

# Standing in the Shadow of the Giants

## Conditions for Entry and Survival of Small Businesses on the Deregulated Bus and Railway Markets in Sweden

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### Abstract

Since the late 1980s, the entry barriers for new bus and railway companies have gradually been reduced in Sweden. In this paper the effects of these changes upon small businesses are analysed with the help of a couple of case study firms. Four parts of the transportation sector are considered: local and regional bus services, long-distance bus services, regional train services and inter-regional train services. Although offering different basic conditions for entry, new as well as old small businesses have often faced a common problem on each of these markets: having to compete with a giant former monopolist or oligopolists, or being dependent on some of its/their factors of production. Although several firms have been forced out of the markets, a number of them have managed to survive and grow. In this paper it is argued that there are a few key factors that govern a small firm's success or failure.

### Introduction

Deregulations often aim at lowering entry and mobility barriers of an industry and thereby stimulating new firms to enter and new as well as old companies to grow. Swedish deregulations in the transport sector have seldom been carried out with this as the primary goal, and therefore the term "regulatory changes" may sometimes better characterise what has been going on. Nevertheless, over the years and to a large extent following from these changes, *competition* has become an increasingly important feature of the Swedish transport sector. In this paper, we will take a closer look at this development in the Swedish bus and railway markets, focusing on the problems and possibilities facing small businesses. New as well as old small businesses have often faced a common problem on both of these markets: having to compete with a giant former monopolist or oligopolists, or being dependent on

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some of its/their factors of production. On the other hand, it has been possible for the small businesses to avoid unnecessary overhead costs and they seem to be able to easily attract qualified personnel away from the former monopolist. In order to detect more of such factors, we have considered a couple of case study firms on each market, selected to represent various business strategies and outcomes.

We start by describing the changing regulatory conditions of the markets and their overall effects. After that, the case study firms are presented. In a concluding chapter, we summarise and discuss our findings, addressing the main question of this paper: What are the obstacles and the advantages facing small businesses willing to enter and grow in the Swedish bus and railway markets?

## **The market for bus services in Sweden**

A market for bus traffic in Sweden has existed since the 1920's. For many years there was no clear distinction between different types of bus traffic, and today's division of the market into local and regional bus services, long-distance (inter-regional) services and chartered traffic has its roots in the public transport reforms of the late 1970's. For scheduled traffic, bus companies were granted exclusive concessions on each line, preventing others to operate traffic on the same route. Otherwise, the firms were relatively free to act on their own initiative, developing new lines, deciding on their own timetables and fares - and they survived solely on ticket revenues.

### **Local and regional bus services<sup>1</sup>**

In the 1960's, when a growing part of the population started to possess cars of their own, the bus companies began losing passengers, leading to higher fares and the closure of many routes. Subsidies were introduced and several bus companies were taken over by municipalities. The growing public and political concern for the bus services eventually lead to a major organisational reform in the late 1970's. Through the law of principality, it was stipulated that a public transport authority was to be established in each of Sweden's 24 counties, having the responsibility for planning local and regional public transportation and decisions on ticket fares. The responsibility was to be shared jointly by the municipalities and the county council in each county. Generally, it came to be handled through special county public transport undertakings formed as limited companies, hereafter referred to as the County Public Transport Authorities (CPTAs), with a shared ownership between the municipalities and the county council. Underlying this new organisational structure, the old system of concessions for different lines prevailed, and therefore the main task for each CPTA initially was to try co-ordinating these lines under a common ticket fare system. The bus companies came to be working as contractors

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<sup>1</sup>This section draws partly from Alexandersson, Hultén & Fölster (1998).

to the authorities, receiving compensation for their services and transferring all revenues from ticket fares to the CPTAs. Since the costs for compensating the bus companies generally were not covered by the revenues, the municipalities and the county councils used tax money to subsidise the traffic.

In quite a few counties, the CPTAs felt that the system of concessions was an obstacle to planning the traffic efficiently. They also felt that they had a weak bargaining position when negotiating the level of compensation with the bus companies, having no alternative supplier and lacking information on the true costs involved. As an effect, many CPTAs acquired private bus firms and started to perform the services by themselves, leading to a growing public sector involvement in local and regional bus transportation. In the mid 1980's, between 50 percent and 60 percent of the costs for public bus traffic were covered through the use of tax money, compared to 20 percent in the beginning of the 70's. The outcome of this development was a new law, passed in Parliament in 1985, that withdrew all the old concessions of the bus companies, giving the CPTAs the exclusive right to perform local and regional bus services. The CPTAs were hereby given an increased freedom of action: a) they could perform all traffic on their own account, 2) they could continue using the existing firms as contractors, negotiating the terms as before, or 3) they could start procuring the traffic from the bus companies by means of competitive tendering. To introduce this third alternative was by many considered the main reason for the reform, which came to be called "the deregulation" in the Swedish bus industry.

The implications of the deregulation came to be closely connected to how the different CPTAs chose to act. Almost none of them decided to increase the amount of traffic performed under their own management, but several chose to renegotiate the contracts with the already contracted firms, at least initially. A couple of CPTAs immediately subjected all their services to procurement by competitive tendering, while others chose to move slowly, using a step-wise approach, only subjecting part of the traffic at a time. Even if the use of tendering became more and more common over time, there were large differences between the CPTAs in terms of time of introduction. Some CPTAs moved slowly due to concerns for publicly-owned bus companies. In other cases there was a political aversion to introduce competition which prevailed for a long time.

In the first tenders, the private company Linjebuss often won new traffic at the expense of public companies such as municipality-owned firms and the two bus companies owned by the Swedish State Railways (SJ), SJ Buss and GDG. The difficulties for the public companies to cope with competition was a phenomenon that created quite a stir. After SJ Buss had won new contracts for traffic by out-competing its sister company GDG, and vice versa, the first major merger in the industry took place. SJ Buss and GDG formed Swebus in 1990. After that the major rivals in the market for local and regional bus services were Swebus and Linjebuss. Linjebuss was often recognised as the more successful of the two, partly due to the fact that Swebus had more lines to defend.

In the beginning of the 1990's a process was initiated by the counties with large public companies, that aimed at splitting the CPTAs into two separate organisations, one concentrating on planning and the other on operations. In these counties, this was seen as a necessary step to make competitive tendering possible. The operating organisations, which often remained publicly-owned, had a few years to sharpen their activities before the actual start of competitive tendering. The most important example of such a process is the split of Storstockholms Lokaltrafik (SL) in 1990-91 into one organisation responsible for planning the services and a couple of fully-owned subsidiaries (SL Buss, SL Tunnelbanan etc.) handling operations.

An important obstacle for the municipality-owned bus companies was a law preventing them from being active outside of their own municipality.<sup>2</sup> These companies could therefore only defend their own traffic and could not gain competence through participation in other competitive tenders. Some public bus companies chose to merge with other public companies of neighbouring municipalities/counties to circumvent the law. The outcome of several such events was the formation of a new large publicly-owned bus company in 1994, Näckrosbuss. It later became semi-private and in early 1999 merged with another publicly-owned company, SL Buss, to form Buslink, now Sweden's second largest bus operator.

Many of the minor private bus companies faced hard times once competitive tendering started to affect their businesses. A great number of them started to seriously consider co-operation in 1992 to be able to compete with Swebus and Linjebuss. After a slow start, these constellations became increasingly successful, bringing the expansion of Linjebuss and Swebus to a halt. In 1995 one of them, Buss i Väst, became the largest contractor in the county of Älvsborg for example.

Linjebuss as well as Swebus took on international assignments early on, buying foreign companies and taking part in competitive tenders in Denmark, Finland and Norway. Insufficient profitability and growth caused Swebus to close its activities in Norway and Denmark in 1997. Linjebuss still has substantial amounts of traffic in Copenhagen and has also won a tender in Norway for the first time. Linjebuss has also gone beyond the Nordic market, with the purchase of a Belgian firm in 1995 and a German enterprise in 1997.

For several years, foreign operators seemed to have no interest in the Swedish deregulated bus market, despite the increased possibilities for new entrants. It was not until the end of 1996 that a foreign operator stepped in. The largest privatisation in the bus industry was then realised through the acquisition of Swebus by the Scottish company Stagecoach. About a year later, the French operator CGEA acquired Linjebuss. The first foreign bus company to establish itself in Sweden through winning a competitive tender was Bus Denmark, a publicly-owned company. It took over a substantial amount of traffic in the city of Malmö in 1997, and later expanded in the same region by the acquisition of the private bus operator Ödåkra buss. In early 1999, Bus Denmark was acquired by

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<sup>2</sup>This is a general law affecting all municipality-owned companies, not just bus companies.

the British company Arriva.

At the end of 1998 more than 85 percent of all local and regional bus traffic had been procured by competitive tendering, at least once. The only large areas where competitive tendering have not yet occurred are the inner city of Stockholm (due for tendering in 1999), the county of Västmanland (where the CPTA has decided not to), and the cities of Umeå and Luleå (where municipality-owned public companies run the services).

In early 1999, the three largest bus operators in Sweden, in terms of the number of buses performing local and regional scheduled traffic were the following: Swebus (30% share), Buslink (20% share) and Linjebuss (16% share).

### **Inter-regional, long-distance bus services<sup>3</sup>**

The first long-distance lines in Sweden were founded in the 1930's, when some railway administrations started bus traffic as a complement to their railway lines. But it was not until 1950 before an independent route got started. The line was initiated by a few bus companies in co-operation (coupling their concessions for shorter routes) and ran between the cities of Sundsvall and Umeå. Soon this was followed by others, but the establishment of such lines soon came to be a target for hampering regulations. The inter-regional bus traffic was considered a threat to the railway services performed by SJ, implying a very restricted granting of licences. Some already granted licences were even withdrawn. In the 1970's a first move towards less restrictive entry regulations was taken, permitting most inter-regional bus services during weekends (Friday afternoon to Sunday afternoon), since SJ was simply not able to meet the peaks in demand. A second move came in 1988, when the so-called "means test" for new entry was abolished. A bus company no longer had to prove the need for a new bus line when applying for a licence. However, a new rule followed in its place, implying that the applicant had to prove that the suggested bus line would not be harmful to existing

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<sup>3</sup> This section draws from Alexandersson, Hultén and Nordenlöw (1999). Inter-regional bus services are defined as services along routes that cross one or several county borders. Here we will consider only the long-distance inter-regional services, which exceed a length of 100 kilometers.

railway services or to the local and regional bus services handled by the CPTAs. The first regulatory change of some significance came into effect on January 1, 1993, when the burden of proof was reversed. From now on, blocking new entrants was only possible if SJ and/or the affected CPTAs could show that an applicant's line would really harm their existing services. After this change, a large number of new applications poured in. Many of these concerned daily traffic on lines where weekend traffic had already been permitted. SJ worked hard to stop several of these lines, ultimately the Government had to decide on a number of these cases in 1994. SJ's complaints were overruled fully or partly in most cases, but for some routes, or parts of routes, the Government decided that restricted entry was still justifiable.

A couple of reports in 1996-97 argued that a more complete deregulation of long-distance bus services would have overall positive effects.<sup>4</sup> It was shown that travelling would increase, and that the new passengers would consist of people that otherwise mainly would have travelled by car or chosen not to travel at all. SJ would therefore not suffer, at least not in the long run. Perhaps of greater importance was the sale of Swebus to a foreign operator (Stagecoach). This meant that SJ no longer controlled the dominant operator of long-distance bus services. Under its new owner, Swebus started to expand its network of long-distance services, exploiting the possibilities of the regulatory framework to the limit, and also challenging these limits by filing applications for new lines that had previously not been granted. In the beginning of 1998, the authority responsible for handling these applications, The National Road Administration, had come to the conclusion that SJ was not able to prove these bus lines harmful, with the exception of a very limited number of routes. Swebus was therefore to be allowed to start daily bus services between, for example, Göteborg and Malmö. Once one operator had got the permission to start running services on a certain route, granting others the same permission was only a matter of formality.

In the spring of 1998, a new Transport Policy Bill was on the agenda. To everyone's surprise, the Government suggested an almost complete deregulation of the inter-regional bus market, to come into effect at the turn of the year 1998/99. SJ's view would no longer be taken into consideration when deciding on permissions for new long-distance routes. The only remaining concerns to be taken into account would be the ones of the CPTAs. The reasoning behind the deregulation was to improve the possibilities for the general public to travel, and to increase the pressure on SJ to become more efficient and market-oriented.

So far, the effects of the latest step in the deregulation process are not obvious. It seems as if the main events happened already in the summer of 1998, following the permissions for new lines and daily departures that preceded the actual deregulation. Several new entrants have appeared, most of them specialising in traffic on single lines, while the old players have expanded their already established services. Overall, the market has exploded since Swebus started to expand in early 1997,

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<sup>4</sup>Konkurrensverket (1996) and SIKÅ (1997)

nearly doubling the total supply of bus kilometers between 1996 and 1998. Swebus dominates the market, carrying roughly 50 percent of all passengers.

### **The passenger railway market<sup>5</sup>**

Ever since the 1950's, SJ has been facing the problem of unprofitable railway lines. The closure of these lines has sometimes been the only possible solution, but frequently the discontinuation of train services has been a politically very difficult decision to take. This led to the introduction of subsidies aimed at upholding non-profitable services. In 1963, this practise became officially established by means of the division of the Swedish railway network into one commercial part and one subsidised part.

Despite efforts of state intervention in 1979 and 1985, SJ's financial position deteriorated during the 1980's and reached a crisis in 1986, when SJ estimated that it needed 1 billion SEK in additional state aid. A government plan called for drastic changes and the outcome was the 1988 Transport Policy Act, which may be viewed as an attempt to, once and for all, solve the problems with the unprofitable regional lines and the need for infrastructure investments, and turn SJ into a profitable train operator.

The main feature of the 1988 Transport Policy Act was the decision to vertically separate the state's track infrastructure assets from railway operations. The responsibility for the former was to be handled by the administrative body called Banverket (the Swedish National Rail Administration) while the reformed SJ was to concentrate on performing railway services and becoming a profitable train operator.

Among many other things, the Act also implied a new classification of the state's railway network into main lines and county lines. SJ would continue to have the exclusive right to perform the services along the main lines, while the responsibility for the local and regional passenger services on the county lines was transferred from SJ to the CPTAs. One goal behind this reform was to increase the co-ordination of regional bus services and regional railway traffic.

### **Local and regional railway services**

The transfer of responsibility for local and regional lines to the CPTAs came into effect in most counties in mid 1990. As a compensation for their thereby increased costs, the CPTAs were to receive an annual state-subsidy, for a period of 10 years, amounting to SJ's operating deficits on each line. In addition to these direct subsidies, the rolling stock used by SJ on the affected lines were donated by the state to the CPTAs, under the condition that the regional railway services were to be continued.

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<sup>5</sup>This section draws from Nilsson (1995), Alexandersson & Hultén (1999) and Alexandersson, Hultén &

With the rail infrastructure in the hands of a national authority (Banverket), SJ turned into a train operator, and the vehicles, money and responsibility for the regional passenger services in the hands of the CPTAs, the door was open for competitive tendering for the contracts of actually performing these services. The first tenders were carried out in 1989.

In December 1995 a bill was passed that implied the deregulation of rail freight services, giving new freight operators more or less open access to the whole railway network. The bill came into effect on July 1, 1996. At the same time, the CPTAs received the right to run services on the main lines too within their respective counties. After special government decisions, this could be extended to services reaching into other counties. In practice, this meant that a larger amount of traffic could be subjected to competitive tendering.

In some counties, the regional train services have been subjected to tendering several times since 1989. Some CPTAs have chosen only to re-negotiate with SJ instead of going for an actual tender, but an important change even with this arrangement is the fact that SJ has become a contractor rather than a provider of services under its own flag. Some long-term agreements between CPTAs and SJ implies that certain services will not be subjected to a first tender for another couple of years.

A limited number of new train operators have been able to enter the market for regional train services by means of winning tenders performed by the CPTAs, beginning in 1990 with BK Tåg, followed by Sydtåg in 1995, and Linjebuss and BSM Järnväg in 1998. VIA/Go Ahead (in collaboration with BK Tåg) will enter in January 2000.

The competition taking place at the tenders for regional services may be described as competition for the tracks, resulting in gross contracts. The CPTAs decide upon the supply, timetable and ticket fares. Contracted operators are provided with the needed rolling stock by the CPTAs and are paid for their costs of performing the traffic. Revenues from ticket fares generally accrue to the CPTAs. Consequently, the terms are very similar to the ones in use for regional bus services, with the exception of the ownership of the rolling stock.

A thorough compilation of the cost effects of tendering for regional railway services has not yet been done, but available examples indicate cost savings in the magnitude of 20-25 percent. In some cases, the entry of new operators has implied innovative cost saving practices. BK Tåg took the initiative to make maintenance of the rail cars cheaper, for example by changing from railway specific to more standardised bus engines.

In most counties, the CPTAs and their owners have had the ambition to keep and develop the regional services, even if this has sometimes implied increased subsidisation. In some cases, a remarkable growth in patronage has been achieved.

## **Inter-regional railway services**



When SJ got rid of the responsibility for the track infrastructure, by means of the Transport Policy Act of 1988, it was directed only to perform services that were possible to run with a profit. Under the new order, large parts of the non-profitable services were run on the county lines and were therefore under the responsibility of the CPTAs. However, there were also some services on the main line network that were non-profitable, but nevertheless were considered to be valuable to keep for socio-economic and political reasons. Beginning in 1988, the state was to be responsible for these services by means of procuring them, instead of just transferring subsidies to SJ every year to cover the deficits. During 1988-91 these procurements took place without the element of competition, i.e. the state's negotiator had the task of trying to get SJ to perform as much traffic as possible for a sum that was decided upon each year. However, in 1992, it became possible for the first time to procure the services by means of competitive tendering.

SJ has always defined what inter-regional lines to be procured, by pointing out the unprofitable services. For outsiders, it has not been possible to get a look into SJ's financial situation on each line. Based upon SJ's suggestions, the Government and the Parliament then finally decide what traffic to be procured. The resulting contracts of the tendering process are net contracts, giving much freedom to the operator as long as a minimum supply of train services are carried out. In contrast to the gross contracts of the regional services, the operator receives all the revenues from ticket fares. There is also another important difference which concerns the rolling stock: vehicles are not provided by the procuring authority. A new entrant therefore has to be able to come up with rolling stock of its own or close a deal with SJ on renting vehicles.

A new entrant is to get access to terminals and stations on equal terms with SJ. Of importance for the tenders in recent years is the transfer of the train traffic control unit from SJ to Banverket, making it easier to set equal costs for the train traffic control function. The first year of competitive tendering for these services implied a significant cost reduction for the state (-21 percent in real prices) with competing bids on all affected lines. In the following years, the costs have been kept stable by means of tendering, while the interest from competitors to SJ has diminished. Up to 1998, when the line Göteborg-Malmö was included in the tendering process for the very first time, SJ had succeeded in winning all contracts. However, the tender of this particular line became the breaking point for other train operators to enter this part of the railway market. BK Tåg in alliance with VIA and Go Ahead will take over the services on that line in January 2000.

## **A summary of the changed conditions on each market**

Table 1 summarises the changed conditions over the past ten years for both the railway market and the bus market, and presents an overview of the type of competition mainly affecting the different sub-markets. The market for bus services may be divided into three sub-markets: 1) scheduled local and

regional services, 2) scheduled inter-regional services, and 3) tourist/chartered traffic. Here we consider mainly the first two of these. For the scheduled local and regional bus services we have seen a transition from a system of local subsidised monopolies where each company had the exclusive licence to its lines, to a system of public procurement by competitive tendering. For the scheduled inter-regional services, competition on a commercial basis (without subsidies) has dominated for the whole period. Here, the process of change is very close to a step-wise deregulation in a traditional sense, resulting in lower barriers to entry.

The passenger railway market may be divided into three sub-markets: 1) regional services, 2) non-profitable inter-regional services, and 3) profitable inter-regional services. Again, the first two are of most interest here, since profitable services have not been subjected to competition (with the exception of the new Arlanda airport link, which is supposed to be profitable). On both of these sub-markets, SJ used to have a monopoly position, receiving subsidies from the state. Today, these services are subjected to public procurement by competitive tendering. Although competitive tendering has emerged as the principle form of competition on most of the described sub-markets, there are important differences between them in terms of the types of contracts in use. Local and regional railway traffic has mainly been exposed to competitive gross contract tendering, which has also been the case for local and regional bus services. Long distance railway traffic, on the other hand, has mainly been exposed to competitive net contract tendering.

A fundamental difference between the markets for railway and bus transportation is the former market structure. The bus market was characterised by the existence of a large number of privately and publicly owned enterprises, yet with very limited competition between them. The railway market, on the other hand, was totally dominated by one single operator, SJ, enjoying a legal monopoly.

**Table 1. Forms of competition on different parts of the Swedish bus and railway markets**

Part of passenger transportation Market		1988	1999	Year of change
		Type of competition	Type of competition	
Bus market	Scheduled local and regional services (non-profitable)	Local subsidised monopolies (procurement without tendering)	Procurement by competitive tendering; gross contracts	1989
	Scheduled inter-regional services (profitable)	Limited competition New entry blocked by SJ	Competition, some remaining restrictions to entry	1993 1999
	Tourist/Chartered traffic	Competition (open entry)	Competition (open entry)	--
Railway market	Regional services (non-profitable)	SJ holds monopoly and receives subsidies	Procurement by competitive tendering (competition <i>for</i> the tracks); gross contracts	1990
	Inter-regional services (non-profitable)	SJ holds monopoly and receives subsidies	Procurement by competitive tendering (competition <i>for</i> the tracks); net contracts	1992
	Inter-regional services (profitable)	SJ holds monopoly	SJ holds monopoly	--

### The dominant firms and the case study firms

In this section, we will take a closer look at the firms dominating the Swedish bus and railway markets of today, along with a couple of case study firms, representing small businesses applying different strategies to enter and grow. Table 2 gives an overview of the considered firms, indicating on what parts of the passenger transportation markets they are active.

**Table 2. Bus companies and train operators**

Company / Organisation	Bus services		Train services	
	Local & regional	Inter-regional	Local & regional	Inter-regional
Swebus	X	X		
Svenska Buss		X		
Säffle Reseservice	X	X		
Y-bussen		X		
Buss i Väst	X			
SJ			X	X
BK Tåg	(X) <sup>1</sup>	(X) <sup>1</sup>	X	(X) <sup>2</sup>
BSM Järnväg			X	(X) <sup>3</sup>
Sydtåg			(X) <sup>4</sup>	

<sup>1</sup> Present through sister company BK Buss.

<sup>2</sup> Will enter in January 2000 through alliance with VIA and Go Ahead in January.

<sup>3</sup> Will probably enter in January 2000.

<sup>4</sup> Bankrupt in 1997.

## **Bus companies**

### *Swebus*

Swebus is the dominating company for long-distance bus services in Sweden, having roughly a 50% market share in terms of passengers. This branch of its business originates in the weekend traffic performed by SJ Buss, complementing SJ's passenger train services. When Swebus was founded in 1990, through the merger of SJ Buss and GDG Biltrafik, their combined supply of long-distance lines formed a separate division called Swebus Express. Later, a couple of other long-distance lines were added to this division, following Swebus' purchases of Postens Diligenstrafik and Wasatrafik.

As long as Swebus was a part of the SJ Group, the owner was clearly reluctant to expansion, hindering exploitation of even the limited possibilities to expand under the regulatory regime at the time. When Swebus was sold to Stagecoach in October 1996, conditions were changed almost immediately. In spring 1997, the new owner initiated a heavy expansion of the services of the already established lines and filed several requests for the opening of new lines. The supply of Swebus Express has more than doubled since late 1996. In recent years, the network has become concentrated to the southern and middle parts of Sweden.

Swebus has a remaining favourable position in terms of access to certain terminals and facilities in several cities, dating back to the time when Swebus was a subsidiary to SJ. In some cases this has caused troubles for new entrants. In Stockholm, Swebus founded a special travel agency, BusStop, for the marketing and sales of tickets to its long-distance bus services. On a commission basis, other operators' tickets were also sold. Since 1996 this business is run jointly by the leading firms of the industry. In order to get its services visible to the general public, a new operator has to enter this partnership (which may be a lengthy process) or at least close a deal with BusStop to sell its tickets on commission.

Swebus' position on the market for local and regional bus services is less dominant compared to long-distance services (30% market share and no obvious favourable position concerning critical resources) but benefits from scale economies.

### *Buss i Väst*

Buss i Väst was formed in 1993 as a collaboration between 50 minor bus firms, in order to place joint bids in upcoming tenders for local and regional bus services. At the time, the threat from Swebus and Linjebuss was evident for many of these firms. In 1995, Buss i Väst became the largest contractor in the county of Älvsborg, with 110 buses in scheduled traffic (37%), and in 1996 the constellation won traffic for 140 buses (75%) in the county of Skaraborg. In 1999, Buss i Väst has contracts with five CPTAs for performing traffic with 410 buses. Together with additional separate contracts of the participating companies (215 buses), the companies of Buss i Väst has reached a combined market

share of nearly 9%.

### *Svenska Buss*

Svenska Buss is a constellation of about 10 private bus companies, co-operating around the supply of 12 long-distance bus lines in southern and mid-Sweden. The services were more or less unchanged between the 1970s and up to 1994, when more licenses were granted and an expansion from strictly weekend services to daily services on some lines was initiated. Although the timetables bear the unifying name of the co-operative organisation, each bus company handles its own marketing at the local level. Outside the co-operation within Svenska Buss, the included companies run charter traffic of their own and sometimes scheduled services under contract to county public transport authorities. The Swedish Competition Authority has investigated the constellation, especially since Linjebuss acquired one of the involved firms, but so far Svenska Buss has been able to continue operations in its current form.

### *Säffle Reseservice*

Säffle Reseservice is a private bus company running mostly long-distance lines under the brand name of Säfflebussen. The company was founded in 1960 when it started a few bus lines that ran during holidays. In 1990 it became a member of the Svenska Buss co-operation. But it was not until the beginning of 1994 that Säffle Reseservice started to expand. In 1997 the company withdrew from the collaboration since management felt that the co-operation within Svenska Buss was unsatisfactory. Today the company's long-distance network comprises of 8 different routes. Recently, Säffle Reseservice has also entered the market for local and regional bus services.

### *Y-bussen*

A number of private bus companies started to operate lines between Stockholm and the northern part of Sweden during the 1960's. In 1970 the companies were asked to form an alliance to be allowed to continue the traffic, leading to the formation of Norrbuss, consisting of a large number of co-operating bus companies. Later, it was demanded that state-owned SJ Buss should be invited to participate in the co-operation. Otherwise, operations had to stop. From 1976 the traffic was carried out under the name of Y-bussen, due to the Y-shape of the line's extensions (after Härnösand the line is divided into two parts - one going to Örnsköldsvik and the other to Sollefteå). In the early 1990's, the Swedish Competition Authority took a closer look at the co-operation, producing contradictory advice compared to previous state directives. The Competition Authority considered it inappropriate that the

publicly-owned bus operator, Swebus (former SJ buss), participated in a co-operation between private bus firms. After that, Swebus remained involved only as a subcontractor.

In 1995 Y-bussen started to operate traffic to Östersund and in 1996 the line to Örnsköldsvik was extended to Umeå. At the same time, daily departures were introduced. In 1995 another bus operator, Nordins Trafik, started operating services between Stockholm and Umeå under the name of Stockholmsexpressen, becoming a very annoying competitor to Y-bussen. At the end of 1996, after one and a half years of head-on competition, Nordins was purchased by Y-bussen and their services between Stockholm and Umeå became co-ordinated. At the same time Y-bussen was converted into a regular corporation with four equally involved owners: Svenssons Bussar i Gnarp, Werner Westins Buss, Byberg & Nordins and Linjebuss.

## **Train operators**

### *SJ*

The former monopolist SJ is still the dominant operator of the Swedish railway sector, regardless of what part of the market is considered. In late 1998, SJ run 100% of all interregional lines (profitable as well as non-profitable) and had a 55% share of the revenues concerning CPTA-managed services that had been subjected to tendering. Following the outcome of recent tenders for CPTA-managed regional services as well as inter-regional services, this will change in January 2000. Nevertheless, SJ still enjoys a legal monopoly on the profitable parts of the inter-regional network and also controls critical assets such as the railway stations and most of the rolling stock. This is especially important to consider for potential entrants to the procured inter-regional services. For the operators that have a history as freight operators, several have run into conflict with SJ, due to SJ's control of 30% of the fringe railway tracks and its powers over sub-contractors on this part of the market.

### *BK Tåg*

BK Tåg, the sister company to a privately owned bus company called BK Buss, is the most well-known of the new train operators emerging in the wake of the introduction of competitive tendering for regional train services. The company was active as a bidder in most of the introductory round of tenders that took place in 1989. It resulted in four-year contracts with the CPTAs in the counties of Halland, Jönköping and Kalmar for a total of five routes, totalling about 450 km of tracks. These were, in fact, the only lines after the first round of tenders that were contracted to another operator than SJ. BK Tåg started to operate these lines in late May 1990. The second round of tendering for these lines resulted in a complete victory for SJ in 1993. This tender has ever since been the subject of a dispute between, on the one hand, BK Tåg and the Swedish Competition Authority, and on the other

hand, SJ.<sup>6</sup> BK Tåg re-entered as an operator in the county in 1996, by means of winning a tender for some new county train services on the main line, but today the company has no longer any contract for passenger services in this region.

In June 1992 BK Tåg started to run services on the county line between Borlänge and Malung in the county of Dalarna. SJ won the contract for these services after negotiations with the CPTA in 1989, but in the first real tender BK Tåg put in the best bid. In 1994 SJ won back the contract but again lost to BK Tåg three years later. This is the only case where BK Tåg and SJ have been taking turns in this way.

In spring 1997, another train operator, Sydtåg, went bankrupt (see below). In the auctioning of its assets, BK Tåg got hold of the contract for the passenger services between Ystad and Simrishamn. For the remaining two years of the contract-period, BK Tåg run these services under contract to the CPTA of Kristianstad in Skåne county. When these services were re-tendered in 1998, BK Tåg was able to win the contract for the following period as well.

In the spring of 1998, BK Tåg closed a deal with French company VIA GTI and the British Go Ahead Group, in order to bid jointly in upcoming tenders for train services. This marks a reawakening of the co-operation between BK Tåg and VIA GTI that resulted in a joint bid for one of the Stockholm metro lines in 1993. In mid December 1998, the result of the tender for the commuter services in Stockholm was made public. As of January 2000, BK Tåg together with its foreign partners will take over these services for a period of at least five years, implying the loss for SJ of its single most important contract. The same constellation of companies will also be the first new entrant of the market for inter-regional passenger services, as a result of the state's tender for the line between Göteborg and Malmö. Apart from running passenger train services, BK Tåg is also very active in the rail freight sector.

### *Sydtåg*

This private company experienced a brief period as an operator of passenger train services under contract to the CPTA of Kristianstad in Skåne county. In 1995 it won the tender for the traffic between Simrishamn and Ystad in the very south of Sweden. It was a four-year contract beginning in June 1995. Founded in 1991, Sydtåg had previously been busy in the railway sector as a freight operator, working as a sub-contractor to SJ. In early 1997, the company ran into financial difficulties. It seems as if its number of personnel had been growing too fast in response to expected future increases in freight volumes (projected by SJ). When the freight volumes decreased instead, the company went bankrupt.

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<sup>6</sup>SJ was accused of having deliberately placed a bid in the tender that went below SJ's actual costs of performing the services. In December 1998, a court found SJ guilty and sentenced SJ to pay a fine of 8 million SEK for this malpractice. BK Tåg has now sued SJ for damages.

## *BSM Järnväg AB*

BSM Järnväg is a subsidiary to the private company Bergkvist Svets & Mekaniska (BSM), which started out as an engineering workshop near Borlänge (in Dalarna county) back in 1972. In 1993 BSM became involved in the renewing and building of railways, working as a contractor to Banverket, before turning mainly into a train freight operator in 1996. The BSM train division was transformed into the subsidiary BSM Järnväg on January 1, 1998.

In August 1998 BSM Järnväg became the most recent new entrant on the passenger rail market in Sweden, after having won the third round of tendering for the services which BK Tåg once won in 1990, i.e. in the counties of Jönköping, Halland and Kalmar. Of crucial importance for the company's success in this tender, seems to be a deal it closed with SJ for access to SJ's repair shop in Nässjö. In this year's tender for the inter-regional services procured by the state, it seems as if BSM Järnväg will once again come out as a winner. The final decision has to be taken by the Government, but it is very likely that BSM Järnväg will start running the inter-regional services between Skövde and Nässjö in January 2000.

## **Concluding discussion**

As seen above, the Swedish passenger transport sector has been increasingly opened up to competition in various forms. We have in this paper showed a few examples of new firms that have established themselves in the sector and some old ones that have experienced a period of growth. Based upon the the general description of the effects of deregulation, along with the description of the case study firms, we have tried to identify a the obstacles and advantages facing small business firms, in order to explain their situation and development. These are summarised in Tables 3 and 4 and discussed further below.



**Table 3. Obstacles and possibilities on the market for bus transportation**

Obstacles		Advantages & possibilities	
Local and regional	Long distance	Local and regional	Long distance
Difficulties in attracting qualified personnel	Difficulties in attracting qualified personnel	Alliances and co-operation	Alliances and co-operation
Lack of uniformity between the CPTAs' demands on buses	The Competition Law, restricting co-operation between firms	Sideline businesses	Sideline businesses
	Access to terminals		Low formal entry barriers
	Lack of marketing channels and information on competing traffic		Early establishment
	County mergers		
	The CPTAs remaining rights to block new lines		
	Linked traffic licences of CPTAs		

### Obstacles on the bus market

As follows from the table, the obstacles on the market for long-distance bus services are numerous, clearly outnumbering the ones for local and regional services. On both markets, the firms experience difficulties in attracting qualified personnel. Some firms, for example Säfte Reseservice, is not able to expand their traffic as much as they want to because of this, despite the high rate of unemployment in Sweden. To some extent, this paradoxically seems to be related to difficulties in getting trade unions to accept higher wages only for certain categories of bus drivers, rather than raising wages for everyone. For the local and regional services, the dissimilar requirements on buses specified by the county public transport authorities put constraints on standardisation. A certain bus type required in one county may not be used in another county without conversion. The incurred extra costs could be particularly hard for a small company to bear.

Perhaps surprisingly, it seems as if one important obstacle for these firms has been actions taken by the Swedish Competition Authority, putting constraints on smaller firms' abilities to co-operate. This has affected for example Svenska Buss and Y-buss. The Competition Authority did not like the way the Svenska Buss co-operation was organised, with the involvement of a major firm like Linjebuss. This was also the case for Y-buss, but this time Swebus' involvement was in focus.

Swebus long history of being the major provider of long-distance bus services has given them an infrastructure advantage. The company controls several important terminals used also by other bus operators.

A common problem for long-distance bus services is the difficulties in getting hold of information on what lines are running and by whom. This is considered to be a problem for new

operators as well as the general public. A company interested in starting a line may have difficulties both in finding out who the competitors are, and after the traffic has started, reaching the public with information on its line. To close a deal with the ticket-sales agency BusStop is crucial, since this is the only existing place where up-to date information on long-distance bus traffic is collectively on display.

In recent years, the mergers of several counties into larger areas has made the old definition of long-distance services obsolete. Some long-distance lines are now only considered regional and may therefore be overtaken by the CPTAs. Hitherto, this has not implied any actual conflict of interests. However, there have been some conflicts in the past, when some CPTAs co-operated to circumvent the county limit. By the use of linked traffic licences, they sometimes established their own long-distance lines, competing with the commercial traffic.

Even after the latest deregulatory step the CPTAs may still block new long-distance lines if these are considered to have negative effects on passenger rates of local and regional lines. So far, the CPTAs have not been very active in enforcing this power. They also have the burden of proof.

### **Advantages and possibilities on the bus market**

The advantages and possibilities listed in Table 3 are not only true for smaller companies but have been found to influence the performance of all companies in the market. However, with their weaker positions the effects on the smaller firms are much more pronounced.

Both for the local and regional bus market and for long distance bus services, a sideline business may give the company a better financial endurance and spreading of revenue risk. It is a common phenomenon in the industry that companies perform a variety of different types of services. For example, a company may perform local scheduled services during weekdays, while concentrating on tourist and/or long-distance services during the weekends.

Through co-operation on the market for local and regional services, it is possible for small firms to become trustworthy bidders for larger amounts of traffic, to increase the usage of buses (and thereby make a reduction of the combined fleet of vehicles possible), and to exploit other scale economies, probably most prominent in the procurement of vehicles, fuel and tyres. This can be done while keeping small-scale advantages such as low overhead cost and a good knowledge about the local market. On the market for long-distance bus services, a couple of small companies may be able to create a larger traffic network, which can then attract more customers and benefit from scale economies, for example in marketing.

For the long distance bus market, early establishment has often been considered important. This has especially been the case in the past when each line was licensed to a particular enterprise. Having been present in the market for a long period of time implies that a bus company usually has

acquired a good knowledge of the market and a brand name with the public. This could make it easier to grow organically. An important advantage for bus companies interested in entering the market for long distance services are that the formal barriers to entry are fairly low now. The continued deregulation in the industry has made it possible for almost anyone to enter. All one needs is a bus, which is something that is relatively cheap and easy to come by, for example through leasing.

**Table 4. Obstacles and possibilities on the market for railway transportation**

Obstacles		Advantages & possibilities	
Local and regional	Long distance	Local and regional	Long distance
The behaviour of some of the local personnel of SJ	Requirements to be able to come up with rolling stock	Easiness to attract qualified personnel	Easiness to attract qualified personnel
Remaining long-term contracts	Short contracts	Alliances with other, more established, companies	Alliances with other, more established, companies
Access to workshop to maintain rolling stock	Access to workshop to maintain rolling stock	Sideline businesses	Sideline businesses
	SJ's control of some critical resources	A good knowledge of the regulations governing railway services	A good knowledge of the regulations governing railway services
	SJ's possibility to control which lines that are tendered		

### Obstacles on the railway market

Generally, there are more obstacles to be overcome for a new firm wishing to enter or grow in the market for long-distance railway transportation compared to the market for regional railway services. Also, they are of a more serious nature. Among these are the higher requirements from the procuring authority (the state) upon the operator to be able to provide the needed rolling stock.<sup>7</sup> In combination with this, the short contract periods put smaller companies in a difficult situation. The purchase of a train set can be characterised by its long delivery time and the size of the investment. A short contract makes the incentive for own investments very low. Therefore, the only possible option is to close a deal with the main competitor, SJ, to get hold of rolling stock.

Contracts often involve demands on a certain degree of maintenance of the rolling stock. The contractor will therefore have to get hold of (or have access to) facilities like a repair shop. In some cases a new repair shop has been constructed from scratch (as BK Tåg did in Vetlanda and BSM

<sup>7</sup> For most regional services, the CPTA will provide the operator with the rolling stock. However, in the county of Värmland this has recently been changed. There, the CPTA has exchanged its rolling stock with SJ for a remodelling of the train sets. This means that a company wishing to compete in that area in the future has to

Järnväg did in Mockfjärd). Otherwise, this service has been bought from another train operator. For example, for their rail cars running in the county of Dalarna, BK Tåg buys this service from BSM Järnväg, while BSM Järnväg has contracted out the maintenance for their trains running in the county of Småland to SJ's repair shop in Nässjö. This implies that the relationship between the railway companies varies, in certain instances they compete while in others they experience a buyer-seller relationship.

The former monopolist still controls certain critical resources related to the infrastructure, such as railway stations and platforms. This has caused problems mainly for several of the minor freight operators in the past, but has also had important implications for the possibility to enter the inter-regional lines, making it necessary for a new operator to reach an agreement directly with SJ to get access to these resources.

The behaviour of some of the local personnel at SJ has been a source of trouble, primarily in the past. One example refers to when BK Tåg had won its first contract in the county of Småland. During the first few days of the contract period the company faced large problems in locating the rail cars to be used and dealing with the staff of the traffic control unit in Nässjö, who withheld information on sudden changes of platforms etc. Also at higher levels of management, SJ seems to have pursued a policy of trying to force BK Tåg out of business. At least, this is the conclusion to be drawn from the recently completed trial concerning SJ's bidding practice.

The lack of tendering and the existence of some long-term contracts with SJ in some parts of the country is an obstacle for entry to the market for regional services. Similarly, when it comes to long-distance railway transportation one of the most important obstacles might be the fact that it is in the hands of SJ to decide what lines that should be subjected to competitive tendering. Only those lines that are considered unprofitable by SJ will face the test of the market forces. This has raised questions about the transparency in SJ's costs and revenues, or rather the lack of it. A recent event related to this was when SJ, in October 1998, asked for the lines between Stockholm and Östersund, and Stockholm-Falun/Mora/Borlänge to be tendered, only to (two months later) withdraw them when the tendering process was about to start. Incidentally, this occurred right after it had been revealed that BK Tåg/VIA/Go Ahead was about to win the contract for the West Coast Line.

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come up with its own trains.

## **Advantages and possibilities on the railway market**

The advantages for small businesses and the available possibilities are generally the same concerning both the market for regional and the market for inter-regional railway services. An especially important advantage for all new entrants seems to be the relative easiness to attract qualified personnel. One reason is the fact that SJ has dramatically reduced its workforce in recent years. The new entrants have therefore been able to avoid spending large sums of money on education. Also of importance is the fact that the new entrants have had the possibility to employ only the people who are willing to accept changed working conditions, giving them a very motivated workforce.

Having a sideline business seems to have been an important way to level the ups and downs in the firm economy as well as serving as stepping-stones to continued growth. BK Tåg managed to survive despite a couple of hard years for its passenger business by use of its built-up competence in rail car maintenance and by competing at the relatively more open rail freight market. BSM Järnväg used its competence in railway construction to move into the rail freight market and then into the passenger rail services. For Sydtåg, however, although freight operations paved the way for entry to the regional passenger train market, it later became the company's doom when SJ's projected increases in freight volumes did not live up to expectations. One lesson to be drawn from this is to consider the risk related with being very dependent on SJ.

Recently, the formation of international alliances with foreign firms has allowed the Swedish new entrants to try bidding for contracts of a larger size, such as the commuter traffic in Stockholm and the West Coast Line. Apart from establishing a sufficient capital base, the sharing of experiences and the gains in credibility towards the procuring authority are important parts of this process. When successful, as in the case of BK Tåg, it turns the small business railway operator into a major player.

Many companies have complained of the intricate regulations concerning railway traffic. A good knowledge of the rules that govern the business will therefore ease the difficulties. Some of the new railway operators have been able to benefit from hiring people that used to have key positions at the authorities responsible for the development of and appliance of the detailed regulatory framework.

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## Interviews

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