



ORR's Retail Market Review industry workshop

Discussion on ORR's emerging
findings, and wider rail retail
developments

Monday 7th September 2015



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Welcome

John Larkinson

ORR

Welcome

- Welcome
- House-keeping
- Purpose and approach to today's workshop
- Agenda
- Next steps

Time	Agenda item
10.00-10.30	Registration
10.30-10.35	Welcome, John Larkinson (ORR)
10.35-10.50	Introduction, Siobhán Carty (ORR)
Discussion on nearer-term recommendations	
10.50-11.05	Overview of the nearer-term recommendations, John Larkinson (ORR)
11.05-11.45	'Response' to the nearer-term recommendations i.e. those listed on p12/13 of our consultation document <ul style="list-style-type: none"> - Jeremy Hotchkiss, DfT - Nick Bamford, ATOC - James Bain, Worldline
11.45-12.30	Group discussion on appropriateness of the nearer-term recommendations (6 mixed groups)
12.30-13.00	LUNCH
13.00 – 13.10	Summary of group discussion and next steps on nearer-term recommendations, ORR
Discussion on longer-term options	
13.10-13.30	Overview of the longer-term recommendations, John Larkinson (ORR) i.e. an outline of the options relating to <ul style="list-style-type: none"> - allowing price of fares to vary by sales channel; - net pricing (wholesale price for fares); and - relaxing the obligations on TOCs to create inter-available fares from anywhere to anywhere
13.30-14.00	Views of stakeholders regarding the longer-term options <ul style="list-style-type: none"> - David Mapp, ATOC - Mike Hewitson, Transport Focus
14.00-14.20	Open discussion
14.20-14.30	Wrap-up and close



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Introduction to the Retail Review

Siobhán Carty

ORR

Today's workshop

■ Background to the Review

- Focuses on who sells tickets, what tickets are sold, where tickets are sold, and the ticket format
- Analysis of the rules, regulations and industry practices for tickets buying to ensure they are working for passengers, taxpayers and industry.

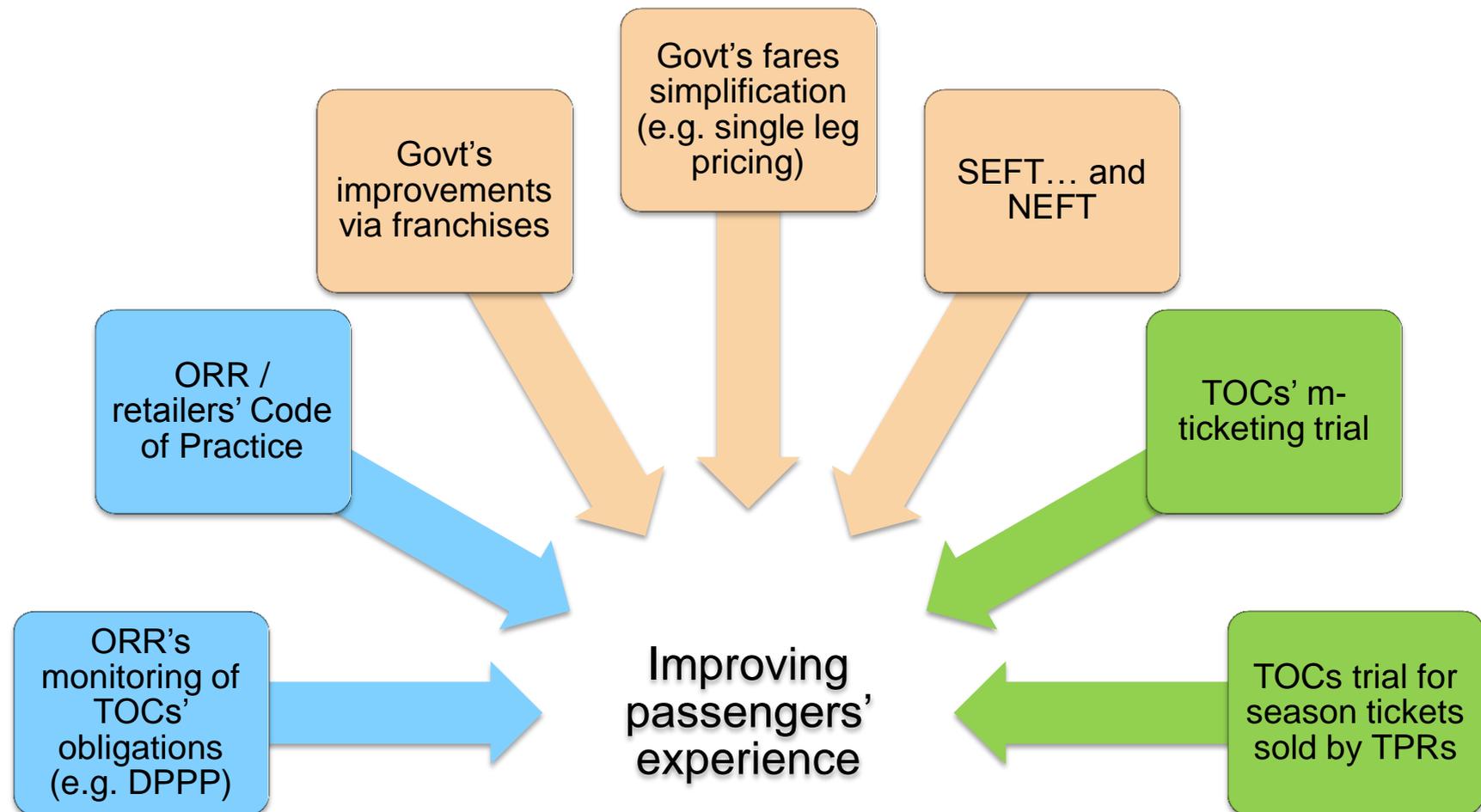
■ Approach

- Stakeholder engagement
- Comparative sector analysis (CEPA)
- Primary research into passengers' experiences (BDRC Continental)
- Call for Evidence in February 2014; Issues consultation in September 2014; and Emerging Findings / Recommendations in June 2015.



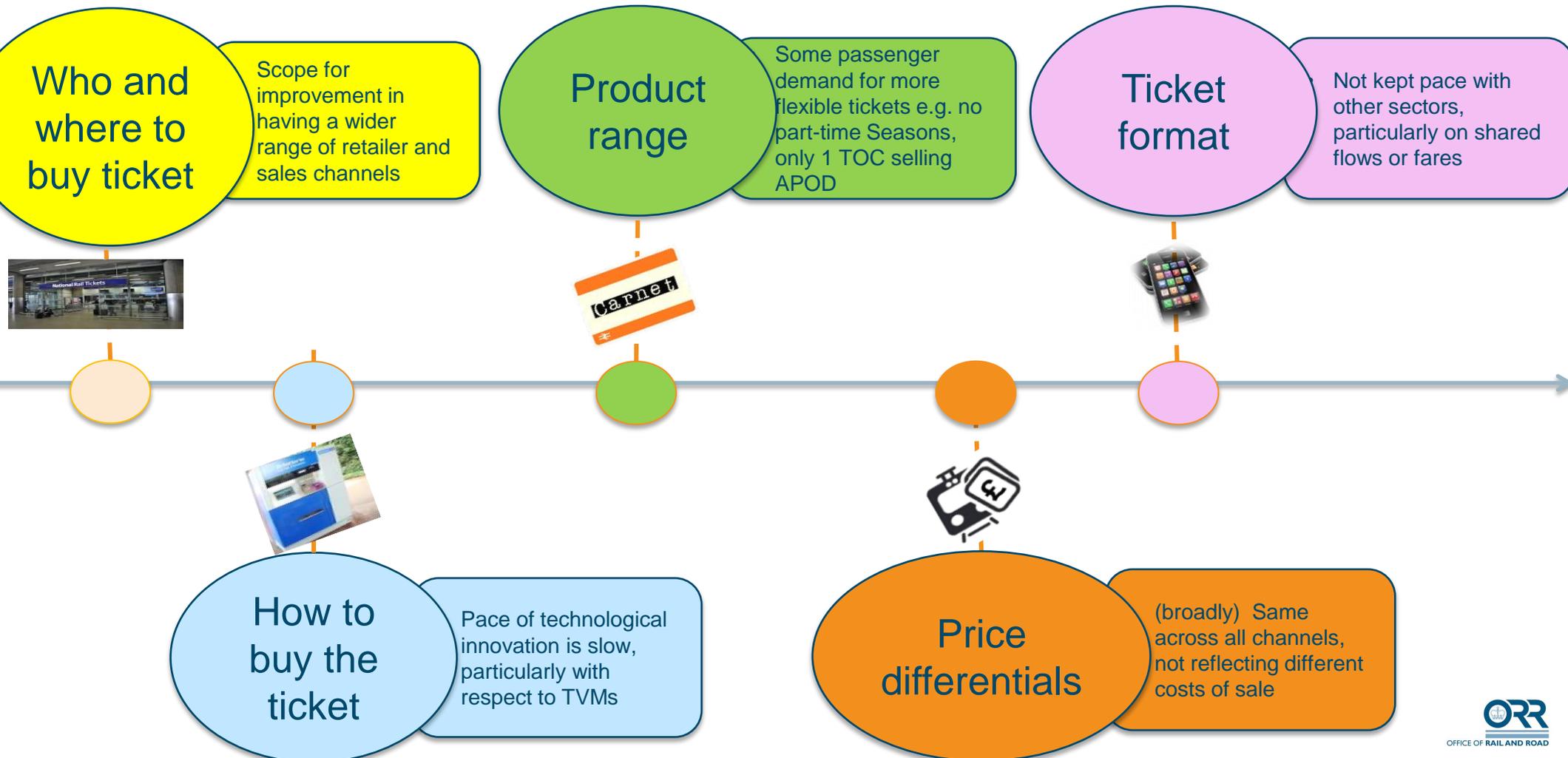
Context for the Retail Review

- The Review is part of a wider package of work to improve passengers' experience in ticketing and fares

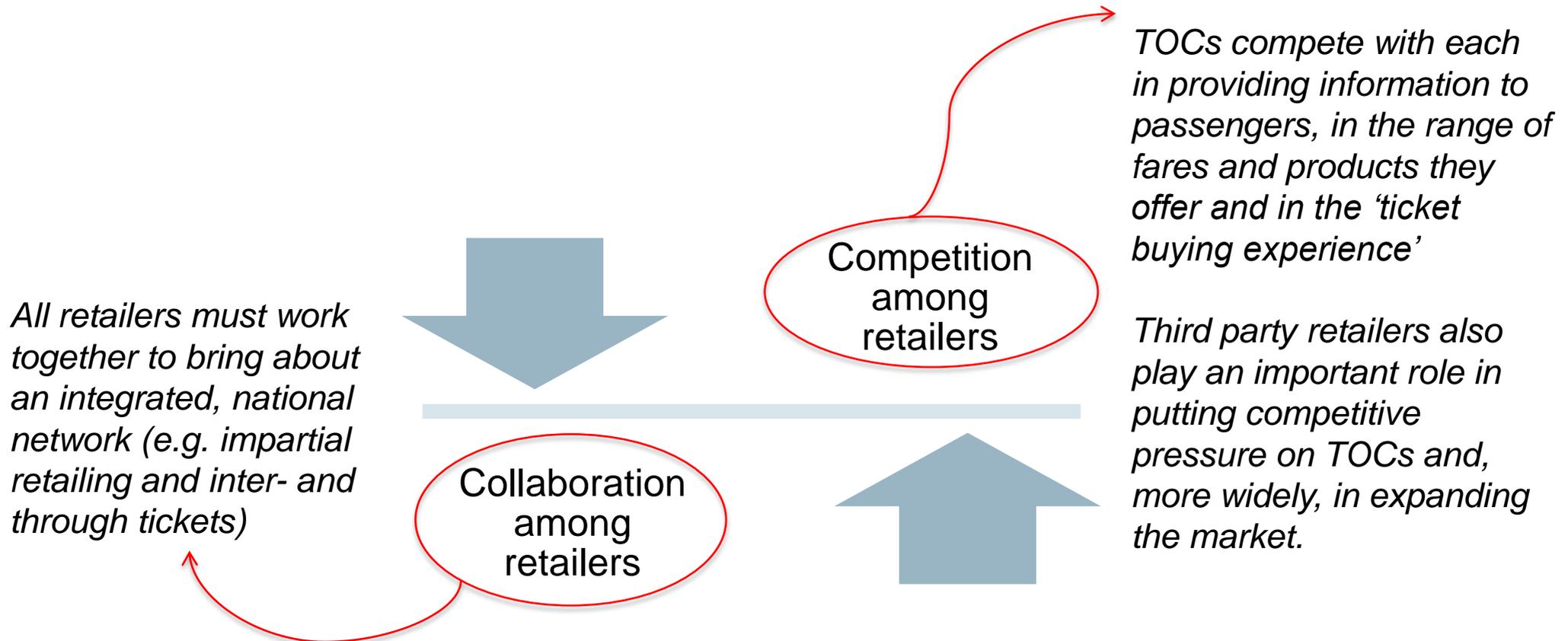


June 2015 Emerging Findings

- While the market is working well in many respects, there is room for improvement in many areas.



June 2015 Emerging Findings



- We consider that there are features of the regime that slow the pace of innovation and competition to the detriment of passengers, taxpayers and industry
- We have identified some nearer-term and longer-term recommendations to address these issues, which we are seeking your views on.



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Overview of the nearer-term recommendations

John Larkinson,
ORR

Nearer-term recommendations to improve competitive role of third party retailers

Issue

Our recommendations

TOCs set entry requirements, giving rise to (real or perceived) conflicts of interest

1

Gov'ts should introduce independent oversight of the third party retailer arrangements

- Do you agree independent oversight is required?
- What kind of oversight should there be (e.g. monitoring, appeal body)?
- Who is best placed to do it?

Costs and commission are (somewhat) unpredictable

2

TOCs should improve the transparency of the third party retailer arrangements

- Do TOCs need to be more transparent over third party retailer arrangements?
- Do you agree with our suggestions for how TOCs could be more transparent?

Smaller and/or physical non-TOC retailers aren't active in the market

3

TOCs should (continue to) explore ways to encourage smaller retailers to sell tickets

- Should expanding ticket selling to the likes of newsagents be considered?
- What is stopping this from happening?

Passengers can't buy all products from all retailers. Over longer-term, lack of access to products may encourage third party retailers to exit the market

4

TOCs should consider making all products available to other retailers

- What are the pros and cons of making all products and/or all discounted fares available?

Nearer-term recommendations to improve competition among TOCs

Issue

Our recommendations

TOCs lack incentives to introduce new products within their franchise period

1

Gov'ts should encourage TOCs to introduce products within their franchise (e.g. single leg trial)

- Is this necessary?
- How could it be done?

TOCs can use industry processes to stop (or slow the introduction of) new products

2

Gov'ts and TOCs should improve the TSA process to make it quicker and more streamlined for a TOC to introduce a new product. A change in TOC voting rights and quicker use of pilots should also be considered.

- Is this necessary?
- What are your views on our suggestion to improve the processes for introducing new products?

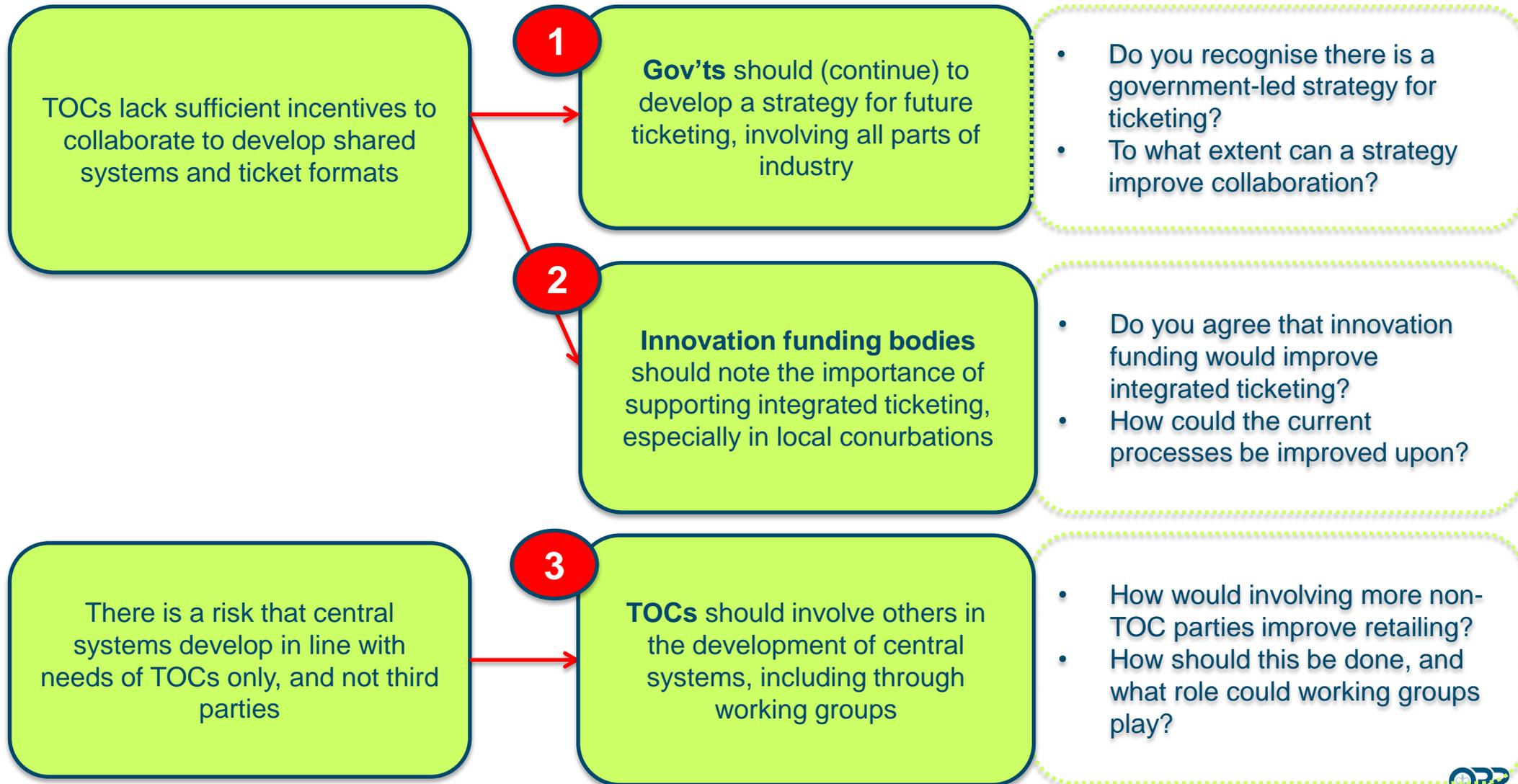
Design of IT systems may constrain TOCs' ability to differentiate ticket buying experience

3

TOCs should ensure that central IT systems enable retailers to differentiate their retail experience

- Are retailers constrained by central IT systems?
- If so, how could this be addressed?

Nearer-term recommendations to improve collaboration among all retailers



Together, these recommendations could deliver some improvements, such as...

For passengers

- ✓ More choice in where to buy tickets (and possibly what products/fares)
- ✓ Improved 'ticket buying experience'



- ✗ May not go far enough in improving retailing for passengers
- ✗ Doesn't address passengers' views on fares

For taxpayers

- ✓ Reduced burden if greater efficiencies from selling through newsagents (versus ticket offices, for example)



- ✗ May be revenue abstractive, if greater commission owed to third party retailers outweighs new, additional revenue

For industry

- ✓ Enables some scope for more competition



- ✗ Some cost in implementing changes (e.g. to the TSA, establishing working groups)
- ✗ Only formalising some of what's done, rather than providing anything new

■ Do you agree?



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‘Response’ to ORR’s nearer-term recommendations

**Stakeholders’
views**



Jeremy Hotchkiss

Deputy Director, Rail
Funding & Fares
Department for Transport



Nick Bamford

Head of Third Party
Retailing,
ATOC

Nearer term recommendations

1. Incentivising TOCs to introduce new products
2. Improving Competitive Role of Third Party Retailers
3. Addressing Barriers for Smaller Retailers
4. Making All Fares / Products Available to All Retailers

Incentivising TOCs to Introduce New Products

- We agree that TOC incentives to introduce new fares/products are limited; constrained by 3 key factors
 1. Strict financial franchise requirements (increasing premiums / decreasing subsidies) reduce scope for risk-taking innovation
 2. Complex and prescriptive regulatory framework around setting and maintenance of fares constrains TOCs' ability to introduce new fares
 3. Strong stakeholder pressure to offer consistent range of fares on national basis (leading to 2008 fares simplification)
- Innovation particularly difficult in commuter/regional markets given nature of franchises
- Given these significant structural constraints, streamlining of industry processes is only likely to deliver marginal improvements
- Greater encouragement of innovation through franchising probably more fruitful but innovation through franchise bidding vs 'in franchise' innovation needs fundamental re-thinking
- Few incentives for TVM suppliers to innovate

Improving Competitive Role of Third Party Retailers

- Although ORR has ‘not identified any obvious problems with...entry requirements’, ATOC agrees that governance arrangements could be more transparent
- Industry broadly supports (and in some cases has started to implement) proposed remedies:
 - Appointment of independent expert to Customer Experience Board
 - Publication of rationale for commercial terms (commission rates already published on atoc.org)
 - TMC-TOC working group set up in Jan 2015 to consult on and agree new commercial terms from 2016 and will continue as standing working group in future
 - Licencing and retailer set-up information published on atoc.org, as well as access to RSP standards to enable prospective retailers to quantify required development and testing work
 - ATOC would welcome periodic oversight of arrangements by an independent body (ORR strong candidate)
 - Disputes/appeals process already in third party licence and could be improved/clarified if necessary

Addressing Barriers for Smaller Retailers

- ATOC is supportive of initiative for smaller retailers to enter the market
- Depending on the type of retail activity carried out we would need to consider:
 - Whether impartial retailing requirements would need to be relaxed
 - Extent to which new ticketing technology is a cost barrier (move to digital ticketing should reduce costs)
 - Whether a new licence is required
- ATOC has entered into initial discussions with potential retailers in this sector

Making All Fares / Products Available to All Retailers

- Two issues – nationally available products and TOC products/discounts
- ATOC licence precludes very few nationally available products:
 - Season tickets
 - Staff privilege tickets
 - Disabled Person's Railcard / HM Forces Railcard
 - Eurostar interlining fares (requires Eurostar and ATOC agreement)
- Trial of season tickets sold through third parties is underway and progressing well, plan to roll out to all third parties if successful
- TOC products/discounts more complex issue with balance of arguments as consultation document acknowledges



James Bain

Director Mobility and
eTransactional Services,
Worldline

Questions on nearer-term recommendations

- Regarding the recommendations to **improve the role of third party retailer arrangements**:
 - Is independent oversight required? If so, what kind of oversight (e.g. monitoring, appeal body)? Who is best placed to do it?
 - Do TOCs need to be more transparent over the third party retailer arrangements? How?
 - Should expanding ticket selling to the likes of newsagents be considered? What is stopping this from happening?
 - What are the pros and cons of making all products and/or all discounted fares available to all retailers?
- Regarding the recommendations to **improve competition among TOCs**:
 - Should governments encourage TOCs to introduce products within their franchise period? How?
 - Should governments and TOCs change the TSA processes to make it easier for a TOC to introduce a new product? How could this be done?
 - Are retailers constrained by central IT systems in the way they tailor the ticket buying experience for passengers? If so, how could this be addressed?
- Regarding the recommendations to **improve collaboration among all parts of industry**:
 - Do you recognise there is a government-led strategy for ticketing? To what extent can a strategy improve collaboration?
 - Do you agree that innovation funding would improve integrated ticketing? How could the current processes be improved upon?
 - How would involving more non-TOC parties improve retailing? How should this be done, and what role could working groups play?
- To do you agree with our views about how, together, these recommendations improve the outcome for passengers, for taxpayers and for industry?



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Longer-term recommendations

John Larkinson,
ORR

Possible longer-term recommendations for discussion

Different prices for different sales channels

- Price of fares could vary by sale channel to reflect cost of sale

- ✓ Provide for cheaper fares?
- ✓ Encourage retailers to reduce cost of sale
- ✗ Unfair for those who can't access cheaper sales channels
- ✗ May add to complexity of fares

Net pricing

- TOC set price of its fare that excludes cost of sale
- All retailers compete on cost of sale/retail margin

- ✓ Increased scope for third parties to sell tickets
- ✓ Encourage retailers to reduce cost of sale
- ✗ Unfair for those who can't access cheaper sales channels
- ✗ Give rise to (more) complexity of fares and retail market

Remove obligation for fully inter-available tickets

- Encourage move towards zonal fares (within conurbations) and more typical market for inter-city journeys

- ✓ Mitigate need to collaborate on all flows, possibly encouraging efficiencies
- ✓ Reflects progress transport authorities making
- ✗ May add to complexity of fares, undermining network benefits



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Longer-term recommendations

Stakeholders'
views



David Mapp

Commercial Director,
ATOC / RDG

Longer term recommendations

- Allowing prices to vary by channel
- Net fares
- Relaxing regulation

Allowing price to vary by sales channel

- Already effectively happens in London with Oyster
- Attractive concept given that it would allow price to better reflect cost, and could be used to incentivise customers to use cheaper channels.
- Potentially a big prize in terms of cost reduction and more innovation
- Such commercial behaviour would be the norm in most industries
- However, in a rail context, there are issues that need to be considered, including the risk of exacerbating the perception that fares are too complex, issues associated with higher cost channels, and the third party market
- However, overall, we believe that this is a longer term idea worthy of further consideration....second favourite!
- Such further evaluation should be part of a wider review of current regulation....more later!

Net pricing – a wholesale market for fares

- This is an interesting concept and merits further consideration, but there are a number of immediately apparent issues
- Understanding better the result of net fares in the Swedish market would be a sensible next step (brief, informal feedback already received from SJ was mixed)
- Clearly there are a number of issues that would need to be addressed, including (again) the issue of fares complexity given that fares could vary by channel AND retailer
- The appropriate level of the base price needs thought (short run marginal costs in rail are very low, although this is probably a red herring)
- Mark-ups are likely to be a contentious area – third parties will potentially contend that TOC mark-ups are too low and TOCs will argue that as carriers they have a particularly strong interest in ‘owning the customer’, meaning that it is commercially rational to offer low mark-ups
-and the idea of a fixed TOC mark-up is likely to be contentious as well!
- The ability of industry systems to support such an approach needs evaluation as do the implications for impartial retailing – likely development of price comparison sites
- Finally, according to the consultation document in Sweden it hasn’t led to much variation in price, so would it be worth the effort?
- Overall, worth further consideration but an each-way bet at best

Relaxing regulation

- The regulatory framework is far reaching and poorly understood:
 - inter-availability
 - through fares
 - price capping
 - fares setting
 - impartiality
 - station ticket offices....etc!
- It has hardly changed since privatisation, in some areas reasonably so, but there is a strong case for wide- ranging review (we've been making the case for a long time)!
- However, any review needs to have clarity around the desired market model and some specific objectives
- Market model – where do we want competition and where do we want collaboration, and how less, more or different regulation support the desired model?
- Objectives – simpler fares for customers, faster pace of innovation/change and lower industry costs as starters for ten
- Not clear that this necessarily unlocks the door to multiple industry systems or that such an outcome is beneficial (multiple reservation systems?)
- However, we strongly support a wide-ranging review (with a lot of ideas and a fairly open mind)
- If done properly, this is the odds-on favourite in terms of delivering long term benefits!

Thank you



Mike Hewitson

Head of Policy and Issues,
Transport Focus

Longer-Term Options

Allowing price of fares to vary by sales channel

Getting the Balance Right



Cheaper fares for some.

Expectation.

Additional complexity.

Vulnerable passengers.

- How do you calculate the differential?
- Level playing field: will price alone change purchase decisions?

Longer-Term Options

Net Pricing (wholesale prices)

- Impact on fares regulation: what 'bit' is regulated?
- If the retail element is unregulated could passengers end up paying more overall?
- What safeguards will exist?
- Will it actually make any difference?

Longer-Term Options

Relaxing obligations on inter-availability

- Passengers like inter-availability.
Paragraph 13 of the consultation, “...passengers enjoy having a national, integrated network, expecting and making use of inter-available and through fares...”
- Why would this view change in the longer term?

Open discussion: Questions on longer-term recommendations

- Regarding differential pricing by sales channels,
 - What would the impact be on passengers, on taxpayers and on industry?
 - What would the impact be on the price of fares?
 - How could this be implemented, and what issues would need to be considered?

- What views have you regarding the other options
 - Net pricing; and
 - A move towards more zonal fares / ticketing, including by relaxing TOCs' obligation to create inter-available 'anywhere to anywhere' fares

Conclusions

- Immediate next steps
 - Consultation responses accepted up to Monday 21 September
 - Continue to welcome 1-2-1 engagement

- Subject to stakeholders' views and next steps with TOCs, governments etc, we will explore the merits of securing an action plan to bring about required changes.