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Office of Rail And Road Consultation on the Retail Review Emerging Findings

Dear Ms. Carty,

I am pleased to write on behalf of Keolis UK in reply to your consultation document dated June 2015, and subsequent workshop. Keolis is happy for this response to be made public.

We would like to thank ORR for initiating this consultation, would welcome any questions arising from our response and look forward to continuing engagement with you on the issues raised.

Yours Sincerely,



Ruud Haket  
Chief Operating Officer

Question 1:

We broadly agree with the description of the features of the market for selling rail tickets. However, as in our response to the previous consultation, we highlight the role of Schedule 17 of the TSA in constraining TOCs' ability to respond fully to the changing market for rail tickets. This represents a largely fixed cost for TOCs, that reduces the business case for innovation through other channels. Transport for London (TfL) is not under a similar constraint and as part of a retailing and customer service modernisation project has been able to successfully implement a ticket office closure programme.

Question 2:

We agree with the majority of the findings about passengers' buying experiences. We believe that more could have been achieved if TOCs had more flexibility to adjust ticket office opening hours and a more centralised approach to systems had been taken.

Passenger numbers have grown significantly in recent years, and all of this growth has been absorbed by the growth of self-service channels, with massive growth in TVM and on-line sales. ATOC has been successful in opening the retail market to more third parties, through the development of a new licence. New entrants such as Raileasy and Worldline, amongst others have been attracted to the on-line market, though Trainline remains the dominant player. There is still more to do in this area, and we would like to see more major players enter the on-line market.

We agree that TVM retailing needs to be improved, and TOCs are currently implementing a range of changes to make it better. It is important, however to recognise, that with further developments in technology and the agreement of a multi-stakeholder ticketing strategy, TVMs are likely to become obsolete within the next 10 years.

We are surprised that there is no reference in the findings to the RDG Long Term Rail Industry Ticket Strategy. We agree that innovation in this area has been slow and that the absence of an agreed industry strategy, supported by the DfT and ORR is one of the factors which has held back development.

We agree that there may be markets for new products that are currently untapped. We keep these opportunities under constant review, and where they have positive business cases look to introduce them in the franchises we operate. There is a balance between complexity and ease of communicating the range, and TOCs collaborate in the way fares are communicated.

Question 3:

The report correctly identifies that the franchising process sets the agenda to a large degree, and that franchise specifications often include requirements to introduce new products. However, we believe that TOCs are incentivised to introduce new products, and there are plenty of examples of TOC innovation in this area. However, TOCs will only do this where there is the likelihood that this can be done profitably. Whilst there may be a demand for new types of products, if these are not likely to be profitable, then they will not be introduced. The examples of possible innovations in the report are carnet tickets and part-time season tickets. Carnet tickets have been tried by various operators, but it is not

clear that there is a big enough market for them to make them worthwhile. It is also not clear that part-time season tickets would be revenue generative, given the likelihood of some of the demand for the product coming from passengers trading down from longer duration seasons. We are always looking to innovate, in our franchise bids but also in the day to day operation of the TOCs in which we have an interest. The degree of regulation imposed by the TSA imposes a significant restriction on the ability of TOCs to innovate with new products, and some reduction in this would be beneficial.

There may be some benefit in improving the process for product creation, however we believe that the franchising process and regulation are bigger drivers of innovation.

#### Question 4:

We would like to see more companies active in the TIS market, with most of the innovation taking place in the market for web based ticketing. Static or falling ticket office sales and the likely longer term obsolescence of TVMs mean that innovation here is much lower. Our view is that the development and agreement of a long term ticketing strategy would give the TIS market much greater certainty, and enable longer term investment to flow into development of new technology and potentially attract new entrants into the market.

#### Question 5:

We would like to be able to vary prices by channel, enabling us to recognise differences in the cost of sale of different channels. We acknowledge that a potential downside of this approach is that customers may see this as increasing complexity and that the outcome would likely be that ticket office retailing becomes the most expensive channel. This is, however, the norm in other sectors and indeed some overseas railways, such as Netherlands Railways already do this. It would incentivise further investment in the development of lower cost retailing channels, but would need to be considered alongside the current regulation of ticket office opening hours.

At present there is a degree of price differentiation, in the on-line market where third party agents are able to add fees to the ticket price. We would like to see TOCs allowed to do add these fees if they choose. ATOC has consistently argued for TOCs to be allowed to charge fees if they wish.

#### Question 6:

We believe the expansion in third party retail sales over the last ten years is a success story and speaks for itself. In the on-line market ATOC has developed a new type of licence and successfully attracted new entrants. This is, however, a work in progress and we expect further new entrants. It is in the interest of TOCs to maximise their distribution to maximise the number of passengers they carry. We disagree with the report's conclusion that there has not been significant new entry. We believe that a lot has been achieved in recent years, but that there is significant scope for further growth.

There is clearly a perception amongst some third party retailers that there is a conflict of interest between the TOCs as retailers and their control of the entry requirements of third party retailers. TOCs primary role is as carriers rather than

retailers, so we don't believe that they behave in a way which restricts entry. However, given the concerns, we would suggest that ORR takes an oversight role in this area, to give all parties confidence that the market is being managed in an equitable way.

**Question 7:**

We support the view that the retailing market could be opened up to smaller retailers and that this could potentially grow the market for rail travel. Given that these retailers would be selling fewer tickets than a typical existing third party agent, it will be necessary to develop a new type of third party offer. This would need to consider limiting the product range, removing the requirement to retail impartially and reducing TIS costs. We understand that ATOC are already examining the opportunities in this area.

**Question 8:**

Our view is that all retailers should have access to all products. The main exception to date has been that third party retailers have not been allowed to sell season tickets. This is being addressed through an ATOC led trial at present and should be rolled out to other retailers if successful. Other products that third parties cannot currently sell are small in terms of value and therefore we do not consider this to be a material issue.

The idea of net pricing is interesting, however we have significant concerns about practical implications of implementing it. Given the ongoing concerns about the complexity of ticketing, it is hard to see how this could be implemented without significantly increasing this. We understand that where it has been introduced on Swedish Railways, the results have been mixed.

**Question 9:**

We don't agree that TOCs have limited incentives to collaborate in the development of shared systems, although recognise that gaining agreement for these developments can take too long.

TOCs have shared key systems such as those for settlement, product creation and seat reservations since privatisation. These systems have been developed and renewed and RSP is currently engaged in a major modernisation programme designed to bring these systems up to date.

We like the idea of directing innovation funding to customer experience enhancements.

As mentioned earlier, a long term strategy for ticketing is already well developed and will provide much greater certainty. Any strategy in the area of systems collaboration should be owned by the industry as a whole, rather than be government led.

**Question 10:**

We are in favour of a more general review of regulation, that considers what purpose each element of the current regime serves and whether it is still of value, given the objectives of industry stakeholders. Much of the current regulation dates from the time of privatisation, since when the market has changed significantly.

Elements of regulation such as commuter fares capping has a clear economic rationale, but other elements do not. The network has retained a high degree of integration and we believe that passengers value this. The requirement to create interavailable fares could possibly be relaxed in the longer distance market where there is often significant competition from other modes and the market is very responsive to price. However, we are concerned that this may create more complexity and confuse passengers.

**Question 11:**

Our experience is that ATOC already involves third parties in the development of systems. There is no doubt that this could probably be improved and we are open to suggestions about how this could be done.