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Retail market review – consultation on emerging findings

Dear Siobhan,

Thank you for the opportunity to respond to the emerging findings of the Retail market review. Our response builds on previous consultation submissions to this review and our representations made at the ORR workshop held on Monday 7th September 2015.

Govia is one of the leading rail operators in the UK and is a joint venture between the Go-Ahead Group (65%) and Keolis (35%). Govia has extensive experience running complex and challenging rail operations. Govia runs three major rail franchises: Govia Thameslink Railway (GTR), Southeastern and London Midland. Govia is the UK's busiest rail operator, currently providing around 35% of all passenger journeys. As a key provider of rail services, we welcome the opportunity to make representations regarding the ORR's Retail Market Review.

This response represents the views of the three Govia owned Train Operating Companies (TOCs) – GTR, Southeastern and London Midland - as well as Go-Ahead Group plc and has been developed in collaboration with subject matter experts from across our group.

Govia supports a dynamic market for rail retailing and encourages initiatives that enhance the choice for customers with the aim of growing rail patronage.

The responses to the specific consultation questions set out by the ORR are answered in **Annex A**.

If you would like to discuss this response in further detail please contact Richard Evans, Head of Rail Policy (richard.evans@go-ahead.com).

Yours sincerely



Riz Wahid
Head of Retail

Annex A: Responses to ORR questions set out in the Retail Market Review – emerging findings

Chapter 1

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

We agree with the overall description of the features of the market for selling tickets; however the characteristics of the retail market are covered in more detail within the questions of chapter 2.

Chapter 2

Question 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 agree in principal with the emerging findings however with comments for each section.

a) With respect to increasing the available retail outlets available, this has worked successfully for the likes of Oyster, as it is a simple pay as you go format with no actual retail knowledge required by the small retailer. Our concerns would be where products that the customer would purchase will have time/route restrictions, which would need to be conveyed to the customer. TfL have since moved their focus to Contactless and placing less emphasis on the Oyster Ticket Stops which would indicate a channel shift away from small retail outlets

b) How customers buy their tickets has always seemed to be a unilateral approach with innovation mainly driven by a DfT franchise. This is true with regards to smart card technology and each TOC innovates how this will be deployed and there is no one consistent approach to what products are sold across all TOCs and when they should be interoperable. There would be a benefit in the groundwork for such an interoperable scheme, be it smart cards, mobile or barcode ticketing where all TOCs can agree on the basis of such a scheme and then ensure that with development funding as part of a franchise suppliers are incentivised to develop the technologies required.

c) We have already been involved in innovation with regards to ticket formats as offered with our smart card products, bar code and mobile ticketing currently in use, Ticketing formats we agree should all be consistent, clear and easy to understand; however as with question b), these need to be mutually agreed formats that work with the existing systems in an interoperable capacity which need to be improved especially with the RSP systems that are to deliver these required changes.

d) The range of tickets available is quite considerable across the TOCs and where competition is in place, this has caused more confusion for customers and making it hard in cases for technology to be flexible around these rules. More choice is encouraged within Govia whilst there needs to be a simple approach in order to ensure that it is easier introduce simpler products and remove complex scenarios such as multiple routes for the same journey based upon the route you take or the TOC service you travel on.

e) We agree with the process of enabling the customer to find the cheapest tickets available and Govia TOCs have a cheapest fares finder already in place on

our websites. To make online fares cheaper would require a multilateral TOC agreement to retail products at a cheaper rate online since a unilateral approach would discount other TOC fares with the difference in the actual fare having to come out of the discounting TOCs revenue or an online fare is created that only applies to services valid on that TOC. An agreement would then enable 3rd party retailers to offer a fare that is cheaper online.

Chapter 3

Question 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 agree that within the framework of rail franchising the ability to introduce new products can be limited. The regulatory framework in which we operate does not encourage innovation, there are some particularly strict regulations which limit progress, for example if you are the flow operator, then the minor operator on the route can undercut your new ticket products/pricing due to the process you need to undertake to introduce that fare.

The Ticketing Settlement Agreement (TSA) does not support competition, and we would support reform in order to give operators greater flexibility to introduce new products to customers.

The cost of accreditation can deter TOCs/suppliers from introducing new innovation, especially in the case of a unilateral approach by a TOC. It is a challenge for new suppliers to enter the market, due to accreditation costs. New suppliers could be incentivized to meet the standards.

Easing the rollout of products does not necessarily improve the customer experience and could increase the number of products available. Therefore a root and branch review of Fares and Retail must be done and ensure that products are regularly reviewed in order to confirm if the product is still relevant to the businesses that use them.

Any proposal needs to consider the customer perspective.

Question 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?*

The TIS market will only function if there is sufficient certainty to allow investment by suppliers. This environment needs to be created by a suitable future strategy that sets out a framework in which to operate, but has sufficient flex to allow the players to innovate and develop new offerings over time.

Govia supports the Future Ticketing Strategy emerging from the Rail Delivery Group and Department for Transport and would look to this to set that framework.

The key for a vibrant TIS market is to make the customer proposition as simple as possible, there is a role for the TIS market to ensure that their products flex with the changing demands of customers and are radical in their delivery, not just replacing legacy systems like for like.

Specifically on TVM (Ticket Vending Machines) TOCs should continue to procure and utilise TVMs from different suppliers, but the industry should have agreed user interface and functionality that is available across all TOCs to provide a consistent layout for the customer. The industry and funder needs to be clear what the requirements are for TVMs (i.e. queue busting or ToD collection).

Question 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?

There is a precedent set for this in the London market (i.e. Oyster v paper ticket) of the price variation by channel; we do not believe that there would be adverse customer reaction to this if done incrementally. Any variation needs to be transparent and be able to be demonstrably linked to the cost of sale of that channel if a differential price is set.

Typically in other sectors the retailer at the point of service delivery has the cheapest price point; however, if the price of tickets were reflective of the cost of sales channel, a scenario could occur where the ticket price at a ticket office is higher than from a third party online retailer.

We would also like to see the market become flexible to allow discounting of walk up fares, taking the hotel model (supply and demand).

Chapter 4

Question 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?

Govia would support initiatives that created greater transparency in the third party retailing market, in particular ensuring that the barriers of entry are at the right level to support a healthy market.

The current governance arrangements available to the industry through the TSA, involving ATOC and the DfT should be sufficient to realise the desired outcomes; stemming any perceived and/or real problems of market dominance.

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

Govia would wish to understand further these barriers before commenting.

Question 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)?

In order to support a strong market we would support the increased scope of third parties to compete selling tickets. We would support third parties discounting their tickets, however if the third party chose to discount, they would have to take the loss.

We would support third parties' ability to sell the full range of fares, including applying discount through railcards. However season ticket should remain with the Train Operating Company due to the relationship, which then exists between the operator and the customers for that flow over the validity of that ticket (typically 1 year). TOCs are increasingly providing enhanced services to Gold Card customers, and this can only be achieved with our current legacy systems if the products are sold exclusively by the TOCs.

Chapter 5

Question 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?

TOCs have to balance competition, collaboration and co-operation.

It is evident that a clear, well articulated strategic framework for ticketing is required to ensure the market for TOCs, third parties and suppliers remains buoyant. As previously referenced we support the work of the RDG and DfT in setting out the strategic narrative for ticketing. This emerging strategy needs strong government endorsement. This in turn will provide the right environment for continuing the development of integrated national network that creates the architecture for future ticketing solutions (whatever they may be).

It is critical that ticketing policy remains technologically agnostic, thus allowing the market and the consumer determine how the future tokenisation of the retail market operates.

Question 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?

Govia would support fares reform and any further deregulation of the market. The merits of deregulation would need to support all players and not just benefit third parties.

Question 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?

Govia would support a review of the future funding models for the retail market. Potentially alternative funding mechanisms (i.e. charge per transaction) may create a democratic distribution of the cost of sale.