

FIRSTGROUP/SB HOLDINGS REMEDY REVIEW

Summary of hearing with McGill's Buses on 11 December 2015

Introduction

1. McGill's Buses (McGill's) told us that Glasgow was an extremely competitive bus market from 1997. It said that this was not necessarily a good thing as competition put limitations on bus operators; however, those limitations also kept the businesses on their toes. McGill's told us that competition was mainly from Monday to Saturday peak hours or daytime hours.
2. McGill's bought the assets of Arriva Scotland West in 2012. Prior to that time Arriva Scotland West operated from two depots. Both depots were in Renfrewshire and its services operated from Renfrewshire into Glasgow as well as within Renfrewshire. McGill's continued to operate the registered routes of Arriva Scotland West largely the same, but it increased the frequency of some routes.
3. McGill's told us that the competition in 1997 was rarely running negatively in benefit-cost ratio terms so it was very difficult competition to deal with. McGill's said that FirstGroup struggled in this environment, and when there was hardening of the marketplace in 2008/2009 the macro-economic situation became very tough. McGill's told us it was near this time the last of the smaller operators went out of business. McGill's said that FirstGroup should have benefited from this change in the marketplace, but it appeared not to.

Fares and competition

4. McGill's said that it only competed with FirstGroup on a couple of key corridors in which the level of competition was strong. A route registered with Arriva previously had a 20-minute frequency, which McGill's stepped up to a ten-minute frequency when it took over. Historically, it had always had a ten-minute frequency. It was a route that FirstGroup had success with against Arriva and Arriva had unwound it back to a 20-minute service. Within a year of McGill's moving to a ten-minute frequency, FirstGroup pulled out as it couldn't afford to sustain it with that cycle. McGill's believed that cash was tight for FirstGroup and that it would have ceased trading but for it being part of FirstGroup.

5. McGill's told us that profitability was discarded by FirstGroup as it focused solely on market share. McGill's said that Glasgow was the cash cow of the UK bus group, but that stopped in 2006/2007 when a new Managing Director joined them who focused more on reliability in service and punctuality at high cost that watered down profits. It used to receive an operating profit margin of around 12 to 14%, which was the best in the UK even with the undertakings as Glasgow was great bus territory.
6. McGill's told us that FirstGroup's fare structure was similar to its own. Over 2014 and 2015, McGill's, FirstGroup, Stagecoach and other operators got together with the government to implement smart ticketing within Glasgow. Glasgow subway had implemented smart ticketing and there was pressure on the bus operators to do the same. McGill's told us that it was very difficult on buses due to the number of stops on a bus route and that the service would have to be a mobile system.
7. Smart ticketing was to be implemented in 2016 and the products sold were to be chosen by the bus operators. The agreed products were an adult single ticket, adult weekly ticket, child single ticket and child weekly ticket. A four-week ticket could not be decided on by the bus operators. McGill's told us that its four-weekly ticket was broadly in line with Scotland and the UK, but said FirstGroup's four-weekly ticket was £16 cheaper. Apart from four-weekly tickets, McGill's told us that FirstGroup's fares were broadly in line.
8. McGill's told us that FirstGroup reduced ticket prices when competing against McGill's in the Linwood corridor. In some circumstances FirstGroup reduced its return fare so it was cheaper than the single fare, which did not affect the concessionary reimbursement. Following this period Transport Scotland put in place policy changes to stop this action from bus operators.
9. In May 2015, Stagecoach entered a route to and from the Queen Elizabeth Hospital that was in competition with FirstGroup. Stagecoach entered with very low fares, and in response FirstGroup slashed its fares. McGill's told us that FirstGroup was under significant pressure from local councillors because it was not offering similar fares in other constituencies. McGill's told us that FirstGroup was only able to indulge in this kind of price war because it was cross-subsidising across its network. McGill's said that it was common for FirstGroup to operate this way in the past, but not so much in more recent times.
10. McGill's told us that FirstGroup would move vehicles between its routes in reaction to what competition it was facing rather than to provide what the customer wanted or deliver the needs of a particular route. On lightly populated routes with space restrictions FirstGroup would use 20-year-old

double-decker buses because it wanted to move the slightly better smaller buses over to another route that faced competition. McGill's, as an industry insider, could understand this tactic but it left customers feeling poorly treated.

11. McGill's said that FirstGroup had neglected a number of its routes and that other operators could enter reasonably easily. However, McGill's told us that FirstGroup had become more intelligent strategically in its behaviour than it had been in the past.
12. McGill's told us that it was a potential competitor of FirstGroup and that it had ambitions of moving in on FirstGroup's territory. It said that it would prefer not go head-to-head because there were very few routes in which head-to-head competition worked. It said the lead-time to building up to the point where head-to-head competition was profitable or to the point you starved the other competitor was too long and therefore too much cash was spent.
13. McGill's told us that if it competed head-to-head with FirstGroup on a key route, FirstGroup would de-register or trim back within three months because McGill's understood FirstGroup was not in a strong financial position. McGill's did note that it depended how fundamental the route was to its business in profit terms.

Depots

14. Bus networks with cross-town operations would typically run hub and spoke operations. McGill's told us that the best place for a depot is right in the centre. McGill's Renfrewshire depots were a triangle around about Renfrewshire. Rather than being in the centre, the depots were at the extremity of the town, which did the same job.
15. McGill's explained that dead mileage happened twice a day – once on the way out and once on the way back to a depot. McGill's told us that, in terms of mileage, a route further than 12 miles from a depot became unworkable because drivers were not from the area they were working, affecting drivers' route familiarity.

Entry

16. McGill's told us that its preferred method of entry would be to buy the assets of another business that was suffering and turn around the business. Other methods were too expensive. In the 1990s there large numbers of customers driving revenues; however, McGill's explained that bus companies had to be more intelligent in how they spent their money today.

17. McGill's opened a depot in Blantyre, South Lanarkshire, in November 2014 as a result of a small to medium independent, Henderson's Coaches, going out of business. SPT alerted McGill's to Henderson's going out of business and asked if McGill's would be able to take the routes. McGill's took all the routes and began operating for two nights from its depot 12 miles away. McGill's told us that setting up a new depot was very easy and that the hardest part was funding it. Once the emergency was over the routes went back out for tender and McGill's won them.
18. McGill's told us it planned to start registering buses in Lanarkshire early in 2016 where it would compete with FirstGroup. There were two arteries in North Lanarkshire that ran up the main corridor that would put McGill's in competition with FirstGroup, which was aware of McGill's intentions in that area.
19. McGill's explained that once you had a tendered route in an area, it provided the ability for an operator to put a commercial route in at a far lower cost. The depot in Lanarkshire allowed McGill's to operate commercial services into North and South Lanarkshire.
20. McGill's told us that it had strong interest in entering Scotland East, but noted that no company could compete against Lothian buses because it could not offer the customer anything that Lothian did not already provide. McGill's said that the best places to compete were areas where there were disgruntled customers.
21. McGill's told us that FirstGroup in Lanarkshire used to always only operate second-hand buses; however, when McGill's began operating in that area it purchased 20 new buses on two key routes. McGill's told us that this could have been in reaction to its entry.
22. McGill's described Cumbernauld as being not good bus territory despite it being reasonable for commuting to Glasgow or to Edinburgh. With the Croy train station and the park and ride expansion, Stagecoach witnessed massive patronage drift. McGill's believed that it had damaged FirstGroup's business in the Cumbernauld area.

Undertakings

23. McGill's told us that it was in favour of removing the undertakings. It said that the restrictions on FirstGroup were unfair and that FirstGroup was unable to do things that McGill's was allowed to do. This created an uneven playing field. It said that, in the past, some of the undertakings may have been needed because of the way that FirstGroup had behaved, but FirstGroup

tended not to behave that way now. Lifting the undertakings would not adversely affect McGill's operations unless FirstGroup started behaving badly again. It said that the undertakings had been an extra shackle on FirstGroup that had probably stopped FirstGroup from moving as quickly or as easily as it wanted to. No-one else had these shackles and McGill's told us it thought that was a bit unfair.

24. McGill's told us that bus companies were not really in control of their fares any more. It said that, on single fares, one could not impose any more than a pre-agreed increase because Transport Scotland would not accept larger increases for reimbursement under the concessionary fares scheme. Multi-journey fares and other fares were driven by passenger demand and elasticity, and bus companies did not really have as much freedom of movement as they might wish to have.
25. McGill's said that it thought FirstGroup might well unwind some mileage if the undertakings were removed. It said that FirstGroup ran certain routes where one had to wonder why it bothered running them; it was clearly connected with the undertakings. McGill's said that it could foresee itself entering into competition with FirstGroup in certain areas.