Monitoring Update Report

ORR Market Study into Automatic Ticket Gates and Ticket Vending Machines

07 October 2021

Contents

Market Study Update

Summary

This update follows up on our previous communications following our 2019 market study[1] into automatic ticket gates ("**ATG**s") and ticket vending machines ("**TVM**s"). This paper further delivers on our commitment to participate in the industry working group on ATGs, to consider the progress in developing a solution to improve access to the TfL network and to monitor RDG's commitments on accreditation. We pledged to review the progress of the industry working group on ATGs two years after formation, the details of which are summarised in this report.

In July and August 2021, we conducted several interviews with stakeholders to monitor progress against the recommendations previously outlined and assess the current health of the market. Following this further engagement with industry, we consider that worthy progress has been made in generating and improving competition and innovation, although challenges remain, particularly in the ATG market. The rail reform process presents a renewed opportunity for collaboration by both government and industry stakeholders to address the challenges identified.

Industry led efforts to address barriers to entry have been reinvigorated. We have identified a significant opportunity in an upcoming procurement process planned by TfL for the supply and maintenance of ATGs to address the interoperability challenges highlighted previously. We will continue to monitor progress against the delivery of these recommendations.

2019 Findings and Recommendations

1 In 2019, in our market study, we found that competition for the supply of ATGs is weak. Market concentration is high in relation to both metro and mainline services. We found that the largest player, Cubic Transportation Systems Limited ("Cubic"), had an approximate share of 97% of all ATGs currently installed on GB rail networks.

2 For TVMs, our analysis of the number of installed machines and the market shares of suppliers also pointed to a very concentrated market, although reviews of

[1] https://orr.gov.uk/__data/assets/pdf_file/0020/40628/market-study-into-the-supply-of-ticket-machines-and-ticket-gates-2019-final-report.pdf

competitions showed moderate levels of competition with at least five suppliers participating in the market.

3 We set out three recommendations in our final report to tackle the challenges highlighted above.

These were:

(i) **Improved access to Transport for London (TfL) network.** We recommended that TfL, industry and alternative ATG suppliers (such as those currently active in other countries) work together to develop both short term and longer-term solutions to provide 'interoperable' access to TfL systems for third parties.

(ii) **Industry working group on Automatic Ticket Gates (ATGs).** We recommended that RDG facilitate an industry working group dedicated to considering issues regarding ATG procurement, interoperability and options for consolidating procurement.

(iii) **RDG accreditation.** RDG provided nine commitments to significantly improve and simplify their procedures for accrediting new and innovative retail products (including TVMs). We recommended that RDG continues to deliver its commitments and to report progress on their work and its impact on the market.

Implementation

Industry Engagement

TfL and the Interface Challenge

4 Interoperability with ATGs and the TfL back-office network is critical in opening up the market for ticket gates to greater competition.

5 In our previous engagement on this issue, market participants told us that they were encouraged that TfL was open to finding a solution to the issue of interoperability and were receptive to engaging with alternative suppliers in addressing this significant barrier to entry. There is, however, scope for further progress in this space.

6 Cubic remains the only supplier which has the capability to interface with the TfL network, imposing a significant barrier to other suppliers in providing ticket gates for London terminus stations and within the London fare zone. This was found to influence the procurement decisions to the large number of TOCs which serve the London area, in part owing to the additional complexities of maintaining ticket gate products from multiple suppliers.

7 TfL is currently undertaking early market engagement ahead of commencing a procurement exercise for its revenue collection contract, which includes the maintenance and supply of its ticket gate network. TfL has a significant opportunity for interfaces to its ticketing network to be opened up by the setting of contract specifications through this upcoming procurement exercise.

8 Our 2019 review confirmed that creating these interfaces should be technically possible. However, there would be an associated relatively modest cost of such development work. It is in the interest of TfL and the industry as a whole if these costs could be met to promote a more competitive market for ATGs.

9 We consider that although some progress has been made since the publication of the market study, there remains potential for TfL to cooperate further with the wider industry, including through the industry working group, to stimulate greater competition in the market for ATGs. Future meetings of the industry working group provide a significant opportunity for TfL to continue to work collaboratively with the rest of the railway industry to address these challenges.

10 ORR will continue to engage with TfL as it conducts its procurement process to promote outcomes which address this significant barrier to entry which prevails in the market for ATGs.

Mainline GB Network

11 Conversations with industry further highlight how the lack of an open interface with the TfL network remains a significant barrier to entry, making it more difficult for TOCs which operate to, or within, the London fare zone to procure ticket gates from alternative suppliers.

12 A conversation with a TOC which uses ticket gates from one alternative supplier indicated high satisfaction with the product offered by them. They also communicated the view that the largest player Cubic enjoys a great degree of customer inertia, in part caused by the technical challenges relating to interfacing.

13 Separately, concerns have been raised that Cubic's actions and the commercial terms which it has offered to support the roll out of pay-as-you-go ticketing may be hindering implementation by TOCs. This process requires software and configuration changes to installed gates and is therefore reliant on ticket gate supplier cooperation.

14 We will continue to engage with industry to be satisfied that no exploitative practice is taking place and we will act if appropriate to promote good market outcomes.

Industry Working Group on ATGs

15 An industry led working group was established in 2019 with senior level representation from key stakeholders. The working group met twice in June and September 2019. No further meetings were held during 2020, as the industry responded to the impacts of the coronavirus pandemic. ORR pledged to review progress of this group after 2 years to consider what progress had been made.

16 We conducted this review of progress by engaging with past participants in early Summer 2021. In September 2021, we reinvigorated the industry working group to discuss opportunities to address the outstanding challenges identified in the market study. The rail reform process has resulted in a significantly altered context for this work. Therefore, a renewed opportunity presents for stakeholders to jointly approach opportunities to address competition challenges, considering the shared fiscal challenge faced by industry.

17 A meeting of stakeholders, facilitated by ORR, including representatives from TfL, DfT, Network Rail, RDG and First Group took place on 10 September 2021**.** The

meeting demonstrated significant enthusiasm from all parties to address the competition challenges identified which are linked to broader issues relating to ticketing technology.

18 The initial meeting established consensus for industry to continue to work together on these issues whilst the rail reform process is in progress, including how the challenge of developing open interfaces with the TfL ticketing network could be addressed. A further meeting took place on 24 September 2021 which identified a significant opportunity for further cooperation between industry stakeholders in pursuit of this objective. We strongly endorse plans for the group to further engage with TfL to assess the opportunity for progress and seeking to take an industry wide approach to develop standardised and open interfaces.

19 We believe that supporting industry collaboration through the industry working group provides a significant opportunity to address the challenges identified. Specifically, creating open interfaces to the TfL network would address a significant barrier to entry in the market for automatic ticket gates. We will continue to support industry-wide efforts and monitor progress in this area.

RDG Accreditation

20 The 2019 report highlighted that the RDG accreditation process was a key barrier for the creation of new rail retail systems.

21 Significant progress has since been made to address this challenge and ensure that the accreditation process for new retail products balances the objectives of ensuring accurate revenue allocation whilst stimulating market entry and innovation. RDG provided an update letter to ORR in September 2019 on progress made to simplify the accreditation process for third party retailers and retail system suppliers.

22 We have monitored the delivery of progress against the objectives which were agreed to simplify the accreditation process. We stand by previous comments in the 2019 update paper that prospective rail retailers and Ticket Issuing System[2] ("**TIS**") suppliers find it easier to enter the market due to increased assistance available from RDG, and clearer information available from RDG's website.

23 RDG provided a further update to ORR in September 2021 in an open letter outlining further action taken against its commitments. We judge that useful progress has

[2] Ticket Issuing System is a broad term describing (typically) software that is, in essence, the 'brain' of a sales system. It interacts with RDG software and systems, to power a consumer facing retail channel e.g. a website or a TVM.

been made to reduce the barrier to entry which accreditation previously presented. This letter has been published and accompanies this report (see Annex 1).

24 We will continue to engage market participants and we will observe developments with the RDG accreditation process as part of our ongoing monitoring activity of the retail market.

Information Relating to Market Size

25 In 2020, ORR was approached by a perspective new entrant to the ATG market for information relating to the size of the market. ORR conducted some market research and provided a summary of the size of the market for ticket gates, with a breakdown of information by location being provided.

26 We have now published[3] this information to make it available to all interested parties, which is intended to help support investment decisions which may support entry into the market. We are aware that there are limitations in this dataset and continue to assure ourselves of its accuracy. We maintain that there remains a significant opportunity for entry by new suppliers.

27 We will continue to engage with current and aspirant suppliers to ensure information is readily available to support investment cases and we will consider the use of further information remedies.

[3] https://dataportal.orr.gov.uk/media/1996/ad-hoc-number-of-automatic-ticket-installed-at-each-station-in-great-britain-march-2019.ods

Next Steps

30 We will continue to engage closely with industry and government stakeholders to monitor progress towards the delivery of our recommendations and developments in competition in these markets.

31 As the industry is undergoing a period of significant reform, we believe it is important for us to continue to monitor developments in the market for ticket gates and ticket machines. We expect to see continued progress in the development of open interfaces through the industry working group with the purpose of securing long-term competitive outcomes in this area.

31 We will continue to take any concerns about poor competitive market outcomes seriously and we will act in accordance with our powers. We propose to provide a further update to our monitoring activity in one year.

This publication is available at orr.gov.uk

Any enquiries regarding this publication should be sent to us at orr.gov.uk/contact-us