

THE TRANSPORT ECONOMIST

MAGAZINE OF THE TRANSPORT ECONOMISTS GROUP

1985 NUMBER 3

EDITOR: Stuart Cole, Polytechnic of North London

Contents	Page
ARTICLES	
Characteristics of Local Bus Competition since 1980 (Ian Savage)	1
Privatising London's Airports (John Phillips)	9
RECENT MEETINGS	
London - New Product Development in British Rail, Jeffery Percival, BRB (September 1985)	13
London - The Case for Transport Infrastructure Investment, Andrew Streeter, BRF (October 1985)	21
BOOK REVIEWS	
International Railway Economists (Eds. Ken Button and D.E. Pitfield)	26

ARTICLES

CHARACTERISTICS OF LOCAL BUS COMPETITION SINCE 1980 by Ian Savage, an Associate of Booz Allen & Hamilton

The 1985 Transport Bill will bring a significant change in the control of local bus services. Major questions are being asked such as who will be the competitors under the new legislation, what routes will be under threat, what tactics will be used and what will be the outcome? The answers to these questions are currently unclear. However there is some relevant evidence to draw on. That evidence comes from the limited amount of competition permitted under the 1980 Transport Act.

The author, as part of a Ph.D. thesis, monitored Competitive Road Service Licence applications over the period January 1981 - January 1984. Using a combination of Traffic Commissioners' "Notices and Proceedings" and trade journals, the author tracked the history and characteristics of 151 entry attempts. Of these, 46 significant cases were selected for detailed study and a questionnaire sent to the operators involved.

- This articles draws on the study to answer five questions:
- What type of operator has tried to enter the market?
 - What routes have they been attracted to?
 - What competitive tactics have been used?
 - What was the outcome of competition?
 - What conclusions can be drawn on the characteristics of the local bus market if all controls are removed?

THE ENTRANTS

Publicly owned companies

The bus companies who have applied for new competitive licences fall into two categories. The first are the publicly-owned bus companies competing at their common boundaries.

The general decline in demand which makes out-of-town operators eager to ply for trade at local bus stops, and the development of housing estates outside former city boundaries has challenged the long standing protection agreements between the National Bus Company and Municipal Operators. Since 1980 competition of this type has occurred, particularly in towns with a history of tension between the operators. The resources available to those operators means that competition can be sustained over a long period.

Independent operators

The second group of entrants have been small private companies, who have been responsible for the vast majority of competitive applications during the period under review. A comparison of a questionnaire survey of entrants and a random 2.5% survey of all independent Public Service Vehicle (PSV) operators undertaken by the Advisory, Conciliation and Arbitration Service (ACAS 1978) in the late 1970s indicates the characteristics of operators particularly attracted to stage carriage operations.

An analysis of the age of entrants suggests that whilst few firms were set up to take advantage of liberalised licensing, nearly a third were youngsters in the industry having not operated PSVs prior to 1979. Comparison with the ACAS survey suggested that these firms and also the older, well-established firms have had, proportionately, more interest in acquiring additional stage operations. This might suggest that the entrants are either very new firms looking for a new market, or the older firms who are experienced in stage carriage operations.

Regardless of their age, the firms entering the stage market are much larger than the national average. Nationally, the average fleet size is just under five, with a third of all firms only owning one vehicle. The entrants, however, have an average fleet of sixteen with two-fifths of entrants owning between six and nine vehicles. Thus, even the recently-formed companies have acquired a

substantially larger-than-average fleet.

An analysis of the range of entrants' activities compared with the average for independent operators indicates that the entrants have tended to be involved in a wider variety of PSV operations. For example, 57% of potential entrants had stage experience, 45% express experience and 86% excursion experience, compared with national figures of 23%, 12% and 45% respectively.

A more detailed analysis of the stage-carriage experience of the entrants indicates that nearly a third of them already operated a stage operation on at least six days a week, and nearly a quarter had a network of three or more routes.

Thus, it would appear that the characteristics of the average entrant compared with the independent sector as a whole, are that entrants tend to be larger, with more diversified set of PSV activities and a greater proportion of their business in schedules services.

ROUTES COMPETED ON

The survey covered a total of sixty routes, of which licenses were granted for forty. Two issues were investigated. firstly, the type of service the entrants were offering, and secondly, the motivation for selecting a particular route.

In analysing the first issue it was noted that the largest group of applications (39%) have been for urban services. Thus indicating the area where entrants feel there is the greatest return for their capital. This compares with 15% offering inter-urban, 20% urban-rural and 26% rural services.

On the competed routes, the entrants generally offered a poorer service coverage than that existing. Basic frequencies were in 60% of cases lower. In addition, the survey indicated that there is

some justification for the argument that entrants would only offer services at a "better" time of day. A Sunday service has not been provided in 60% of cases, even though generally the existing company operates on that day. Also, in 78% of cases, the entrant's first bus was later than the existing service starts, and in 71% of cases, the last bus was earlier.

However, it is not justified to brand all entrants as providing just an "office hours" service, as over two-fifths of applications offered a service of greater than twelve hours a day and on Sundays, whilst half of the applications offered a service after 8pm at night.

Secondly, the survey attempted to observe why entrants are attracted to particular services. The data indicates that in nearly two-fifths of cases, entry occurred not because of the planning of the existing service (e.g. fares, trimmings, level of provision) was deficient, but because the service was unreliable. The next major motivation was the hope for new traffic, either by exploiting demographic change, or by providing new links in the network.

COMPETITIVE TACTICS

This section observes the kind of competitive practices used. Three areas will be investigated, product differentiation, fares and timings.

Product differentiation

One element of product differentiation is the restoration of crew operation. However, only a minority (12%) of operators have adopted this in order to make journeys faster and hence a competitive advantage.

A second element is the type of vehicles employed. Whilst 41% of entrants have used touring coaches for their services, their use has been prompted by the utilisation of existing resources rather

than a deliberate policy of providing a more comfortable vehicle. A more notable product differentiation has been seen in two cases where entrants have offered services in central business districts, using small vehicles.

In one case, a successful applicant currently provides a circular service stopping at fixed places between the shopping area and the railway station. Whilst in London, an unsuccessful applicant proposed four cross-town routes offering a high frequency service from 06.00 - 24.00 hours daily, using a fleet of five hundred mini-buses. The service intended to fill the vacuum between buses and taxis, and would thus stop to pick up or set down at any safe place along the line of the route. (See article by Stuart Cole, Transport Economist 1983, No.2.)

Fares

60% of the potential entrants to the market have offered lower fares than those currently prevailing, whilst the remaining entrants have generally charged the existing fare. Analysis of the amount of reduction offered is problematic as nearly a quarter of the applications involved flat-fare systems. This high proportion might be accounted for by the financial simplicity that independent operators might desire. A comparison of prevailing and entry fares indicates that the most popular fare reduction is in the region of 20% - 40%, which was proposed by 25% of the applicants.

In reaction, the existing operator has also reduced his fares (either generally on the routes (60%) or on specific tickets (16%)) to, at or below, the level offered by the entrants. Extreme reactions on fares have also been noted. In one case, there were suggestions that rate fund money was used to promote artificially low fares on a municipal operation.

In addition to fare cuts, generally marketing policies have been noted to retain "brand loyalty". These have included extensive

advertising, and the introduction of season and multi-ride tickets.

Timings

A tactic, known as "head-running", whereby an operator runs his bus just ahead of the opposition to obtain the best competitive advantage, was a noted feature of competition in the 1920s and has been witnessed again in the 1980s. Whilst only in five cases was this a feature of entrants' application - probably because entrants realising that Traffic Commissioners have been reluctant to grant such applications - the existing operators appear to be less retrained. In two-fifths of cases, the existing operator has responded by running a bus just ahead of the entrant's timing. This has often been accomplished by running duplicates to the existing service buses. In addition, a policy of "swamping" has been adopted in nearly a quarter of the cases, whereby the frequency on a route is increased to such a level that the route, and hence the entrant's operation, becomes unprofitable.

Other practices

Other noted practices include refusing entry to bus stations, and also some tactics that go beyond the purely economic. "Dirty tricks" such as blocking stops, preventing overtaking, and pulling out in front of the opposition, and also threatening withdrawal of co-operation on other services have been noted.

In conclusion it would appear that the overriding feature of competition in the stage-bus market is head-running, by both entrants and existing operators, and fare cut matching by incumbent operators. However, frequent fare/frequency changes do not appear to be a feature of the market as in under 20% of cases was there any further service/fare changes after the initial competitive salvos.

OUTCOMES

Traffic Commissioners have granted about 60% of the 151 competitive road service licence applications. A similar proportion

of the significant case studies were also granted by the Commissioners (29 of the 46 cases). In addition 4 more were granted via the appeals procedure. Of the 33 successful, significant applications, the following outcomes emerged.

- 1 operator did not commence operations
- 3 had their licence revoked
- 3 withdrew after a period of competition
- 19 are still competing
- 5 ultimately entered a collusive agreement with an existing operator
- 2 successfully forced the other operator to withdraw.

This is after an average of 26 months that a competitive licence has been held. The predominance of cases of competition continuing is explained by the fact that the scale of the entry, compared to the existing operation, has tended to be small, and thus an incumbent operator is more likely to be more accommodating. This contrasts with the large-scale competitive challenges where, in general, the entrant has withdrawn or has entered an agreement with the existing operator. In these cases, the greater financial resources of the larger network operators has been a crucial factor in the competitive fight.

CONCLUSIONS OF POST 1980 COMPETITION

The entrants to the stage-carriage routes have tended to fall into two categories. The first group are the publicly-owned operators, who, in some cases, have been competing with neighbouring companies at their boundaries. The concept of "territory", which emerged after the 1930 legislation, is therefore being eroded either by co-ordination or by outright competition. The resources available to these operators would potentially make this variety of competition the most effective. The second group are the independent companies, which this research concludes are generally larger and have more diversified operations than average in the independent coaching sector.

As to the services entered on, there does not appear to be widespread evidence that entry has occurred on an "office hours" basis, however, it is generally true that entrants have selected the timings most beneficial to themselves financially, with little evening or Sunday operation. The motivation for entry appears to be either potential generation of traffic or more significantly, the inability of existing operators to operate fully their advertised service. Innovation has also been noted in the provision of service, and the prospects for minibus operation in central business districts may yet prove to be the most significant outcome of the change in licensing.

Some characteristics of stage bus competition practice become apparent. In general, entrants to the market have offered lower fares than those prevailing, although existing operators have been quick to ensure that fare differentials do not persist. In addition to fare matching, the increased use of restrictive ticketing - such as season tickets - is a noted feature of competition in the hope of encouraging customer loyalty. An important tactical desire has been the wish to "head-run" the rival in order to obtain the best competitive advantage. However, it would appear that frequent fare/frequency changes, during the course of competition, are not a feature of the stage bus industry.

Therefore, despite the limited amount of actual competition observed, it is sufficient for some conclusions to be drawn on the type of competitors, routes challenged and tactics employed that may emerge in a totally deregulated market.

REFERENCES

Advisory, Conciliation and Arbitration Service (1978), "Industrial Relations in the Coaching Industry, Report of the Committee of Inquiry", Report No.16.

A book on this topic by Ian Savage was published by Gower Publishing on 21 November 1985. A review appears later in this issue.