

MEMORANDUM

Date: 24 October 2001

To: Craig Lentzsch
CEO

From: Brandon Miller
Summer Intern

RE: The Competitive Environment of Greyhound

I am pleased to have this opportunity to present my analysis on the business environment of Greyhound and suggest a new focus competitive strategy that may help the company compete in its competitive environment. By implementing my new strategy, I believe that Greyhound will be able to become the most popular charter service as well as sustaining its name as the largest intercity bus transportation system.

I will begin with a discussion of the competitive environment using Porter's model of the five competitive forces. Force one is competition. For Greyhound, competition is the other local, regional, and national bus carriers. In the past years, there have been an increasing number of local and regional bus carriers, which serve as direct competitors to Greyhound. Many of these small companies began by serving short, less traveled routes that had been ignored by the major bus companies, but those companies are now expanding their routes to directly compete with and gain market share from Greyhound.

Perhaps even a greater competitive force to Greyhound than other bus companies are substitutes, Porter's second force. Any means of intercity transportation other than bus carriers is a substitute. Greyhound is in a highly competitive market in which there is intense competitive behavior between the intercity transportation rivals. The greatest rivals Greyhound faces are the airlines. The airlines are ruthless in their competition for market share and are willing to cut their ticket prices below Greyhound's rates in order to gain customers. For instance, while Greyhound charges a \$34 fare to travel from Phoenix to San Diego, Southwest Airlines charges only \$31. Other more minor substitutes include trains, ferries, some taxi services, rental car services, and individuals driving their own automobiles. Most of the intercity transportation companies aggressively compete with each other through rates and convenience of service.

Thus Greyhound is in a very competitive environment due to aggressive substitutes as well as their direct competitors.

The third force under Porter's model is the threat of new entrants, which is a measure of the difficulty to entering an industry. The intercity transportation industry is fairly difficult to enter because of the tremendous price competition. New companies must have vast capital not only to invest in the machines they use for transportation, but also in order to compete in fare prices. If a new company were to enter an area dominated by another company, the dominating company would cut fares forcing the new company to cut fares and rely on their capital, go out of business, or move to a new underdeveloped industry location. The only areas that new entrants would be easily able to enter would be new routes to unserved or underserved cities.

The fourth and fifth forces under Porter's model are the bargaining power of suppliers and the bargaining power of customers. Greyhound's suppliers of parts, materials, and services have limited influence on the corporation. Out of this group, the labor force has by far the greatest influence. For example, in 1990, about 9,000 union member drivers and mechanics went on strike for three years driving the company to near bankruptcy. In order to keep the operation in tact and from going bankrupt, Greyhound had to hire replacement workers. In contrast to the bargaining power of the suppliers, the Greyhound customers have negligible influence on the corporation. Since there is such a vast customer base, the customers have virtually no influence on the Greyhound fare prices. Fare prices are much more likely to be set according to the prices of competition rather than the prices sought by the customers.

Since Greyhound has not completely understood its competitive environment, it has made a few mistakes in trying to compete in its market. First, and perhaps most detrimental, was Greyhound's failure to keep their prices at or below the prices of substitutes. It is impossible to think that a person would be willing to pay more to ride a bus from Phoenix to San Diego in over twice the time when they could fly there for less money. Fare prices must be kept below the price of substitutes if Greyhound is to succeed. Second, Greyhound was in bitter conflict with its labor union for three years beginning in 1990. This conflict yielded reduced service and poor publicity that further depleted market share. Greyhound must recognize the bargaining power of its employees and work hard to appease their needs and treat them well. Third, Greyhound began focusing on cutting expenses, which in itself is acceptable, but it made a mistake when it

compromised service for lower costs. In such a competitive market, Greyhound must keep its service competitive in order to maintain and/or win market share from its competitors and substitutes. For example, when the company moved to a computer reservation system in an attempt to streamline operations, the system was a complete flop and actually discouraged customers. The system should have been better tested before its implementation. Due to the flop of the system, Greyhound not only failed to cut expenses, it lost more market share and was required to slash fare prices to gain back some of its customers. This price slash further increased operating costs, the opposite of the intended effect. Finally, on-time performance has also slipped to below 60%, which has promoted more mass exodus of Greyhound's customer base. Greyhound must be on time to compete with its direct competitors and substitutes, which have higher on-time performances.

It will be essential for Greyhound to improve its competitive strategy in order to protect itself in this aggressive environment. I believe that the best way for Greyhound to compete will be through the focus competitive strategy using differentiation. Greyhound should focus on its charter services and build them to the best in the transportation industry, which will build back the Greyhound name and reduce the threat of customers using substitutes. The charter service will differentiate itself from other services with its superb service by staffing each chartered bus with a hostess that will serve drinks and snacks at regular intervals as well as serving any other customer needs such as providing pillows and blankets. Hostesses will travel basically the same routes, and thus can serve as tour guides or answer any questions that the travelers may have about the area. The buses will also become much more luxurious and customers will truly be traveling in style. All seats will be heated leather and an inch and a half wider than the conventional seats. Charter buses will have 8'' by 6'' personal television screens placed in the backs of every seat allowing customers to watch one of five new release movies or satellite cable at all times during the trip. Buses will be equipped with phone jacks that will allow laptop users to connect to the internet for reduced fees. The objective of this differentiation is to provide the best possible traveling conditions for the customers to make them obsessed with traveling in style by bus. The customer base that we will intend to be increasing will be the vacation travel groups touring an area on a chartered bus and the executive business class riders that charter buses to conferences or corporate training. Both of these groups spend millions on travel each year and if we can provide better service and an excellent traveling environment than charter rider ship should increase, which will directly reflect on our profit after the initial investment in the purchase and renovation of the buses.

If you have any questions concerning the analysis, please contact me at 353-5148. Thank you.