

BARRIERS TO MARKET ENTRY PRACTICAL EXPERIENCES OF UK BUS MARKET

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The Background

The Devon General bus company of which I am Chairman/Managing Director was the first bus operating subsidiary to be sold by the National Bus Company in 1986 following the decision to privatize the United Kingdom's bus industry. The company was acquired by its' management team and had already started on a program of conversion of urban services from low frequency double deck to high frequency mini bus operation. This was later extended to cover the rural network in South and East Devon and the process was completed by 1988. The results of this conversion to mini buses was very like the 'sparks' effect on the railways where electrification always generates additional ridership. Whenever mini buses were introduced, ridership increased by up to three fold and unit costs of operation reduced dramatically.

With the benefits of our experience in Devon we felt that the benefits of the minibus should be extended to other cities and our knowledge of the Oxford area suggested that the incumbent operator was not maximizing the potential of his area. Large gaps existed in theoretically high-frequency double deck services and ridership was in decline - an untenable situation in a city where the central shopping streets were reserved for buses and pedestrians, and where most radial main roads had bus lanes for the whole of their length.

Starting Up New In Oxford

Whilst we had identified a gap in the local bus service network on Oxford, we could not overlook the fact that the incumbent operator made enormous profits out of its half hourly non-stop Oxford to London service. There was a real prospect that City of Oxford Motor Services (COMS), using profits from the London service, would be able to withstand our attack indefinitely. We therefore felt it necessary to compete on the London route.

This in itself presented additional problems because it was one thing to acquire an open site with a small workshop from which to operate a fifty mini bus outfit on city service and quite another to accommodate a fleet of twelve-meter high-mileage motorway coaches with their associated need for more frequent and more extensive safety checks.

Problem One - Find A Depot

The Oxfordshire County structure plan had decreed in the mid-70's that all development was to be in the satellite towns of Abingdon, Witney, Banbury, etc, and whereas there were plenty of sites available in these areas, there were virtually none in Oxford city that came near to meeting our requirements. After a long search, we had the choice of one new industrial unit, at great expense and too small for our eventual needs, or a slightly dilapidated warehouse, too big for our immediate needs but significantly, adjacent to and outside the City limits. The first site was owned by an Estate Development company who were very loath to allow a bus company in - bus companies do not make good neighbors. Having convinced them of our suitability we then had to apply for planning permission from the City Council, a Labor- controlled authority heavily influenced by the Trades Council. The Trades Council was dominated by the Transport and General Workers Union not only because of the presence of the large motor car plants in the city but also and deeply significantly, by COMS, the incumbent bus operator.

It became rapidly clear to us that the City Council was never going to give us planning permission within the city limits for a bus depot because of its desire to protect the incumbent operator. We could, of course, go to appeal to the government but the timescale for such a move was simply too long. We turned, therefore, to the site just over the border in South Oxfordshire and after a considerable amount of effort the South Oxfordshire District Council, which is also the freeholder of the site, granted us both lease and planning permission for bus use. It was probably the only site in Oxfordshire that would have met our needs.

The Financial Considerations

It soon became clear to us that the new company, Thames Transit Ltd meant absolutely nothing to suppliers and to our landlord. All of these people required three years profit and loss accounts before normal credit facilities could be made available and before the lease of the depot could be assigned to us. Had we been a new start company we would undoubtedly not have been able to proceed. We had to use Devon General as

guarantor for the new company. This was particularly galling in that we had wanted Thames Transit to be free standing and not be seen as merely a Devon General attack on the Oxford bus market.

The Reaction of the Opposition

We wanted to keep our intentions secret for as long as possible in order to reduce the time available to the existing operator to prepare his counter attack but the operator licensing system required publication of details of the size and aims of the new company before services could be registered.

In the event, the requirements of various legal and financial bodies meant that well before we were due to start the opposition was fully aware of our plans and was able to gear up to counter them. Because it takes time to amass a team of new drivers and controllers and a fleet of vehicles, we were unable to start all our city services on the same day. In fact from day one we were only able to provide an half-hourly coach service to London and a high frequency minibus service on one route in Oxford. This enabled the COMS to put all its' resources into attacking the fledgling operation.

On the London route, COMS immediately switched to running a bus every twenty minutes and on the city service to Blackbird Leys, they not only duplicated every one of our departures with double deckers, but also completely blocked the stops in the city center so as to preclude our getting into the curb to pick up passengers. They even abandoned other services so as to release the resources to kill us off at birth. Only when we were able to get additional services going did we dilute their counter attack to the extent that we were able to start holding our own to a small degree.

As each new service was introduced, the opposition switched some of its' extra resources to this new route and employed exactly the same tactic in each case of increasing the frequencies. On the London route, the City Council banned us from using the bus station which it owned in Oxford and we had to start the service from a piece of spare land outside the station which was in the process of redevelopment. Not surprisingly we were unable to attract many passengers to the unpleasant environment in which our terminus was situated. Furthermore, every time one of our coaches departed from the bus station, the opposition radioed forward to the High Street and sent an additional vehicle out from the High Street stop to pick up in front of our service as far as the City boundary. Those passengers were then held on the opposition bus until their next departure and then transferred. Not only were our passengers being whisked away from us, they were being severely inconvenienced to the potential detriment of the bus market as a whole.

We started legal proceedings against the City Council to gain access to the bus station and were given leave for an expedited hearing before the High Court. In the end, however, we were decided in the light of the fact that a new bus station was to be provided where our entry could not be prevented legally by the City Council, and due to financial reasons, we abandoned our legal proceedings.

Fare War

In addition to the legal, financial and practical barriers put in our way we had also introduced new lower fares on the routes which we had started. This was purely as an introductory offer and we had intended to rise to normal fare levels shortly afterwards. However, in a determined attempt to starve us out of the market, COMS reduced their fares on the contested routes to the lower level. These fares were held for nearly two years before financial pressure on COMS forced them to review their approach. Even so, city fares are still lower than in 1985 and London fares are at 1983 levels.

In spite of this, both operators are now profitable; Thames Transit in the last financial year, made a profit of over £1 million on a turnover of just £5 million, not a bad feat in all the circumstances.

London Docklands

By 1988 Devon General and Thames Transit had merged into the Transit Holdings Group which in 1988 decided to seek to capitalise on the growth of London's Docklands in which was associated with the development of London's Docklands.

Existing public transport was at a very low level in spite of the provision of a toy railway in the form of the Docklands Light Railway (DLR). The legal problems here were slightly different in that London had been excluded from deregulation. However, relaxed licensing had been introduced and the company, after a three day public enquiry, was granted licenses to operate a comprehensive network in East London.

Because normal planning rules had been suspended within the London Docklands Development Corporation (LDDC) area, once we found a building suitable for a bus depot, there was no difficulty in obtaining permission for change of use. The barriers to entry which were most serious in London stemmed firstly from the

fact that there was no natural pool of qualified ex-bus drivers from which to draw staff and secondly, that the market was dominated by the London-wide Travelcard and OAP schemes.

In the first case, because LT had not operated vehicles with manual transmissions for many many years, the pool of ex-bus drivers were qualified only for automatic or semi-automatic transmissions. A man or woman authorized to drive a twelve-meter double-decker was not qualified for a sixteen seater Ford Transit. Therefore every recruit had to be trained, and then tested by the Ministry. By comparison, London Transport have delegated examiners, and were permitted to award licenses to their own staff without their being tested by the Department of Transport. On vehicle examinations, our buses had to be taken several miles to a Ministry test station; our competitors had the luxury of the Ministry examiners carrying out vehicle tests in LT's own depots, with the associated facility of defects being corrected immediately to ensure that the vehicles passed.

In the second case, as far as the Travelcard was concerned, research had shown that two-thirds of passengers in East London paid cash. In the event, and in particular having regard to long intermodal journeys made by commuters to the new business centers, we found that only one third of the passengers in Docklands paid cash.

In the end, this latter complication proved to be the downfall of Docklands Transit. All our efforts to join Travelcard were thwarted. The Department of Transport refused to intervene; the Office of Fair Trading refused to investigate, announcing that Travelcard was not market dominating (!), and the customers whilst liking our service, found our non-participation in Travelcard a significant barrier to consumer choice.

We did consider legal action to challenge the domination of Travelcard. Counsel's Opinion suggested that LT were in breach of 1976 Restrictive Trades Practices Act and also of EEC Competition Law. We were tempted to invoke High Court action but we were very cautious that we would have to sustain the heavy losses we were incurring for two or three years whilst the legal procedure followed its course. We were extremely conscious that LT, with its' annual injection of hundreds of millions of pounds of public money would be able to take us all the way to the House of Lords even if we won in the High Court. The drain on the rest of the Transit Holdings Group was considered too great to justify this risk.

The OAP Scheme was run by a consortium of London Boroughs (there is no single governing body for London since the abolition of the Greater London Council). To gain entry to the scheme it was necessary to persuade all thirty-two Boroughs of the justification for our entry. We operated in only six boroughs, four of which were strongly left-wing, and openly opposed to a capitalist bus company. We were, therefore, unable to make any dent in the cozy relationship whereby £100 million per annum was simply handed over to London Transport without any real accountability.

On the Defensive

I have so far talked of problems from the new operator point of view. The Transit Holdings Group has equally faced new competition in its' traditional markets and it is perhaps worth briefly looking at defensive strategies.

Put simply, a well run, comprehensive, sensibly priced bus network is less likely to face attack. Where service levels are lower than the passengers really like or when fares are too high and profits excessive the public transport operators are vulnerable to new competition.

The best form of defence therefore, is to examine closely your existing network and plug any gaps to make it as attractive as possible, tempered by the need for profitability. This has been our strategy in Devon and rural Oxfordshire; in Devon defending against a threat of attack and in Oxfordshire against an actual counter attack by COMS. The necessary improvements in service quality have been achieved by the introduction of high frequency mini bus services providing good quality at low cost. In Devon this has proved eminently successful and no attack has occurred. In Oxfordshire, the COMS low-frequency double-decker service (every half hour on a fifteen mile corridor west of the city), is little used following the re-organization of our service pattern. We now run separate services between Oxford and Witney and Carterton and Witney, supplemented by a half hourly non stop mini bus between Oxford, Brize Norton and Carterton whereas COMS serve all these community's with the same bus. The COMS market is therefore restricted only to coach traffic and smokers!. On all the evidence, passengers are prepared to stand on our twenty-five seater mini buses because of their high frequency, more direct routes and longer hours of service.

The comprehensiveness of our defence on this corridor has deterred COMS from attacking us on the other inter-urban routes out of Oxford City.

Conclusions

Practical experience of the UK bus market following the 1985 Transport Act suggests that the remaining barriers to entry can be divided into general and industry specific categories.

General Barriers to Entry

- Finance
 - Obtaining finance for new enterprises
 - The higher cost of finance for new entrants
- Properties
 - Location and acquisition of suitable property
 - Necessity for new entrants to pay high, alternative use rents
 - Obtaining planning permission
- Human Resources
 - Recruitment and training of staff
 - Scarcity of trained labor and management

Industry Specific Barriers

- Operator Licensing
 - Need for financial and engineering track record in order to obtain an Operating License
- Vehicle Resources
 - Financing vehicles
 - Delivery of vehicles
 - Incumbent operators may have Department of Transport Test Station status
- Driver Training and Testing
 - Established companies may have Department of Transport delegated driver examining status
- Domination of the Market by Cross-Subsidizing Companies
 - Local monopolies
 - Competition-inhibiting effect of national 'Groups'
- Pricing
 - Exclusive multi-modal conurbation travelcard schemes
 - The London Concessionary Fares scheme
- Slow Speed and Limitations of UK Competition Law
- Possible Need to Compete with Tendered Services

Policy Recommendations

Many of the entry barriers described above, although very real in their effects, would be hard to legislate out of existence. In fact, prices for land, property and labor provide the signals which regulate the entire economy.

However, I believe that more can be done to remove the specific barriers to entry in the bus industry. Priority should be given to the creation of a level playing field for all bus operators; vehicle testing and driver testing arrangements should be provided on a stand-by basis, and careful thought should be given to the provision of more effective competition policing in the industry.

More specifically, the London Concessionary fares scheme should be standardized with arrangements elsewhere in the Country which ensure automatic and equal participation for all licensed operators. Arrangements should be made to ensure that the multi-modal conurbation-wide travelcard schemes are open to all operators who choose to take part. Indeed, it could be argued that the best interests of competition would be met by compulsory participation.

More difficult is the area of general predatory pricing and service provision. Consideration should be given to the creation of a specific bus industry competition directorate comparable to those present in other sectors such as energy (OF Gas) and telecommunications (OF Tel). This body would be charged with policing bus industry mergers and competition activity, and would take over the residual functions of the Traffic Commissioners.