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Dear Sir/Madam

Virgin Trains (VT) welcomes the opportunity to respond to emerging findings of the ORR Retail market review. As an active member of ATOC and ATOC Commercial Board we have been party to the response prepared by ATOC and in general support the response they have provided.

We have a strong history in the development and innovation in retailing tickets across the rail industry, and see no reason why this would not continue, through our own channels, with other TOCs and with 3rd party retailers.

We are happy for this response to be made public and published on the ORR's website.

Chapter 1

***Q1:** Do you agree with our description of the features of the market for ticket selling?*

Generally we agree with the description in Chapter 1. However, it is important to make the distinction between different types of operator. The requirements of the customers of different types of TOC create tensions across the industry. The intercity customer from London-Manchester has a very different requirement to the commuter from Surbiton to Waterloo, but the need to retail and fulfil the needs of all customers' leads to inertia in the retail and ticketing development of the industry.

We agree with the ATOC position that it would be good to disaggregate the collaborative elements of the market driven by regulation and those driven by other elements.

Chapter 2

***Q2:** 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?*

As a long distance TOC we have seen a significant shift to online sales, either through our own website, through other 3rd party B2C providers such as thetrainline (ttl) or 3rd party B2B providers such as Travel Management Companies (TMCs), many of whom use self booking tools. This continues with the development of apps and mobile sites, responding directly to the customers' needs.

These changes have occurred through customer choice, and a social and cultural move towards self service bookings. It is in our interest to ensure that our products sold through our own or third party

channels are clear and transparent. We continually review and monitor the user experience on our sales channels and have recently launched a new customer facing website based on direct feedback from our customers.

It is also important to realise this is not just about retailing, but also about fulfilment of tickets. VT are in the process of extending the types of ticket which can be fulfilled as an m-ticket. For example you can now purchase anytime, off peak and advance fares between London and Manchester on our App and fulfil as an m-ticket. This has been introduced since the publication of the emerging findings, but does mean that table 4 should be updated with Virgin Trains West Coast fulfilling m-tickets on shared flows. We are also making e-tickets (print at home) a fulfilment option for TMC customers.

Chapter 3

Q3: *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?*

In general we agree with ATOC's comments that there are three key factors in innovation for new fares and products. For a long distance TOC the regulation of off peak fares and times lead to fixed steps in fares levels across the day. This creates a pseudo regulated fares ladder, where off peak advance fares are in effect regulated because they are constrained by the off peak fare above it. Similarly for the unregulated anytime fare to be attractive there needs to be a link between the regulated off peak fare and the next flexible ticket, the anytime fare. This extends the pseudo regulation across all fares in the market.

The requirement to be impartial leads to selling systems having to retail to the short and long distance market across different tocs with different fares structures. This means the display and presentation of fares on all self booking tools (Web, App, TVM) can be confusing and overly complicated.

New products are difficult to adopt when there is a significant risk to revenue and so franchise premiums, for example single leg pricing, or where the pay-back period is outwith the franchise period – for example investment in the infra-structure to allow advance purchase on the day of departure.

To resolve these issues there needs to be an industry wide review of the interaction of the franchising process, regulation and the collaboration and competition between TOCs.

Q4: *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 view the TIS market should behave in the same way as the b2c website market. There are opportunities to tailor and modify the display of fares to bring a difference which enables competition to drive consumer benefits. It would be a shame to hamper this innovation with more regulation. We do understand the economics of the TIS business, and the limited incentive for a supplier to invest in this market, and would be interested in exploring how a central innovation fund would work in this area.

Q5: *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?*

As has been shown by TFL and Oyster, differential pricing by channel does drive behaviour. For this to be beneficial then we need to be able to recoup the benefits, either from shorter opening hours at stations or to discount on channels with lower fulfilment costs. However, concerns are raised by third party retailers when TOC own websites offer online discounts on promotional fares, but do not offer these through 3rd party channels. All of this we would need to do against a background where customers find rail fares confusing and they are concerned they are not getting the best deal.

Chapter 4

In general support ATOCs response, and in particular their critique of the analysis as presented.

Q6: *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 do not see the need for an independent arbitrator overseeing the 3rd party retailer's arrangements as we believe that the TOCs and ATOC do approach the relationship in an even handed way. As such, we also do not see it as a threat, and so are comfortable with the following recommendations from ATOC.

1. The appointment of an independent member to ATOCs Customer Experience Board
2. Publication of rationale on ATOCs website
3. Provision of additional data on the ATOC websites such as RSP costs
4. Establishment of standing working groups with 3rd party retailers
5. A formal consultation on changes that affect 3rd parties
6. Regular review by an independent party.

Q7: *What are your views around the ways that industry could reduce the barriers smaller retailers face in selling rail tickets?*

Whilst we see the benefits of selling through a broader range of retailers, we do have a wide range of fares, and some of our transactions are of significant value, so this would need to be taken into consideration when looking at the role of smaller retailers.

Q8: *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 are unclear how this would work in practice. As ATOC describes this is complicated, unclear and as the Swedish example suggest, has not lead to a significant change in behaviour.

We do work on a bilateral basis with 3rd parties to offer discounted fares, promotions and incentives; on the basis they can deliver incremental revenue. These are based on our own commercial needs and we strongly believe any form of collective approach would not be suitable for this.

On occasion we offer discounted tickets through our website to gather customer information, as we believe this has a value to us as a business. If there was not the additional benefit of getting closer to our customer we would not look to offer these reduced fares and customers would pay more.

Chapter 5

Q9: *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 government with input from across industry, on future ticketing can play a role?*

TOCs do work together on shared systems – such as Lennon replacement, and the retendering of NRS. We also collaborate on National Rail Enquires (NRE) development. The ATOC response covers this more fully, but we do believe that TOCs do work well together on system developments, for the good of the customer and the industry. However, the collaborative nature does mean that these projects can be slow to progress, and overly specified, and innovation can be compromised.

Q10: *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?*

The relaxation of a fully integrated network only makes sense if it is responding to a customer demand. However, we believe that technology will give the opportunity to make pricing and modular journeys more accessible and more forms or providers of transport/hospitality more integrated -such as the current google journey planner, on virgintrains.com giving post code to postcode journey planning.

Q11: *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?*

In the development of NRE 3rd parties have been involved and have contributed fully to the process. Indeed one of the exciting costed options came directly from 3rd party engagement.

Finally, we believe the future of the third party market is healthy, and do not believe that the cost of entry will limit the number of players in the TIS market in the future. We consider that changes in technology and the development of API's which can plug into different interfaces will break down these barriers. Whilst there may be a limited number of backend systems, we believe there will be a growing number of channels where rail tickets will be sold – merging with other modes of transport, travel agents or comparison sites such as Kayak, Skyscanner, TripAdvisor and even Google. The NRE B2B experience is a great example where the industry supplies the base data and allows the market to innovate, and fully expect this model to continue across the industry.

We look forward to working with you through the next stages of this piece of work.

Yours

Ian Coles
Director of Revenue Management
Virgin Trains