

ORR Retail Market Review

Response to the Consultation on the Emerging Findings of the ORR's Rail Market Review

Arriva UK Trains ('AUKT')

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Introduction

Arriva Group is the operator of three UK rail franchises, a joint venture partner in London Overground, the operator of the Tyne & Wear Metro and the 'Open Access' operator of Grand Central. Arriva offers a unique perspective as the only owning group to operate in the full range of market models that exist in UK rail; including open access, revenue-risk franchise, cap-and-collar franchise, devolved franchise and devolved concession.

As the only UK rail operator with such a wide range of businesses, Arriva Group is uniquely placed to witness the strengths and weaknesses of the current framework.

This submission is made on behalf of all Arriva UK Trains companies and it strongly supports and is complementary to the submission from ATOC. We have worked closely with ATOC and other train operators on the ATOC submission, and so this AUKT submission seeks not to repeat points made in elsewhere but instead emphasises those points where AUKT has a particular point of view it wishes to express.

Answers to Questions

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

We support the ATOC response to this question. Furthermore, as an operator of substantial numbers of ticket offices, both large and small, we would strongly echo ATOC's disappointment at the failure of the Emerging Findings to adequately address the impact of regulation; particularly Schedule 17 of the TSA and its role in significantly distorting the rail retail market. If the retail market is to properly reflect the variable costs of each sales channel, which we believe it should, we should be able to reflect changing market trends and cost considerations as part of our retail and distribution strategy. Our current inability to flex our ticket office retailing activities to reflect the market weakens any business case to invest in alternative channels and artificially (and unfairly) inflates cost of sale for our non-station operating TOCs.

- 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?**

We support the ATOC response to this question. Arriva TOCs are widely acknowledged as leaders in the area of retail development. Indeed, we are leading the industry in driving forward RDG's recently published Rail Ticketing Strategy by encouraging the industry to hasten the retirement of CCST ticketing in favour of barcode technology becoming the preferred common methodology for validating rail tickets.

As part of this strategy AUKT intends replacing all of its on-board TIS equipment early in 2016 with a smartphone-based TIS that is capable of validating any digital or smart media rail tickets and ultimately issuing tickets on thermal print roll with a barcode. We are working closely with the industry and stakeholders to rapidly identify and resolve the regulatory, systems and operating barriers to delivering this step-change advance towards RDG's vision of ubiquitous digital ticketing in the rail industry.

- 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?**

We support the ATOC response to this question and have nothing to add.

- 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?**

We support the ATOC response to this question. Regarding the TIS supply market, it is important to note that the TIS supply market is, ultimately, driven by the franchising process. The more tightly specified franchises become and the shorter they are, the more TOCs are constrained into solely making investments promised during bid processes.

This makes it more difficult for TOCs that wish to innovate mid-franchise term, as there is not a wider market supporting this activity.

- 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 support the ATOC response to this question and particularly re-emphasise the imperative to ensure aspects of regulation that relate to booking offices must be considered in scope of this Review, given their role in substantially distorting the rail retail market.

We would also strongly endorse the desire for TOCs to have the freedom to charge fees. We believe this would be a far more effective, visible, fair and less complex way of allowing all retailers to reflect the differing costs of their retail channels and ticket distribution methods. For example, allowing an online retailer to charge a fee for the customer to collect their ticket through the comparatively expensive TOD system could incentivise the customer to choose a cheaper method of distribution, such as barcode-enabled 'print your own' or mobile-tickets.

The relatively limited uptake of these ticketing media to date is admittedly largely due to the barriers to inter-operator acceptance and inter-availability of operator-specific tickets covered extensively elsewhere in this Review. Nevertheless, as these barriers are progressively removed by the industry working together to deliver RDG's ticketing strategy, TOCs' ability to realise cost benefits by hastening consumer behavioural shifts to alternative ticketing media are unnecessarily and unfairly limited by existing regulations. We are consequently disappointed that the Emerging Findings do not adequately reflect this distortion of the market whereby 3rd party retailers are able to charge fees whilst TOCs cannot.

We note that the ORR is not proposing any immediate changes to permit differential pricing by sales channel. We strongly suggest that these changes are made as quickly as possible. Retail innovation is limited by the constraints on incentives for TOCs. Many TOCs may wish to innovate with new sales channels but find the business case constrained by the inability to reflect the costs of different sales channels in the price charged.

- 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?**

We support the ATOC response to this question and have nothing to add.

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

We support the ATOC response to this question. We would add though, further to our response to Question 2 earlier, that the industry move towards barcoding would enable 3rd party retailers to issue tickets on widely available receipt-roll printers on cheap receipt-roll print stock. The specialist, expensive printing equipment currently required to print CCST rail tickets must be a significant barrier to small 3rd party retailers entering the rail retail market. In anticipation of the move towards widespread thermal print-roll ticketing, Arriva has entered into discussions with a national retail network operator who currently does not sell rail tickets and if successful has the potential to add thousands of new retail outlets.

- 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)?**

We support the ATOC response to this question and AUKT TOCs have no objection to all retailers having access to all AUKT fares and products. However we believe this should not just be a 1-way street. Retailers should not be allowed to 'cherry pick' only those products it wishes to sell and TOCs should be allowed to insist retailers offer for sale its whole product range if retailers are able to insist the same.

As outlined in paragraph 2.28 of the Emerging Findings, CrossCountry introduced its Advance fares for purchase on the day of travel during 2014 after 4 years of extensive consultations, research and negotiations. The Trainline immediately started retailing these tickets through its online TIS but since then CrossCountry has been in protracted negotiations with Evolvi, the principle distributor of rail tickets to the 3rd party travel trade, and has as yet been unable to secure their agreement to retail CrossCountry's full Advance Purchase range. There is no provision in industry regulations to require 3rd party retailers to sell the full range of rail tickets; and whilst we would not propose nor condone any extension to current regulations, we believe this particular issue should be considered with due cognisance to both sides of the debate.

We share ATOC's scepticism about net pricing and cannot find any evidence that this approach in any rail market has delivered any competition benefits. The impact upon perceived fares complexity, industry ticketing systems and the current regulatory framework would be so extensive that it is our view that any benefits must substantially and demonstrably outweigh the many dis-benefits. We do not believe the Emerging Findings has made this case nor do we think there is a case for further exploratory work in this area unless compelling evidence of benefits seen elsewhere emerges.

- 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?**

We support the ATOC response to this question and would reiterate the point that ATOC makes about the RDG ticketing strategy. This workstream is live, has momentum, and should be given maximum support to succeed.

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 support the ATOC response to this question. It is important to note that maintenance of a single national network does not mean that everything needs to be the same, nor does it mean that the current situation (of a separately priced fare for every single point to point flow) is the best way of achieving it.

It is perfectly plausible to imagine a scenario in which the national network is maintained by aggregating different price products that are fulfilled in different ways, but with easy and simple communication to the customer of how the products have been aggregated. Indeed, if we consider the wider public transport market, particularly within urban areas such as London or West Midlands PTE, there is an emerging strategy amongst local transport authorities for passengers to hold an integrated ticket within their areas and to add other tickets, possibly on an ITSO smartcard or on other media, for travel outside these areas.

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 support the ATOC response to this question and have nothing to add.