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Dear ORR

Retail Market Review Emerging Findings Consultation

This is the response from Abellio Greater Anglia (AGA) which we hope will assist in your retail market review and help the ORR develop recommendations to improve passengers' ticket buying experiences. This follows on from the ORR's Call for Evidence in February 2014 and the market review for ticket selling in September 2014.

Annex A: List of consultation questions

Chapter 1

1. Do you agree with our description of the features of the market for ticket selling?

We have an issue with the assertion in point 1.4 claiming that the industry regime is not working effectively for industry and for taxpayers, with a suggestion that some retailers claim they are prevented from competing to sell tickets in more competitive and innovative ways – and suggests there may be scope for greater efficiencies to the benefit of industry, taxpayers and passengers.

- The franchise model has a low impact on the British taxpayer as it is not a fully subsidised concession model, compared to TfL which one could argue is a greater burden on the taxpayer.
- The fundamental issue behind the barrier to efficiency and effectiveness is the government policy on ticket office regimes and the lack of urgency and effectiveness in investing and launching a smartcard product for the industry to use. The SEFT programme has taken 5 years to deliver a narrow product that is now behind modern retailing in terms of technology. If this is addressed effectively then this will open the gates to innovation in fare development, product development and retail channels.
- The chapter does not address the issue of the format of the franchise model and its effect on retail innovation. Some TOCs operate with a revenue risk which does drive them to innovate, whilst other TOCs are working on a concession or operating contract format which is prescriptive, carries little or no revenue risk, and thus does not incentivise innovation.
- It is worth re-emphasising that the growth in rail numbers is a good indication that the market is working.

Chapter 2

2. Do you agree with our emerging findings with respect to passengers' ticket buying experiences regarding their choice/ability of a) retailer/sales channel; b) how they buy tickets; c) their ticket format; d) the range of tickets; and e) opportunities to find cheaper prices?

a) Retailer/sales channel

We note that the analysis shows fairly healthy spread of sales from TOC to 3rd party across the market categories – long distance to regional and LSE. The discretionary market (long distance) is particularly well served with 47% of sales being represented by 3rd party sales. The more regular journeys carried out in LSE for commuting purposes is less well distributed but this is being actively addressed through the 3rd party season

ticket retailing trial. This isn't addressed in the commentary or insight. There has been no analysis of the retailing market in terms of weight of advertising or brand strength – this is a key to influencing consumer choice. So, for instance, The Trainline spends heavily to promote choice as do other retailers – and this in itself is a mark of a healthy market. Comparisons to the utility market switch rates aren't relevant – that deregulated market has been in existence since the mid-1990s and has had over 2 decades to mature, and in a sense hasn't been a success given the consolidation of the market players. Using the example of supermarkets as a retail channel is in theory interesting but it is well known the high rates of commission/margin these channels will expect – which will make this option untenable. CTNs and Post Offices may be an option – but only when smartcard is available for travel, and associated cost effective retailing systems.

The Box 3 illustration of the TfL Oyster product is relevant to an extent – however, Oyster will decline over the next few years as Cpay, Bpay, Apay contactless payment becomes more prevalent as the consumer choice. Box 3 illustration on supermarkets with mobile phones and utilities do not go into commissions or success rates in terms of uptake – these products are of much higher value, prevalence and permanency than one off rail journeys with the possible exception of seasons. There is recognition over the competence of retail channels only being able to handle simple transactions – hence the smartcard introduction is essential.

Table 3 shows non-use of Smartcard use in-transit, however, TOCs are free to do this now and this is increasingly likely as cashless payment becomes more widespread and new on-board retail systems are upgraded

b) How they buy tickets

- Paragraph 2.13 – the assertion regarding TVMs is out of date and is being addressed by TOCs. Table 3 (the “how passengers buy their tickets” section) doesn't recognise some of the innovations for smart phone payment being implemented by TOCs now.
- Paragraph 2.16 states the slow pace of development for TVMs and websites – this is a funding and franchise model issue – but this isn't expanded upon and makes it sound like the TOCs are at fault – whereas they are not. The comparison with other transport industry sectors isn't helpful to this end. TfL for example operate in a different environment to many National Rail operators in the sense that their network is entirely gated and hence suited to smartcard usage and publically subsidised to invest in infrastructure enhancements.

c) Their ticket format

Again the comparison to TfL is a poor choice as TfL were funded to do this by government and taxpayer subsidy, and it is also being funded by operational savings from their ticket office closure programme. Thus, the problem is wider than just stating TOCs should adopt the TfL model – Schedule 17 constraints need addressing. There are no case studies featured on TOC MTicket, eTicket, and smartcard innovations.

d) The range of tickets

It is interesting to note the findings supported the consumer requirement for MORE choice rather than less. It is already the case that many weekly season ticket prices are already cheaper than three return journeys and this is a question of how travel prices could be reduced for bulk purchase (with implications for TOC revenue) as much as one of consumer choice.

Paragraph 2.28 refers to the Cross Country (XC) Advance Walk Up product – this is only available with XC because it was a franchise Committed Obligation - a trial and relates to the context of the XC franchise and the ownership of stations. For many TOCs this initiative would likely lead to an abstraction in revenue and be operationally difficult due to the age/functionality of rolling stock related to the ability to use manual/electronic reservations.

Footnote 59 – we are not National Express East Anglia. Footnote 61, 62 Passenger Focus research findings – that Advance fares are only sold up until midnight (better than other industries like airlines).

e) Opportunities to find cheaper prices

Discounts by channel do exist among TOCs e.g. for on-line purchases, however significant variation by channel is currently been constrained by government fares regulation and Schedule 17 regulations that hinder both significant price changes and the ability to release the costs that would otherwise allow TOCs to compensate changes in revenue from variations in price by sales channel, changes in retail strategy and innovation to

reduce costs whilst also increasing the value of the franchise. Revenue targets are typically set for each franchise and as such changes in the retail model may well provide a level of uncertainty that would require additional government funding to cover the additional risk involved.

Chapter 3

3. *What are your views on our emerging findings that TOCs' incentives to introduce new fares and products are somewhat limited? What are your views on our suggestions around DfT's role and, more specifically, the role of franchising? What are your views on our proposed recommendations that improvements be made to the industry processes to make it easier for TOCs to introduce new fares or products? Specifically, do you agree this should be taken forward now, as a matter for TOCs and governments?*

- a) *What are your views on our emerging findings that TOCs incentives to introduce new fares and products are somewhat limited?*
- Paragraph 3.3 statement is flawed – the DfT determine the regulated fares, the TOCs only the unregulated. Furthermore there are a range of 'national products' that exist such as Railcard where government has previously not allowed certain changes to be implemented e.g. to the Network Railcard. Smartcard is the key to variable/flexible seasons – this is a government funding and capability issue. Paragraph 3.7 - C2C only offered flexible season tickets because they were funded to do so in advance of the tender process by the DfT SEFT program.
 - Para 3.9 – the assertion re withdrawal of carnets is incorrect – AGA has expanded them with no direction from the DfT. Para 3.11 – the bidding and franchise process have a dominant role in determining the TOCs ability to innovate. The mid-term franchise review could work as a mechanism to allow the TOC to introduce further innovations especially if they need to be funded – with 10+ year tenures this should be more regular.
 - Para 3.14 assertion re the Cross Country product is wrong – TOCs were only informed of this in late 2012, and as the franchise models are set by the DfT with revenue risk built into them then the consultation had to happen as the DfT were liable for revenue losses as a result of the XC committed obligation that was in their franchise agreement. This is a government issue and needs to be facilitated through the regulatory model. The DfT facilitate product development through more flexible franchise funding and improved decision making from governments over issues such as compensation for loss of revenue as a result of abstraction.
- b) *What are your views on our suggestions around DfT's role and, more specifically, the role of franchising?*

We support the franchise model as a very good model which does cater for the range of stakeholder requirements. The DfT needs to build more flexibility into the franchise model to allow for market dynamics as stated above. We agree that the DfT need to change the franchise model to allow for more flexibility in the ability to innovate and develop the customer offer in line with market developments and customer behaviours. The other issue is the regional nature and also difference in timings of franchises mean there is a fragmented approach to national policy and service offer design and implementation which lacks consistency. This manifests itself in areas such as TVM provision and SEFT/smartcard schemes. Too many times the DfT manage their regional responsibilities in isolation and there is a lack of joined up thinking and delivery and when one TOC benefits from any new retailing or investment strategy (including new trains) through award of a new Franchise, this inevitably has a corresponding and competing activity which will require DfT to compensate any abstracted revenue for affected TOCs.

Examples: (1) We have seen this for instance with the SEFT scheme and the franchise award to GTR – with a detrimental impact to Cambridge. (2) A committed obligation in the original Abellio short term franchise was to roll out PAYG across 10 stations. However, the SoS would not allow any changes in fares regulation because of the decision not to allow a similar extension by FCC to Hertford North. (3) The assertion in 3.14 that the TOCs affected by the Cross Country new fare introduction slowed the process down is incorrect. The fact that there was the threat of abstraction and customer confusion on neighbouring TOCs had not been taken into account when the franchise committed obligation was instigated. The DfT had to internally review this with the TOCs to ensure that the detrimental effects on the other TOCs were being mitigated. This had nothing to do with "competition" – it was a function of the lack of joined up thinking in the government model.

The DfT are now embarking on review of the Franchise Agreement templates with representation from TOCs. Although the aim is to have an output measure, primarily this will be a review of redundant clauses with a view to remove these and also look at where there are inconsistencies and flexibility in approach. It is unlikely that the fares schedules will be addressed in the early stages due to its complexity and how this is embedded and entrenched in overall industry retail strategy and systems. TOCs are also limited to innovate in fares changes

when in the last 12 months of their Franchise as they are not allowed to create any liability or reduce the value of the franchise. In some cases the L12M has been in place for the full term of a short franchise.

- c) *What are your views on our proposed recommendations that improvements be made to the industry processes to make it easier for TOCs to introduce new fares and products?*

Mid-term reviews would be good along with more fast track decision making and compensation mechanisms to fund and facilitate innovation. The current model is very prescriptive and regional in nature and does not allow for the need for TOCs to change systems to accommodate market developments or pre-empt customer requirements during the franchise tenure. The suggestion of periodic reviews which include business case led investments is a good one.

- d) *Do you agree this should be taken forward now, as a matter for TOCs and governments?*

Yes as the DfT needs to be more “commercial” in nature. We need a better joined up commercial forum between ATOC, the supply chain and the DfT.

4. What are your views on the role TIS machines play in enabling TOCs to differentiate the way they sell tickets to passengers? What are your views on the appropriate response, in particular around the balance between providing the TIS market with more direction about the design of the TIS machines and in facilitating choice?

- a) *What are your views on the role TIS machines play in enabling TOCs to differentiate the way they sell tickets to passengers?*

We assume by “TIS” machines you are referring to TVMs, webtis systems, and ticket office systems. TIS technology is key to delivering a modern and effective experience for our customers – it is a major enabler. Unfortunately the model for developing this technology is fragmented and inefficient. In all cases TOCs need to be sure that passengers travelling on their trains have paid the fare the TOC expects and that the correct TOC will receive the correct financial settlement due.

- b) *What are your views on the appropriate response, in particular around the balance between providing the TIS market with more direction about the design of the TIS machines and in facilitating choice?*

The governments, TOCs and supply chain needs to clarify and coordinate the medium to long term strategy more effectively and this needs to be driven by more robust segmented consumer needs research so that the solutions have relevance and longevity – and this will in turn provide the supply chain with confidence to invest.

5. *What are your views on the possibility that the price of (permanent) fares could vary by sales channel? What are the merits of considering this further at this stage?*

We agree that this should be pursued but it has to be recognised that TOCs are restricted on this in the regulated fares basket by the DfT. This can account for around 70% of the fares revenues. The ability to tailor fare offering by channel is a practice widely adopted for many years in retailing outside of the rail industry and is an effective model for offering value for money to the customer in recognition of lower costs of sales, and also for channelling demand to efficient sales channels to enable the company to reduce operational costs and be more effective in the market place. It is also an approach demanded by the modern consumer and thus should be adopted. However, if the result of varying the price by channel leads to a reduction in overall TOC revenue then this will ultimately reduce the value of the franchise, and so we recommend further evaluation of the net effect of this before implementation. There are potentially some large cost savings and potentially lower price options for customers, but at the same time the level of complexity would significantly increase. Substantial channel shift has already occurred in recent years within industry, but the regulation of ticket office opening hours in particular would need to be relaxed to allow cost savings to be realised and allow such an option to happen at a great a greater pace.

Chapter 4

6. *What are your views regarding our emerging findings on the incentives potential and existing retailers face in entering and expanding in the market? Specifically, what are your views around having an independent body overseeing the third party retailers’ arrangements, including the identity of the body; on having greater transparency of retailers’ likely costs and remuneration; on having a formal obligation on the relevant TOC governance bodies to consult on significant changes to the industry regime; and on having an appeal mechanism to enable a third party retailers raise a dispute?*

- a) *What are your views on our emerging findings on the incentives potential and existing retailers face in entering and expanding in the market?*

The assertion that 3rd party retailers have a lower presence in the commuter/regional markets will change as the 3rd party season ticket pilot is completed and then rolled out. In addition it should be taken into account that virtually all fares are regulated by the government in this sector and so regulatory changes will need to be made if the findings recommend that this area is opened up more to 3rd party innovation in product design and price – this is not within the powers of the TOC. Comparisons to the energy market aren't particularly useful as that market is being questioned from a competitive efficiency perspective currently. The assertion that there appears to be consolidation in this market within the travel management sector has nothing whatsoever to do with the Rail Industry. This is a function of the competitive nature of the airline business and on line sales companies which have changed the retail model of this sector over the last decade substantially. Direct bookings with airlines have increased phenomenally and as a result the TMC operators have shrunk. The need for TOCs to vet new entrants is required to reduce fraud and ensure passengers have a good quality product – very few if any new entrants have been refused a licence to operate. There is no analysis of this in the report but it serves as a useful context to the efficiency of the current arrangements. As the TOCs widen access to new products such as seasons (which they are doing already) the 3rd party retailers will widen, and once smartcard becomes prevalent as a form of ticket then this can only aid the growth even further as ticket issuing systems will become less complex (like Oyster).

- b) *Specifically what are your views around having an independent body overseeing 3rd party retailers' arrangements – the identity of the body; greater transparency of retailers' likely costs and remuneration; on having formal obligation on the TOC governance bodies to consult on significant changes to the industry regime; and on having an appeal mechanism to enable a 3rd party retailers raise a dispute?*

We think an independent body to oversee this sector is too complex and costly but that independent and regular reviews with the ORR and the proposal to have an independent role on the key ATOC decision making boards would be a far better solution. The consultation on changes could be conducted via that independent role and that role could also facilitate disputes.

The concept of appointing an independent person to the key ATOC governance Boards is a good one as it will help build assurance and confidence in the decision making processes.

7. *What are your views around the ways that industry could reduce the barriers smaller retailers face in selling rail tickets?*

With the onset of bar code ticketing and smartcard formats we think that there could be an opportunity to involve more categories of 3rd party retailers in the sales of tickets. The current mag strip/TVM system is too expensive and cumbersome to operate in the small 3rd party retailing sector, and, in any case the review is incorrect in thinking that the TOCs can sell machinery/systems to the CTNs or other potential 3rd party channels as they do not own the equipment – they lease them from the manufacturers. Thus the manufacturers would need financial arrangements with these bodies – which is unlikely to be practical with the current equipment. Bar code and smartcard TIS will be less expensive, easier to install and less expensive to maintain – so we would recommend a further roll out on this basis.

8. *What are your views regarding our emerging findings that there could be increased scope for third party retailers to compete in selling tickets? Specifically, what are your views that all retailers should have access to all fares and products? What are your views on retailers' ability to discount fares, and to what extent should other retailers have access to these discounted products (at the cheaper price)? What are your views around third party retailers' inability to create new fares and products, and do you consider further consideration could be given to options that provide for a net pricing (or something similar)?*

- a) *What are your views regarding our emerging findings that there could be increased scope for third party retailers to compete in selling tickets?*

There is a real opportunity to open the rail products up to other categories of retailers but, as stated before, the ticket format has to change to enable this in a more practical and cost effective way. It is unlikely that supermarkets will engage as their aspirations for commissions are very high and the rail product is not a regular purchase. However, CTNs and post offices may well be a good opportunity as long as the products are bar coded tickets and smartcard in format with the TIS systems to suit.

- b) *Specifically, what are your views that all retailers should have access to all fares and products?*

We believe that 3rd party retailers should have access where practical. However, the DfT will need to lead on this and facilitate access to the regulated fares basket. This is not a TOC issue. As far as unregulated fares are concerned then this is an opportunity provided a sensible approach is taken to set commissions. Some advance fares are low in price levels and thus commissions needs to be variable. We are already expanding seasons to the 3rd party channels as a pilot.

- c) *What are your views on retailers' ability to discount fares, and to what extent should other retailers have access to these discounted products (at the cheaper price)?*

Fare discounting is already prevalent in the market place but the ability for 3rd party retailers is constrained by access to products such as Advance, promotional fares and seasons. The latter is being addressed and the advance/promotional products will be subject to this review.

Access to promotional fares would need careful consideration in terms of reservation systems and the commission rates would be small as a reflection of the fares offered. It would be useful to review the success of the season ticket trial before this is considered further.

- d) *What are your views around third party retailers' inability to create new fares and products, and do you consider further consideration could be given to options that provide for a net pricing (or something similar)?*

The Fares and Ticketing Review already found that the market was too complex from a fares perspective. This also adds significant costs into the TIS and fares management systems. We would not support the unilateral ability for 3rd parties to set fares. We are, however, supportive of the proposition that they can offer discounts. Net pricing is a valid option to review as this occurs in other markets. However, the net effects of this strategy need to be evaluated and assessed with the DfT before this is progressed any further. There is a risk that this could detrimentally affect the industry funding model and so careful and robust analysis is required. In addition, retail costs are likely to vary more and reduce as retailing technology develops in the industry to support both bar code and smart card products. This option would also be likely to lead to additional complexity if fares were to vary by both channel and retailer. Careful ground rules would need to be set. It is also arguable whether the consumer would actually end up paying any less.

Chapter 5

9. Do you agree with our emerging findings that TOCs have limited incentives to collaborate with each other in the development of shared systems? To what extent do you consider that having increased emphasis through innovation funding mechanisms of the role of an integrated, national network (and thus the role of shared IT systems) could address the issues? To what extent do you consider that a strategy, led by governments with input from across industry, on future ticketing can play a role?

- a) *Do you agree with our emerging findings that TOCs have limited incentives to collaborate with each other in the development of shared systems?*

Again the commercial incentives result from the terms of the franchise model, where it is often difficult to make a business case for updating TVMs, when they are essentially dated technology and franchise timescales and commitments often mean there is limited scope to invest in alternatives.

- b) *To what extent do you consider that having increased emphasis through innovation funding mechanisms of the role of an integrated, national network (and thus the role of shared IT systems) could address the issues?*

This may create incentives to innovate, however, there would need to be some fair way of allocating initiatives to regional areas and considerable stakeholder engagements may further complicate and delay innovation projects.

- c) *To what extent do you consider that a strategy, led by governments with input from across industry, on future ticketing can play a role?*

A government led ticketing strategy is long overdue and its absence has led to the current piecemeal approach to technological developments, with many interested parties developing different bespoke systems. This has led to significant complexity, for example, TfL Oyster smartcards vs ITSO and a range of different PTE schemes. It is hoped a central vision would help to encourage collaboration and economies of scale.

10. *What are your views on the merits, as a possible longer-term option, to consider relaxing the obligations on TOCs to facilitate a fully integrated, national network?*

We would support a measured approach to reducing inter-available obligations and agree this could help to encourage innovation between TOCs and system providers.

11. What are your views on the role of third parties (including third party retailers, passenger representatives and technology providers) in the development of shared IT systems? To what extent could formal working groups address the issue?

We would want to see the results of the Season Ticket trial to comment on this, because there is certainly a risk of additional bureaucracy.

Future engagement

We are happy to engage with the Review in whatever way is sensible and appropriate. AGA will also continue to work with ATOC to establish the collective view of train companies where it is relevant to do this.

AGA is also involved in two projects to understand the customer experience on their end to end journey. The first is an AGA review working with NS to recognise the 'pinch points', particularly along the Great Eastern mainline and secondly, AGA are involved in a wider industry review of the passenger experience working with ATOC, RSSB, Catapult and TSLG amongst others.

Yours sincerely,

Andrew Camp
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