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Martin Griffiths: Stagecoach seeks to reassure over rail franchises

By Mark Odell, Transport Correspondent

All change: new Stagecoach chief says shareholders have been left uncertain regarding the terms on which existing franchises would be extended

Investor confidence in UK rail franchising is badly damaged and industry and government must work together to fix it, says Martin Griffiths, the newly installed chief executive of Stagecoach.

Restoring belief in the rail franchising system is one of the key challenges facing the 47-year-old Scot who took over the reins of the group from its co-founder, Sir Brian Souter, at the start of May.

The government was forced to cancel the award of a contract to run the West Coast mainline last October, after failings at every level of the Department for Transport. The government has since deferred a renewal of most of the franchises that were due to expire before the next general election in 2015.

Mr Griffiths says that has left shareholders uncertain on what terms existing franchises would be extended.

“I got 10 years, in theory, of new income, if you add them all up. But the share price was flat and that tells me investors said, well, so what? And until I am able to go and communicate that to them . . . I think that’s a risk from an investment point of view.”

The government must also start the three competitions that are being re-tendered over the next two years.

“If we do that then investors will start to have confidence,” Mr Griffiths says.

Mr Griffiths was promoted to his new role after Sir Brian somewhat controversially became non-executive chairman – the UK corporate governance code recommends a chief executive should not become a chairman of the same company.

But Mr Griffiths dismissed suggestions that there were any real misgivings among shareholders about Sir Brian remaining as non-executive chairman.

“The big shareholders that we’ve spoken to are supportive. I found maybe one who said it is not our policy but in general they backed the move. Let’s be clear there’s been an awful lot of mistakes made over the years by boards when big founding shareholders who know the business have walked away. We’re not going to do that.”

Two previous Stagecoach chief executives lost their jobs in the space of two years – 2000 and 2002 – which ultimately saw Sir Brian return as chief executive, having been executive chairman since 1998, but Mr Griffiths does not fear a repeat: “I’ve worked with him for a long time. He knows how I work and I know how he works. I am not going to get hung up about it,” he says.

Mr Griffiths has been with the group since the late-1990s when he joined as business development director, before taking over as finance director, and is in part responsible for shaping the company’s strategy.

Despite the scrutiny of the company’s rail business, Mr Griffiths would rather focus elsewhere given that about 80 per cent of operating profits come from the group’s bus businesses in the UK and the US.

“I have got to keep telling [investors] buses are the key driver for our valuation. The rail, if we get it right, will be nice to have and I think we will get it right,” he says.

The biggest opportunity Mr Griffiths identifies on both sides of the Atlantic, is an expected strong growth in bus and coach ridership. “If you take a 10-year view on UK Bus, if we can’t capitalise on the green agenda, the environment and get people out of cars and keep making the arguments, then I think we will have failed.”

In North America, he points to the rapid growth of the company’s Megabus brand that offers low-cost intercity coach services. Started in 2006, passenger numbers have just hit the 25m mark, 10m of which were carried in the past two years.

Analysts believe the company's long-term growth prospects will be driven by the success of Megabus in the US, which accounts for little more than 3 per cent of group revenue.

Mr Griffiths agrees: "I think most of our management time, our capital and our effort will go into continuing to grow the Megabus business in the US where we see the greatest potential so I think it is going to be a very important part of Stagecoach, going forward."

But Mr Griffiths has also seen at first hand, shortly after joining Stagecoach, how aggressive international expansion can backfire on top management. One of his first tasks was to completely restructure and shrink the ill-fated first foray in to the US through the acquisition of Coach USA, part of which still forms the backbone of the American business today, and to withdraw from operations in Hong Kong, New Zealand and Sweden.

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