

Siobhán Carty  
Project Co-ordinator  
Competition and Consumer Policy  
Office of Rail Regulation  
One Kemble Street  
2<sup>nd</sup> Floor  
London WC2B 4AN

21 March 2014

Dear Siobhán

## **Response to initial Office of Rail Regulation's 'Rail Retail Market Review' call for evidence**

This response submission sets out the initial views of Stagecoach Group and its two wholly-owned train operating companies, South West Trains and East Midlands Trains with regard to the Office of Rail Regulation's (ORR) Review of the Rail Retailing Market. Specifically it responds to the questions set out by the ORR in its letter of 19th February.

This response is independent to that which is being prepared by the Association of Train Operating Companies (ATOC); however, it is important to acknowledge that Stagecoach has contributed to that response too.

We have noted the ORR's intention to engage with stakeholders over the next few months and Stagecoach is very open to supporting this process both via ATOC and on its own. In terms of this response, this should be seen as an initial response in advance of the planned workshop later in the year, focusing principally on the questions already posed by the ORR.

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

### **(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?**

We propose to answer these two questions jointly.

It is our view that retailing for the rail industry should aim to satisfy the largest possible amount of consumer demand, attracting new consumers to the railway, at the lowest cost we can and to quality standards that comply, as a minimum, with consumer law and the rail industry's specific regulatory framework, as well as meeting commitments in individual franchise agreements with the Department for Transport (DfT)

If this is our aim, then our marketplace is one that is able to respond to changes in demand, supports innovation and choice, and is able to contain and reduce costs.

On this basis, the scope of the Review needs to be relatively wide, but also needs to recognise that we are not 'economic free agents' in a conventional sense but operate within very prescriptive contracts with government, and within a market that is already highly regulated.

It is with this acknowledgement that we believe that the scope of the Review should specifically address how the rail retail market place operates within the context of franchising policy and what is already a highly regulated marketplace.

The regulated market place manifests itself most obviously with the Ticketing and Settlement Agreement (TSA) in particular, which despite persistent attempts at reform by train companies, has remained substantively unchanged since 1996. The constraints that it imposes on the market are significant; the limited ability of train companies to change ticket office opening hours, or to charge fees in line with other retailers are two clear market distortions that need to be considered.

The highly complex retailing and ticketing landscape in UK Rail and the subsequent revenue allocation systems as administered through Rail Settlement Plan (RSP) do require a very high level and robust system of common financial controls. This complexity along with the constraints of the TSA, arguably limit the ability of different and new retailers from entering the GB rail market. Although at this stage we would not suggest the Review's scope is narrowed in any way, we would be keen to understand how areas such as RSP and the TSA will be covered in the Review, in order that we can contribute more effectively.

We particularly welcome the inclusion of third party retailing arrangements within the Review. Britain has probably the most open rail retailing market in the developed world but an independent review of current arrangements would be helpful in addressing points of difference between train companies and third party retailers.

The rail retailing market is unusual in that collective arrangements exist for the licencing of third party retailers through ATOC. These arrangements, underpinned by the TSA, have meant that third parties have had to seek only one licence to enter the rail retailing market (rather than contract with each TOC individually), facilitating market entry and, in the context of relatively short term franchises, providing greater stability than might otherwise have existed. Nevertheless, it has placed a considerable, quasi-regulatory burden on train companies, operating through ATOC, in terms of ensuring that the market operates efficiently and fairly.

### **(3) What features of the GB retail market work well? What features of the rail retail market work less well for passengers and industry?**

In general, we judge the rail retailing market to have worked reasonably well since privatisation.

Consumers have benefitted from a wide range of channels from which to obtain information and purchase their rail tickets. We believe that choice is probably greater within the rail retailing market in Britain than in any other developed country and through ATOC, independent consultants were commissioned to research this further.

ATOC information suggests that the market has grown by 80% in volume terms since 1995/6 and that the average fare paid has changed little over the last decade. This would suggest that retailing has not constrained the market, or that a lack of information or choice has constrained consumers from finding good value fares.

In this context and in accord with ATOC, we do not believe that there is any evidence of significant market failure. Nevertheless, there are clearly areas of the market that have worked less well. Exploitation of new technology, particularly in ticketing, is one area where progress has been significantly slower than might have been expected. Similarly the change in channel mix, whilst material, has been slower than might have been anticipated, with the regulatory framework preventing a faster and more significant shift from station ticket offices to other channels.

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

The GB rail market as already stated is very complex and highly regulated. However, this has not prevented development and innovation. The proliferation of passenger self service ticket machines, train operating company white label web-sites, the growth of the travel management company (TMC) channel and corporate self booking tools as well as smart ticketing, alongside alternative fulfilment methods such as 'print at home' has enabled a multi channel approach to be adopted. The vast majority of this has been developed and funded by individual train operating companies.

The air market, which in some ways is similar to the long distance rail market, is worth considering as a comparative case study; in terms of market development, commercial structures, regulatory framework and innovation. However, for regional and London & South East operators there are limited comparative case studies.

**(5) What are your views on the proposed timetable and approach to the review?**

The Review seems to be adopting a generally sensible and realistic approach in terms of methodology and timing, and we have no specific changes to suggest.

One point, however, that we would emphasise is the need to fully include the train operating community in the Review, on two bases: firstly through our collective involvement in the third party and more general retailing market through ATOC; and secondly (and equally, if not more, importantly) as significant retailers in our own right, with differing strategies and views on the market.

Stagecoach is more than happy to support the ORR in this Review and will be supporting the workshop in May.

Yours sincerely



Neil Micklethwaite  
Customer Service & Commercial Director  
East Midlands Trains  
01332 867068  
[neil.micklethwaite@eastmidlandstrains.co.uk](mailto:neil.micklethwaite@eastmidlandstrains.co.uk)

cc Samantha McCarthy, Commercial Director, South West Trains

Correspondence to:-

East Midlands Trains, No 1 Prospect Place, Millennium Way, Pride Park, Derby DE24 8HG