

Business review: UK Coach

Robust performance with new revenue management system starting to impact



Tom Stables

Managing Director, UK Coach



Market overview

National Express has the only nationwide network of services, with other competitors tending to focus on specific regions or corridors. Selective competition comes from rail, particularly on discounted fares, and from large bus operators and localised services. Drivers for demand include the level of fare discount to rail, cost of private motoring and environmental friendliness. Customer satisfaction is also an important driver for longer-term loyalty through consistent service and high customer safety standards.

Market size

£300m

of contested revenues in the scheduled coach market

Destinations

900+

UK scheduled coach market leader

- Revenue growth through competitive pricing, better distribution channels and greater understanding of customers and their needs
- Longer-term implementation of improved retailing systems

Year ended 31 December	2016 £m	2015 £m
Revenue	282.8	281.2
Operating profit	33.3	32.3
Operating margin	11.8%	11.5%

Overview of 2016

UK Coach continues to focus on delivering frequent, value for money services efficiently and marketing them in an increasingly personalised and targeted way using sophisticated digital technologies and techniques.

Total revenue increased by 0.6% to £282.8 million (2015: £281.2m). Core network revenue increased by 1.9% as further marketing improvements and the benefits of an upgraded revenue management system ('RMS') more than offset a significant decline in revenue from our Eurolines business.

	Growth %
Passenger yield	0
Passenger volume	2
Change in core express revenue	2
Other revenues	(4)
Total revenue	1

Overall divisional performance has been strong in the face of industry-wide challenges, the disposal of Airlinks and significant challenges at Eurolines. Eurolines suffered a year on year decline in revenue of 31% and an operating loss of £0.4 million (2015: Profit £1.6m) due to suppressed demand after the terrorist attacks in Europe and heightened competition. We have restructured management, bringing Eurolines into the core coach business, reduced mileage and other costs, and enhanced marketing and commercial capabilities, including through its inclusion in our RMS.

Despite this, profit grew by 3.1% to £33.3 million (2015: £32.3m) reflecting revenue growth in the rest of the coach business and an ongoing focus on cost efficiencies. Operating margin rose by 30 basis points to 11.8% (2015: 11.5%), building on the strong gains of recent years. Passenger numbers on the core network also grew by nearly 2%.

	£m
2015 normalised operating profit	32
Net impact of growth and new routes	1
Cost inflation	(3)
Cost efficiencies	3
2016 normalised operating profit	33

Cash and returns

The UK Coach business model has a particularly strong return on capital and cash generation, outsourcing the majority of fleet provision and services to its partner operators in a capital-light model. In 2016, we delivered another strong performance, generating operating cash of £36 million with cash conversion of 109% of operating profit.

Delivering operational excellence

With further investment in customer service, including new apps with enhanced journey planners, easier payment and free on-board entertainment systems, we are pleased to have recorded a 3% improvement in our customer satisfaction score and a 2% increase in customers likely to recommend our services, to 88%. We have delivered a 1% improvement in punctuality on our services and have again been rated number one in the Institute of Customer Services' Customer Service Index for ground transportation.

Our relentless focus on safety has delivered a significant improvement in our Fatalities and Weighted Injuries Index score for the year and has been recognised with another five-star rating from the British Safety Council, with an improved score of 98.5%. We are also delighted to have been awarded the prestigious British Safety Council Sword of Honour for the second consecutive year.

Awarded a four-star rating by the European Foundation for Quality Management in its first assessment in 2014, we are delighted UK Coach achieved a five-star rating in 2016, demonstrating our commitment to achieving excellent operational standards.

Deployment of technology

We have been determined to be at the forefront of new technology adoption to enhance our offer to customers, ability to compete and improve safety performance and secure cost efficiencies.

An example of our investment in customer service leadership is the launch of VUER, an innovative, free digital 'infotainment' news and entertainment system. This service is resulting in a 5% increase in customer satisfaction for those passengers who have used the system, helping to drive customer loyalty and incremental demand.

Technology has an important role to play in raising safety standards. We have rolled out the Lytx DriveCam technology across the whole of our network during 2016 (with the recently acquired Clarkes following this year). This technology enables us to improve driving performance and tailor training through the analytics and videos generated. Our initial pilot in one depot showed a 10% reduction in the collision rate and annualised repair costs reduced by around 30%.

In the past year we have implemented active real-time RMS across the whole of the network. This upgraded system

significantly enhances our capability to actively manage pricing, helping to drive revenue, profit and incremental demand. We have already seen the benefits, with targeted reductions in price driving passenger increases and overall revenue growth in the fourth quarter. With full installation complete in December, the immediate benefit was an increase in revenue of 1% during the month and improved seat utilisation rates. The benefits should grow through the year as the system gains increasingly sophisticated data and analytical capabilities.

We have also made further improvements to our digital platforms in the past year, such as the launch of a new and improved mobile website, app, journey planner and PayPal payment system, helping us to engage with our customers in a more personalised way while also increasing revenue.

Creating new opportunities

Attractive pricing, coupled with the upgraded RMS, will continue to grow volume, improve load factors and drive profitability. We have also grown our CRM database by 13% in the year from an already strong position, and we will continue to exploit our enhanced capabilities here in 2017, developing further tailored and customised offers for our customers.

We continue to look for new contract opportunities and have secured a three-year contract, in conjunction with UK Bus, to provide corporate transport services for Amazon to distribution centres around the UK, and a contract to provide transport services to UEFA for the 2017 Champions League Final. We also look to increase our sales distribution through the development of existing relationships and the creation of new partnership arrangements, and in 2016 have secured new partnership agreements with Expedia, UCAS and Groupon, and expanded our existing partnerships with Ryanair, thetrainline.com and RBS. We plan to launch a trial in 2017 to provide 'end to end' journey services, working in partnership with taxi and private hire car firms.

As well as reviewing our network efficiency, we also look to add new routes where we see growth opportunities. First introduced in 2013, our Christmas Day services are helping secure significant growth over the festive period: we broke our record for the number of passengers carried in a day and had two days where we took over £1 million in revenue. In 2016, we also launched new services serving passengers between London and Stansted, further strengthening our position in the airport market where we continue to see strong growth.

In December we acquired Clarkes, a private hire coach company based in Kent. This acquisition of a well-known coach brand has two principal benefits. Firstly, by expanding our presence in the Kent commuter markets in an efficient way, enabling the sharing of spare fleet and management synergies. Secondly, it provides efficiency opportunities for our core coach operations, through attractively placed depots and access to an expanded driver pool in London.