of time is *above* the benchmark value of time⁷ (eg above £5.04 an hour), it suggests that the rail fare does not constrain the coach fare because the implied value of time is too high; or
- (b) if the value of time is *at or below* the benchmark value of time, it implies that the rail fare constrains the coach fare and there is little scope for coach fare increases or service reductions.
7. The parties submitted that drawing these inferences from this analysis ignored a passenger's valuation of his/her own time. In particular, they noted that the analysis was driven by average values.⁸ They stated that any analysis of competitive constraints had to be carried out on the basis of what the marginal, rather than the average, passenger would do following an increase in fares or reduction in service levels.
8. We agree that it is marginal passengers that matter when considering switching between services. Our analysis compares the implied value of time for an average train and coach journey with a benchmark average value of time. The benchmark average value of time is just that, and in interpreting the results of our analysis we took into consideration whether the implied value of time was so high in comparison with the benchmark average value of time that marginal passengers would need a very high valuation of their own time before switching. This indeed appeared to be the case, particularly in relation to our megabus-rail generalized cost comparisons.
9. To calculate an implied cost of time, we took the difference between rail and coach return fares for each flow and divided it by the difference in return journey times between coach and rail for each flow (adjusted for any change of vehicle on coach, as described in paragraph 4). In general, for the flows we considered, Table 4 shows that rail is faster and more expensive than both megabus and Scottish Citylink services.
10. We calculated an implied cost of time for a number of different combinations of rail and coach journey times and fares. As a starting point we established the lowest value for the cost of time for advance return tickets (ie those that most passengers on the Saltire Cross flows would be considering). This was the smallest difference in fares and the largest difference in journey time between modes. We therefore compared the slowest and most expensive advance return ticket on the coach (ie the worst deal a coach passenger could get) with the quickest and cheapest advance return ticket on the train (ie the best deal a rail passenger could get). This scenario (scenario A below) is therefore the scenario most likely to show rail acting as a constraint on coach. Therefore, if we found there was no constraint in this extreme case, we could assume that rail did not act as much of a constraint in the more realistic comparison scenarios described below.
11. We considered that the comparison in scenario A did not compare like-for-like tickets⁹ between rail and coach or reflect the fact that on some flows one or two services are much faster or slower than others. We therefore assessed average

⁷Where the difference between the implied cost of time and the benchmark cost of time is not great, there is a value judgement as to whether this matters. This will include consideration of those factors set out in paragraph 5(c) which are not included in the generalized cost calculation.

⁸The parties noted that this might or might not adequately reflect the average time valuation of Scottish passengers. However, we had no basis on which to adjust the value for time in Scotland from the benchmark values we were using, although we noted that the value of time was likely to vary between individuals more generally as well.

⁹We have confirmed that the terms and restrictions on coach and rail tickets are not so different as to make comparison between them inappropriate. For example, an off-peak return on Scottish Citylink can only be used after 9.30am, and is therefore comparable to a cheap day return on the train.

journey times and fares for comparable train and coach ticket types.¹⁰ The scenarios we examined are set out in Table 1.

TABLE 1 Scenarios examined

Scenario	Coach journey time	Train journey time	Coach fare	Train fare
A	Slowest	Quickest	Most expensive advance return	Cheapest advance return
B	Slowest	Quickest	Most expensive cheap day return	Cheap day return/cheapest walk-on return
C	Slowest	Quickest	Standard return	Standard return
D	Average	Average	Cheapest advance return	Cheapest advance return
E	Average	Average	Cheap day return	Cheap day return/cheapest walk-on return
F	Average	Average	Standard return	Standard return

Source: CC analysis.

Note: For train, the cheapest walk-on return is, on some flows, a saver or supersaver ticket.

12. Scenarios B and C provide a comparison between like-for-like fares but for the slowest coach and the quickest train. Scenarios D, E and F provide direct comparisons between like-for-like rail and coach fares and average rail and coach journey times. We therefore considered that scenarios D, E and F were the most realistic comparisons and were the most relevant estimates for our analysis.
13. Tables 2 and 3 set out the findings from our analysis of these scenarios, expressed as a cost (in pounds) per hour of time, ie how much a traveller would need to value the additional journey time saved by taking the train rather than the coach for given rail and coach fares and journey times assumed under each scenario.¹¹ Figures shaded are those that are below the £5 benchmark. However, this benchmark value is for travel in non-working time by commuters. One would expect the benchmark value of time to be lower for off-peak travel or leisure travel, which we are considering here.

¹⁰For example, we compared cheap day returns on the coach with cheap day returns on the train. For each ticket type, we took into account the different restrictions and availability on coach and train to ensure that like-for-like comparisons were being made. This was on the basis that, if a passenger were buying a cheap advance ticket for the coach, that passenger would also be likely to be comparing it with a cheap advance ticket for the train.

¹¹We have included Dundee–Perth in Tables 2 and 3, even though that was filtered out. The table therefore provides comparisons for all flows that overlap with megabus on the Saltire Cross.

TABLE 2 Implied cost per hour of time

		<i>(A) Slowest and most expensive advance return ticket on coach compared to quickest and cheapest advance return ticket on train</i>			<i>(B) Slowest and most expensive cheap day return ticket on coach compared to quickest and cheap day/walk-on return ticket on train</i>			<i>(C) Slowest and standard return ticket on coach compared to quickest and standard return ticket on train</i>		
		<i>Megabus/ train</i>	<i>SCCL/ Train</i>	<i>Joint venture/ train</i>	<i>Megabus/ train</i>	<i>SCCL/ train</i>	<i>Joint venture/ train</i>	<i>Megabus/ train</i>	<i>SCCL/ train</i>	<i>Joint venture/ train</i>
Glasgow	Perth	12.29	3.59	3.59	8.43	2.22	2.22	22.43	5.93	5.93
Edinburgh	Perth	-37.67	8.23	15.94	-19.67	3.29	6.38	-37.67	4.94	9.56
Dundee	Perth	13.07	9.56	10.93	3.86	2.44	2.79	13.07	5.63	6.43
Perth	Inverness	23.00	5.19	5.19	13.50	3.19	3.19	23.00	1.31	1.31
Edinburgh	Inverness	10.63	1.11	1.52	34.25	4.74	6.52	40.13	4.64	6.39
Glasgow	Inverness	7.97	1.08	1.36	25.69	4.64	5.84	30.09	4.55	5.73
Dundee	Glasgow	14.74	6.21	7.47	18.35	6.17	7.42	18.35	4.99	6.00
Edinburgh	Dundee	4.90	2.31	2.43	5.27	1.15	1.22	5.27	0.12	0.12
Dundee	Aberdeen	12.27	3.46	15.00	20.59	5.13	22.25	20.59	3.52	15.25
Edinburgh	Aberdeen	4.81	0.84	1.67	15.51	3.43	6.81	23.38	5.54	11.00
Glasgow	Aberdeen	5.31	0.91	2.19	17.13	3.73	8.94	25.81	6.03	14.44
Perth	Aberdeen	18.00	7.75	21.91	18.00	4.52	12.78	18.00	2.63	7.43

Source: CC analysis.

Notes:

1. Scenario A is based on the most expensive megabus online fare (including on-the-day fares), Citylink Apex returns and the cheapest ScotRail advance ticket available (not including cheap day returns)—Apex, Value Advance, Saver or Supersaver return fares. All tickets for all modes relate to specific coach or train times.
2. Scenario B is based on the most expensive megabus on the day online fare, Citylink cheap day and off-peak returns and ScotRail cheap day/Saver/Supersaver returns.
3. Scenario C is based on the most expensive megabus on the day online fare, Citylink standard returns and ScotRail standard returns.
4. Edinburgh–Perth is negative for megabus because the megabus service is quicker and cheaper than the train.
5. The implied cost of time is calculated for each flow by taking the difference between rail and coach fares and dividing it by the difference in journey times between coach and rail (adjusted for any change of vehicle on coach as described in paragraph 4). So, for example, for Glasgow–Perth the implied cost of time of £12.29 in column A is arrived at by taking the difference between fares (£13.60–£15.00) and dividing by the difference in times expressed in hours (150–108)/60.

TABLE 3 Implied cost per hour of time

		(D) Average journey times and cheapest advance return tickets on coach and train			(E) Average journey times and cheap day/walk-on returns on coach and train			(F) Average journey times and standard returns on coach and train		
		Megabus/ train	SCCL/ train	Joint venture/ train	Megabus/ train	SCCL/ train	Joint venture/ train	Megabus/ train	SCCL/ train	Joint venture/ train
Glasgow	Perth	23.67	9.50	15.59	12.04	3.36	4.57	32.04	9.00	12.23
Edinburgh	Perth	-34.17	42.44	-7,722.00	-14.10	11.73	-1,836.00	-27.00	17.60	-2,754.00
Dundee	Perth	19.10	12.03	23.57	4.24	3.07	3.78	14.38	7.07	8.73
Perth	Inverness	92.07	14.66	31.78	40.28	5.84	7.79	61.08	2.41	3.21
Edinburgh	Inverness	110.53	8.32	19.40	179.37	10.86	16.63	202.74	10.64	16.30
Glasgow	Inverness	25.15	6.31	13.31	40.81	8.23	11.41	46.13	8.07	11.18
Dundee	Glasgow	22.64	11.45	16.13	22.75	8.48	10.85	21.70	6.86	8.77
Edinburgh	Dundee	9.83	6.69	7.47	7.26	1.83	1.72	6.50	0.18	0.17
Dundee	Aberdeen	24.59	11.78	59.29	26.52	10.49	37.69	26.52	7.19	25.84
Edinburgh	Aberdeen	11.52	4.23	9.44	18.69	5.26	7.72	27.18	8.49	12.47
Glasgow	Aberdeen	12.54	4.61	12.54	20.35	5.73	10.24	29.59	9.26	16.55
Perth	Aberdeen	26.23	13.09	38.94	20.36	6.83	14.24	19.38	3.97	8.28

Source: CC analysis.

Notes:

- Scenario D is based on the cheapest megabus online fare, Citylink Apex returns and the cheapest ScotRail advance ticket available (not including cheap day returns)—Apex, Value Advance, Saver or Supersaver return fares. All tickets for all modes relate to specific coach or train times.
- Scenario E is based on the cheapest megabus on-the-day online fare, Citylink cheap day and off-peak returns and ScotRail cheap day/Saver/Supersaver returns.
- Scenario F is based on the most expensive megabus on the day online fare, Citylink standard returns and ScotRail standard returns.
- Edinburgh–Perth is negative for megabus because the megabus service is quicker and cheaper than the train. It is also highly negative for Scottish Citylink and the joint venture because the difference in journey time is less than 1 minute between the two.
- The implied cost of time is calculated for each flow by taking the difference between rail and coach fares and dividing it by the difference in journey times between coach and rail (adjusted for any change of vehicle on coach as described in paragraph 4). So, for example, for Glasgow–Perth the implied cost of time of £23.67 in column D is arrived at by taking the difference between fares (£13.60 – £2.00) and dividing by the difference in times expressed in hours (150 – 121)/60.

14. This evidence on generalized costs is considered along with other analysis in relation to rail in the flow-by-flow analysis in Appendix J. However, taken alone, Tables 2 and 3 have a number of implications:

- In the like-for-like comparisons, there is only one flow on which megabus, Scottish Citylink, and the joint venture are *all* constrained by rail under certain scenarios.¹² This is Dundee–Perth under scenario E. However, this flow was filtered out in Appendix G. In all other like-for-like scenarios and flows, at least one of megabus, Scottish Citylink or the joint venture is not constrained by rail. In scenarios A, B, and C, there are three flows on which megabus, Scottish Citylink and the joint venture are *all* constrained by rail under certain scenarios (Edinburgh–Dundee and Edinburgh–Aberdeen under scenario A, and Dundee–Perth under scenario B).
- In general, the cost of time implied by comparing megabus’s Saltire Cross services with rail services is substantially above the benchmark estimate in all scenarios. This suggests that megabus fares are not constrained by rail fares,¹³ even when other factors such as comfort and reliability are taken into account. There are some important exceptions on certain flows:

¹²Those scenarios where all three (megabus, Scottish Citylink, and the joint venture) are constrained are most relevant because they show the situations where, even with separate branding of services (and possible price differentiation) post-joint-venture, rail still acts as a constraint.

¹³ScotRail’s Friends Fares tickets, which allow cheap day return train travel for £10 for four adults travelling together on this flow, only account for [X] per cent of trips and so we did not take these into account here.

- (i) On the Edinburgh–Perth flow, megabus is quicker and cheaper than the train in all scenarios.
 - (ii) On the Perth–Dundee flow (which has already been filtered out in Appendix G), cheap day returns (Scenarios B and E) are below the benchmark value of time.
 - (iii) On the Edinburgh–Dundee flow, the implied value of time is closer to the benchmark value in all scenarios,¹⁴ suggesting that megabus fares could be constrained by rail on this flow.
 - (iv) Edinburgh–Aberdeen is less than the benchmark cost under scenario A only.
- (c) In general, the cost of time implied by comparing only Scottish Citylink pre-joint-venture Saltire Cross services with rail services is closer to the benchmark estimate than for megabus, and often below £10.¹⁵ In scenarios A, B and C, the Scottish Citylink implied value of time is less than £5 on most flows. However, when like-for-like comparisons are made in scenarios D, E and F, the implied value of time is higher and in some cases above £10 (especially in scenario D, which considers the cheapest advance return tickets).
- (d) Post-joint-venture on the Saltire Cross, the implied value of time is almost always higher than that for Scottish Citylink pre-joint-venture. Examining the like-for-like comparisons in scenarios D, E, and F, the implied value of time is generally above the benchmark estimate, with the following exceptions: (a) Edinburgh–Perth (all three scenarios); (b) Glasgow–Perth (scenario E only); (c) Dundee–Perth (scenario E only); (d) Perth–Inverness (scenario F only); and (e) Edinburgh–Dundee (scenarios E and F).
15. Tables 2 and 3 therefore suggest that, for the majority of flows and ticket types when making like-for-like comparisons between rail and coach, the constraint from rail on coach appears weak.¹⁶ However, for certain cheap day return/cheap walk-on return fares and standard return fares on certain flows, there may be more of a constraint from rail on Scottish Citylink (pre-joint-venture and, to a lesser extent, post-joint-venture) than for cheap advance tickets. For megabus, when making like-for-like comparisons, the constraint from rail appeared very limited. Therefore, our analysis suggested that, to the extent that rail acts as a constraint, it does so on certain Scottish Citylink fares and not on megabus fares.
16. The parties submitted that this interpretation of the analysis did not take into account (a) the behaviour of the marginal passenger (see paragraphs 7 and 8), and (b) other factors, such as comfort and reliability of train services, for which passengers may be willing to pay a premium (see factor (e) in paragraph 2). They proposed that either the benchmark value of time or the implied value of time would need to be adjusted to reflect this. Whilst not making any formal adjustments for these factors, we took them into account in assessing the implied value of time against the benchmark

¹⁴It is above £6.50 under scenarios D, E and F.

¹⁵This is because (a) megabus services were often faster than Scottish Citylink and (b) Scottish Citylink, whilst matching some of megabus's fares, also offered standard, cheap day and apex return tickets which were closer to rail fares than those of megabus.

¹⁶Under the new concessionary travel scheme in Scotland, coach travel will be free for some proportion of coach passengers who qualify for the conditions of the scheme, but rail travel will be priced as before. We would not expect rail to act as a pricing constraint on ticket sales to these passengers (except in the cases of certain local authorities which continue—outside the provisions of the National Concessionary Travel Scheme—to fund concessionary rail travel within their own local authority areas).

value of time. We found that the difference between the implied value of time and the benchmark value of time was large enough that the two factors cited by the parties would not make a difference to our conclusions.

17. The parties additionally noted that students were able to get a one-third discount from the rail fare with a student rail card. This was most relevant to the Dundee–Glasgow, Edinburgh–Dundee, and Glasgow–Aberdeen flows on which the proportion of students was higher (around 15 per cent according to our survey). We considered that even with rail fares reduced by a further one-third, the value of time implied by comparing megabus and train fares would not fall below the £5 benchmark (although for the Edinburgh–Dundee the constraint might be sufficient). We accepted that in relation to Scottish Citylink fares pre- and post-joint-venture this might be enough to act as a constraint on fares for student passengers. However, on most flows on the Saltire Cross, our survey suggested that students accounted for no more than 20 per cent of passengers on all flows, and less than 10 per cent on most flows. We considered that this, in conjunction with possible pent-up demand at lower fare levels, would mean that the constraint placed on megabus fares was therefore somewhat limited.
18. The parties also submitted that the market facts belied the conclusions from our analysis. They argued that it would be inexplicable that train services were able to attract any passengers, given that coach services apparently offered a much better deal. The fact that rail had a large number of passengers on the overlap flows proved, in their view, that other factors—like comfort and reliability—were significant influences on passengers’ choice of transport service.
19. The parties presented an analysis of generalized costs based on competition between megabus and Scottish Citylink. This analysis showed that, on most flows and for most fare types, megabus was both faster and cheaper than Scottish Citylink, leading to a negative implied cost of time. The parties noted that on Edinburgh–Perth, we had found a similar result when comparing rail and coach using generalized costs. They therefore suggested that we should also find that there was no constraint between Scottish Citylink and megabus on any flows where megabus was both faster and cheaper than Scottish Citylink. However, our generalized cost analysis was only one component with which we evaluated competition between rail and coach on each flow (as set out in paragraph 1 of this appendix). In the case of our analysis of Edinburgh–Perth rail and coach competition, the factors that we considered, when taken together, did not allow us to conclude that rail was acting as a constraint on coach. In the case of megabus and Scottish Citylink competition we saw compelling evidence that the parties were competing. We found this evidence by examining, among other factors, passenger numbers over time, fare changes, strategy documents and the response of Scottish Citylink to megabus’s entry.
20. We considered that the analysis supported the conclusion that rail and coach on these flows were, for most ticket types, in different markets, with rail not constraining the behaviour of coach operators, particularly megabus. In addition, those passengers most likely to be using megabus and Scottish Citylink services (students, pensioners and leisure travellers) were more likely to have a lower valuation of time than the benchmark value of time and would also be less likely to place as high a value on comfort and reliability.

Methods by which the parties set their fares

Scottish Citylink

21. The parties submitted that fares on Scottish Citylink were calculated on the basis of the cost of operating the service and passenger demand. In addition, they noted that Scottish Citylink fares were compared with rail fares. However, we found that train fares did not appear to have formed an explicit part of the consideration of fares for Scottish Citylink in the past. Although the former Managing Director of Scottish Citylink told us that an assessment of rail fares was a part of the coach fare-setting process, there does not appear to have been any formal, documented assessment of rail fares in the case of Scottish Citylink prior to the joint venture. Indeed, fare review documents submitted for Scottish Citylink for March 2002, February 2004 and May 2005 did not mention train fares at all in the analysis of how to revise coach fares. Scottish Citylink internal documents do, however, discuss [REDACTED].

megabus

22. The parties stated that fares were set on megabus based on a review of the commercial position using route costing, a review of usage patterns on individual journeys, a review of pricing against competing modes of transport and consideration of the 'low-cost' principles of the product. In addition, the October 2005 price changes on the Scottish megabus network were, according to the parties, [REDACTED].
23. In addition, the parties also submitted the following evidence to support the proposition that rail acted as a constraint on megabus coach fares:
- (a) A list of competing coach and rail fares on certain overlap flows dating from before the joint venture and relating to megabus services, the majority of which were in England.¹⁷ Whilst this showed that rail fares were listed against coach fares in this document, it did not provide an indication of how they might have been used in deriving megabus fares.
 - (b) megabus used advertising campaigns designed to attract people from rail. For example, it distributed 10,000 leaflets at Glasgow Queen Street rail station in September 2003. We considered that, whilst this might be evidence of coach services constraining rail services, it was not evidence of rail services constraining coach services. Coach fares may be sufficiently attractive to some rail passengers—given large existing price differentials between coach and rail for similar fare types on some flows—to drive some rail passengers to switch from rail to coach, but this is not the same as finding that coach operators are constrained from increasing their fares if they are to attract sufficient passengers from rail.
 - (c) megabus passenger surveys in 2003 found that [REDACTED] per cent of passengers travelling out of Perth had previously used the train for the same route. Further surveys for October 2003 to February 2004 showed that [REDACTED] per cent of megabus passengers had predominantly used the train as their previous mode of transport. Again, we considered that whilst this might be evidence of coach services constraining rail services (with passengers switching from rail to coach), it was not evidence of rail services constraining coach services. None of this survey evidence indicated that passengers would switch back to using rail

¹⁷The parties noted that this was because most megabus services were in England. However, only five of the 12 megabus Scottish flows were included in these comparisons.

services following small but significant increases in coach fares. Our passenger survey results suggested that it would take a very considerable fare increase before passengers would start switching: 71 per cent of leisure passengers would not switch in the event of a 50 per cent increase in fares. Further, we noted some methodological issues with the parties' survey evidence.¹⁸

24. At the second main party hearing, the Chief Executive of Stagecoach stated that in advising Stagecoach management on setting megabus fares,¹⁹ he would recommend applying the following rule of thumb: [redacted]. Although we did not see any documentation to support this rule of thumb or any other consideration of the generalized costs of coach and rail travel when setting fares, we considered that this rule might nonetheless provide a benchmark within a reasonable margin of error of how closely coach fares were linked to rail. Indeed, in the National Express/Midland Mainline inquiry (1996),²⁰ evidence was put forward that coach fares were based on a 30 per cent discount from rail fares,²¹ and so such a rule of thumb seemed plausible to us.
25. Taking the Edinburgh–Inverness route as an example, the train is only 7 minutes (3 per cent) faster on average than megabus journey times. The rule of thumb predicts that coach fares would be [redacted] per cent lower than rail. In fact, the cheapest on-the-day megabus online fare is 74 per cent cheaper than both the standard return train fare and the cheap day return train fare (£11 and £10 for megabus compared with £43.10 for a standard return and £38.40 for a cheap day return). Table 4 shows the results for walk-up fares (standard returns and cheap day/saver returns) and Figure 1 shows the relationship between the rule-of-thumb prediction and the actual fare differences based on the cheapest on-the-day tickets.

TABLE 4 Comparison of megabus and rail fares

			Average return journey time (mins)			Cheapest on-the-day return fares			Standard on the day return fares		
			Megabus	Train	% difference	Megabus	Train	% difference	Megabus	Train	% difference
37	Glasgow	Perth	150	121	24	5.00	10.90	54	5.00	20.70	76
38	Edinburgh	Perth	130	155	-16	5.00	10.90	54	5.00	16.30	69
39	Dundee	Perth	70	45	57	4.00	5.80	31	4.00	10.10	60
40	Perth	Inverness	280	266	5	8.00	17.10	53	9.00	22.80	61
41	Edinburgh	Inverness	440	426	3	10.00	38.40	74	11.00	43.10	74
42	Glasgow	Inverness	440	406	8	10.00	38.40	74	11.00	43.10	74
43	Dundee	Glasgow	220	163	35	6.00	27.80	78	7.00	27.80	75
44	Edinburgh	Dundee	220	161	37	6.00	15.60	62	7.00	15.60	55
60	Dundee	Aberdeen	180	146	23	7.00	22.10	68	7.00	22.10	68
69	Edinburgh	Aberdeen	370	299	24	10.00	38.40	74	11.00	52.30	79
70	Glasgow	Aberdeen	390	306	27	10.00	38.40	74	11.00	52.30	79
130	Perth	Aberdeen	250	189	32	8.00	28.80	72	9.00	28.80	69

Source: CC analysis.

Note: For flows to Perth, we have not made any adjustment for the difference between megabus journeys to Broxden Park and Ride and train journeys to the station in the city centre. If taken into account, this would increase the coach journey time slightly.

¹⁸Among other issues, multiple answers were permitted to questions regarding the means of transport previously used by respondents.

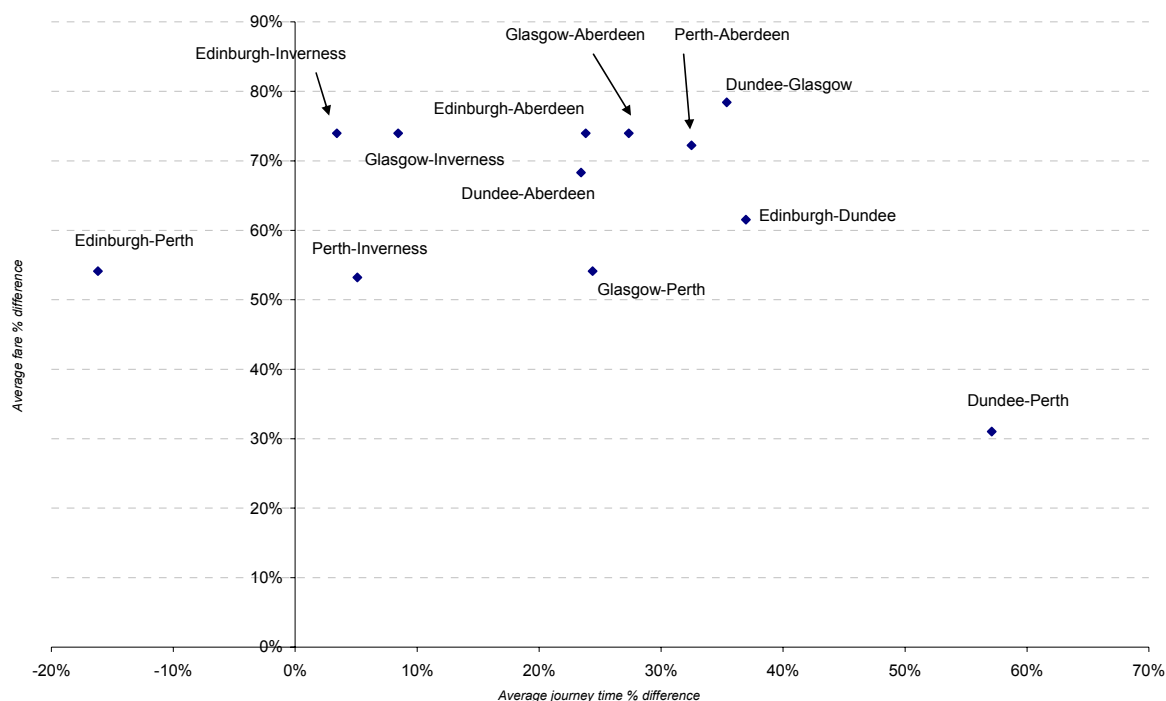
¹⁹This rule of thumb related to megabus fares only and not Scottish Citylink. Therefore, we examined the rule of thumb only for megabus. No equivalent rules of thumb were put forward by the parties for the setting of Scottish Citylink fares.

²⁰www.competition-commission.gov.uk/rep_pub/reports/1996/392national.htm#full.

²¹Although in National Express/Greater Anglia (2004), National Express told us that such discounts had not been applied since around 2000.

FIGURE 1

Comparison of megabus and rail fares—cheapest on the day returns



Source: CC analysis.

26. Taken with a margin of error,²² the rule of thumb might be considered to apply for at best four of the 12 flows based on the cheapest day returns in Table 4: Glasgow–Perth, Dundee–Glasgow, Edinburgh–Dundee, and Perth–Aberdeen. On the basis of this rule of thumb, these flows might be considered to be constrained by rail. The remaining flows do not appear to conform to this rule. On these flows, rail tends to be priced considerably *higher* relative to coach than the rule would dictate (Glasgow–Aberdeen, Edinburgh–Perth, Dundee–Aberdeen, Edinburgh–Aberdeen, Glasgow–Inverness, Perth–Inverness and Edinburgh–Inverness).²³
27. [X] However, in the absence of documentary evidence of megabus fare-setting in relation to rail, and given that a rule of thumb had been applied by National Express in the past (see paragraph 24), we considered that our analysis was a reasonable evaluation of one method of setting coach fares described by Stagecoach management. In any event, our rule of thumb analysis was only one of the bases on which we assessed the likely extent of the constraint from rail services on coach services. The lack of any consistent approach on a flow-by-flow basis or explanation of flow-by-flow differences appeared to suggest that rail was not a constraining factor in the setting of megabus fares.

²²We consider the rule of thumb to be met where the actual minus predicted average fares percentage difference is less than or equal to ten basis points. If we took this margin at five basis points, only one flow would qualify on the cheapest on-the-day return fares (Glasgow–Perth).

²³The rule of thumb is even less predictive when we relate it to the standard on-the-day return fares. In that case, only two flows appear to conform to the rule with a 10 per cent margin: Dundee–Glasgow and Perth–Aberdeen. Eight of the remaining ten flows are priced above what the rule would predict, with the remainder priced below. With a 5 per cent margin, only one flow (Perth–Aberdeen) would comply with the rule of thumb.

28. Despite the dismissal of our analysis, the parties then proposed that, if the results were to be relied upon, the same rule of thumb would also need to be applied to Scottish Citylink and megabus/Motorvator [X]. They suggested that this showed that Scottish Citylink and megabus/Motorvator were not in competition with each other. In relation to this analysis, we saw no documented evidence that this was how fares were set, nor did the parties actually claim that it was used to set megabus fares. On the other hand, we had seen Scottish Citylink internal documents explicitly referring to matching megabus fares. We therefore considered that this analysis was not of relevance to this inquiry and did not indicate that the two services did not compete.

Past transport merger inquiries in Scotland

29. Three transport merger inquiries²⁴ have investigated competition between rail and coach/bus in Scotland:
- (a) National Express Group/Saltire²⁵ (1994);
 - (b) National Express Group/ScotRail²⁶ (1997); and
 - (c) First Group/ScotRail²⁷ (2004).
30. We consider the findings of these inquiries in this section and the extent to which our analysis is consistent with these inquiries.

National Express Group/Saltire (1994)

31. National Express, a UK trunk route coach operator, was acquiring Saltire Holdings, which at that time owned Scottish Citylink, a Scottish trunk route coach operator.
32. In the National Express/Saltire merger inquiry, the MMC found that the merger did not operate against the public interest. The MMC considered that on the main intercity cross-border routes, Glasgow/Edinburgh–London, ‘the main constraint on National Express’s ability to raise fares was competition from British Rail’s InterCity East and West Coast operations and in particular their Apex and SuperApex fares’.²⁸ These heavily discounted tickets were considered to provide effective competition, particularly for older passengers and students who formed a large part of National Express’s passengers.
33. However, the MMC took a somewhat different view on routes falling within Scotland. On the Glasgow/Edinburgh–Aberdeen route, the MMC noted²⁹ that ScotRail was not present on all routes and made less use of price competition than InterCity. Further,³⁰ on a number of routes on which it did compete, ScotRail had no advantage of time or convenience over coach. ScotRail did not see coach as a significant competitor and used pricing promotions sparingly. The MMC had some concerns about the future level of prices on all the relevant routes within Scotland but these

²⁴Only one of these inquiries has taken place since the Enterprise Act 2002 came into force.

²⁵*National Express Group PLC and Saltire Holdings Ltd: a report on the merger situation*, HMSO, Cm 2468, February 1994.

²⁶*National Express Group PLC and ScotRail Railways Limited: a report on the merger situation*, HMSO, Cm 3773, December 1997.

²⁷*FirstGroup plc and the Scottish Passenger Rail franchise: a report on the proposed acquisition by FirstGroup plc of the Scottish Passenger Rail franchise currently operated by ScotRail Railways Limited*, The Stationery Office, ISBN 0-11-702249-7, June 2004.

²⁸National Express Group/Saltire Holdings (1994), paragraph 1.5.

²⁹National Express Group/Saltire Holdings (1994), paragraph 1.6.

³⁰National Express Group/Saltire Holdings (1994), paragraph 6.42.

concerns arose from the pre-existing dominant position of Scottish Citylink at the time and not from the effects of the merger.

National Express Group/ScotRail (1997)

34. National Express was seeking to acquire the ScotRail franchise whilst already owning Scottish Citylink.
35. In the National Express/ScotRail inquiry, the MMC found³¹ that two kinds of detriment would occur as a result of the merger: first, increases in coach fares, and second, a loss of more vigorous competition which could have been expected to develop, following the franchising of ScotRail, had Scottish Citylink and ScotRail been in separate ownership.³²
36. The MMC considered that there was an element of competition between coach and rail services, principally for leisure passengers but also for an element of other journey purposes, particularly on the Edinburgh—Glasgow route.³³ This finding appears to be based on evidence from the National Express/Midland Main Line (1996) merger inquiry, which was considered ‘likely to be broadly relevant to the situation within Scotland’, namely the pricing behaviour of the two modes, surveys of passengers’ reasons for choice of mode and passenger responsiveness to changes in price; and evidence of cross-price elasticities of demand.³⁴
37. The MMC noted³⁵ that the competition which Scottish Citylink had encountered in practice from ScotRail had been relatively weak. However, the basis for the adverse finding was the expectation that, following the franchising of ScotRail’s service for the first time, there would be a much more commercial approach by its new management. If National Express did not also own Scottish Citylink, the MMC expected—given the evidence of substitutability between rail and coach that was cited—that ScotRail would see the winning of passengers from the coach network as a significant part of its strategy, leading to downward pressure on fares and improved quality of services. This would be lost as a result of the merger.

First Group/ScotRail (2004)

38. First was seeking to acquire the ScotRail franchise whilst also a significant operator of local bus services in Scotland.
39. In the First Group/ScotRail inquiry, which considered local bus and rail routes primarily in the Glasgow and Edinburgh areas, the CC found³⁶ that ‘rail services and bus services were, for certain people on certain routes and at certain times of day, potentially substitutable’. The CC concluded that ‘enough passengers would switch from bus to train to make a strategy of diverting passengers from bus to train potentially profitable’.

³¹National Express Group/ScotRail (1997), paragraph 1.6.

³²[§]

³³National Express Group/ScotRail (1997), paragraph 2.48.

³⁴National Express Group/ScotRail (1997), paragraph 2.50.

³⁵National Express Group/ScotRail (1997), paragraph 2.85.

³⁶First Group/ScotRail (2004), paragraph 6.

Relevance of each of the findings of these inquiries to this inquiry

40. In considering the relevance of the findings of these inquiries to this inquiry we noted that:
- (a) In the 1994 National Express/Saltire inquiry, the MMC remained concerned about the extent of, and hence the effectiveness of, rail competition on the intra-Scotland routes because of the limited use of price competition from ScotRail, and did not conclude that rail constrained coach in relation to the flows we were considering.
 - (b) In the 1997 National Express/ScotRail inquiry, the MMC found an element of competition between coach and rail services, principally for leisure passengers but also for an element of other journey purposes, particularly on the Edinburgh–Glasgow route. This finding was based on the expectation that, following the franchising of ScotRail’s service, there would be a much more commercial approach by the new management given the nature of the growth incentives under the franchise. Although the rail market became more commercial, both the coach and rail markets have developed considerably, including the entry of megabus and introduction of cheaper coach fares, which have changed the competitive landscape from that being examined in the 1997 inquiry.
 - (c) In the 2004 First Group/ScotRail inquiry, the CC found that rail services and bus services were, for certain people on certain routes and at certain times of day, potentially substitutable. However, this finding related specifically to local bus routes on particular flows and not to coach services. The finding was also based on survey evidence and data regarding the behaviour of passengers on these flows at that time.