
Completed acquisition of Dennis's Coaches by Greater Manchester Buses South Limited, a subsidiary of Stagecoach Group plc

The OFT's decision on reference under section 22(1) given on 22 September 2005. Full text of decision published 6 October 2005.

Please note that square brackets indicate information excised, or exact figures replaced by a range, at the parties' or third parties' request.

PARTIES

1. **Greater Manchester Buses South Limited** (Stagecoach), a wholly owned subsidiary of Stagecoach Group plc, operates commercial bus services (both as 'Stagecoach' and under the 'Magicbus' brand) and tendered bus services within the Greater Manchester area.
2. **Dennis's Coaches** (Dennis), an unincorporated partnership, operated two commercial bus services covering the corridor from Ashton to Manchester and some tendered services. Dennis achieved turnover in 2004 of approximately £ [] million.

TRANSACTION

3. Stagecoach acquired the goodwill, buses, certain tendered contracts and certain employees of Dennis. The transaction completed on 31 March 2005. The extended statutory deadline is 5 October 2005.

JURISDICTION

4. As a result of this transaction Stagecoach and Dennis have ceased to be distinct. The parties overlapped in the supply of commercial bus services within the Boroughs of Manchester and Tameside in the Greater Manchester area where the share of supply test in section 23 of the Enterprise Act 2002 (the Act) is met. The OFT therefore believes that it is or may be the case that a relevant merger situation has been created.

BACKGROUND

5. Pre-merger, the parties overlapped in the supply of commercial bus services in the Greater Manchester area¹, specifically within the Boroughs of Manchester and Tameside between Ashton and Manchester (the Ashton - Manchester corridor) on the 216 and 219 bus routes.² These routes were very well served prior to the merger: on the 216 route, Stagecoach operated 12-14 services an hour (either as Stagecoach or under the Magicbus brand) and Dennis operated one service every ten minutes; on the 219 route, Stagecoach operated a bus every seven and half minutes and Dennis every ten minutes. In addition, Maynes Coaches Limited (Maynes) operated (and continues to operate) some services on flows which partially overlapped with the 216 route.³ Following the merger, Stagecoach withdrew Dennis's services, although it added a further peak service and additional evening and Sunday services on each route. It is our understanding that fares have not significantly changed on Stagecoach services post merger.
6. In addition to commercial services, both Stagecoach and Dennis operate some tendered services. These services are subsidised by the Greater Manchester Passenger Transport Executive (GMPTE) in order to provide transport services where it would otherwise be unprofitable for private companies to do so. However, Dennis's activities in this area were minimal.

RELEVANT MARKET

Product market

7. In line with recent OFT decisions and Competition Commission (CC) reports, the OFT's starting point is to consider bus services separately from other modes of public transport, except where journey characteristics on the other mode of transport (e.g. rail, coach) are sufficiently similar on a specific point to point journey to suggest significant demand-side substitutability.
8. Stagecoach has contested this general approach and maintains that bus services cannot be considered without reference to other modes of transport on the Ashton - Manchester corridor. In its view, train services operated by Northern Trains compete with bus services on the corridor for point-to-point journeys between Ashton and Manchester. Moreover, it also contends taxis and private hire cars can provide a realistic alternative mainly for

¹ The Greater Manchester area comprises the Boroughs of Bolton, Bury, Manchester, Oldham, Rochdale, Salford, Stockport, Tameside, Trafford and Wigan.

² The 216 route runs services between Ashton and Manchester via Droylesden and Ashton New Road and the 219 route between Ashton and Manchester via Guide Bridge, Audenshaw and Ashton Old Road.

³ Maynes operated and continues to operate the 232-235 services between Droylesden and Manchester City Centre and the 217-218 services along other parts of route 216.

persons travelling together, for example, in the evenings. Further, it is expected that a new Metrolink tramline will be built between Ashton and Manchester over the next three to five years.

9. Third parties suggested that private cars compete to some extent with bus services, although taxis and rail did not.
10. The OFT acknowledges that rail is an alternative mode of transport for passengers travelling from Ashton to Manchester. The rail journey is quicker, but the services less frequent (three an hour), than the alternative bus journey and the train fare is higher than the equivalent bus fare. However, regardless of the degree of substitutability for bus passengers of rail for the Ashton-Manchester end-to-end flow, Northern Trains does not serve intermediate flows and does not therefore constrain Stagecoach in this respect. Taxis and private cars do not appear to be a competitive constraint for most bus passengers, and the Metrolink tramline project is too speculative and not immediate enough to be taken into consideration.

Geographic market

11. There are two consumer groups for bus services: commercial bus passengers and the GMPTE.
12. Bus passengers seek to travel from a fixed point of origin (A) to a fixed destination (B) and are unlikely to consider other journeys as substitutes. Therefore demand-side factors warrant separate consideration of the transaction in terms of its impact on a point-to-point basis, i.e. supply of passenger transport services from all A to B. On the other hand, past cases suggest that supply-side substitution between point to point routes may be relatively easy for incumbent operators with scale.
13. For tendered services, there may be greater scope for demand-side substitution. The direct customer for such services is the GMPTE, which will consider any bus operator in Greater Manchester for its tender list regardless of location, as long as they can meet contract conditions regarding vehicles, ticketing equipment, health and safety issues etc. In the past, the GMPTE has also invited operators from outside Greater Manchester to bid for tenders. The market for tendered services is likely to include operators throughout Greater Manchester and possibly beyond. However, given the lack of competitive concern for tendered services, it is not necessary to conclude on this point.
14. Given that Dennis only provides minimal tendered services, substantial competition concerns for the provision of tendered services within the area do not arise. The focus of this paper is thus the provision of commercial services.

15. Demand-side factors indicate that the geographic market for commercial bus services should be defined narrowly as the particular point-to-point flows on which Dennis operated along the Manchester-Ashton corridor pre-merger. However, there is in this case significant evidence (discussed further below) to suggest that another operator or operators would deploy buses on the flows in question within a relatively short period (e.g. within six to twelve months) in response to significant increases in fares or reduction in bus frequency intervals.
16. On balance, while these supply-side substitutability considerations may therefore suggest a geographic frame of reference wider than the individual flows at issue in this particular case, the OFT considers it prudent to allow demand-side factors to govern identification of the relevant frame of reference (here, the relevant flows) and to discuss supply-side constraints on the merged entity in the discussion of ease of entry and expansion below (see paras. 25ff). That said, since flow-specific share data will not capture these constraints, share data on a Greater Manchester basis are also discussed below.

HORIZONTAL ISSUES

17. According to data available to the OFT, First Group plc remains the largest bus operator in the Greater Manchester area by a substantial margin post-merger, with a [40-45] per cent revenue share, followed by Stagecoach whose post-merger share nears [25-30] per cent (increment of [0-5] per cent). In addition, a third major national operator, Arriva, is present in the area, as are a number of smaller operators, including Blue Bus and Coach, Rossendale Transport, Green Triangle, Bullock and Maynes.
18. As to the particular flows at issue, pre-merger Stagecoach overlapped with Dennis in the supply of commercial bus services between Ashton and Manchester on the 216 and 219 bus routes. On the 216 route, Stagecoach provided two differentiated services: its 'standard' service under the Stagecoach brand and livery, and a lower fare service operated under the Magicbus brand. Stagecoach and Dennis were the only bus operators offering services along the whole of those routes and were effective alternatives. Maynes operated and continues to operate commercial bus services on parts of the 216 route, though it accounts for less than 20 per cent of revenue on the flows where it operates.
19. In terms of pricing, Stagecoach believed that on the 216 route Dennis's fares were above that of Magicbus but sometimes lower, the same, or higher than Stagecoach standard fares depending on the flow, complicated by the fact that Dennis did not offer return fares. On the 219 route, Stagecoach believed that Dennis's pricing was generally the same or slightly lower than Stagecoach standard fares (Magicbus does not operate on the 219 route). However, direct fare comparisons have been difficult since Stagecoach maintained that it had not, as part of the transaction, received any information about Dennis's fare structure and it had no information itself about Dennis's pricing. The details it provided to

the OFT were recollections from the ex-Dennis drivers that had transferred to Stagecoach. Moreover, Dennis's did not offer any return fares, though it does appear to have offered weekly saver tickets (as does Stagecoach).

20. One third party expressed concerns that Stagecoach would reduce the level of services further and/or put up fares. Although the OFT has no basis to doubt Stagecoach's submissions that fares have not significantly changed on Stagecoach services, Stagecoach has rationalised services resulting in an approximately 31 per cent reduction in total service numbers on the corridor. However, in terms of seat capacity, the reduction amounts to only 5.4 per cent at peak and 13 per cent off-peak on the 216 route and to 3 per cent at peak and 16.8 per cent off-peak on the 219 route. As there is no suggestion that both parties' services were at or near full capacity, the potential non-price harm to consumers considered by the OFT was that of service interval: would passengers have to wait significantly longer for a bus on the flows in question as a result of competition lost through the merger? The available evidence suggests that notwithstanding reduction in the total number of services (which Stagecoach and certain third parties submit were duplicative inasmuch that the two operators' buses allegedly arrived at or around the same time at a given stop), the interval between buses has not materially increased in either peak or off-peak on the relevant flows.
21. In terms of fares, Stagecoach explained that it operated a single fare structure across the whole of Manchester and that any fare increase was applied across the whole of that network. It would, therefore, be immediately obvious if fares on the Ashton corridor were changing out of line with the rest of its Manchester operations. Stagecoach maintained that it had no incentive to decrease service levels or increase fares on the Ashton corridor (out of line with the rest of Manchester) since this would merely encourage new entry or expansion by other operators. Indeed, Stagecoach has slightly increased the frequency of its own services while removing Dennis services. As explained above, pre-merger the routes were very well served and, as such, waiting time (service intervals) have remained relatively low despite the reduction in total numbers of services per day.
22. Stagecoach has submitted that the lack of significant adverse effects is explained by the constraints posed by rival operators in the Greater Manchester Area. This is consistent with other evidence discussed below at paragraph 25ff.
23. Stagecoach further submitted that it was also constrained by two other competitors that currently serve certain of the flows at issue: Maynes, which it cites as an effective competitor on certain flows of the 216 route, and Northern Trains as a competitor on the Ashton–Manchester end-to-end flow. Third party evidence is mixed in this regard. Some suggested that Maynes is a strong competitor. Others suggested that Maynes is not a strong constraint on Stagecoach as it only overlaps partially on the 216 route. Evidence

indicates that around 45 per cent of the parties' flows (by revenue) between Ashton and Manchester are also served by either rail or Maynes.

24. In the light of the above, the OFT concludes that Maynes and Northern Trains may provide some constraint on the merged entity in the overlapping flows where they operate in competition with Stagecoach. However, any such constraint is limited given that the remaining 55 per cent of revenues are accounted for by flows that do not face competition by either Maynes or Northern Trains. Therefore, taken together, these constraints would not be sufficient, in themselves, to alleviate all competitive concerns resulting from this merger.

Entry and expansion

25. In the Greater Manchester area Stagecoach accounts for about [25-30] per cent of revenue and has a number of rivals including First Group plc, which is considerably larger than itself (see paragraph 17). In addition Stagecoach indicates that since January 2003, within the Greater Manchester area, six new bus operators have commenced operations. Third parties generally support the contention that barriers to entry and expansion into the flows from proximate parts of Greater Manchester are low.

26. In the OFT's view, the evidence available in this case indicates that barriers to entry and expansion by rivals on to the flows in question are low. (Arguably, as mentioned in paragraph 15, the potential response by rivals might better be characterised as supply-side substitution.) In any event the following points are relevant to considering the ease of rivals' expansion of existing operations or network:

- The Ashton-Manchester corridor must reasonably be regarded as of commercial interest to other operators given the scale of revenues (around £ [] million annually) on the flow, and the fact that the routes' western end-point is Manchester city centre, which is served by a large range of different bus operators.
- Various third parties were unaware of specific hindrances to accessing bus stands, which tends to support Stagecoach's contention that there is available stand capacity at both Ashton Bus Station and Manchester City Centre.
- Short of establishing a new depot, an operator must have an existing depot within range of the flows and sufficient fleet available or procurable to serve the flows. Numerous existing operators within Greater Manchester appear objectively to fit this profile; Stagecoach submits that there are 18 bus depots in the area operated by rivals, and while not all of these depots appear to be suitably located, a number are close to, or actually on, the route corridor.

- In order to provide a new bus service along a route in the area, an operator must give 56 days notice to the GMPTE, a relatively short lead time.
 - In contrast to certain previous cases relating to other areas of the UK, the OFT's inquiries of candidate entrants within the adjacent Greater Manchester areas elicited positive support from two respondents for the proposition that they would have the incentive to commence operations on the flows in question if Stagecoach were to raise fares or reduce frequencies. At the same time, some smaller rivals responded that they would not enter because of the threat of retaliation by Stagecoach, consistent with similar views expressed in certain earlier bus mergers considered by the OFT. However, the OFT's conclusion does not depend on a finding that all respondents canvassed assert they will enter; it is sufficient if the threat of entry posed by one or more rivals substantially replicates the competitive pressure posed – by one small operator, Dennis – on Stagecoach pre-merger.
 - In this case, First, the largest operator in Greater Manchester by some margin, was one of the respondents affirming that it would expand into the flows in question if a commercial opportunity arose; another operator of comparable business model to Dennis also indicated its potential entrant status. Given the stated views of these respondents and other objective characteristics described above, the OFT concludes that either operator is a credible entrant and must therefore be regarded as posing a material competitive threat in the circumstances outlined above. The extent of the OFT's inquiries does not of course preclude that there may be further credible entrants; Stagecoach has suggested the pool of candidates could be significantly larger.
27. Accordingly, both objective evidence on barriers to entry and expansion and responses by rivals have satisfied the OFT in this case that entry by rivals on to the flows in question would be timely, likely and sufficient to resolve any initial competition concerns. Additional constraints arise from Maynes and potentially the rail services on certain of the flows at issue.

VERTICAL ISSUES

28. There is no evidence to suggest that significant vertical issues arise in this case.

THIRD PARTY VIEWS

29. The majority of third parties were unconcerned about this merger.
30. Two competitors raised concerns that further reductions in services or increase in prices may occur in the future. Some competitors expressed concerns that the fear of retaliation

from Stagecoach would deter entry into the corridor. These concerns have been dealt with above.

ASSESSMENT

31. Stagecoach has acquired Dennis, the only bus competitor to Stagecoach on the 216 and 219 routes running on the Ashton-Manchester corridor. Maynes, another bus operator, competes on certain flows along the 216 route. Northern Trains operates between Ashton and Manchester.
32. In this case the evidence on ease of, and potential for, entry or expansion by rivals (including a larger rival) operating in proximate areas of Greater Manchester is substantial. This evidence leads the OFT to conclude that the loss of Dennis's independent services on the route will not substantially lessen competition because actual or threatened entry by such rivals will continue to constrain Stagecoach's behaviour on the flows at issue.
33. Consequently, the OFT does not believe that it is or may be the case that the merger has resulted, or may be expected to result, in a substantial lessening of competition within a market or markets in the United Kingdom.

DECISION

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