

Raileasy's Response To The ORR's Emerging Findings

INTRODUCTION

It was good to read in the "Rail ticket retailing: the passenger perspective" research conducted by BDRC on behalf of the ORR:

The current mix of purchase channels appears to meet the different needs of different people, indicating that the existence of a range of channels and retailers is beneficial to passengers (and therefore, that facilitating greater access for more new entrants could benefit them further).

and:

We would also suggest that, while passengers may be reasonably content with the ticket sales channels currently available to them, because passengers themselves may not (have reason to) think beyond this, consumer and regulatory organisations need to encourage innovation on their behalf.

This is another area where a "conflict of interest", as raised in the Consultation Document and reiterated in Emerging Findings, can be such a critical factor.

Having been in online travel retailing for over 20 years, we have found the problem with the Internet is it can lead travel operators to think they have that (distribution) channel "covered off" if they have a web site.

Pre the Internet, distribution was a key aspect of marketing, now it's too easy for marketers to believe that, if they have a web site, their (potential) customers will find them via Google etc so they don't need (distribution) partners. Eurostar is a fairly "close to home" example.

If you believe you have the online "channel" covered, why pay commission to partners? But it's this belief that flies in the face of those research findings above.

1) GOVERNMENT AND INDUSTRY SHOULD INTRODUCE INDEPENDENT OVERSIGHT.....

In your Emerging Findings it states under current industry practices innovation is being "stifled" and your research above suggests consumer and regulatory organisations need to look after consumers' interests in this area.

If the solution is just independent oversight, whoever fulfills that role will need to have real "clout" and, as you say, make binding rulings. ATOC often say they do not make decisions, they just act on behalf of the TOCs so rulings will need to be made binding on them.

1.1 Over the last few months we have had an example of the inherent conflict of interest referred to in the form of a decision that certainly did not help potential new entrants. This could have provided a good test case for this new "body".

In the summer there was a NRes Developer day attended by over 200 developers who were working with NRes real time data. Somebody asked a question about access to real time advance fare availability (from NRS). The NRes moderator said they did not have this available for third parties and asked how many people were interested in this. The answer was over half, i.e 100+ developers. The reason they were keen is that, by being able to display live advance fare availability, it opens up the opportunity to monetise apps by selling tickets which is likely to be really important to these type of developers.

The next day I contact NRes, explained we had this availability via our API and would they provide me with the contact details of the attendees. To date this has not been forthcoming despite repeated requests, I keep getting "fobbed off".

This is the kind of "decision" it would be good to have a quick channel to appeal through.

With access to our API who knows how many of those 100+ developers might already be well on their way to launching transactional ticketing apps that are "beyond" customers' current expectations?

1.2 In Raileasy's opinion this independent oversight/responsibility for Third Party Retailers should "reside with" franchising at the DfT. Franchising is about getting services run efficiently and maximising Govt income from premia. Once again as your research shows, existing consumers' needs could be potentially serviced better by new (Third Party) entrants and new sales channels/tools beyond people's current expectations could easily bring in new rail users, thereby reducing Govt/taxpayer input.

2) TOCS SHOULD PROVIDE FOR INCREASED TRANSPARENCY ON 3RD PARTY RETAILER COSTS

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Transparency is not the real issue, it's the costs themselves. Raileasy is really disappointed the ORR has decided not to do anything about costs and commission and urges you to reconsider and reopen this area as part of the Review. The current "industry practices" in these areas undoubtedly work against increasing the range of retailers in Raileasy's opinion. This is borne out by the fact there have been no new TPIL holders since Red Spotted Hanky launched in 2011.

2.1 The ORR itself has said the industry costs are "funded by passengers". Isn't that saying they're included in ticket prices?

2.1.1 In their PR TOCs state that 3 or 4p out of every £1 of a ticket price are taken as profit, everything else is included. Surely this also shows the cost of the industry retailing systems are included in ticket prices.

So why are they charged out again to third parties?

2.2 As stated in Emerging Findings the cost of these systems is "peanut money" in the context of the £9 billion rail industry but having 1.4% of your (5%) commission (or 28%) taken back in costs is very significant to a small retailer. It should be remembered no other travel sector charges it's distribution partners.

2.2.1 Third Party Retailers seem to pay a share of some of these system costs which is close to their share of (gross) ticket sale revenue eg 15% of the NRS cost. But Third Parties only receive 5% of that revenue. I appreciate these share figures could be being distorted by Third Parties paying on behalf of their TOC white label customers.

2.3 "One size fits" all in terms of costs & commission is not applicable in this market. There are too many fixed costs imposed, eg the £21K annual TPIL charge, the c.£30K for a data license and access to test systems, that pale into insignificance when you are selling £1billion of tickets but have a significant impact when you are only selling 2% of that. Hosting is a significant variable cost but that too reduces significantly on a per tranx basis with volume.

2.3.1 Raileasy argued this when our commission was being reduced and, contrary to what Nick Bamford said at the latest workshop, we were denied access to the Commercial Board, it was positioned as "take it or leave it (the industry)".

2.3.2 At the time Raileasy did not have its full license signed and the clause on arbitration is in that. Commission is still an issue between Raileasy and ATOC and arbitration is probably the only way to resolve it.

2.4 The 5% commission rate and TOCs not being allowed to charge fees also negatively impacts on third parties when TOCs advertise (on Google) they are inter TOC retailers as opposed to just promoting their own routes/tickets.

2.4.1 In the Consultation Document it is acknowledged the online cost of retailing is more than 5% when promotional spend is added in. Indeed it is.

On an "average" tranx of £59 with 5% commission the income is £2.95p:

"average" card fees £0.59p
ToD charge £0.45p
advertising cost per sale* £1.66p

Total = £2.70

Irrespective of any staff or general admin costs, the cost of a white label webTIS (from Atos or The Trainline) would have to be £0.25p (£2.95 income minus £2.70) for these tranx to "wash their face". In Raileasy's opinion, the actual cost is likely to be a minimum of 3 times that.

* that cost per sale is calculated from Trainsplit where there are no card or booking fees (as per TOC sites) plus there can be the cheapest prices so the conversion figure is very likely to be similar to inter TOC sales

2.4.2 Raileasy does not accept the argument a customer is being acquired for life. Customers gained through paid search are by definition "promiscuous", they shop around. Google Adwords is a direct response medium which means making profitable tranx, not hoping the customer will return. To make this exercise profitable about 75% of customers would have to repeat purchase. When Raileasy ran an analysis of its customers, the figures were round the other way, less than 25% were repeat tranx.

2.4.3 Red Spotted Hanky provides a salutary lesson to any potential new entrant. If you start up with no fees and a big marketing spend in the hope of grabbing a significant market share, there is enough customer "stickiness" (particularly with The Trainline cos of its 8 year "head start" in the market) that eventually an owner, board or shareholders will say enough is enough and call time on the losses. Then having to cut advertising and introduce/raise fees will decimate your tranx levels.

2.4.4 We modelled the equivalent of 1.5m inter TOC tranx (i.e no fees) based on Raileasy's and with advertising accounting for about 20% of sales. There were hundreds of thousands of loss making tranx. The average tranx might be £59 but the mean is a lot less which exacerbates the losses.

2.4.5 Overall TOC online retailing will be profitable when its own tickets are included. But it could be more profitable, thereby reducing retailing costs which could feed into lower fares or increased premium payments, if these tranx had to "wash their face".

2.5 One area Raileasy feels needs more transparency is the accreditation process/cost of £1K per day. We were recently quoted £10.5K to reintroduce Groupsave and, despite repeated requests for a detailed breakdown inc test scripts, no further rationale has been provided. If this quote (for a small bit of functionality) was extrapolated out to cover a full webTIS accreditation, it would be in the region of £150-200K.

2.6 If the ORR does not feel it can intervene in the market to deal with costs & commission, then maybe it should refer the issue as soon as possible to the CMA, which has greater powers, to undertake a full market investigation.

3) INDUSTRY SHOULD IDENTIFY AND ADDRESS BARRIERS SMALLER RETAILERS FACE SELLING TICKETS.....

Apologies for this but it is naive to think a cheap TIS is the solution to potentially encouraging new bricks&mortar entrants like those referred to in Emerging Findings. These type of outlets need a solution that can be integrated into their existing EPOS systems. The issue of impartiality also needs to be looked at with regard to these potential new retailers.

3.1 TOCs/ATOC/RSP don't have retailing technical solutions, they rely on third parties to provide technology.

3.2 Raileasy's API is such a technical solution, it is designed to facilitate integrating UK rail retailing into third party applications.

3.3 While the Raileasy API could work as a tech only solution, believe it or not but there are a range (in terms of size) of potential new entrants who do not want to go through a protracted negotiating process with ATOC to get a TPIL. Operating under Raileasy's license suits them better.

3.4 It gets very difficult to incentivise potential new entrants (as per your research findings) out of 5% commission.

3.4.1 As offered by The Trainline and Raileasy, 3% is what affiliates expect.

3.4.2 But industry charges account for 1.4% and card processing charges are on average 1%.

3.4.3 That adds up to 5.4% without taking a whole raft of other costs into account.

3.4.4 The result is fees have to be added but these make the newcomer uncompetitive vs TOC sites, something potential new entrants are obviously very wary of.

3.5 As mentioned above, we believe the ORR should refer this issue to the CMA to look into. Raileasy suggested in its previous submission to the Review there should be a mechanism to reward Third Party partners or "sub agents" on top of 5% commission. Or change the rules about inter TOC retailing and fees.

4) TOCs SHOULD EXPLORE THE MERITS OF MAKING ALL FARES AND PRODUCTS AVAILABLE.....

We don't think this can be left to ATOC. As happened with season tickets, ATOC runs tender processes to be able to continue to micro manage/control the market. On that note Raileasy was "marked down" (so we didn't get on the seasons trial) because we did not submit CVs. But we had been selling tickets for 6+ years and our proposed partners, Novacraft and Fast Rail Ticketing, are established, well known suppliers in the market. Novacraft are already selling ITSO compliant products.

We appreciate the seasons trial is for 1 year but the International License trial has been going on for over 5 years now. Despite repeated requests Raileasy has never succeeded in getting an International License so perhaps the ORR can ascertain when the trial is likely to be concluded and the sector opened up to other retailers. Overseas visitors would appear to be a very good source of new rail users.

4.1 The argument a company should be able to choose whom it works with is all very well in purely commercial markets but the UK rail industry is not like that, it needs Govt/taxpayer intervention. With regard season the Govt is obviously heavily subsidising the season ticket SEFT programme and Raileasy assumes it would like to see as wide distribution as possible as quickly as possible..

4.2 There are currently mixed messages coming from ATOC and the TOCs re ITX fares. ATOC who supply National ITX fares are telling us they are under review/on hold but this does not match up with what we are hearing from TOCs. These are a great product for attracting potential (large) new entrants. There are large OTAs who have their own hotel rates who can see a good margin in selling train plus hotel packages as opposed to the minimal return on selling train tickets only.

4.3 Whether it is season tickets, ITX fares, discounted fares to sell with Eurostar tickets, in Raileasy's opinion if you have a license, you should be allowed to sell the full range of products subject to accreditation.

4.4 Raileasy notes split ticketing was mentioned again in Emerging Findings. We would like to refer to the BDRC research once again which found:

.....with a strong sensitivity to price, the opportunity to sacrifice this time-flexibility for a cheaper fare is also very important.

By finding cheaper fares through split ticketing and from customer feedback, Raileasy believes it is encouraging new rail usage among those who find "conventional" fares too expensive. Split ticketing is appealing to this price sensitivity which is the most important motivating factor in this market. Users of Trainsplit are travelling for 30% less than they would have paid on The Trainline.

4.4.1 The average split tranx value is higher than Raileasy's ordinary tranx which suggests it is not (revenue) abstractive. There are big savings on first class tickets and people are clearly using splitting to trade up and thereby also possibly alleviating overcrowding in standard.

4.4.2 60% of rail journeys supposedly start or end in London. With split ticketing the figure is far less which suggests splits are being used to "build" alternative journeys that might not otherwise have been taken.

4.5 In the interests of impartiality and making sure consumers have access to the cheapest fares, we believe we should be allowed to advertise Trainsplit on the National Rail web site. Airlines currently appear on there.

5) TOCs AND INDUSTRY SHOULD CONSIDER WHETHER A 'NET PRICING' APPROACH COULD BE EXPLORED

Raileasy feels this longer term option was rather summarily dismissed at the workshop. Rather than just taking an arbitrary 7% off fares, looking into this in greater depth opens up a whole host of interesting options. We appreciate fare levels have never been in the scope of this Review but we believe there is an opportunity here to look at fares in a really radical way.

Raileasy is involved in an Innovate UK project called Fareviz. Lead by Jonathan Raper, the founder of TransportAPI and a Govt/DfT advisor on open data, this Govt (partially) funded project also includes City University with their expertise in simplifying complex data sets. One of the areas being looked at is an exploration of the real cost/km from published track access and rolling stock rental charges along with other input factors.

In Raileasy's opinion this has the potential to open up a totally new way to look at fare levels and get to a real net price so it's worth the ORR investing some time in finding out more.

For further information on any of the above, please contact George Sikking or Mike Richardson at Raileasy.