

COMPLETED ACQUISITION BY STAGECOACH BUS HOLDINGS LIMITED (A WHOLLY OWNED SUBSIDIARY OF STAGECOACH GROUP PLC) OF GO WEST TRAVEL LIMITED TRADING AS NORFOLK GREEN

PARTIES

1. **Stagecoach Bus Holdings Limited ('Stagecoach')**, is a wholly owned subsidiary of Stagecoach Group plc (**'Stagecoach Group'**). Stagecoach Group operates local bus services across the UK as part of its wider national and international transport business. Stagecoach Group operates 8,240 vehicles from over 140 depots in the UK across a number of regional operating units. Stagecoach operates under a number of regional operating units. The Stagecoach operating unit which is relevant for the consideration of this merger is Stagecoach East which itself operates under a number of regional operating units, namely Stagecoach in Cambridge, Stagecoach in Peterborough, and Stagecoach in Huntingdonshire. Stagecoach Group's turnover for the financial year to 31 April 2013 was £2.80 billion of which £[] million was derived from Stagecoach East and £127.6 million from Stagecoach.
2. **Go West Travel Limited trading as Norfolk Green ('Norfolk Green')** provided commercial and tendered local bus services mainly in Norfolk, but also small parts of Cambridgeshire and Lincolnshire. Norfolk Green operated a fleet of 80 vehicles from a leased depot in King's Lynn and a number of smaller outstations.¹ Its turnover for the year to 31 December 2012 was £8.6 million.
3. Norfolk Green and Stagecoach are together referred to in this decision as the **'Parties'**.

TRANSACTION

4. On 18 December 2013 Stagecoach completed the purchase of Norfolk Green (the **'Merger'**).
5. As part of the Merger, Stagecoach acquired Norfolk Green's bus fleet, employees, certain bus service contracts, the goodwill associated with these contracts, and approximately 150 employees via a TUPE transfer.²

¹ These are located in Upwell, Fakenham, Reepham, Downham Market, Tattersett, Long Sutton and Cromer.

² [See endnote].

6. On 31 January 2014, the OFT received a complete informal submission from the Parties concerning the Merger. The OFT's extended administrative deadline is 2 April 2014. The OFT accepted Initial Undertakings from the Parties on 7 January 2014.

JURISDICTION

7. As a result of the Merger Stagecoach and Norfolk Green have ceased to be distinct. Norfolk Green's turnover for the year to 31 December 2012 was below £70 million. The turnover test set out in section 23(1)(b) of the Enterprise Act 2002 (the '**Act**') is therefore not met.³
8. The Parties overlapped in the provision of local bus services in Cambridgeshire and, following the Merger, Stagecoach will hold approximately 85 per cent share of the supply⁴ of local bus services in Cambridgeshire.⁵ The share of supply test in section 23(4) of the Act is therefore met.
9. The OFT therefore believes that it is or may be the case that a relevant merger situation has been created.

FRAME OF REFERENCE

10. Stagecoach Group's UK bus division provides local bus services across the UK. It is organised into regional subsidiaries which each provide bus services within a designated region in the UK. The regional subsidiary which operates in the same region as Norfolk Green in the UK is Stagecoach East. This operates under a variety of brand names, including Stagecoach in Cambridge, Stagecoach in Peterborough and Stagecoach in Huntingdonshire. Stagecoach East operates commercial and tendered services across Cambridgeshire, South Lincolnshire and the fringes of Suffolk.
11. Norfolk Green mainly operated local bus services across Norfolk. The bus services it provided also extended into parts of Cambridgeshire and Lincolnshire.

³ Paragraph 3.48, OFT Jurisdictional and Procedural Guidance OFT 527 (June 2009).

⁴ Based on statistics provided to the parties by Cambridgeshire County Council.

⁵ In a previous OFT decision, Cambridgeshire was considered to be a substantial part of the UK. See ME/3703/08, Completed Acquisition by Stagecoach Bus Holdings Limited of Cavalier Contracts Limited, dated 18 September 2008.

12. Stagecoach submitted that its operations are concentrated in the south and west of a straight line drawn from Spalding in Lincolnshire to Bury St Edmunds in Suffolk whereas Norfolk Green largely operated to the north and the east of that line.

Product scope

Competition for tendered services

13. In previous decisions, the OFT has assessed competition for tenders separately from the provision of commercial bus services, while taking into account that there may be some linkages between commercial and tendered services.⁶
14. The OFT's investigation in the present case has not indicated that this approach should be modified. The OFT has therefore assessed competition for tendered contracts separately from the provision of commercial bus services, noting that there may be linkages between these (see below).

Competition between commercial bus services and tendered bus services

15. While the OFT considers that there is a separate frame of reference for competition for tendered contracts, once a provider has been selected and has begun its bus service, a tendered service may compete with a commercial service in some circumstances.
16. The Competition Commission (the '**CC**') in its local bus market report (the '**CC Report**') also found that commercial and tendered services can constitute alternatives from a demand-side perspective since, for passengers, tendered operations provide a service in the same way as a commercial route.⁷ The OFT has also previously considered that, as operators are encouraged to grow passenger revenue on tendered services, the structure of the contracts incentivises the tendered operator to compete with commercial services.⁸ A merger involving overlapping commercial and tendered services may therefore

⁶ See for example the OFT's decisions regarding the completed acquisition by Stagecoach plc of the business and assets operated from the Lockett Road Wigan Depot of First Manchester Limited, 26 February 2013; the anticipated acquisition by Greater Manchester Buses (South) Limited, a wholly owned subsidiary of Stagecoach plc, of Bluebird Bus and Coach, 22 February 2013 ('**Stagecoach/Bluebird**'); and the anticipated acquisition by Stagecoach Group plc of the North Devon business and assets of First Devon and Cornwall Limited, 10 July 2012.

⁷ CC Report paragraph 7.114.

⁸ Stagecoach/Bluebird paragraph 17.

lead to a loss of competition. The OFT and CC have in previous cases also drawn a distinction between bus services of substantially different frequencies.⁹

17. The OFT's investigation in this case has not found evidence that indicates that this approach is no longer appropriate. It has therefore included the provision of commercial and tendered services in the same frame of reference (but, as noted above, it considers separately competition for tendered contracts).

Other forms of transportation

18. Stagecoach submitted that other modes of transport (particularly car travel) represent a competitive constraint on bus travel. However, Stagecoach did not submit any specific evidence of this occurring in the overlap area under consideration in this Merger. The OFT, in previous cases, has not included other forms of transport in its product frame of reference.¹⁰ The OFT notes that the CC has, in previous merger inquiries, found that other forms of transport were not part of the same product market as bus transport.¹¹
19. The OFT did not receive sufficient evidence in this case to conclude that car travel or other forms of transport impose a significant constraint on local bus services. Therefore, the OFT considers that the frame of reference is local bus services and does not include forms of transport other than local bus services.

Geographic scope

Network level

20. In previous cases, the OFT considered that it may be appropriate to assess the impact of a merger at a network level in addition to competition on specific point-to-point flows, since some customers used the parties' services to make multi-journey (as opposed to point-to-point) trips across their networks. Furthermore, on the supply side, potential entry/expansion from one party in the provision of local bus services may exert a significant competitive constraint on the other party on non-overlap flows. The Parties agreed with this approach. On this basis, the OFT has considered the impact of the Merger on both actual and potential competition at a network level.

⁹ See for example, CC report in Stagecoach/Preston, Appendix I, paragraph 14.

¹⁰ For example, Completed acquisition by Stagecoach plc of the business and assets operated from the Lockett Road, Wigan depot of First Manchester Limited, OFT decision 25 February 2013, paragraph 20.

¹¹ Competition Commission, Local bus services market investigation report 2011, paragraph 7.64.

Flow level

21. Consistent with previous cases, the OFT has assessed the impact of the Merger on a flow-by-flow basis, where a 'flow' is defined as a connection between two specific points. This approach is taken because passenger demand is for travel between two points. The OFT has also considered whether nearby flows on other routes may be in the same market, given the CC's finding that flows that have their origin and destination within 500 metres of one another are likely to be demand-side substitutes.¹²

Competition for tendered contracts

22. In previous cases, the OFT has considered the geographic frame of reference for tendered contracts to be sub-national, based on the region where the tenders are offered.¹³ This is consistent with the CC Report which found that the market for tenders will generally include all bus operators in the local area.¹⁴
23. In the absence of evidence to depart from this approach in this case, the OFT considers the impact of the Merger on competition for tendered contracts in each of Cambridgeshire, Norfolk and Lincolnshire.

Conclusion

24. The OFT concludes that the relevant frames of reference for consideration are:
- (i) the supply of network bus services in each of Cambridgeshire, Norfolk and Lincolnshire;
 - (ii) the supply of local bus services (commercial and tendered) on overlapping flows; and
 - (iii) the supply of local bus services under tendered contracts in each of Cambridgeshire, Norfolk and Lincolnshire.

UNILATERAL EFFECTS

Competition on overlap flows

¹² CC Report, completed acquisition by Stagecoach Group plc of Preston Bus Limited, 11 November 2009, Appendix I, paragraphs 5-10.

¹³ For example, Anticipated acquisition by Stagecoach plc of the business and assets operated from the Lockett Road, Wigan Depot of First Manchester Limited, OFT decision of 25 February 2013, paragraph 25.

¹⁴ The CC Report, paragraph 7.120.

25. The overlap flows are five overlapping services running along on two corridors (three overlaps on one corridor and two on the other). (i) The first of these corridors runs from the towns of March through Wimblington to Doddington. On this flow, Stagecoach services 33, 35 and x8 overlap with Norfolk Green's service 56. (ii) The second corridor runs in and around the town of Ely where Stagecoach's inter-urban services 9 and 12 overlap with Norfolk Green's AbsolutELY local service.
26. The Parties submitted that the overlaps between their services are relatively unimportant, when compared to the rest of the routes that the overlapping flows form part of, whether this is measured in terms of route length, passenger numbers or revenues.
27. The Parties also submitted that there is little incentive to raise prices on the overlapping routes post-merger, since the main ticket type on the overlapping services are concessionary or multi-journey tickets and not single journey adult fares which can be more profitable. They pointed to a previous OFT case where the decision noted that incentives to increase prices are more likely on single tickets.¹⁵ The Parties noted that in that decision, the OFT concluded that the incentive to increase prices post-merger existed since adult single tickets accounted for around 42 per cent of tickets on the service. In the present case, the proportion of single adult ticket sales are much lower and are between 12 and 24 per cent. Therefore, the Parties considered that the incentives to increase prices were minimal on the overlapping services.
28. However, the OFT notes that the assessment of closeness of competition and post-merger competition takes into account a broader set of considerations, such as whether the services are good substitutes from the passenger perspective. Furthermore, the OFT has noted in previous cases that even if the incentive to increase prices does not exist, the OFT considers whether the merger results in incentives to worsen the service offering. Important aspects of the service offering include frequency of services and times of operation.
29. In previous cases the OFT and CC have applied a filtering approach to ascertain whether any overlapping flows should be examined closely for potential competition concerns. Given the limited number of overlaps between the Parties' services, the OFT has not found it necessary to employ a filtering approach in this and has assessed the closeness of competition between the parties' services in the two overlap corridors separately.

¹⁵ ME/5827/12, Anticipated acquisition by Greater Manchester Buses (South) Limited of Bluebird Bus & Coach, paragraph 34.

March – Wimblington – Doddington Corridor

30. Stagecoach submitted that the primary purpose of each of the relevant Stagecoach services is to link towns located at the start and end of the routes and not the ones in between where the overlap occurs. Stagecoach service 33 runs from Peterborough to Chatteris, Stagecoach service 35 runs from Huntingdon to March and Stagecoach service X8 runs from Cambridge to March. Norfolk Green’s service 56 is a much shorter service between the market towns of Wisbech to the villages of Manea or Benwick. Stagecoach submitted that, to a large degree, the overlap between their services is due to the lack of alternative routes linking their start and end destinations. Each of the Parties’ services run (at most) every hour.¹⁶
31. The OFT notes that, on the overlap flows, the Parties are the only providers of bus services. The OFT has not found evidence of a constraint from nearby bus services or in relation to potential competition.
32. As competitive parameters such as frequency of service are set at a route level rather than for specific flows, the OFT considered the significance of the overlap flows in relation to the parties’ overall routes. The overlap flows account for the following proportions of the following metrics:
- (i) Route length: Between [] and [] per cent.
 - (ii) Passenger journeys: Between [] and [] per cent of total passenger numbers.
 - (iii) Route revenues: Between [] and [] per cent of total route revenues.¹⁷
33. The OFT notes that, while the overlap accounts for a relatively small proportion of the length of the routes, it may account for a significant share (around [] per cent) of revenues in relation to the revenues for the 35 service.¹⁸
34. However, the OFT notes that the Parties’ services are differentiated in terms of the origins and destinations of travel, such that they are unlikely to be seen as alternatives by passengers. For example, in relation to the most significant overlap, the 35 runs between March and Huntingdon, while the 56 provides

¹⁶ The parties told us that the 33 and X8 offer one trip each way between Monday and Saturday. The 35 offers 10 trips a day to Chatteris, five of which extend to Huntingdon between Monday and Saturday. The 56 by Norfolk Green offers hourly services between Monday and Saturday.

¹⁷ For each metric, the overlap involving Stagecoach’s 35 is the largest as a share of the overlapping 56 operated by Norfolk Green.

¹⁸ However, revenue shares are calculated on the basis of where the customer boards the bus so may include customers who are travelling beyond the overlap flow.

services between Wisbech and Manea or Benwick. The short section of overlap between the services occurs because of March being the origin/destination of routes, but with services running to different parts of Cambridgeshire.

Furthermore, Stagecoach's services 35 and X8, and Norfolk Green's service 56 operate substantially different timetables. The OFT therefore considers that the parties' services do not compete closely.

35. Third parties who responded to the OFT's market investigation did not express concerns that there would be a loss of competition as a result of the overlap. One third party expressed the view that the overlap routes were not commercially viable and that it would be difficult to increase profitability given the number of concessionary travellers and low levels of single-fare paying customers. The OFT therefore considers that the parties would have little incentive to increase fares or worsen their service on this route post-merger.

Conclusion on March – Wimblington – Doddington Corridor

36. Given the differentiated nature of the parties' services (in terms of geographical focus and frequency), the OFT does not consider that the merger raises a realistic prospect of a substantial lessening of competition on these overlap flows.

Ely Corridor

37. Stagecoach submitted that Stagecoach service 9 is an inter-urban service running from Cambridge to Chatteris via Ely. Similarly, Stagecoach service 12 runs from Cambridge to Ely. The overlap between the parties occurs only in Ely where Norfolk Green runs a looped local service running only around Ely. Stagecoach submitted that Norfolk Greens 'AbsolutELY' service is primarily intended to link travel between a Sainsbury's supermarket and Ely town centre. The AbsolutELY service came into being under a section 106 planning agreement entered into between Sainsbury's and East Cambridgeshire District Council in respect of a decision to grant planning permission for the Sainsbury's store to be built. The route was then tendered by the Local Transport Authority, Cambridge County Council. Tendered services are considered further below.
38. Stagecoach submitted that Stagecoach services are therefore intended primarily for customer commuting to and from Cambridge whereas Norfolk Green's AbsolutELY service is intended to encourage travel within Ely to and from Sainsbury's. Stagecoach submitted that the percentage of adult single fares purchased on its services in and around Ely are between [] and [] per cent.

39. Third parties broadly confirmed the above, noting that the services did not compete closely for passenger revenues. None raised concerns in relation to this overlap.

40. The OFT considered the significance of the overlaps between the parties' services in relation to the overall routes. The overlap flows account for the following proportion of the following metrics:¹⁹

- (i) Route length: Between [] and [] per cent.
- (ii) Passenger journeys: Between [] and [] per cent.
- (iii) Route revenues: Between [] and [] per cent.

41. The OFT notes that the overlaps account for a small proportion of the overall routes. It considers that this evidence suggests that very few passengers would be likely to see the Parties' routes as substitutes. Further, the OFT notes that the Norfolk Green AbsolutEly service runs within Ely and was introduced to encourage travel within Ely. The Stagecoach services are inter-town services running between Cambridge and Ely or Chatteris. Overall, the OFT does not consider that the Parties' overlapping services compete closely. The OFT therefore considers that the Parties would have little incentive to increase fares or worsen their service on this route post-merger.

Conclusion on Ely Corridor

42. Therefore the OFT does not consider that the Merger raises a realistic prospect of a substantial lessening of competition on these overlaps.

Conclusion on competition on overlap flows

43. For the reasons set out above, the OFT concludes that the Merger does not raise a realistic prospect of a substantial lessening of competition on a flow-by-flow basis.

Competition for tendered services

44. The Parties have been active in bidding for tendered contracts in Cambridgeshire, Norfolk and Lincolnshire. However, they have bid for tenders

¹⁹ For each metric, the overlap accounts for a larger share of Norfolk Green's AbsolutEly service.

in competition against each other only in relation to tenders in Cambridgeshire. The OFT has considered each of the Parties' bidding activity within the areas in which they operate.

45. In relation to Norfolk, Stagecoach has not bid for any contracts in the last 10 years. Norfolk County Council has not put out any tenders for bus services within its local authority area in the last three years. In Lincolnshire, the Parties have not competed against each other over the last three years (the period of data that the OFT has seen), focusing on geographically differentiated tenders.²⁰ The OFT does not therefore consider that the Parties are close competitors for tenders in these areas.
46. Cambridge County Council informed the OFT that the Parties have competed with each other for a tender only once in the last three years out of a total 34 invitations to tender issued over this period. It also informed the OFT that there is very limited competition between the Parties. The previous owner of the Norfolk Green business told the OFT that there was little opportunity for the Parties to compete for tenders because there are so few invitations to tender issued.
47. No third parties raised concerns about a loss of competition for tendered services as a result of the Merger. In particular, Norfolk County Council informed the OFT that sufficient competition would remain after the Merger.
48. For these reasons, the OFT considers that the Merger does not give rise to a realistic prospect of a substantial lessening of competition with respect to competition for tendered services.

Network competition

49. The OFT notes that Stagecoach does not provide local bus services in Norfolk and provides a limited number of services into south Lincolnshire to and from Peterborough. Therefore the Parties' network of services only overlap in Cambridgeshire. Within Cambridgeshire the Parties' networks do not overlap substantially.
50. Furthermore, the overlapping routes represent a small proportion of the parties overall networks in each of these areas, suggesting that the Parties' networks

²⁰ Lincolnshire Council issues tenders on the basis of geographic zones and the parties have not bid for tenders in the same zones.

are unlikely to be close substitutes for passengers. Therefore, the OFT has not considered network competition in local bus services further.

Potential competition

51. Stagecoach submitted that the Merger does not raise competition concerns in relation to potential competition, since there are a number of third party competitors who will continue to constrain their services post-merger. Given the location of their depots and their current networks, the Parties submitted these are better placed to compete with Stagecoach than Norfolk Green was prior to the Merger.
52. The OFT notes that the Parties' networks do not overlap materially. Furthermore, their depot and outstation facilities are not geographically close, suggesting that the ability to exercise a material constraint through potential competition would be limited. A third party who responded to the OFT indicated that Norfolk Green was already operating at the extremities of what was feasible from its depot in King's Lynn and that it would be unlikely to be able to extend its geographic reach beyond this using its existing depot.
53. The OFT has not found evidence to conclude that the Parties exercised a significant constraint through the potential to enter into the supply of bus services on routes in competition with each other and that the Merger does not therefore remove a significant competitive constraint in the form of potential competition.
54. The OFT therefore considers that there is not a realistic prospect for a substantial lessening of competition resulting from the loss of potential competition between the Parties.

THIRD PARTY VIEWS

55. The OFT has sought views on the Merger from transport authorities and competitors of the Parties. Third party comments have been given due consideration by the OFT, and have been referenced in this decision where relevant.

ASSESSMENT

56. The Parties operate bus services in Norfolk, Cambridgeshire and Lincolnshire. The Parties overlap on a small number of flows. These overlaps relate to two particular corridors, as follows:
- (i) Between the towns of March and Doddington Stagecoach services 33, 35 and X8 overlap with the Norfolk Green service 56.
 - (ii) In and around Ely, Stagecoach's services 9 and 12 overlap with Norfolk Green's AbsolutEly service.
57. In relation to the March to Doddington corridor, the Parties submitted that the primary purpose of each of the relevant Stagecoach services is to link towns located at the start and end of the routes and not those in between where the overlap occurs. While the overlap accounts for a relatively small proportion of the length of the routes, it accounts for a significant share (around [] per cent) of revenues in relation to the revenues for the 35 service. However, the OFT considers that the services are differentiated in terms of the origins and destinations of travel, such that they are unlikely to be seen as alternatives by passengers. The OFT therefore considers that the Parties' services do not compete closely. The OFT therefore considers that the Parties would have little incentive to increase fares or worsen their service on this route post-Merger.
58. In relation to the Ely corridor the overlaps account for a small proportion of the overall routes. The OFT believes this indicates that very few passengers would be likely to consider the parties' routes as substitutes. Further, the OFT notes that the Norfolk Green AbsolutEly service runs within Ely and was introduced to encourage travel within Ely. The Stagecoach services are inter-town services running between Cambridge and Ely or Chatteris. Overall, the OFT does not consider that the Parties' overlapping services compete closely. The OFT therefore considers that the Parties would have little incentive to increase fares or worsen their service on this route post-merger.
59. In relation to competition for tenders to provide local bus routes, the OFT has found very limited evidence of competitive interaction between the Parties. Furthermore, the merged entity will continue to face competition from a number of other providers.
60. Finally, the OFT considered whether the Merger raises a realistic prospect of a substantial lessening of competition through the removal of a significant potential competitor in the operation of bus networks. The OFT has found that the Parties' networks did not overlap materially and has not found evidence to suggest that the Merger removes a significant potential competitor.

61. Third parties did not raise concerns about the Merger.
62. Consequently, the OFT does not believe that it is or may be the case that the merger may be expected to result in a substantial lessening of competition within a market or markets in the United Kingdom.

DECISION

63. This Merger will therefore **not be referred** to the Competition Commission under section 22(1) of the Act.

Endnote

Employees were not transferred under TUPE as the transaction was a share transfer and hence the employees remained employed by Norfolk Green.