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Chapter 3 American Free Enterprise

This article from the April 2005 *Wall Street Journal Classroom Edition* illustrates one of the basic principles of a free-market economic system: competition. In theory, free and fair competition is good for business and consumers, but “fair” is a subjective term. In “Road Warriors,” Journal reporter Barry Newman explores the market for intercity bus service in the Northeast Corridor, which runs from Boston to Washington, D.C. Small Chinese-owned lines in this region are using lower fares to draw customers away from the industry giant, Greyhound.

Before reading the article, you may want to look up the following terms: conceding, lobbying, exacerbated, compliance, cherry-picking.

A bus is pulling out of Boston’s South Station terminal, its windshield cracked and speedometer busted. According to the lettering near its luggage compartment, the vehicle is owned by “Kristine Travel” and operated by “Lucky River,” though the sign on its side says “Travel Pack” and its ticket agents call the company “Lucky Star.” Its destination is New York City. The fare for 187-mile, 4-1/2-hour trip: \$15.

That price may seem impossibly low, yet another carrier on the Boston-New York run has lately started charging \$15, too. The name on the side of its buses is Greyhound.

Greyhound Lines is a \$1 billion bus company owned by Laidlaw International, a \$4.6 billion company. The only national bus network, Greyhound has been racing along America’s highways for more than six decades. But today, a dozen or so Chinese-owned bus lines are giving the “big dog” a run for its money.

Immigrant enterprises don’t often go head-to-head with huge corporations in such vital industries as transportation. But that’s what these little companies are doing to Greyhound, partly by using tac-

tics borrowed from discount airlines and online ticket brokers. While Laidlaw climbs out of bankruptcy, Chinatown buses have sucked Greyhound into a wounding war over its most-traveled runs, from New York to Washington, Philadelphia and Boston.

Two faces of the new Chinese immigration have met along the way: entrepreneurs who don’t mind long hours or street fights; and computer engineers who build Web sites. Together, they have broken out of their neighborhoods and gone hunting for customers in some of Greyhound’s strongholds.

“If Greyhound wasn’t a giant, maybe they could beat us,” Shui Ming Zheng says through an interpreter. “But because they are a giant, they cannot.” Mr. Zheng, 49 years old, has been in the U.S. 14 years and drives the Washington run himself as part owner of Eastern Travel & Tour. A year ago, Eastern took on David Wong, 38, as a new partner. “Common sense tells me that if JetBlue profits on a \$79 fare to Buffalo, we can profit on a \$15 fare to D.C.,” says Mr. Wong, who handles management. “We copied the airline concept to a bus line.”

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On the Northeast routes that deliver a third of its revenue, Greyhound isn't about to roll over. Conceding that the Chinese lines have reignited bus travel, it has slashed fares to claim new riders for itself. "We will alter our pricing to protect our market share," Greyhound's chief operating officer, Jack Haugslund, says. In the past year, Greyhound has done more: It has sued, trying to bump two Chinese lines out of action by charging they weren't licensed properly, and pushed for a federal investigation of a dozen others.

"The industry is under attack," says Peter Pantuso, who heads the American Bus Association, a lobbying group. Of its 950 members, Greyhound is by far the largest. "People wonder, how can you charge half the price of an established carrier?"

Easily. Eastern Travel, for instance, says its cost for a round trip to Washington from New York is \$700. The driver gets \$140. A full busload of 61 passengers, paying \$35 each, brings in \$2,135.

In search of more opportunities, some Chinese lines have moved their business out of Chinatown to wealthier areas. "I'm getting Americans to take my bus," says Eastern's Mr. Zheng, meaning anyone not Chinese. He still works in Chinatown in lower Manhattan, but his partner, Mr. Wong, has moved to 34th Street. Eastern now scoops up travelers near Penn Station, the city's huge underground commuter-rail and Amtrak hub. "The subway is right there," he says. "Everybody comes to us."

The Web is helping. The site most Chinese lines use is IvyMedia.com, launched in 2002 by Jimmy Chen, who came to America from Shanghai for a computer-science doctorate. "Our model is Expedia," he says. Like the Internet travel service, he offers tickets for several carriers, and sells no more than the empty seats left in inventory. Though Greyhound also sells online, it doesn't limit the number of seats. If it oversells a route, it keeps reserve buses and drivers to absorb overflow passengers. Mr. Chen sees that "wasteful" policy as the big dog's big vulnerability.

An immigrant conquest of the bus business wouldn't be a first. In 1914, a company started carrying Scandinavian miners—not waiters—to Minnesota's iron ranges in modified Hupmobiles. That line evolved into Greyhound. By 1980, its revenue topped \$1 billion.

Since then, Greyhound has had a string of financial problems, exacerbated by terrorism fears that reduced ridership and rising insurance rates. Last June, Greyhound charted a new course: It ended service to 260 Western towns, with more cuts to come. It bet its future on more popular short runs—exactly the ones the Chinese lines are out to grab.

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"We asked, 'Can you please check this out?'" says Mr. Pantuso of the American Bus Association, which doubted that the Chinese companies were complying with federal insurance and licensing rules. The Federal Motor Carrier Safety Administration formed a task force to investigate. Its head, Annette Sandberg, told the industry last September: "We'll either bring these carriers into compliance or shut them down."

For the most part, the carriers were brought into compliance. "Every time we confronted one of these carriers, they did what was necessary to become authorized," says Jim Lewis, a spokesman for the safety agency. The task force has now wound down.

But defending its most-traveled corridor, Greyhound continued to fight: Last year, it sued two Chinese challengers on the Boston-New York run. With a local partner, Peter Pan Lines, it charged that Fung Wah Transportation and Kristine Travel & Tours were operating without the proper licenses for scheduled service.

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Not even a giant line can “tolerate unauthorized operators cherry-picking business on its busiest routes,” Gregory Alexander, a Greyhound vice president, declared in an affidavit. Pei Lin Liang, Fung Wah’s president, said in his own affidavit that the “true purpose” of the suit was “to drive Fung Wah out of business.” Greyhound and Peter Pan did seek injunctions to close down Kristine and Fung Wah, but lost in court. The Chinese lines soon cleared up the problems with their licenses, and the suit was dismissed.

The struggle for Boston, however, didn’t end there. In spring 2003, a new company, Lucky Star, appeared with a \$10 fare to New York. The other Chinese lines matched it, and turned Boston’s Chinatown into a travel hub. “There’d be hundreds of people” lined up at the curb to

board the buses, says John Meaney, a chief inspector for the city of Boston. “Suitcases everywhere.” This congestion broke traffic laws. So in September, the Chinese lines were moved off the street and into the main bus terminal at South Station, alongside Peter Pan and Greyhound; their fares rose to \$15 to cover an added terminal fee.

Brian Cristy, head of the state office that oversees the terminal, thinks everybody wins. “If people can’t get on Fung Wah, now there’s a Greyhound bus and a Peter Pan bus,” he says.

Greyhound says business is improving. It set its lowest New York-Boston fare at \$15 last year; at times it has been more than twice that. Now ridership is up on that route. “Greyhound,” says spokeswoman Lynn Brown, “has no objection to competition so long as it is on a level playing field.”

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QUESTIONS FOR DISCUSSION

1. What competitive advantages do the small immigrant-owned lines have over Greyhound in the intercity busing market? What advantages does Greyhound have?

2. How did Greyhound respond to the competition from the new bus lines? Did the intensified competition ultimately hurt or help Greyhound?

3. **Predicting Consequences** Do you think the other bus lines could compete with Greyhound nationwide?
