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20 March 2014

Dear Siobhan,

Retail market review for selling tickets – call for evidence

Please find below the response from Abellio Greater Anglia (AGA) which we hope will assist in your assessment of the market and help the ORR develop recommendations for cost-effective options.

Questions posed by the ORR

1 What additional drivers (if any) of the review should be considered?
2 What is your view on the proposed scope of the review? What, if any, additional areas should be considered? What areas, if any, should not be considered?

In terms of the drivers of the Review, like ATOC and our industry partners, we believe that the Review should be centred on the overall efficiency of the market. In practice this means that the market should be able to satisfy the largest possible amount of consumer demand, at lowest cost and to quality standards that comply, as a minimum, with consumer law and the rail industry's specific regulatory framework. This, in turn, means a market that is able to respond to changes in demand, supports innovation and choice, and is able to contain and reduce costs.

On this basis, the scope of the Review needs to be relatively wide, but also to recognise that train companies are not economic free agents in a conventional sense but operate within complex franchise agreements with government, and within a market that is highly regulated. There needs to be a mechanism that allows TOCs to take more risks to innovate, but also share in greater rewards than the standard revenue cap and collar arrangements; innovation for TOCs in revenue support will be reduced. In the case of short term franchises and Single Tender Awards, there is little incentive for investment without external government funding.

As such, we believe that the scope of the Review should specifically address the interplay between franchising policy and the efficient operation of the market, and the efficacy of the current regulatory framework in market terms. This latter point should focus on the Ticketing and Settlement Agreement (TSA) in particular, which despite persistent attempts at reform by train companies has remained substantively unchanged since 1996. The constraints that it imposes on the market are significant; the limited ability of train companies to change, reduce or remove ticket office opening hours, or to charge fees in line with other retailers are two clear market distortions that need to be considered. This also creates a cost burden which significantly undermines any business case which facilitates innovation in ticket products and retailing. Current arrangements are too focused on specifying inputs rather than outcomes such as overall customer satisfaction which may help innovation.

The ORR's introductory letter highlights ticketing as an area of interest and we believe that this may be worth considering as a specific case study in its own right. ATOC, with the support of TOCs, has argued for a fully integrated pan-industry ticketing strategy, jointly owned by government, the Department for Transport, Transport for London (TfL), TOCs/ATOC/Rail Delivery Group and 3rd party providers such as Trainline and Local Authorities as the only way of achieving change at an acceptable pace. This stems from the complexity of the retailing/ticketing landscape, where the combination of multiple players (including ticket issuing system suppliers), technology, franchising and the regulatory framework (coupled with the need to maintain common standards from a customer perspective) has led us to conclude that market change cannot be supported by single player innovation alone.

This co-ordinated and planned approach to change is at odds with the dynamic of more conventional markets but reflects the significantly more complex nature of the rail market. In our view, analysis of the relationships between innovation, investment, market change and other factors highlighted above may well provide worthwhile insights into the more general operation and efficiency of the retail market.

AGA does not believe that the existing scope of the Review, as outlined in the ORR's introductory letter should be narrowed, although we would like to better understand some elements of the Review, so that we can contribute more effectively over coming months. In particular, we do not believe that the retailing market per se constrains the creation of new products, although there are clearly issues around the extent to which innovative (or promotional) products are made available to all retailers or distributed in a more limited way to (a reflection of competition in many markets).

The rail retailing market is unusual in that collective arrangements exist for the licencing of third party retailers through ATOC. These arrangements, underpinned by the TSA, have meant that third parties have had to seek only one licence to enter the rail retailing market (rather than contract with each TOC individually), facilitating market entry and, in the context of relatively short term franchises, providing greater stability than might otherwise have existed. Nevertheless, it has placed a considerable, quasi-regulatory burden on train companies, operating through ATOC, in terms of ensuring that the market operates efficiently and fairly.

The impact of industry arrangements and practices on the products sold and how these constrain innovation

In general, current arrangements and processes for product creation are not seen as major constraints on fare types and products. AGA, for example, has introduced a three tier pricing structure by introducing Super Off-peak tickets at relatively little cost which has had the impact of creating additional revenue and shift demand away from peak times.

The main constraint producing a step change in product innovation is the capital investment available to allow new technology to be implemented. A good example of this is the use of bar code ticketing which require gates to be updated with bar code readers. Producing a business case for such changes can be challenging where the impact is a change in channel/fulfilment method rather than substantial increases in actual passenger demand. Similarly, additional demand from smartcard technology is unlikely to off-set the additional costs required in upgrading infrastructure without external funding.

Interoperability is not necessarily a constraint, but in general the 'lead' operator will dictate the maximum fare available, so this can distort what otherwise might be a free market.
Another constraint on a significant amount of innovation are general concerns regarding revenue protection. TOC environments are typically not fully gated, unlike regions such as the TfL Travelcard area.

Tocs' costs and benefits of driving demand for rail tickets

Price Benefits: Currently electronic ticketing is available for advance purchase tickets sent to mobile phones and discounts are provided for on-line purchase for certain routes.

Time Benefits: Time benefits would occur if customers no longer needed to queue for tickets at ticket offices or Ticket Vending Machines, although allowing customers to purchase tickets via mobile phone apps during their journeys would also remove the time associated with advance purchase. Time benefits are also likely at gates, with smartcards reading faster than magstripe tickets. However, greater time benefits could potentially occur in the future if gates could be removed entirely and payments made via GPS based on a customer's location.

Quality benefits**:** In addition to convenience benefits, it was noted that season ticket holders may benefit from electronic ticketing as a means of protection against lost and damaged tickets, with it easier to administer replacement tickets than is the case with paper tickets. Indeed, it was considered that take-up of electronic tickets by season ticket holders could be high, even if no other incentives were offered.

Impact on Costs**:** While it is important to ensure that payment options remain inclusive to different types of customer, AGA has already carried out work to assess the implications of changes to opening hours of all ticket offices which might require an increased number of TVMs to compensate reduction or loss of ticketing facilities.

The roll-out of an electronic ticketing scheme might reduce ticket sales to the level where TVMs could replace ticket offices, with TVM provision potentially also reduced over time. The structural constraint on ticket office closures in the TSA does, however, undermine innovation in smartcard development.

Gate costs might reduce if some gates could have the functionality required to read magstripe tickets disabled and future capital and operating costs associated with gates could reduce if magstripe readers did not need to be built in. However, if customers could pay for travel automatically via GPS based on their location, gates, and the costs associated with them, could potentially be removed altogether. Fraudulent travel could become more difficult to prevent if revenue protection staff are unable to identify origin station from an electronic ticket, but overall, it is considered that the net change will be negligible.

3 What features of the GB retail market work well? What features of the rail retail market work less well for passengers and industry?

In general, AGA believes that the rail retailing market has worked reasonably well since privatisation and the fact that our customers have benefitted from a wide range of channels from which to obtain information and purchase their rail tickets. ATOC has also commissioned research from independent consultations to investigate whether the choice is greater within the rail retailing market in Britain than in any other developed country. .

Exploitation of new technology, particularly in ticketing, is one area where progress has been significantly slower than might have been expected. Similarly the change in channel mix, whilst material, has been slower than might have been anticipated, with the regulatory framework preventing a faster and more significant shift from station ticket offices to other channels.

4 Are there examples of particularly innovative approaches from rail markets elsewhere or other sectors that could be relevant to the GB rail market?

Other railways (and TfL) have arguably been more successful in exploiting new technology than the GB rail market, although in almost all cases this at least partly stems from a significantly less complex market, with a single, dominant carrier able to introduce or impose change without the constraints that exist in Britain.

The airline market, which in some ways is similar to the rail market, is worth considering as a comparative case study; in terms of market development, commercial structures, regulatory framework and innovation.

5 What are your views on the proposed timetable and approach to the review?

The Review seems to be adopting a generally sensible and realistic approach in terms of methodology and timing, and we have no specific changes to suggest.

One point, however, that we would emphasise is the need to fully include the train operating community in the Review, on two bases: firstly through their collective involvement in the third party and more general retailing market through ATOC; and secondly (and equally, if not more, importantly) as significant retailers in their own right, with differing strategies and views on the market.

TOCs are fully involved in workshops, such as that planned for 8 May 2014 and AGA has nominated Andrew Camp (Commercial Director), Matthew Chivers (Head of Revenue) and Susan Cross (Head of Franchise Management and Development to attend.

Future engagement

We are happy to engage with the Review in whatever way is sensible and appropriate. As part of this, AGA is willing to work with ATOC to establish the collective view of train companies where it is relevant to do this.

Yours sincerely

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