

# Technical Note

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Subject: Incremental Costs and Implications for Revenue & Market Share – Initial Thoughts  
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## 1 Introduction

- 1.1 This note recaps on the main incremental costs associated with moving from a Foot Passenger to a Vehicle and Passenger service. It then takes an initial look at the implications of this in terms of revenue and market share.
- 1.2 The purpose of this note is to provide an indication of the figures involved and is intended as a starting point for discussion around these figures. The detail is continuing to be worked up as we move towards a Final Report.

## 2 Incremental Costs

- 2.1 As laid out by TMG (Technical Note 8), the typical incremental costs associated with moving to a Passenger and Vehicle ferry are as follows (for a two-vessel scenario):
  - Purchase costs: £3m per vessel so £6m, or £400k per annum over 15 years (excluding interest);
  - Fuel & ops: £187k per vessel so £375k per annum;
  - Berthing dues = £1,000k per annum (MVA TN07);
  - *Total Incremental Cost: 2 Vessels = £1.775m per annum*
  - *Total Incremental Cost: 3 Vessels = £2.336m per annum*
  - *Total Incremental Cost: 4 Vessels = £2.763m per annum*
- 2.2 So the addition of a vehicle carrying component must generate at least the amount required for the given number of vessels in terms of net revenue (ie gross revenue – pier dues). What does this imply?
- 2.3 The Table below shows the 2010 market shares between Cowal and Western, ie the last full year

2010 Market Share	Cowal	Western
Foot / Bus Passengers (est – see TN07)	378,600 (64%)	210,050 (36%)
Veh based passengers	120,600 (10%)	1,103,750 (90%)
Cars	61,635 (10%)	563,960 (90%)
CVs / Coaches	3,590 (10%)	32,870 (90%)

- 2.4 These market shares provided Cowal with £1.564m in fares revenue (pre-Pier Dues) in 2010/11.
- 2.5 It could be assumed that a 'fit for purpose' foot passenger ferry service could at least preserve the 2010 Cowal market share for foot passengers (ie pre-Argyll Ferries vessels). However, we have seen that the number of foot passengers on the town centre route has reduced from 374k in 2010 to 341k in 2012. Only some of this can be attributed to the Argyll vessels and some must be attributed to the McGill's bus service becoming established which may be more difficult to 'reclaim'.
- 2.6 Nevertheless, it can also be assumed that moving from a fit for purpose identically timetabled foot passenger only service to a vehicle carrying service would not lead to an increase in foot passenger numbers. It could lead to an increase in Coach / bus-based passengers though (although these may not generate additional revenue to the vehicle tariff depending on the ticketing arrangements).
- 2.7 The question then is what market share would the new town centre car and passenger ferry require to achieve if the incremental costs involved were to be covered?
- 2.8 The table overleaf shows the potential approximate revenues arising from different levels of market shares from the vehicle based market – using the outturn revenues per passenger / car / CV/bus from Cowal 2010-11 and static 2010 volumes.
- 2.9 In practice the volume of the overall market will grow again with economic recovery, but also elements of operating costs are likely to increase in real terms, which could offset this gain (assuming that fares remain the same in real terms over time).

Town Centre Car / Car Passenger / CV / Coach Market Share (2010 Volumes)	Implied Gross Revenue Car & CV based traffic	Implied Net Revenue (after (undiscounted) pier dues)
10% (2010 Share)	£753k	£412k
20%	£1,506k	£823k
30%	£2,259k	£1,235k
40%	£3,012k	£1,647k
50%	£3,765k	£2,059k
60%	£4,518k	£2,470k
70%	£5,271k	£2,882k
80%	£6,024k	£3,294k
90%	£6,778k	£3,706k
100%	£7,531k	£4,117k

2.10 In broad terms, these figure suggest that the new town centre passenger and vehicle ferry service would have to achieve:

- between 40%-50% of the vehicle-based market share to cover the incremental costs of moving from a two-vessel foot passenger only to a like-for-like **two-vessel** vehicle and passenger ferry service.

2.11 The question is how plausible is it to achieve this level of market share with **two** vessels compared to a Western Ferries service which can use **four** vessels? The town centre service would have some advantages offering the most direct route, but would not be able to match the frequency of Western Ferries four vessels.

2.12 To match the Western Ferries service, four new vessels plus lower fares would be necessary (based on the evidence that Western outturn unit revenues were lower than Cowal). To cover the incremental costs of a four-vessel scenario (£2.75m per annum), the service would therefore have to achieve around 70% of the vehicle based market.

2.13 The plausibility of achieving these market shares would clearly depend to a large degree on the response of Western Ferries to the re-introduction of competition on the route.

2.14 We are now in the process of building up the full 15 year cost and revenue picture including the assessment of market shares by service pattern.

