

**Cowie Group plc  
and  
British Bus Group Limited**

A report on the merger situation



MONOPOLIES AND MERGERS COMMISSION

# **Cowie Group plc and British Bus Group Limited**

A report on the merger situation

**Presented to Parliament by the Secretary of State for  
Trade and Industry by Command of Her Majesty  
March 1997**



## **Members of the Monopolies and Mergers Commission as at 20 February 1997**

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<sup>1</sup>These members formed the Group which was responsible for this report under the chairmanship of Mr D G Goyder.

## **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 31 October 1996 (see Appendix 1.1) the Secretary of State for Trade and Industry asked us to investigate and report on the acquisition by Cowie Group plc (Cowie) of British Bus Group Limited (British Bus).

1.2. Cowie is a Sunderland-based quoted company operating in four main business areas: vehicle leasing and financing, motor retailing, bus distribution and bus service operations. Before the merger it operated bus services in London, Hertfordshire and Essex; and on the day before its purchase of British Bus it acquired North East Bus Limited (North East Bus), which operates in the north-east of England. British Bus was a large group with operations in many parts of the UK, including London. Following the abandonment of their plan to list the company on the London Stock Exchange in 1995, the directors of British Bus instead sought a purchaser for the company. Cowie acquired British Bus on 1 August 1996 on terms which provided for a maximum consideration of £302 million.

1.3. We considered the public interest effects of the merger at the national level, in London and in the areas outside London where the operations of Cowie and British Bus overlap or are in close proximity to each other.

1.4. As a result of the merger, Cowie has become the third largest bus operator in the UK, in turnover terms, with an estimated 14.9 per cent share of the national market. FirstBus PLC (FirstBus) remains the market leader nationally, with 19.8 per cent, while Stagecoach Holdings plc (Stagecoach) has 16.1 per cent. Together, these three groups have a combined share of 50.8 per cent of the national market. Given, however, the size of British Bus and the indications given to us by Cowie that it intends to be a significant competitive force in local bus markets, we conclude on balance that Cowie's enhanced position at the national level would be as likely to generate competition as to lessen it.

1.5. Bus services in London are regulated by London Regional Transport (LT), which is responsible for public passenger transport services in the capital through its subsidiary, London Transport Buses (LTB). Until 1994, bus services in London were provided primarily by 11 subsidiaries of London Buses Limited (LBL), LT's bus operating arm. In order to promote competition, these companies were sold to private operators (either third parties or their own management) during 1994 and restrictions on their areas of operation were lifted.

1.6. LTB determines the route network and the frequencies of bus services in London, the general structure and level of fares and other matters. A gradual programme of competitive tendering of services was introduced in 1985. Ten years later, over half the network had been competitively tendered and a number of new operators had entered the market. The total subsidy paid to bus operators fell massively from £265 million in 1984/85 to £13 million in 1996/97. An accelerated programme of competitive tendering started in 1996 and by 2002 all routes will have been competitively tendered.

1.7. The bus operations of Cowie and British Bus overlapped in north London but more

particularly in south London, where Cowie's subsidiary South London Transport Limited (SLT) and British Bus's subsidiary Londonlinks Buses Limited (Londonlinks) both operated services in the boroughs of Croydon and Lambeth. Cowie's share of the scheduled bus mileage in these boroughs has increased from nearly 34 per cent to 42.6 per cent as a result of the merger, while in London as a whole its share, formerly around 18 per cent, now slightly exceeds 25 per cent. There are two other large companies operating services in south London: The Go-Ahead Group plc (Go-Ahead) and Stagecoach.

1.8. LTB expressed concern that the merger had further reduced the number of major competitors in London, particularly in the boroughs of Croydon and Lambeth, to the detriment of competition. We accordingly considered a number of issues relating to competition in the London market, including: possible barriers to entry, the willingness of large bus companies to compete with each other, numbers of bids per tender and bid prices, the advantages enjoyed by the large incumbent operators in London, the significance of existing high market shares and the role and powers of LTB.

1.9. The London market has undergone a number of changes over the past decade and the position has not yet stabilized. We found that there were deterrents to entry to the market, particularly for small operators and new entrants. These included the large number of buses required to run some routes, advantages to incumbents deriving from the operation of a network of routes based on a single depot, the additional risks to the operator associated with net cost tendered contracts and the problems of acquiring suitable garaging facilities for vehicles. Nevertheless, some smaller operators, including two new entrants, have recently won routes. There is an increasing volume of routes of all sizes coming up for tender over the next two years, many requiring ten buses or fewer, and this may provide opportunities for a wide range of operator to secure routes. We found that although large incumbent operators retained routes in a high proportion of cases, there was evidence of competition from both the large non-incumbents and small operators, and a number of routes have changed hands. Furthermore, as the regulator of the London bus market, LTB has considerable discretion to take factors other than price into account when assessing competing bids and to influence the competitive make-up of the London market.

1.10. As regards the south London bus market and particularly that in Croydon and Lambeth, we noted that although the merger gave rise to an increase in the combined market share of Cowie and British Bus, the resultant share was little different from that already held by Go-Ahead. Furthermore, it is apparent that future competition in this part of the capital is not dependent solely upon continuing competition between Cowie and British Bus.

1.11. Outside London, although the operations of Cowie and British Bus overlapped or were contiguous with each other in several parts of the unregulated market (namely Surrey, Kent, south Essex, Hertfordshire, Yorkshire and the north-east of England), there is no loss of actual competition, and only a limited loss of potential competition, which is mitigated by the proximity of other significant operators in these areas. Accordingly, we do not consider that the merger would affect competition adversely in these areas to any significant degree.

1.12. Taking all these considerations into account, we conclude that there are no adverse effects at the national level or in the non-London areas. Matters in London are more finely balanced. Whilst there are some consequences of the merger which we could foresee adversely affecting the public interest, we are not satisfied on the evidence that such adverse effects are probable as opposed to merely possible, not least because of the safeguards available to LTB in regulating the London market. Accordingly, we conclude that the merger may be expected not to operate against the public interest.