PUBLIC SERVICE VEHICLE OPERATIONS IN BRITAIN

- The public service vehicle (bus and coach) industry remains by far the most dominant form of public transport in Great Britain

- The commission for integrated transport (2004) assets that in 2002/2003 some 4.4 billion passenger journeys were made by bus compared to 2 billion journeys on all rail modes in the same year

- Assume that there is a separate Public Service Vehicle (PSV) market according to the convention by the British Competition Commission
- Given this definition and the resulting absence of close substitutes, the market demand for bus travel is likely to be relatively price inelastic
- Two geographical definitions
  - Local markets
  - National market

THE STRUCTURE OF THE BUS INDUSTRY

The bus industry

- **Scheduled local services**
- **Scheduled distance services**
- **Non-scheduled charter services**

- The schedule services – the vehicles that stop at set places along predetermined routes at predetermined times

- Local services – within city or county boundaries

- Distance services – traverse such boundaries

- The non-scheduled charter services- privately hired for particular journeys

- 1800 private-sector bus operators and 17 local authority-owned companies in Great Britain
- The national industry was dominated by 5 large companies: First, Arriva, Stage Coach, Go-Ahead, and National Express, which together account for approximately 80 % of employment and 70% of the market turnover
- They are each concentrated in different local market
- Local markets are highly monopolized

- This monopolisation of local services is sustained by barriers to entry
- 5 particular barriers to entry
  - Supply-side economies of scale
  - Demand-side economies of scale
  - Competitive responsiveness
  - Lack of service differentiation
  - Reputation

- Supply-side economies of scale
  - Large operators are able to purchase new vehicles significantly more cheaply than small operators and by virtue of having younger fleets subsequently enjoy lower maintenance costs

- Demand-side economies of scale
  - Larger operators within a local market are able to tie in passengers through the employment of discounted return journeys and network tickets that can be used on any of its vehicles within an area

- Competitive responsiveness
  - One can view each route as a separate market – incumbents are able to use their multiple markets to respond effectively to small scale entrants
  - To aid this, price and service characteristics can be adjusted rapidly
- Lack of service differentiation
  - New entrants have only a limited potential to differentiate their service or to reduce their operating costs through technical innovation

- Reputation
  - The reputation of an incumbent for responding aggressively and effectively to entry acts as a not-insignificant barrier to entry

- In order to establish a PSV operating company in any of the three sub-market it is necessary to obtain **an operator's license**

- **Legal costs** are required and the Traffic Commissioners have the same avenue of decisions open to them – If the application process has been successful the new licensee will need to obtain the required vehicles