

**Stagecoach Holdings plc**  
**and**  
**Ayrshire Bus Owners (A1 Service) Limited**

A report on the merger situation



MONOPOLIES AND MERGERS COMMISSION

# **Stagecoach Holdings plc and Ayrshire Bus Owners (A1 Service) Limited**

A report on the merger situation

**Presented to Parliament by the Secretary of State for  
Trade and Industry by Command of Her Majesty  
November 1995**

## **Members of the Monopolies and Mergers Commission as at 6 October 1995**

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Mr A J Nieduszynski (*Secretary*)

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<sup>1</sup>These members formed the Group which was responsible for this report under the chairmanship of Mr P H Dean.

## **Note by the Department of Trade and Industry**

In accordance with section 83(3) and (3A) of the Fair Trading Act 1973, the Secretary of State has excluded from the copies of the report, as laid before Parliament and as published, certain matters, publication of which appears to the Secretary of State to be against the public interest, or which he considers would not be in the public interest to disclose and which, in his opinion, would seriously and prejudicially affect certain interests. The omissions are indicated by a note in the text.

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Part I

# **Summary and Conclusions**

# 1 Summary

1.1. In a reference dated 6 June 1995 (see Appendix 1.1) the Secretary of State for Trade and Industry asked us to investigate and report on a merger between two bus operators, Stagecoach Holdings plc (Stagecoach) and Ayrshire Bus Owners (A1 Service) Limited (A1 Service).

1.2. Stagecoach, the leading bus operator in the UK, acquired Western Scottish Buses Limited (Western Scottish), the main operator in south-west Scotland, in July 1994. In January 1995 Stagecoach also acquired A1 Service, a long-standing independent operator with some 80 buses which ran services in part of Western Scottish's area of operations, for £4.3 million. A1 Service was unusual in being a co-operative venture in which ten member firms, each supplying and maintaining its own buses, ran the services.

1.3. In the area which we designated as appropriate for our inquiry, which comprises eight districts of Strathclyde region, Western Scottish supplies 26 per cent of bus services, measured by turnover, and A1 Service 6.5 per cent. Most of the overlap between the two companies' services is in two Ayrshire districts: Cunninghame, where A1 Service has 18 per cent of the registered mileage and Western Scottish 10 per cent; and Kilmarnock & Loudoun, where A1 Service has 11 per cent and Western Scottish 70 per cent.

1.4. The merger has led to a modest loss of actual competition between the two companies in the supply of commercial services and schools transport. There is also a more significant loss of potential competition: although A1 Service under its previous owners was unlikely to present a threat to Western Scottish, the latter might well have initiated more vigorous competition with A1 Service. Moreover A1 Service might have been acquired by another operator.

1.5. It is clear that Stagecoach's strategy is to increase Western Scottish's already high share of bus services in Ayrshire. This is likely to lead to competition from existing operators, already weak, being further diminished. We see the merger as part of that strategy. We believe there is unlikely to be effective competition from small new entrants or from other large operators.

1.6. The merger has brought benefits, including a marked improvement in A1 Service's fleet of buses. It is likely to lead to some innovative services being introduced and fares being held in the short term. In the longer term, however, as the scope for Stagecoach to grow by acquisition diminishes, we believe that as a result of the weakening in competition, Stagecoach can be expected to seek increased profits by raising fares and reducing levels of service. We conclude on balance that the merger is against the public interest.

1.7. We have considered recommending the divestment of A1 Service. Having regard to Western Scottish's already dominant position in its area of operations, however, and in view of doubts about the willingness of others to acquire A1 Service and compete in what is perceived to be 'Stagecoach territory', we are not convinced that divestment would be effective in strengthening competition; and it would put at risk the benefits from the merger. We therefore recommend a number of behavioural remedies with the aim of fostering competition and restricting Stagecoach's ability to exploit its position. One member of the Group, Professor Pickering, favours divestment. His view is set out in a note of reservation following Chapter 2.