

Transdev / Ouibus

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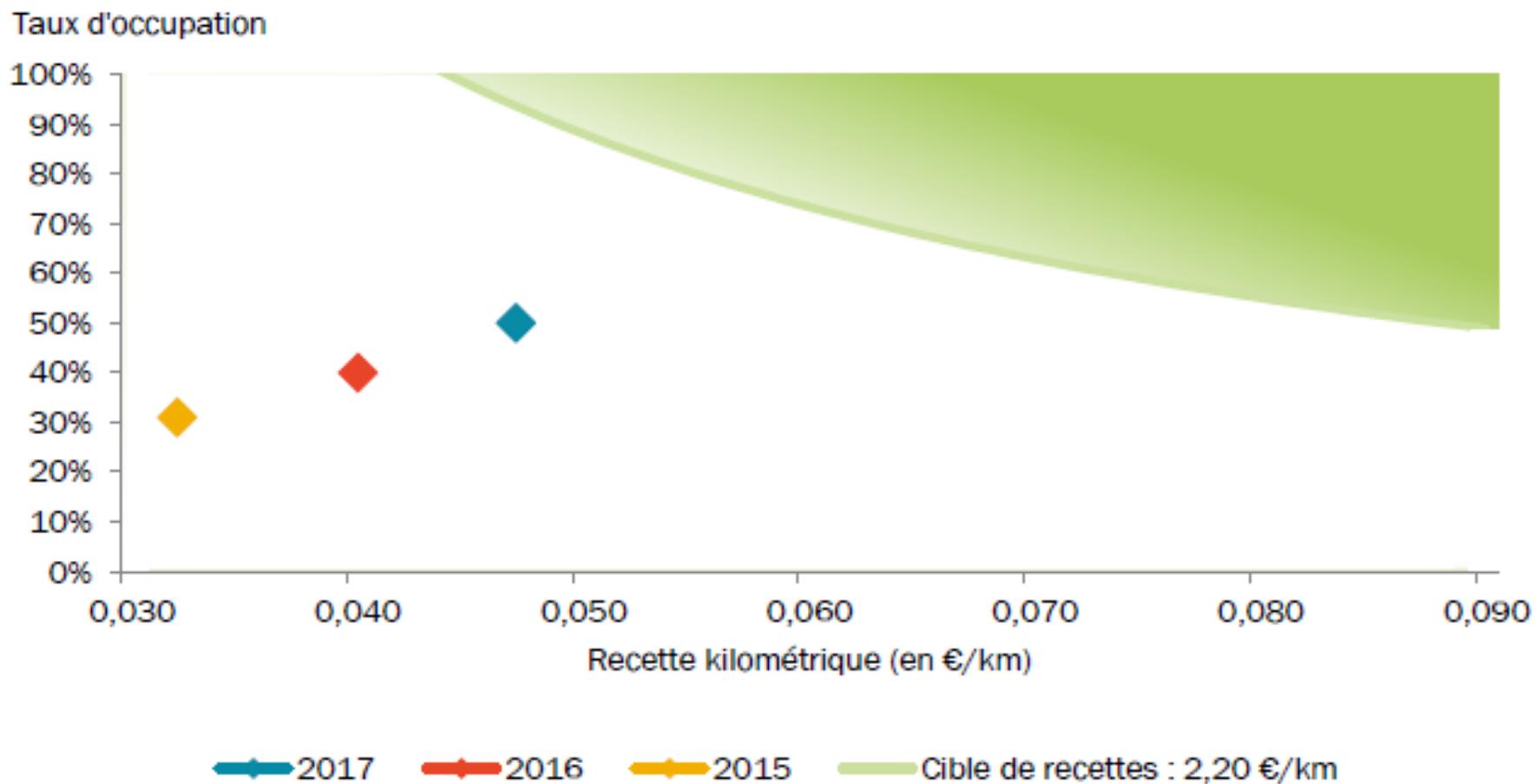
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Abuse in adjacent markets

- **Under which conditions can a firm active in a monopolized market enter new emerging (competitive) markets?**
 - Many examples in various regulated markets.
 - Telecoms (fixed / internet, mobile), railways, etc.
 - But the question often relates to former monopolists defending their existing position in liberalized markets (with some exceptions such as mobile telephony for instance).
- **When does aggressive behaviour (leading to – at least – temporary losses) become abusive?**
 - Right to match competitors?

Low prices is the norm



Source: 2017 Annual Report, ARAFER.

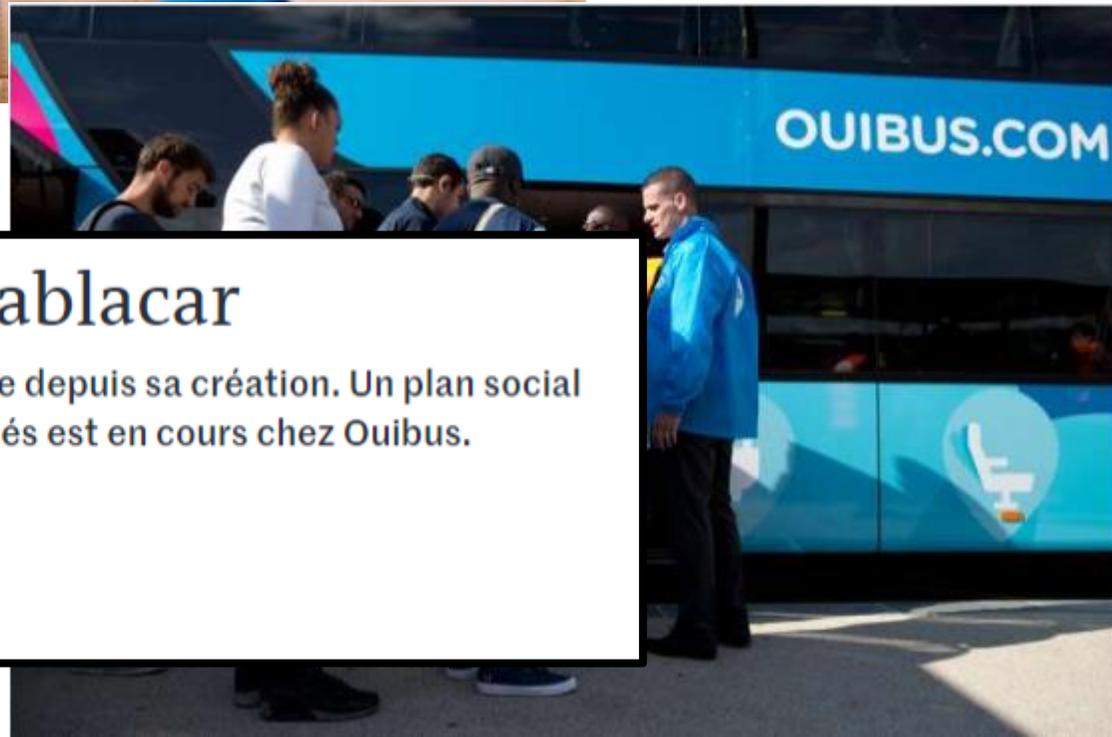
Theory of harm?

- **Cross-subsidization: using profits coming from the monopolized market to increase its market share on the emerging market.**
 - Increase its market share to benefit from future market consolidation?
 - But this implies high barriers to entry (or a strong advantage to the first movers) or important network effects (risk of market tipping).
 - SNCF loses money but pushes its competitors out of the market, expecting to recover its losses in a concentrated mature market (with higher profits).
- **How credible is that?**
 - Possible that the market ends up being relatively concentrated (a few large active European groups). Less likely to see a monopolized market.
 - According to the Autorité, SNCF was anticipating to maintain its current market share not to monopolize the market.

BlaBlaCar to acquire Ouibus and offer bus service

Romain Dillet @romaindillet / 3 hours ago

Comment



La SNCF vend Ouibus à Blablacar

Le service de cars longue distance est très déficitaire depuis sa création. Un plan social portant sur 102 emplois, sur un effectif de 230 salariés est en cours chez Ouibus.

Par Éric Béziat - Publié aujourd'hui à 18h19, mis à jour à 19h52

🕒 Lecture 1 min.

How to deal with emerging markets?

- **Entrants in new markets often incur losses during the launch phase.**
 - When does it become problematic, in particular when the operator is a dominant / major player in an adjacent market where it does not face significant competition because of regulatory constraints?
- **IDBus launched in 2012 (became Ouibus later)**
 - Total losses over the last five years: 190 million euros.
 - Recent results: -46 million euros in 2017, expectations for 2018 are between -25 and -20 million euros.
 - SNCF expected Ouibus to start generating profits in 2019.
 - Restructuring plan: laying-off 102 staff (44% of current staff) including all drivers still directly employed by the company.
 - Over-optimistic expectations? Or failed “exclusionary” strategy?

Market definition

- **Two separate markets**

- **Train** (SNCF still has a legal monopoly for domestic travel, competition on international routes but essentially “code-sharing” or joint-ventures with similar legal monopolies e.g., *Alleo (Germany)*, *Eurostar (UK)*, *Thalys (Belgium)*, *Lyria (Switzerland)*)
- **Long-distance bus.**

- **But development of bus market may have been hindered by the recent revamped low-cost train offer by SNCF (Ouigo).**

- **Acquisition of Ouibus by Blablacar**

- Possible plan to reduce existing schedule especially in low-demand periods and replace buses by Blablacar’s car-sharing offer.

Priorities for Article 102

■ Commission's communication, para. 20

- Dominant position of the undertaking.
 - ✓ Here SNCF is dominant on an adjacent market.
- Barriers to entry and expansion, economies of scale and/or scope, networks effects.
 - ◇ Is that so clear?
- Position of the dominant undertaking's competitors.
 - ✗ Flixbus has a higher market share than Ouibus (and increasing). The main competitors belong to large firms not small competitors.
- Possible evidence of actual foreclosure
 - ✗ No evidence.
- Direct evidence of any exclusionary strategy
 - ◇ No evidence shown but where does the evidence come from?

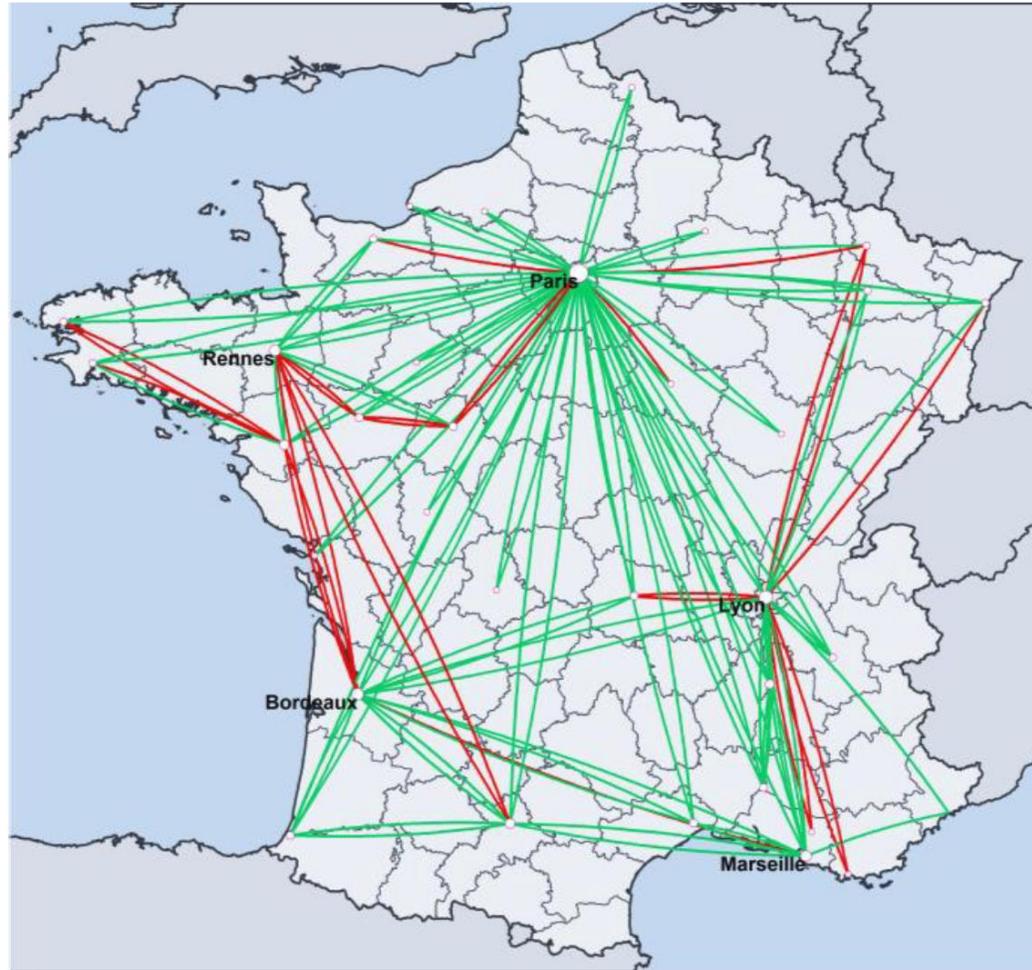
Aggressive pricing – Predation

- **Price-cost tests: two thresholds**
 - **Average avoidable costs (AAC):** costs that could have been avoided if the company had not produced a discrete amount of extra output.
 - **Long-run average incremental costs (LRAIC):** All costs (variable and fixed) that a company incurs to produce a particular product.
- **Multiple complex questions with multi-product firms**
 - E.g., allocation of common fixed costs.
- **How to set the right perimeter to run the price-cost test?**
 - Is the right product activity *Ouibus* as a whole?
 - *See the two presentations.*
 - Or should the test be done at a smaller scale?

Aggressive pricing – Predation

- **Global analysis vs. Route by route**
 - Seem to make sense only if network effects are really strong.
 - Necessity to enter the market on all routes to be visible and to attract consumers.
- **Is it really necessary to enter on a large scale to be viable?**
 - Tickets can be sold by “multi-partner” platforms / metasearch platforms
 - E.g., *Kayak* for airlines, *Trivago* / *Tripadvisor* for hotels, *Trainline* for train tickets (international routes for instance).
 - Evidence would seem to suggest that consumers focus on price (for a given route) not on the company’s identity (Flixbus was unknown in France but proves successful).

Price comparisons (MAPP)

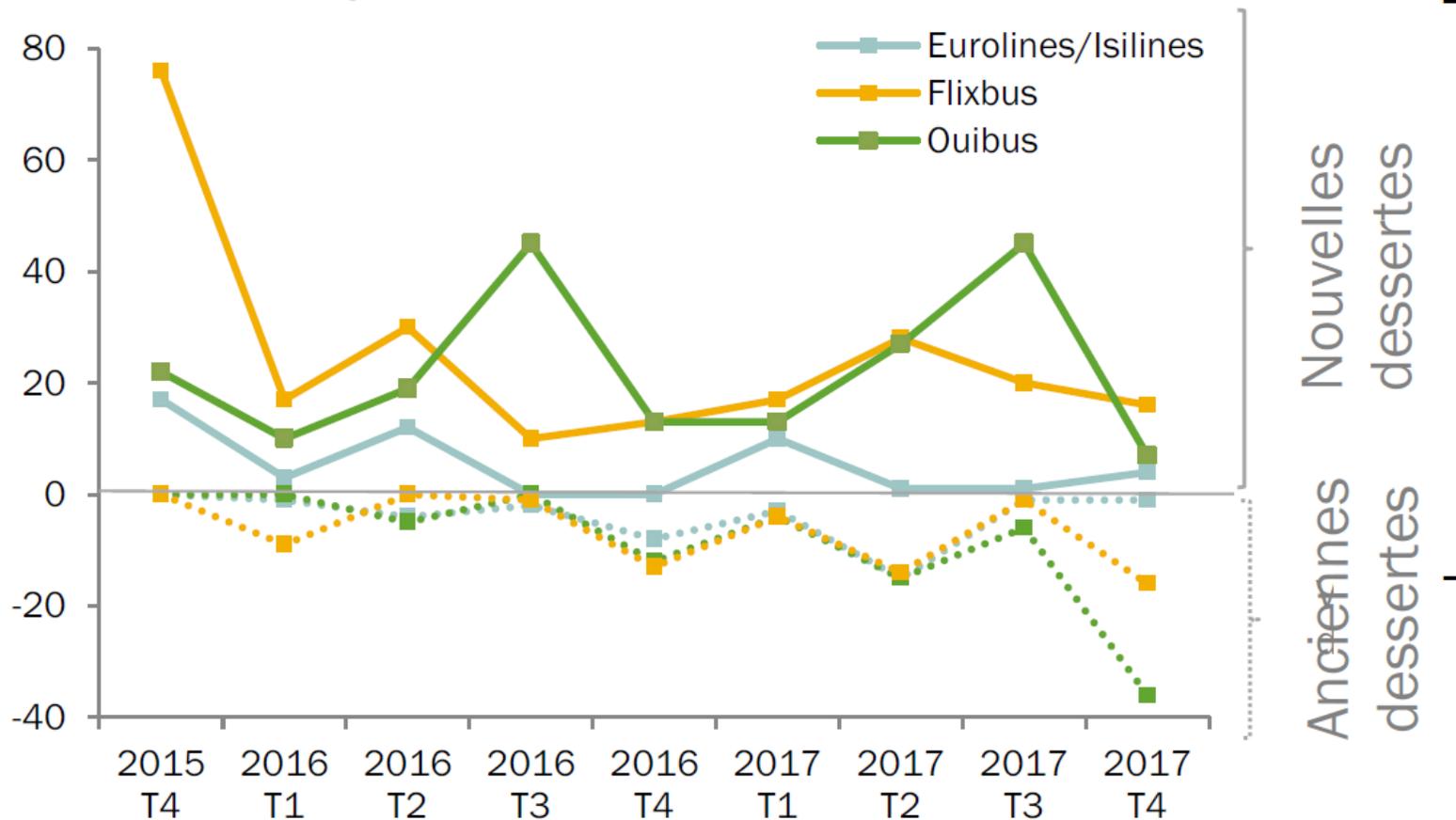


■ OUIBUS more expensive ■ OUIBUS less expensive

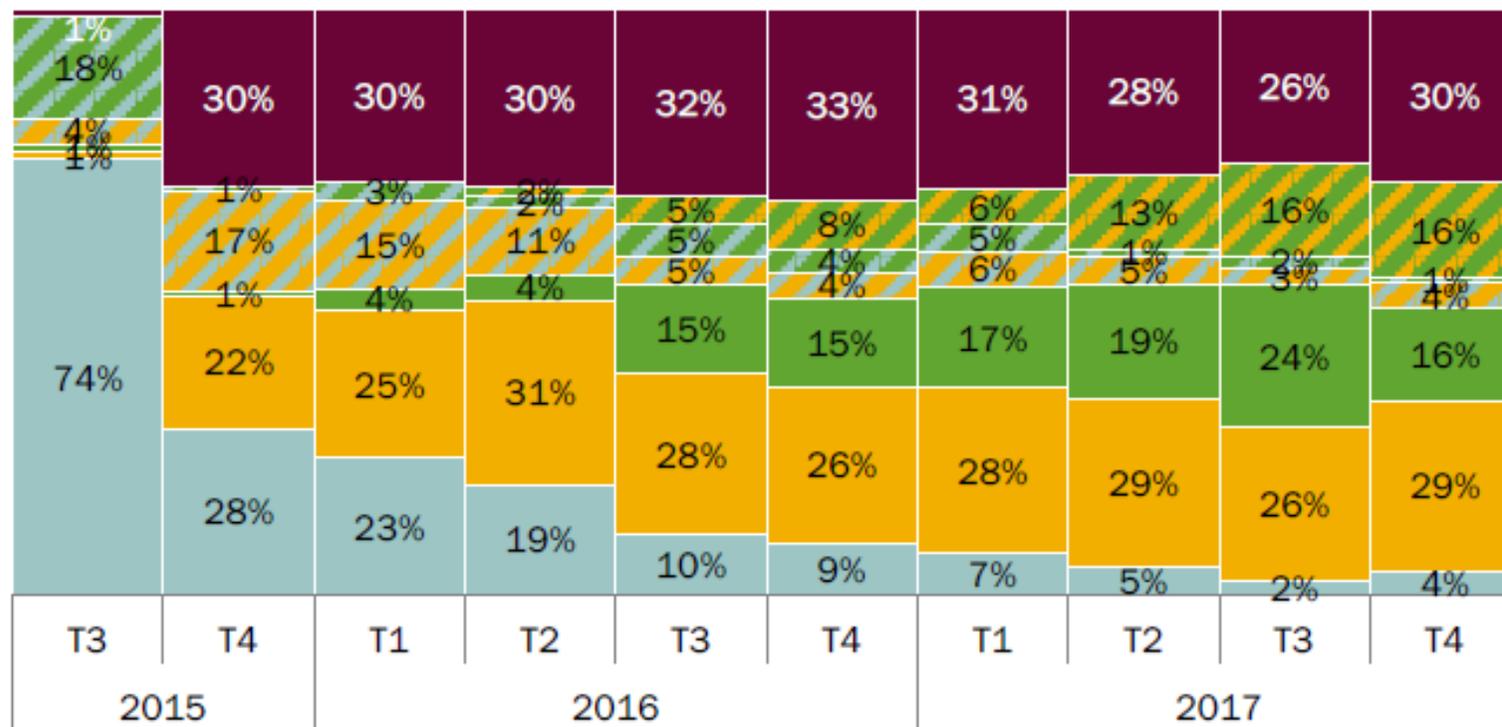
Source: OUIBUS and Transdev internet sales sites. Computations: Mapp.

Excessive entry (new openings)

- Some facts (2017 Annual Report, ARAFER).



Excessive entry (cities)



- Eurolines/Isilines en exclusivité
- Ouibus en exclusivité
- Eurolines/Isilines & Ouibus
- Eurolines/Isilines, Flixbus & Ouibus

- Flixbus en exclusivité
- Eurolines/Isilines & Flixbus
- Flixbus & Ouibus

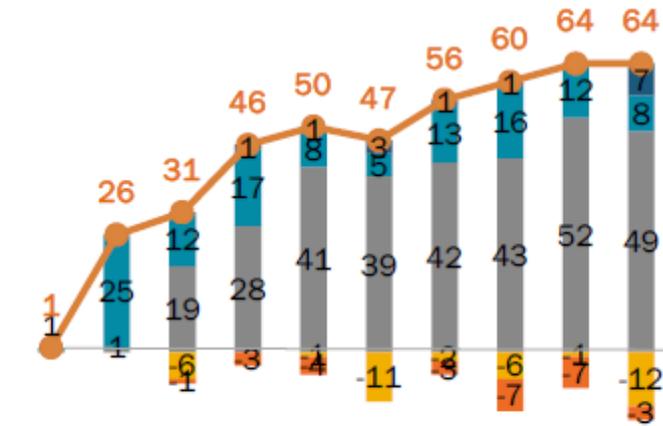
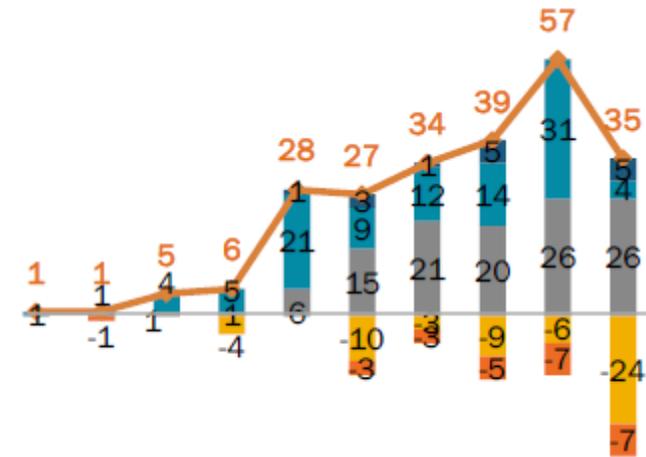
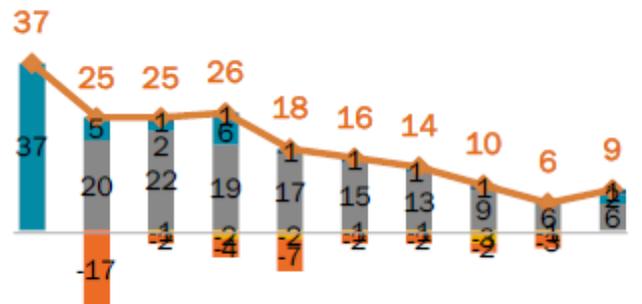
Excessive entry (exclusive cities)

Figure 7 – Evolution trimestrielle de l'offre de villes exclusives desservies par opérateur

Eurolines/Isilines

Ouibus

Flixbus



■ Déjà exclusive en T-1

■ Plus desservie

■ Nouvelle desserte en T

■ Desservie par plusieurs opérateurs en T

■ Desservie par plusieurs opérateurs en T-1

—●— Total dessertes exclusives

Excessive entry (new openings)

- **Same question than for aggressive / predatory pricing**
 - Is it the right method to look at the global picture or should one focus on the most significant (potentially profitable) routes?
 - If network effects or economies of scale/scope are not a major issue, then excessive entry (capacity expansion, schedules, etc.) should probably be looked at route by route and not on a global scale.

Other potential questions

■ Bundling between train and bus offer

- Seems very limited in the present case.
- But this could be a problem if done on a larger scale (but need a reasonable theory of harm)

■ Brand confusion

- Linked to previous cases judged by the Autorité in the past (related to EDF among others).
- Should a state monopoly (or former state monopoly) be prevented from using its brand on the new competitive markets that it enters.
 - This should clearly not apply to markets that are liberalized.

■ Costly advertising campaigns

- Ouibus spends much more than its competitors on marketing campaigns.