

Siobhàn Carty
Office of Rail Regulation
One Kemble Street
London
WC2B 4AN

21 March 2014

Rail market review for selling tickets – call for evidence

Dear Siobhàn

Thank you for giving us the opportunity to participate in the ORR's market review of the selling of train tickets.

Go-Ahead Group is one of the leading rail and bus operators in the UK. We are a long established operator of rail franchises, and through our Govia subsidiary (65% Go-Ahead owned, 35% Keolis owned) we currently operate the London Midland, Southeastern and Southern franchises. By volume we are the largest operator of rail services in Britain, with approximately 30% of passenger journeys undertaken on our services and approximately 20% of all passenger revenue derived from the services we operate. As a key provider of rail services, we are pleased to provide our views in response to the ORR's call for evidence for this review.

This response represents the views of the three Govia-owned Train Operating Companies (TOCs) - London Midland, Southeastern and Southern - as well as Go-Ahead Group plc. Please note, the three individual Govia TOCs will not be sending individual responses to the ORR's call for evidence, as each TOC's views are included within the content of this consolidated letter.

Govia is helping to provide a leadership role in the railway industry in relation to ticketing through our participation in the Rail Delivery Group (RDG). The RDG's vision for ticketing is based around two complementary objectives: *making ticket purchase easier and more straightforward for customers*; and *ensuring that ticketing contributes towards a reduction in the overall costs of the railway*. In May 2013, the RDG wrote to the House of Commons Transport Committee, expanding on this vision and the progress the industry has made so far. This was in response to a specific recommendation the Committee had in relation to innovative ticketing technology in the context of its Rail 2020 report.¹

In our view, RDG members such as TOCs are best placed to identify and develop new ticket retailing solutions and products. Operators are closest to their customers, and in meeting their needs we will continue to deliver passenger revenue growth and enhanced customer satisfaction. There are a number of initiatives already in progress which will significantly enhance ticketing and

¹ <http://www.publications.parliament.uk/pa/cm201314/cmselect/cmtran/81/81.pdf>

retailing in the railway industry, including the RSP Modernisation Programme and major smartcard ticketing projects, such as SEFT.

We will now address the specific areas of the review the ORR is seeking stakeholder feedback on.

1. What additional drivers (if any) of the review should be considered?

We have nothing further to add on the scope of this review and will be happy to actively participate in the review and support the ORR's work in this area.

2. What is your view on the proposed scope of the review? What, if any, additional areas should be considered? What areas, if any, should not be considered?

The areas suggested in the scope of the review are logical and we support the approach proposed by the ORR.

We would consider it relevant to add that although TOCs have an important leadership role to play in the rail retailing and ticketing market; as the government continues to be ultimately responsible for the overarching policy direction of Britain's railways, any developments in retailing and ticketing will always involve not only rail operators, but also the DfT and other tendering authorities.

3. What features of the GB retail market for tickets work well? What features of the retail market for tickets work less well for passengers and industry?

Ticket retailing is a vital component in the successful running of the railway, and particularly relevant for Govia's three TOCs. As a net contributor to the DfT - our rail division collectively pays more to the DfT in premium than it receives in subsidy - Govia TOCs rely heavily on ticket sales to cover operating costs and fund investments. It is essential therefore that we are able to collect passenger revenue through ticket sales in a cost efficient and customer-friendly manner.

Investment in new sales channels

In recent years Govia has invested in a range of ticketing initiatives, including the deployment of more new generation Ticket Vending Machines (TVMs) on its franchises than any other operator. We now operate a fleet of some 688 TVMs across our three rail franchises. Following passenger feedback we have improved the screen interface on our TVMs to make ticket purchase quicker and easier. We have also developed our online ticket sales websites to offer a full range of tickets, including season tickets. The success of these channels is underpinned by an industry-leading CRM strategy and the emergence of our new smartcard ticketing product, 'the key'. We also continue to support traditional ticket retailing at our stations through a network of 360 ticket offices.

Self-service TVMs and online ticket sales websites are becoming increasingly popular choices for our passengers. Although the ORR has stated that this is

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particularly the case amongst young people, our own research shows that for web sales in particular there is a more even distribution across all age groups.

We have included two graphs which show recent channel shift developments both in the wider railway industry, and specifically at Southern Railway, in Annex A to this letter.

We believe the reason that TVMs and online channels are becoming more popular is because TOCs have responded to our customers and improved the usability and attractiveness of these points of sale. Our investment in these areas has led to a continuous year-on-year increase in customer satisfaction with ticket retailing facilities, as measured by the National Passenger Survey.

Ease of ticket purchase

We are mindful that there are still concerns among customers that rail ticketing can be complex to understand and that self-service channels are not as easy to use as they could be. Consumer groups have highlighted, for example, that on TVMs it is sometimes hard to find the cheapest fare. The railway industry has been working to improve on this situation by introducing new screen layouts and flows. Govia is continuing to strive for further improvements around the ease of ticket purchase, alongside initiatives being progressed by railway industry collectively through the Association of Train Operating Companies (ATOC) and Rail Settlement Plan (RSP). However, we believe it is important to note that TOCs are often faced with the juxtaposition of commuter TVM use - where the key driver for satisfaction is speed of transaction - versus less frequent travellers who tend to want a more methodical step-by-step process. A standardised, one-size-fits-all approach may not be appropriate for an industry which serves a broad and diverse customer base.

Regulation

The cost of selling tickets remains a concern for the railway industry. There are a number of fixed costs associated with ticket retailing, and for various reasons these have been historically difficult for the industry to reduce. Ticket retailing also attracts a range of variable, transaction based costs. As the number of rail journeys made in Britain has increased, these costs have also risen.

Rail ticket retailing remains a heavily regulated market. A large proportion of the passenger revenue that is generated from the sale of tickets comes from fares which are regulated by the government. This mainly applies to season tickets and walk-up fares, although some anomalies and inconsistencies currently exist. Additionally, through the Ticketing and Settlement Agreement, the opening hours of ticket offices and the range of tickets which must be made available for sale to customers are both also regulated. A further element of regulation exists in the activities of RSP, a subsidiary of ATOC. The RSP accreditation process facilitates the sale of tickets through Ticket Issuing Systems (TIS) provided by third party suppliers. The primary purpose of RSP accreditation is to ensure that rail ticket revenue is allocated correctly between operators. However, the complexity of rail fares and tickets combined with the existing systems through which fares are distributed and sales data is returned, has led to relatively high TIS costs for the

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whole railway industry. The associated barriers to entry for new suppliers means that there remains a relatively small number of TIS suppliers in the market.

Regulation is important in protecting government, industry and customer interests. However, our view is that it is important that regulation keeps pace with changes to market conditions and customer demands. A more efficient and flexible approach to ticket retailing will only be possible if there is simpler, more responsive regulation that is capable of changing over time. RSP is playing its part in this with the RSP Modernisation Programme, which is seeking to take costs out of the industry through replacing a number of legacy back office systems. This will allow much greater flexibility for TOCs when setting prices and creating products and will also ensure that fares data is supplied in a simpler way to TIS suppliers, allowing new players to enter the market. The overriding objective is to move towards a more open environment focusing only on those elements of accreditation that are critical (namely consistent fares data and mandatory transfer of sales data to LENNON), which is less reliant on proprietary technology and a small number of specialist suppliers.

Unregulated, TOC developed Advance products are good examples of where TOCs have responded to customer demand without the need for regulation. It is now very hard to imagine the railway industry without Advance products. In this context it is our view that commercial incentives lead to more innovation. The removal of redundant legacy rules will also drive innovation, especially in the context of smartcards.

Third party retail

In relation to encouraging third party involvement in the ticketing market, we believe it is important to note that TOCs are subject to inflexible opening hours and high overheads, both of which impact the profitability of some of our attended ticket purchasing channels. New entrants to the third party market are often able to gain market share by offering incentives and discounts that cannot always be matched by TOCs.

Ultimately the presence in the market of online third party retailers can assist with TOCs' wider channel shift objectives of encouraging self-service purchase, but the wider context of a need to reduce the overall cost of sale remains essential. Additionally, it is vital for us that any new entrants to the ticket retailing market do not adversely impact our operations. For example, issuing tickets which are not encoded may be easier to issue and remove barriers to entry in the retail market, but this can cause problems for TOCs as these tickets cannot be processed correctly by automatic ticket gates at stations.

New fares and ticket types

The process for introducing new fares and ticket types could also be refined. The fragmentation of the industry and the TIS systems can lead to a disjointed approach to adopting new products. For example, in the past some TOCs have introduced new products or existing products via new purchasing mediums which cannot be correctly issued by another TOC or their respective TIS equipment and are not recorded within the industry sales systems. As interoperable ticketing is a

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fundamental principle of the railway industry, an improved process for validating new products to ensure all relevant TOCs and TIS suppliers can support these tickets may be needed.

4. Are there examples of particularly innovative retailing approaches from rail markets elsewhere or other sectors that could be relevant to the GB rail market?

We do believe that the GB rail market should seek to learn from other rail markets both here and overseas. Govia continues to research best practice, and benchmark our current and planned activities with other operators and industries. This includes similar organisations in the same market, such as TfL.


Ultimately, the sale of rail tickets is a retail activity and we believe that the railway industry should look at other retail industries to learn from their experiences. This includes both similar types of sectors to rail (e.g. aviation) and other sectors (e.g. High Street retail). Both of these sectors have evolved in recent years to take account of changing customer needs and market demands. Innovations such as self check-in and printing your own boarding pass has reduced costs in aviation, and the railway industry should learn from these developments.

5. What are your views on the proposed timetable and approach to the review?

We support the proposed timetable and welcome the opportunity to participate in the workshop on Thursday 8th May.

If there are any points raised in this response that you would like to discuss in further detail, please can you contact me in the first instance at the address above, or by email (charlie.hodgson@go-ahead.com) or phone (020 7799 8990).

Yours sincerely,



Charlie Hodgson

Managing Director - Rail Development

Annex A – channel shift graphs

