

# STAGECOACH - INTERNATIONAL EXPERIENCES

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## 1. INTRODUCTION

- 1.1 This paper is intended to tell the story of Stagecoach largely through its international experiences. I hope in doing so it will complement Mark Thomas' excellent summary of events in the United Kingdom, and raise some interesting questions on ways in which the UK experience can contribute to future public transport development around the world.
- 1.2 I shall begin by summarising Stagecoach's history in the context of structural change in the United Kingdom, and then describe our activities in Africa, New Zealand and Hong Kong. I shall then look more closely at our current activities in Latin America, in which I am personally closely involved, and I will close by looking at possible ways ahead for Stagecoach.

## 2. THE STORY OF STAGECOACH

- 2.1 The Stagecoach story is well-known in the United Kingdom, but may be less familiar to those from other countries. Our current worldwide activities can only really be understood in the context of what has happened in the UK since 1980.
- 2.2 Stagecoach was founded in 1980 with two second-hand coaches, to take advantage of express coach deregulation which commenced in that year. There had been little innovation in the former heavily-regulated market, and brother and sister Brian Souter and Ann Gloag, from Perth in Scotland, saw many opportunities in their own area to provide new services offering quality at attractive prices. This concentration on value for money has always been a key feature of our development : we believe good services at low prices can and do bring people back to public transport. To jump forward for just a moment, the same principles have just been applied on the South Coast of England, where we have just introduced a new hourly-interval express service at bargain prices over the 220km between Bournemouth and Brighton.
- 2.3 Stagecoach's first service using the two second-hand coaches was from Dundee to London : the overnight service was an overnight success, and soon was extended to start from Aberdeen. Before long new Neoplan Skyliner double deck coaches were introduced, a UK first; the futuristic look and comfort of these vehicles set new standards and Stagecoach grew rapidly.

- 2.4 By 1986, when the British Government deregulated local bus services, Stagecoach had grown to around 100 coaches and buses, and looked for ways to seek further growth. This was achieved partly by start-up operations in Glasgow, where deregulation provided opportunities for the first time, but primarily through the purchase of bus companies in England which were privatised at the same time as deregulation.
- 2.5 Stagecoach grew rapidly from 1987, when it became the first private operator to purchase one of these National Bus Company operating units (previous sales had all been made to management buy-outs), until today, when the Group owns and operates nearly 7,000 buses and coaches worldwide. Stagecoach is the only company to have purchased the maximum number of companies allowed under all three UK bus privatisation programmes between 1986 and 1994: National Bus Company (England and Wales), Scottish Bus Group and London Transport. In addition, Stagecoach has been a major purchaser of former management buy-outs, whose owners in many cases wished to exit from the industry.
- 2.6 Now, in 1995, Stagecoach operates over 20 separate bus operating companies or divisions from the South Coast of England to the Highlands of Scotland. UK operations include 2 companies in London, Stagecoach East London and Stagecoach Selkent, purchased in 1994 from the Government in the privatisation of London Buses. Our total fleet in the UK is over 5,600, and we employ nearly 14,000 staff in Britain, making us the country's largest bus company.
- 2.7 Since the purchase of the London companies, we now have major operations in both the deregulated and regulated parts of the UK, enabling us to make direct comparisons between the two regimes. I will return to this later.
- 2.8 Stagecoach now has about 13% of the UK market for local bus services; although low by the normal threshold standard of 25%, we are beginning to find it difficult to achieve further growth due to intervention by the regulatory authorities, whose fundamental operational principle is that only unbridled competition will bring consumer benefits. Stagecoach fully supports the need for competition to bring about cost savings and improved market responsiveness, but unbridled competition will inevitably cut margins and act as a brake on the investment necessary to make public transport more attractive. We therefore believe that strong companies are necessary within this competitive framework, and that what we see as the current over-zealousness of regulatory authorities is counter-productive.
- 2.9 Even without regulatory restrictions, the opportunities for companies such as Stagecoach to expand further in the home market are becoming more limited as the ownership structure of the industry consolidates largely into the 4 or 5 big groups foreseen by the industry - but apparently not by the

Government - at the time of deregulation and privatisation. Hence the natural move to overseas development, following the Group's successful flotation on the London Stock Exchange in 1993 bringing with it expectations of continued growth.

### 3. STAGECOACH OVERSEAS OPERATIONS

#### 3.1 Introduction

3.1.1 Although some of the other large Groups are beginning to develop overseas - for example the National Express operation in Poland - Stagecoach has by far the largest overseas involvement of any UK bus operator, stretching back to 1989, when UTI's interests in Malawi were acquired.

3.1.2 Current overseas operations are located in Malawi (since 1989), Kenya (1991), New Zealand (1992) and Hong Kong (1994).

3.1.3 Stagecoach has recently agreed to purchase part of Rodoviaria de Lisboa, in Portugal, and expects to take control of operations there during the next few months. Stagecoach also operated in Canada from 1990 to 1992.

#### 3.2 Stagecoach Malawi

3.2.1 Stagecoach's first overseas venture was the acquisition of the Malawi bus activities of United Transport International, a member of the BET Group, in 1989. Prior to 1969, when its British bus interests were sold to the Government, BET had a large UK bus operating base to support its African operations, but in recent years these operations had become non-core activities and suffered a lack of investment.

3.2.2 The opportunity therefore arose for Stagecoach to purchase UTI's 51% stake in its Malawi company at a realistic price. Given the potentially high risk of business in Africa, the Group's policy has been and remains to limit its exposure in the market by limiting both the number of acquisitions and the prices paid for them.

3.2.3 The other 49% of UTI Malawi was owned directly and indirectly by the Malawian Government, although this figure has now been reduced to 34%, with the other 15% set aside for an employee share ownership scheme. Stagecoach favours working in close partnership in this way with Government or other local interests, to reduce the potential alienness and difficulties in working in a foreign environment.

3.2.4 Once the Malawi operation was taken over and restructured to improve its profitability, Stagecoach, which is the dominant operator in the country despite

strong localised competition, made significant progress in improving services and reinvesting in the fleet. This process has been temporarily halted by the currency collapse which followed the change of Government in 1994, but Stagecoach's achievement since 1989 has been to give Malawi one of Africa's best bus services, a vital element in the nation's economic infrastructure.

3.2.5 Our operations in Malawi first brought home to us the self-evident but easily ignored fact that in third-world operations where demand exceeds supply, the first requirement is to have good engineers to ensure that your buses are well-maintained and stay on the road. Over time we have also established the right vehicle specification for the punishing operating conditions.

3.2.6 Today we operate a fleet of 247 vehicles, including 17 modern double deckers, in Malawi.

### 3.3 Stagecoach Kenya

3.3.1 Stagecoach's other overseas operation in Africa is in Kenya, where the Group also acquired its interest from BET. Unlike Malawi, operations in Kenya did not cover the whole country at the time of purchase. Stagecoach acquired two separate companies in Nairobi and Mombasa, within which cities BET had latterly contracted its operations. Like Malawi, Government was and remains a minority shareholder in each place, although in the case of Kenya, the shares are held by the respective City Councils.

3.3.2 Unlike Malawi, where competition is relatively limited due to lack of capital and organisation, competition is rampant in Kenya from matatus, the local minibuses, which have outnumbered Stagecoach's conventional buses at times by a factor of 10 to 1.

3.3.3 In Mombasa, where second-hand tourist minibuses are readily available and where conventional bus operation has been traditionally less strong, Stagecoach's operation is relatively limited, with only around 50 buses. In Nairobi, despite the presence of around 2,000 matatus, Stagecoach's 320 buses have a market share of over 50%.

3.3.4 Large-scale vehicle investment in Kenya has been delayed by the uncertainty surrounding the 1993 elections and devaluation of the Kenya shilling, but will catch up significantly in 1995, with the planned arrival of over 100 new vehicles (some diverted from Malawi due to the currency uncertainty there). This will significantly improve the Company's competitive position in Nairobi and allow the introduction of new long-distance services for the first time since Stagecoach assumed ownership.

3.3.5 Stagecoach is also planning to build a new depot to handle this growth, as the current fleet of over 300 in Nairobi is housed in a single depot. This is Stagecoach's largest anywhere, and it cannot cope with any more. It is perhaps worth mentioning that the operations of this large depot have been split into three separately-managed units to ensure greater accountability. This is an indication of the sophistication of our activities in Kenya, where our operating systems and training are more akin to first than third-world standards.

3.3.6 Despite the continuing risks and occasional actual uncertainties of operating in Africa, Stagecoach is very satisfied with its operations in Malawi and Kenya, which demonstrate what can be achieved by determined management, realistic (and continuing) risk evaluation, and a willingness to invest in these markets with high potential passenger growth rates if the capacity to supply them can be provided.

3.3.7 Since 1989, Stagecoach has looked very closely at several other countries neighbouring Malawi and Kenya, both at possible acquisition targets and at possible start-up operations, and is currently looking at a further opportunity. The Group has strong management teams in both Kenya and Malawi and we are not averse to a careful (and risk-limiting) expansion in Africa utilising the proven experience of these management teams.

#### 3.4 Stagecoach New Zealand

3.4.1 Nearer to this Conference's home, Stagecoach New Zealand comprises operations in the Wellington and Hutt Valley areas, with an off-shoot in Auckland. Stagecoach's presence in New Zealand results from the privatisation of Wellington City Transport by the local council. The core operation remains the urban operations in Wellington, along with ex-railway bus operations in the Wellington and Auckland areas, and other smaller acquisitions.

3.4.2 Stagecoach New Zealand now operates over 300 buses, including a unique fleet of over 70 trolleybuses, the last major right-hand drive fleet of trolleybuses in the world, and one of the world's few private-sector trolleybus operations (I believe Sao Paulo in Brazil has another).

3.4.3 Stagecoach New Zealand has been very successful. The Group has been very fortunate in acquiring a highly-skilled management team, which is essential to be able to maintain successful ownership of a business at such a distance. Indeed, the quality of the existing management team has been a key factor in the Group's evaluation in recent years when considering any acquisition. Once a good management team has been proven or established, it can form the basis of an autonomous business

development unit to examine other opportunities in its region, and to manage any new operations. The management team of Stagecoach New Zealand is already fully active in this role.

- 3.4.4 As there will doubtless be other papers at the Conference describing New Zealand's unique brand of deregulation, I will not cover it here, except to say that in my opinion, as in the United Kingdom, the combination of willing and progressive government authorities and bus operators, can produce results in a deregulated environment that provide better value for the community at large than any centrally planned system.

### 3.5 Stagecoach Hong Kong

- 3.5.1 Stagecoach's Hong Kong operation is a small pilot operation which commenced in early 1994 with 5 Volvo B10M coaches on commuter services to central Hong Kong.
- 3.5.2 The objective of the pilot scheme has been to provide Stagecoach with operating credentials enabling it to bid for large franchises as and when they are offered, and to provide a base from which to examine possibilities for expansion in mainland China.
- 3.5.3 The operation has been very successful and has recently been doubled in size by the introduction of double-deckers to handle growing demand.

## 4. LATIN AMERICAN DEVELOPMENTS

- 4.1 Late in 1993, the City of Bogota in Colombia advertised a tender for a mass transit scheme to help solve its rapidly worsening traffic and pollution problems. With a population of at least 6 million, Bogota is one of the world's largest cities without a Metro. Its fleet of 22,000 buses is one of the world's largest and is a major contributor to the pollution suffered by a city which lies in a montane plateau at an altitude of 2,700 metres.
- 4.2 Stagecoach and Volvo Bus joined with local Colombian interests to submit a bus-based tender, which it was felt had a chance of success due to the particular problems of Bogota. This tender was selected from a total of 9 bids, all of the others except one (an unrealistic local bus bid), proposing either heavy or light rail solutions.
- 4.3 In October 1994, the consortium opened negotiations with the City Council towards a concession contract for a modified scheme (leaving open the possibility of a Metro on one corridor), duly signed in December 1994. Design work has been proceeding since then, and subject to satisfying prospective financiers, it is hoped to start infrastructure construction in the first half of 1996.

- 4.4 The Stagecoach/Volvo plan involves the construction of bus-only roads on the right of way of disused railways, and in wide median-strips on existing highways, with special bus priority measures in the centre of Bogota. Elsewhere, the scheme will use existing bus priorities and even ordinary roads (for a circumferential route). The plan also involves the use of dedicated high-quality terminals based on those in operation in Curitiba and elsewhere in Brazil.
- 4.5 This major project is budgeted to cost around US\$150M for infrastructure and around 400 buses, which will be Volvo articulated and bi-articulated buses with capacities of up to 275 passengers. It is planned to operate up to 90 buses an hour on key corridors, providing capacities similar to that of light rail systems. Unlike any light rail system, however, the project is expected to be commercially viable, and it can be implemented far more quickly. We hope that if the initial lines are successful it will be possible to extend the network to cover the whole city.
- 4.6 This project is quite different to anything else Stagecoach has been involved in, but we feel it is of value not only in itself but because it could offer a solution to many cities, not only in the third world.
- 4.7 Many other Latin American cities are suffering problems similar to those of Bogota, and are either interested in the scheme or already seeking their own solutions. Stagecoach has made contact with several cities, and we are aware of possibilities in others.
- 4.8 In our view, the key to success in these cities will be a combination of city authorities with real determination to implement solutions and operators, either local or foreign, willing to make the necessary investment. In the case of Bogota, the whole investment will be made by the private sector; elsewhere a mixture is more likely, perhaps with infrastructure funded through government, with vehicle and operational investment made by operators. Although we have no experience of operating in Latin America, we believe our experience as a large scale private sector operator provides us with the skills necessary to bring in backers and to operate such schemes in co-operation with local partners.

## 5. THE ROAD AHEAD

- 5.1 My preceding paragraph signals what I consider to be one of the ways ahead for Stagecoach - the provision of integrated systems to bring order to rapidly growing cities which currently only have informal or very disaggregated transport structures. We do not under-estimate the political difficulties to be overcome in achieving success in such circumstances, hence my comment about "determined" city authorities. Nevertheless, we believe there is a real role for the private sector operator capable of obtaining financial backing.

- 5.2 As already stated, growth opportunities in the United Kingdom will become increasingly limited; our task in the UK is to maintain and increase existing profitability, and to achieve organic growth through improved and innovative services.
- 5.3 We believe there are growth prospects in Europe, as authorities find it increasingly impossible to accept the cost levels of inefficient and over-staffed municipal companies. The rapid extension of open-market tendering for bus services reflects this. Our experience in London suggests that, although an improvement on the existing situation, tendering in a centrally-planned and controlled environment will not bring about all the benefits that can be achieved. It will certainly bring prices down, but most likely at the expense of quality. Only continued competition or the threat of it will generate the best combination of cost and quality. We in Stagecoach believe this is best achieved by deregulation, or at least a very loose franchise system giving the operator scope to develop the business within broad service requirement parameters.
- 5.4 Stagecoach has already examined possibilities in several countries in Europe, and remains active, but we have not so far found any tender opportunities we consider give us the prospect of applying our skills fully. Many of the tenders on offer are too small to interest a new operator: larger tenders would be more likely to attract us, and we recommend this to any cities wishing to bring innovation and shake up their existing operators!
- 5.5 As a result, our only activity to date in Europe has been the recent acquisition, mentioned earlier, of part of Rodoviaria de Lisboa, recently privatised by the Portuguese Government. We will continue to be interested in any conventional privatisations of this sort, as they enable us, unlike a small tender, to get a genuine foothold in a market.
- 5.6 Even where government has decided on a tendering policy, we believe that it would do better by first privatising at least some of the existing operations. Acquisitions by a company such as Stagecoach would then bring real competition into the tendering process.
- 5.7 Outside Europe also, we will continue to examine privatisations, as well as franchising or tendering operations that give us scope for utilising our management skills profitably. Where the tender process appears too restrictive, as in Boston (USA), which we have recently examined, we will not bid.
- 5.8 We shall continue to examine infrastructure-based projects, such as the one in Bogota, but we will be selective in this area due to the heavy commitment of management time required at the development stage and the relatively small likelihood of success in any individual scheme.



- 5.9 We shall also continue to try to work with city and national governments around the world to identify other solutions where the private sector skills of Stagecoach can make a major contribution.
- 5.10 Stagecoach will also work on rail-based systems where we feel our existing skills can be applied. In the United Kingdom, we are currently heavily involved in the rail franchising process: we believe this offers real opportunities for us, especially in local rail services which have many similarities with our local bus operations and offer much scope for bus/rail integration. Should we be successful, we will link our business and bus skills with the rail operating skills of existing rail managers.
- 5.11 Stagecoach is also involved in the United Kingdom in consortia bidding for light rail schemes; we are however less committed at present to this area of activity as such schemes are more attractive to the builders of the rolling stock and infrastructure than to operators, for whom such schemes are often relatively small.

## 6. CONCLUSION : DEREGULATION : A HARD TESTING GROUND

- 6.1 The arguments about the successes and failures of bus deregulation in the United Kingdom will probably occupy the rest of the century. Even its greatest supporters - I am one - would not claim it is perfect. Where Stagecoach operates, it has brought demonstrable user benefits. This is also true in many other places, but not everywhere.
- 6.2 One incontrovertible benefit is that deregulation has been a hard testing ground and has brought forth operators such as Stagecoach capable of improving services not only in England but in difficult places like Africa - and hopefully before long Colombia and elsewhere.
- 6.3 We have a lot to offer: if you are serious, why not call us?