

Fare wars

Bus service run by student butts heads with Greyhound

by Dan Rozek
Herald staff writer

Greyhound Bus Lines officials probably wish Dennis Toeppen had never decided to go off to college.

Toeppen, a University of Illinois junior from Mount Prospect, has been giving Greyhound headaches for nearly two years — ever since he launched his own charter bus service to ferry students from Champaign to the Chicago area on weekends.

The one-man service broke Greyhound's monopoly on the route, slashed Greyhound ridership and ignited a price war that dropped fares dramatically for both Greyhound and Toeppen's Suburban Express.

Along the way, Toeppen has survived two investigations by the Illinois Commerce Commission, as well as feuds with university officials, who first sided with Greyhound and later attempted to start a charter service to compete with Toeppen's.

CLEARLY, THE road has not been a smooth one for Suburban Express.

But Toeppen, a clean-cut 21-year-old who barely looks old enough to be in college, shrugs off the hassles of the past two years with hardly a second thought.

"I knew what I was getting into. I kind of had a feeling someone would react this way down the line," he said. "This makes life interesting — I don't know if I'll win or get wasted."

So far, he appears to be winning.

Suburban Express has expanded so it serves Eastern Illinois University, as well as the University of Illinois. The weekend buses now stop at six locations in the Chicago area, including Woodfield Shopping Center in Schaumburg, compared to the two locations when the service first started. Ridership reaches 200 to 300 students on most weekends, or about 3,200 students during the fall 1984 semester.

PERHAPS THE most impressive measure of success is the fact that the service still is operating and turning a profit — although Toeppen is shy about saying how much profit — two years after its inception.

That's not bad, considering it began with an unsuccessful idea and a \$600 investment.

Toeppen first came up with the idea for a bus service while he was trying to talk himself into buying a small van for personal use.

"I'd been toying with the idea of buying a van," he said, "and was trying to justify it by figuring I could help pay for it by carrying passengers between Chicago and Champaign."

But further research showed that would not be profitable. Instead of giving up, he broadened the idea and looked into buying a used, 29-passenger bus. He found he did not have the money for it.

The idea of a bus service was set aside until October 1983, when Toeppen hit on the idea of chartering equipment. A little research showed it just might be profitable and a Greyhound driver's strike added momentum to the idea.

THE SERVICE began at Thanksgiving. He chartered buses and drivers, spent \$600 to advertise the service and used a local travel agent to sell tickets, which undercut Greyhound fares to the suburbs by \$4 to \$8.

The six buses carried nearly 300 university students, netting Toeppen several hundred dollars profit. More encouraging than that were the results of a survey that showed most students would be willing to continue riding the new service.

He was in business, although only partly for the money.

"It was a combination of money and challenge," he said, of his decision to run the service. "The fact that I haven't paid myself a salary in two years lends credence to the idea that it was more the challenge."

Service resumed in the spring, and while business was good, problems were cropping up.

The university travel center, which sold tickets on commission for Greyhound and used that commission for student programming, refused to sell Toeppen's tickets. His posters advertising the service disappeared from dorms, although they previously had been approved, and the travel center published a letter encouraging students to take Greyhound.

UNIVERSITY OFFICIALS said they did not want to sell both types of tickets because they feared Greyhound would not approve and would dump the university as a ticket agent, meaning less ticket revenue for the university.

"We need to make a certain amount from ticket sales to contribute to (student programming)," said Jeff Sheets, manager of the travel center. "We were concerned about (Greyhound's) reaction."

As for the charges of dirty tactics, Sheets acknowledged that both sides passed out promotional literature to the other's passengers and that "competition was pretty heated" between Suburban Express, Greyhound and the university.

"Both sides were probably a little dirty," he said.

Later in the semester, the travel center attempted its own charter service to match Suburban Express, undercutting Toeppen's service by \$3. Toeppen responded by cutting his own fares to \$8. The university cut its fare again but could not match Toeppen's fare and ended its charter experiment after less than a month.

BUT GREYHOUND also began cutting its fares and offering special



MOUNT PROSPECT resident Dennis Toeppen takes a break while passengers board the buses of his Suburban Express at Woodfield Shopping Center in Schaumburg. Toeppen, a student at the University of

Illinois in Champaign, has been successfully running a weekend charter bus service for university students for the last two years, despite fare wars with Greyhound Bus Lines.

bargains. Toeppen followed and prices rose and dipped until February of 1985 when Greyhound dropped its round-trip fare to Chicago and the suburbs to \$14.75. Before Toeppen started his service, fares were about \$36 for the trip.

Suburban Express matched the \$14.75 fare, but Toeppen accused Greyhound with "predatory pricing" or illegally dropping fares to force competition out of business.

He appealed to the U.S. Justice Department, but officials there decided not to investigate Greyhound price laws, said Toeppen's attorney, Andrew Carroway, who specializes in transportation law.

"They wrote a letter asking Greyhound to justify their fares," Carroway said. "After the letter, Greyhound raised their fares \$3, although I'm not sure whether it was in response to the letter or the marketplace."

Greyhound spokesman Greg Alexander said the company fares were not predatory but declined to comment further on fares.

Greyhound also initiated two inves-

tigations of Suburban Express by the Illinois Commerce Commission.

THE FIRST, in the spring of 1984, found the service was improperly operating as a regular operation without ICC approval and regulation.

Toeppen changed his service, officially making it a private charter service limited to university students and faculty so it would not be under the jurisdiction of the ICC.

A second investigation by the ICC in the fall of 1984 found the service was operating within the law, said Douglas Trew, ICC assistant supervisor in Springfield.

Alexander said Greyhound routinely requests ICC inquiries into competing services to make sure they are operating legally.

"The ICC said Suburban Express was operating within the rules, so we were through with it then," he said, adding the company was not singling out Suburban Express. "Suburban Express is just another one of many competitors we face."

AFTER THE second ICC inquiry, university travel center officials,

looking to recover lost revenues, reversed themselves and began selling tickets for Suburban Express, as well as Greyhound. In return, Toeppen gave up other ticket outlets.

"We were worried Greyhound wouldn't be happy, and they weren't, but we did what we had to do," Sheets said. Suburban Express now accounts for about half the student bus tickets sold weekly by the university, or about 150 students a week on the average, he said. Greyhound accounts for about the same number of tickets, he said.

Greyhound's Alexander acknowledges Greyhound ridership from Champaign to Chicago has "dropped slightly" in the last two years, but he refused to attribute it directly to Suburban Express.

Toeppen has no doubts himself what has accounted for the decline, and he estimates on some weekends he captures 70 percent or more of the student market.

AND THAT IS not likely to change, except for the better. His fares now stand at \$28 round

trip from Champaign to Woodfield, while a round trip from Eastern Illinois University in Charleston is about \$16 higher. Both are several dollars under Greyhound fares.

Toeppen still runs the service himself, although he occasionally has hired other students to work part time for him to advertise the service. The \$10,000 to \$15,000 he has made has been re-invested in the operation, or gone to pay his legal fees.

Even if he did pay himself, the salary would only work out to "about 25 cents an hour" for the time he has put into it. That time factor also has pushed his graduation back a year, to 1987, but he is not worried about that.

The experience of running the business should prove valuable in the future to Toeppen, who has switched from an electrical engineering major to a business major since the service premiered.

But he may not need a job after he graduates, because he plans to continue operating the charter service.

"I'm not sure if I'll do it by remote control or directly," he said, "but I definitely do want to continue it."

Investors converting to hybrid issues

Stocks and bonds are, at best, very uncertain investments. Stocks may move up while bonds drop; or, they may climb or fall in lock step.

One great advantage of stocks, of course, is the potential they have for capital gains. Bonds are safe and provide steady income. But a turn in the market can stymie stock gains, and the resale price of bonds can suffer if interest rates change.

One way to have the best of both worlds is to put the top down on something called convertibles and take a look inside this hybrid, although specialized, investment.

For those who don't want to learn the complicated mechanics of convertibles, a few mutual funds are available to do the selecting and monitoring for them.

Convertibles are a cross between stocks and bonds, providing the appreciation potential of common stocks and the income prospect of bonds. Although they have been available for many years, they are getting new interest lately, both from investors and issuing companies.

"At this point, we're kind of at the doldrum level of the market, so people are looking for a little different vehicle," says Gerald Guild, manager of fixed-income investments at Advest, a brokerage based in Hartford, Conn. "This gives you the downside protection of a bond with the upside potential of stocks."

THERE ARE two types of convertibles, convertible bonds and convertible preferred stocks. The bond is usually sold at a \$1,000 face value, with a fixed maturity date and coupon rate. It may be exchanged, or converted, for a specific number of shares of the company's stock whenever the investor wishes.

Convertible preferred stock, on the other hand, pays dividends, not interest. But it also can be converted

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ed to a predetermined number of shares of common stock.

One advantage of convertibles is that their price generally increases with the company's stock. But when that stock falls, the convertible's overall value does not decline as much, because it continues to pay interest. This continual yield gives the investor the rewards of equity without the same degree of risk.

"The yield is much better with a convertible than with a common stock," says Mark Tavel, executive vice president of Value Line's new no-load convertible fund. "The yield serves as a floor under the price level."

Also, convertible bonds are debt instruments, so, in case of bankruptcy, people holding these instruments have senior status ahead of stockholders and would be more likely to get some of their principal back. But you should not look for convertibles as a way to turn a profit from a troubled company.

"NEVER BUY a convertible from a company unless you'd be willing to buy stock in that company," Guild says.

On the other hand, "no one should ever buy a common stock without first looking to see if there are undervalued convertibles available," says Robert Chernow, a senior account executive in the Milwaukee office of Smith Barney, Harris Upham & Co.

While convertibles have been largely confined to smaller, emerging companies that find more investor interest in their debt than in

their stock, several larger corporations have noticed the advantages of convertibles. A few months ago, IBM put out a \$1.25 million issue. Other big companies in the market include Digital, Bell & Howell, United Telecom and Johnson Controls.

It's not all pluses in the convertible business, however. The assurance of safety here is not quite as great as it would be with a bond. Also, the yield usually will be less, although this is often offset by the potential for price increase.

But the biggest drawback of owning convertibles is the need to monitor them constantly or pay a broker's commission to have it done for you. Knowing the best time to buy convertibles requires an understanding of the corporate bond market, a knowledge of the companies that issue convertibles and familiarity with such terms as "conversion ratio" and "conversion premium." These help tell the best time to buy convertibles and the best time to sell or convert them to stock.

THEN THERE is the need to keep track of several convertibles at once. Whether the investment is common stock, bonds or convertibles, Guild says, there should be at least five of them. Following five convertibles takes more time and expertise, so, if you are going to buy them on your own, find a broker or firm that has experience in bonds, particularly convertibles.

If you don't want to worry about keeping close tabs on your convertibles or wonder whether a broker is doing a good job, a mutual fund with all or part of its portfolio parked in convertibles may be for you. Until this year, all of the funds that invested in convertibles were "load" funds, taking about 8 1/2 percent off the initial investment as a sales fee. Recently, however, a few no-load funds have emerged, with no sales or redemption charge.

"I believe firmly that load funds are sold and no-load funds are bought," says Carol Sachs, senior vice president of Noddings-Calamos Convertible Funds. The Oak Brook fund was started by Noddings-Calamos & Associates, an investment advisory firm that continues to specialize in individual convertible securities.

Because of the time and knowledge needed to explain convertibles, Sachs says, funds could justify the sales charge. But, as investors have learned more about mutual funds and convertibles in particular, less explanation is needed. Still, even with the fee, several funds have provided good returns for their investors. These include American Capital Harbor of Houston, Phoenix Convertible Fund of Hartford and Putnam Convertible Income-Growth Trust of Boston.

NODDINGS-CALAMOS'S two no-load funds (growth and income) started selling last summer and have a combined \$4.1 million under management. These funds joined Value Line's no-load fund, introduced last spring, now with more than \$20 million in assets, Tavel says.

If you're interested in convertibles but don't want to worry about constant upkeep, a well-managed fund can provide current income and good appreciation potential with moderate risk. Convertibles have, for instance, been used by people who are willing to put a small part of their retirement savings in a somewhat riskier investment.

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U.S. urged to force hand of Japan to hike imports

DALLAS (UPI) — In one way of looking at the widening trade gap between the United States and Japan, the latter continues to supply goods and services to the former and is willing to take IOU's like U.S. Treasury securities in return.

Statistics show the amount of Japanese lending to the United States in 1984, mostly through their purchase of U.S. government securities, was roughly equal to the United States' trade deficit for that year. The Japanese obviously are hoarding dollars and dollar securities.

But this debt of United States, like all foreign debts, must be repaid one day and that will come by transferring goods and services to Japan, namely through U.S. exports.

IN THIS THESIS by international finance professors S. Kerry Cooper and Arvind Mahajan of the Texas A&M University's College of Business Administration, any retaliatory action by the United States against Japan would be economically shortsighted and politically unsound.

Instead, the professors urge the country take immediate measures to reduce the interest rates to make it unattractive for the Japanese to invest here, force an upward revision of the yen by reducing the value of the dollar so Japanese exports would become dearer and American exports cheaper and create conditions so the Japanese society will increase consumption and open their markets to U.S. goods.

"The Japanese will not forever straitjacket themselves in an out-moded quest for export surpluses that serve to deprive Japan's hard-working citizenry of full and fair reward for their labor," Cooper said. "They aren't foolish. They can increase their standard of living by opening doors to U.S. products."

"And we cannot indefinitely import more than we export. By one means or another, our trade deficit must shrink."

terest of Japan to allow the United States to pay its bills by opening Japanese markets to U.S. goods."

THE DESIRED end, of course, is consumption and the Japanese are not consuming as much as we do. They are not buying as much goods and raw materials with the hoarded dollars, otherwise they wouldn't be running this surplus. At some threshold point the people will start to say pay up and convert the dollars into goods. At that moment we will begin to export."

Both experts said opinions vary as to when the threshold point will be reached but what cannot be disputed is that the current conditions will continue so long as the U.S. government keeps running a huge budgetary deficit, the interest rates remain high and currency values are not realigned.

After factoring in the inflation rate, Cooper said, current U.S. interest rates are about two percentage points higher than those prevailing in Japan. This induces the Japanese to invest here and hoard dollars, he said.

Mahajan said the issue is complicated by Japan's pervasive insecurity about its economy and historical circumstances. Japanese, who think consuming too much is not good, save about 15 percent of their disposable income. In the United States, the rate is less than 5 percent.

"Japan's preoccupation with perceiving exports as national victories and imports as national defeats has had the effect of denying its people full enjoyment of their country's economic progress."

"But Japan will one day realize the lesson taught by Adam Smith that international trade is but a means by which a nation can improve the welfare of its citizens.... The current view robs its citizens of a higher standard of living. Further, by angering its trading partners, Japan risks retaliation which will make it less and not more secure."

Mahajan said, "It is in the self-in-