

Retail Market Review – Emerging Findings

Transport Focus welcomes the opportunity to comment on the above consultation. Some of the issues have been covered in our earlier submissions to ORR so, where possible, we have refrained from repeating them again in any depth.

We have tried to address each of the consultation questions in turn but clearly there is a degree of overlap at times.

Chapter 1

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

The description bases much on the tension between the collaborative processes underpinning an integrated national network and the more competitive approach present in a traditional, commercial environment. The argument being that the former limits the potential of the latter.

However, there are two other features of the rail market that we feel should also be taken into account:

- Innovation can happen without direct competitive pressures. Perhaps the most obvious example is Transport for London and the implementation of the Oyster card and, since then, contactless bank card payments. This required vision, someone with the power to ‘make things happen’, and stability (in the sense of having time to properly plan, implement and fund the scheme). We think these can also be significant features of product innovation - it isn’t axiomatic that competition is the only way of driving innovation.
- There is increasingly less head-to-head competition in rail services. In recent years we have seen the agglomeration of franchises into larger ‘super-franchises’. Greater Western joined three separate franchises together (Great Western, Wessex and Thames Valley) while Southern, Thameslink, Great Northern and Gatwick Express are now all under the same roof. One of the main arguments for agglomeration is that it allows for better co-ordination and timetabling of services and, through that, better utilisation of capacity.

Clearly, a retail review can only really focus on the retail market rather than franchising strategy. Nonetheless, franchising does set the overall operating environment and will have a huge impact on the competitive interplay between companies. If there is a less head-to-head competition in service delivery then introducing competition in retailing is to some extent ‘swimming

against the tide' and there must be a limit to what it can achieve on its own. Any attempt to introduce more competition in retailing must therefore be seen in the light of these wider influences rather than in isolation.

Chapter 2

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?

This is an area we have covered in previous submissions.

It is difficult to refer to passengers as a single, generic group – like in most walks of life there are different groups of people with different needs and expectations. Some passengers will not feel that change is happening quickly enough – the success of Oyster in London has led to questions from some as to why it is taking so long to get smart ticketing elsewhere – while others who are more comfortable with paper tickets sold by human beings are worried about being left behind.

Our own research with passengers shows that value for money is, by a considerable margin, the highest priority for improvement¹; and that the price of the ticket is a major part in determining perceptions of value for money². So we agree with ORR that the price of tickets is an overriding concern of most passengers.

We also agree that passengers consider ticketing and fares to be complex and confusing but at the same time still want more choice. For example, our work³ shows a clear desire for flexible season tickets and carnet tickets for less frequent commuters. It could be argued that introducing even more choice into the mix would simply increase confusion. However, we do not feel that complexity and choice have to be mutually exclusive. Much more could be done by the industry to simplify information at the point of delivery – back-office systems can be as complicated as needs be as long as the passenger interface is clear.

We also accept the argument about the difficulty of predicting the future. It is hard for passengers to predict how they might buy tickets in the future - i.e. you can't know whether you'll use a new form of ticketing until someone has designed it and you've had a chance to see it. However, the success of retailing Oyster products in newsagents and the use of print-at-home tickets and App-based sales suggests that there is a market and desire for new modes and retail outlets.

¹ Rail Passengers' Priorities for Improvement. Passenger Focus. October 2014.

² Fares and Ticketing Study. Passenger Focus. 2009.

³ Smart ticketing – what rail passengers want. Passenger Focus. July 2013

The idea of selling rail products in newsagents, shops, post offices and libraries is one that has been raised on several occasions. In theory it ought to help make tickets more widely available – which has to be a positive development in terms of boosting accessibility. However, it will inevitably have an impact on complexity. It is hard to see smaller retailers being able (or willing) to sell the full range of rail products: the level of training and the IT requirements being too much. So it is perhaps more likely that such outlets will sell a cut-down range of fares, possibly for local journeys or for smart-card products. This could, in turn, require exemptions from the rules on impartial retailing. We already have a situation where TVMs cannot retail all products and this risks introducing a new tier of uncertainty and of possibly ending up with passengers paying more than the through fare if they have to rebook during the journey.

In order to help mitigate these risks and to maximise the benefits it will be vitally important that any expansion of outlets is accompanied by absolute clarity on what products can be purchased through what mode and when; and what happens if a passenger cannot get the product they want. In short, any such developments must be accompanied by a wider review of ticketing and revenue protection strategies.

Chapter 3

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?

There have undoubtedly been improvements in some aspects of ticketing – for example, mobile- ticketing, tickets-on-demand and print-at-home have created greater choice and greater access to tickets. These have been of benefit to many passengers, especially those who are more comfortable with technology. Elsewhere there also examples of innovation. The Two-Together railcard is an example of the industry pulling together while there are also examples of individual TOCs bringing new products through – for example, TransPennine Express's Club 55 offer.

However, as ORR states, it did take a long time for CrossCountry to introduce its Advance-purchase-on-the-day product and we have certainly not seen TVMs improve anywhere near as fast as we would have liked. So there are legitimate questions about the pace of change.

ORR states that it would expect competitive effects to encourage innovation in normal market conditions. This, of course, assumes that rail is a normal market. There is limited head-to-head competition at the point of delivery with many commuter routes being a virtual monopoly. This must itself dampen innovation – why, for instance, would a TOC voluntarily introduce a new discounted commuter product when the 'captive commuter' would otherwise continue to buy a more

expensive ticket? The type of market forces generated within a monopolistic market are different from those in a competitive one. It must be asked whether just relaxing the retail market alone would be enough to overcome these forces.

If the market is not strong enough on its own then it falls to government policy to either compel or to incentivise the right behaviours. Government can do this through regulation, for example fares regulation is designed to prevent abuse of the captive market; while other aspects of fares policy reflect an element of social policy - for instance in the provision of mandatory Railcard schemes for older, younger and disabled passengers.

Likewise, government can use the franchising process to change behaviours. The bid process generates intense bursts of innovation/development at the start of a 10-year franchise rather than as part of a continuous process over that 10-year period. This does affect ticketing - for example, in order to break even on new ticket machines a franchisee would look to introduce them at the beginning of a new franchise; the further into the franchise, the shorter the pay-back period and the worse the business case.

To help overcome this, government can again adopt a stick-and-carrot approach. It can compel certain ticketing initiatives through inclusion in the specification (e.g. as with smartcards); and/or the bid assessment process can reward extra 'points' to incentivise voluntary ticket developments (e.g. to introduce carnet tickets). To some extent this will depend on the market being served – the more captive the market the more specification required.

The issues we have raised above re the '10-year investment cycle' can also be overcome through the use of residual value mechanisms contained within franchises – i.e. where the costs incurred by the first franchisee can be transferred to the next franchisee. This could help encourage mid-franchise investment.

So, while franchising would certainly seem to have an impact on ticketing innovation it can also offer potential solutions to those problems.

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?

ORR's research acknowledges that passengers value inter-available tickets. We agree. Indeed, we suspect there would be strong opposition to any proposal to weaken interavailability, particularly among season ticket holders. Our own experience also shows that passengers value 'network benefits' in general, not just

inter-availability but also impartiality and the operation of national Railcard schemes. Given this it follows that we need a central mechanism to control and co-ordinate the delivery of such benefits – they will not happen organically.

There is no reason, however, why such processes cannot be improved and streamlined. Hence we would agree with ORR’s recommendation that government and the industry review these processes with a view to:

- speeding them up
- streamlining governance
- looking at voting rights
- greater use of pilot schemes.

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?

TIS machines clearly have an important role in retailing. However, from a passenger perspective the key question when it comes to design is how this information is conveyed to users. As long as this is done in a way that allows the user to make a genuine ‘informed purchase’ then, from a purely passenger view, what goes on ‘beneath the bonnet’ is of less importance.

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?

Differential pricing is common in many walks of life and to some extent consumers have become accustomed to things being cheaper if bought online. However, as ORR points out, its introduction for rail would raise issues over consumer protection. Passengers without access to the internet, those without smartphones, or simply those who require a bit more assistance/reassurance when buying tickets will find themselves potentially paying more for their tickets. This has potential to hit vulnerable passengers the hardest. It is not clear from the document how these fears will be addressed.

Its impact will, to a large extent, depend, on what type of differential pricing is applied. If we have a system which only allows the base price to be discounted – i.e. a £10 basic fare could be bought for £9 online then the main challenge is of getting the right balance between the potential cheaper fare for some versus the additional complexity/lack of access for others. We note that there are several examples where a discount such as this is offered now on internet sales.

However, if the system is one that allows the base price to increase (i.e. £9 on the internet but now £10.50 at the station) then it is a fundamentally different scenario. It is no longer just about incentivising, it is about penalising. This would look like a back-door price increase.

We are mindful that, several years ago, First Great Western increased the cost of Advance Fares by 11% and simultaneously offered a 10% reduction on such fares if booked via its website.

In either scenario we would have reservations about how the relative price-differentials would be calculated. The document makes it clear that ticket offices have a higher cost of sale than other modes so presumably they will cost more. However, this seems to treat ticket clerks solely as a retail cost and does not factor in all the additional benefits they accrue in terms of passenger security, passenger information and just all-round reassurance. It is a cost assessment rather than a cost-benefit assessment.

Nor does the cost-based approach reflect the quality of service arising from each mode. For example:

- Our research⁴ shows that ticket vending machines are at present not an adequate replacement for ticket offices. We found that passengers have difficulty with the layout of information on the screen (e.g. certain screens containing too much information, jargon that passengers do not understand); with programming issues (e.g. screens timing out while passengers are still deliberating); and with the paucity of supporting information about the times each ticket is valid or routes that can be used. To use a current-generation TVM with confidence, a passenger must already know which ticket he or she wants.
- If booking online with a view to picking up tickets from a TVM then passengers are advised that it may take up to two hours for the transaction to be processed – thus preventing the type of turn-up-and-go service available from the ticket office.

So at present we do not have a level playing field when it comes to retailing – you cannot get the same service from each mode. All of this limits the extent to which price on its own will be an effective incentive in changing modes. If I cannot buy the ticket I want, at the time I want, or there is insufficient information to allow an informed purchase, then it's not price driving my purchase decision so much as the inadequacies of the system. Can it be right, therefore, if passengers are required to

⁴ Ticket Vending Machine Usability. Passenger Focus. 2010

pay more for a ticket from a booking office simply because the alternative retail modes are not up to the job?

Without answers to some of these issues any widespread move to differential pricing represents something of a leap-in-the-dark.

Chapter 4

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?

This is an issue that we have covered in previous submissions to ORR.

We think an independent body that oversees arrangements would be a positive development as it would help address any actual or perceived conflicts. We note that the list of potential options in paragraph 4.15 includes Transport Focus. As a consumer organisation our speciality is in representing the interests of passengers – as such we are not experts in commercial/financial arrangements between suppliers. Nor would we be willing to countenance anything which risked compromising our statutory duty to act as the independent voice for passengers. Hence, we have reservations about this function. If ORR wished to pursue this then we would require safeguards about its impact on our existing functions as well as the additional costs incurred through the need to create extra capacity and new skills within the organisation.

We also agree with ORR's conclusions about increased transparency and governance arrangements. The more faith that all parties have in the system the better.

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

Making it easier and more convenient to buy tickets is clearly of benefit to passengers. TfL's use of newsagents to sell Oyster products as well as local authorities' use of travel shops and 'payzones' shows the potential of such initiatives. Likewise Community Rail Partnerships also provide a model in the way they potentially offer more freedom to create and sell local products.

As we have already mentioned, however, it is hard to see a newsagent being willing or able to offer anything other than a simple range of fares – forcing them to do so would be a clear barrier to entry. To help overcome this there would need to clarity on:

- which tickets such retailers can sell;
- where the full range of products can be purchased; and
- arrangements for dealing with any complaints – with the key question being who ‘owns’ the passenger.

Another way of reducing barriers would be to simplify the existing fare and ticketing structure. Having a simpler product (e.g. a smartcard) or moving to a single-leg pricing structure would make it easier for smaller retailers to understand (and to explain) fares and options. We set out a number of proposals to this end in our submission to the Government’s review of fares and ticketing⁵.

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 think there is a case for third-party retailers to be able to sell a wider range of products. In our earlier submission, for instance, we suggested that the season ticket market could be opened up to third parties.

The net pricing model is an interesting proposition but it is hard to assess without further information and a more precise impact assessment on passengers.

For example, which fare would be regulated, is it the overall price as now or just the wholesale price? If the latter then what is to prevent an operator adding a booking fee and increasing the retail margin and, hence, the overall price paid by passengers? In theory competition is designed to drive down costs but the example given in ‘box 7’ on Swedish railways suggests that retailers have tended to play ‘follow the leader’ rather than compete on retail margins. So what is to stop one retailer from increasing the retail cost and then everyone else following?

⁵ Passenger Focus response to the Government’s rail fares and ticketing review. 2012

This is entirely theoretical, but it does illustrate the type of issues and concerns that will need to be addressed. In short, what safeguards will be built in for passengers to ensure that such changes do not end up looking and feeling like a back-door fare increase?

Chapter 5

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 suspect there are times when TOCs have failed to collaborate or have not done so early enough. The time it took to implement Oyster on rail services in London perhaps being a prime example. Whether this is entirely due to a lack of incentives, however, is a more debatable point. In our experience the franchise life-cycle has a huge impact on a TOC's willingness to innovate and to invest. As we mention above, decisions on whether to invest in new TVMs will invariably be dependent on how many years it has left in its franchise to recoup the investment.

So while we welcome suggestions around innovation funding and the need to develop an overarching ticketing strategy it will be important that they are locked into the franchising process. This includes the specification (i.e. requiring co-operation), the bid assessment process (i.e. rewarding innovation) and provisions for residual value (i.e. encouraging and spreading investment).

Any discussions of IT systems and processes should also include journey planning software. This is integral to retailing as it determines what routes and fares you will be shown and then invited to buy. We have raised concerns at the inconsistency between the information provided by different journey planners for the same journey enquiry. For instance, we have seen the NRE journey planner offering passengers choices which are not available from some TOC websites and some third party retailers; in a number of instances passengers could pay more as a result. This leads to confusion and frustration among passengers, not least when NRE 'hands off' to a retailer whose journey planner cannot replicate the journey.

The reason given is that different journey planners use different algorithms to calculate journeys and fares. However, there is clearly something wrong when passengers can make the same enquiry on different websites and be presented with different journeys at different prices. This can result in passengers losing out or

benefitting not because of innovation or because retailers are competing but simply because they choose to use a particular journey planner. Such experiences raise questions in passengers' minds about trust and competence, as well as fuelling the sense that rail travel, and fares in particular, are complicated and that "I never get the best deal".

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?

ORR's own research shows that passengers value the concept of inter-available fares. As said in paragraph 13, "...passengers enjoy having a national, integrated network, expecting and making use of inter-available and through fares..." It is hard to see why this will change in the longer term.

The argument in the document seems to centre on the lower take up rate of inter-available / any-permitted fares on long-distance routes. There is a risk, however, that this ignores the impact of price on ticket purchasing decisions.

Long-distance Anytime fares can be extremely expensive so it is understandable if passengers opt for a cheaper TOC-specific Advance Purchase fare. It is not so much a question of passengers not wanting flexibility but of not being able to afford it.

For example, the following are the current Anytime *Single* fares for:

London-Manchester	£164.50
London-York	£112
London-Plymouth	£129.50

Moreover, such fares have increased more in real-terms than other long-distance fares⁶.

The scale of the increase means that for many long-distance passengers Advance Purchase becomes the only viable option for travelling in the peak. This must in turn have an impact on the total number of any-permitted fares that are sold. So we would be concerned if the volume of such sales was to be used as proof that passengers do not want inter-available fares.

There is also a strong argument that season ticket holders, who will often have paid thousands of pounds to the railway, deserve, and should have, flexibility. For instance, if you have paid £11,460 for an annual season ticket between Doncaster and London it would be hard to explain why you could not simply get on whichever

⁶ Index showing average change in price of rail fares 2004 – 2015. ORR Data Portal.

train comes first, whether that be Virgin East Coast, Hull or Grand Central. While this is clearly an extreme example it does illustrate the point.

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?

Our answer is similar to that for question four: the more faith that all parties have in the system the better. So we would support moves for more discussion/ interaction on the development of shared IT systems.

**Transport Focus
3rd Floor,
Fleetbank House,
2-6 Salisbury Square,
London EC4Y 8JX**

www.transportfocus.org.uk

September 2015