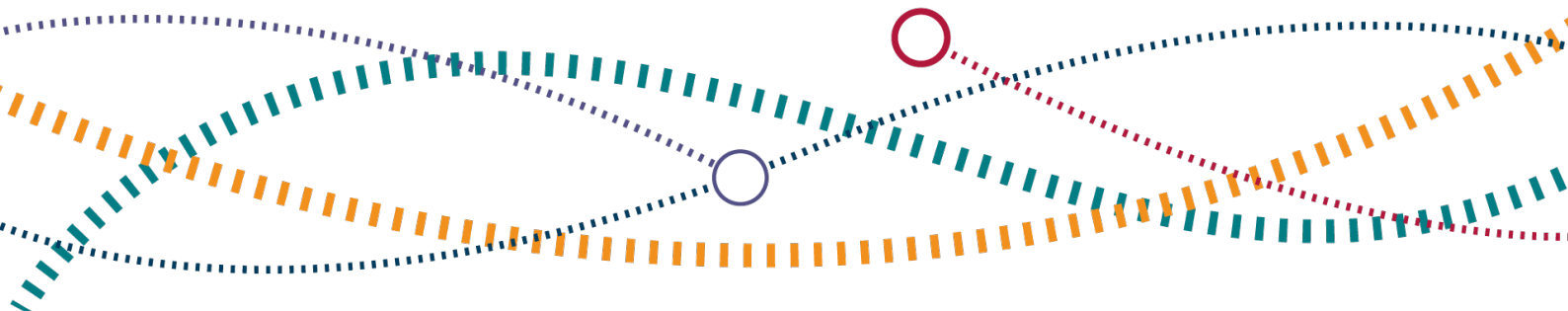




# Railway station catering market study

Interim report

12 December 2023



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# Executive summary

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1. This interim report contains our emerging findings on the functioning of the railway station catering market; our decision and reasons for not referring this market to the Competition and Markets Authority (CMA) and our proposed approach to address the concerns we have identified.
2. Our aim with this market study is to evaluate the effectiveness of competition in station catering and, in particular, whether the market is delivering value for money for passengers and taxpayers. The evidence we have gathered is consistent with a reasonable suspicion that the market may not be functioning as effectively as it could be. However, we do not have the clear evidence of widespread harm that would, on its own, make a case for the strongest forms of intervention.
3. We consider that the most appropriate and proportionate approach would be for us to address the problems identified in our capacity as sectoral regulator. Therefore, we have decided not to refer this market to the CMA.
4. This interim report concludes the first of the two phases of our market study. The second and final phase will focus on developing a package of remedies to address the issues identified.

## Emerging findings

5. Station catering is the main type of retail outlet in railway stations. Station catering retailers earned total revenue of around £700m in 2022/23. Station operators (Network Rail and train operators combined) earned a little over £100m in rental income from leasing outlets for catering services in 2022/23.
6. Catering companies pay rent to station operators for the occupation of retail outlets. Catering companies typically pay a fixed rent together with a variable turnover percentage. All but one group of train operating companies (TOCs) use a third party (agent) to act as an intermediary with catering companies and to manage their commercial estate. The roles of these agents vary, but they can be highly influential in the selection of catering companies to rent outlets.
7. There are many brands active in the market, ranging from well-known national brands to independents and Small and Medium Enterprises (SMEs). The largest single player in station catering is Select Service Partners (SSP). SSP is an aggregator specialising in acquiring retail space in transport locations which it fills

with a mixture of its own proprietary and franchised brands. SSP's share of all outlets is larger than that of the next six largest players combined. Costa Coffee and WH Smith are the next largest players in the provision of railway station catering.

### How competition is working

8. We have looked at the strength of competition to occupy station outlets between would-be catering tenants in existing station outlets. Our emerging findings point towards a lack of effective competition in the occupation of station outlets. We have found that the recent rate of competitive tendering at lease expiry is very low. Lack of competition at lease expiry may be resulting in station operators foregoing income from rents.
9. There are several factors that limit the potential for head-to-head competition at stations. Almost half (47%) of the stations with a catering offering have only one outlet with a number of commercial imperatives including limited space and footfall. Catering companies with a national presence tend to practice national pricing, with no station specific discounts or variations in offering.

### Outcomes for passengers and taxpayers

10. Historic surveys point towards station catering as an area of low satisfaction for passengers, but also relatively low priority compared to other aspects of their journey such as punctuality. We conducted an analysis of online reviews which also suggested lower satisfaction ratings for catering in stations compared with the high street.
11. Set against this, the results of a mystery shopping exercise which we commissioned did not find that the customer experience of rail station catering compared unfavourably with the high street or indeed with similar offerings at transport hubs in other modes, i.e. airports and motorways.
12. The prices paid by customers at stations can be higher than the high-street equivalent. This price premium can vary considerably by retailer, but an approximate estimate of the average price premium is in the region of 10%. The reasons for higher prices at stations may include higher costs. We found that some companies which have both a high street and railway station presence moderate their prices at stations because of reputational considerations. Our mystery shopping exercise suggested that retail prices in stations are lower than equivalent prices at motorway service stations or airports.
13. Our study focused on both the passenger and taxpayer value for money perspectives. There may be a trade-off between the interests of passengers and

taxpayers in this market when profits earned by catering companies are passed through to station operators in the form of rent. The greater the rent earned by station operators, the lower the subsidy they require. However, we found evidence to suggest that aspects of the current model may be placing downward pressure on the rents paid by catering companies, thereby placing upward pressure on the need for taxpayer contribution to the costs of running the railway.

## Barriers to competition

14. We considered a range of evidence on the factors which can prevent catering companies who are active in the market, or future new entrants, from competing to occupy station catering outlets.
15. Some of the barriers which we identified relate primarily to opening or occupying new outlets. Such activity is limited by the space at stations, both in terms of surface available and the constraints of operating in stations; and by station footfall, which remains below pre-pandemic levels. Our emerging finding is that such barriers are unlikely to be addressable in a proportionate fashion by regulatory intervention.
16. Our emerging findings focus more on barriers which primarily impact competition to occupy existing outlets. We have considered whether such barriers can be lowered with an appropriate regulatory intervention.
17. Some 24% of station outlets are currently covered by 'protected' leases formed under the Landlord and Tenant Act 1954 (the 1954 Act). Such leases provide security of tenure for the tenants, meaning an automatic renewal of leases on similar lease terms (subject to rent reviews). There are grounds of opposition which enable the landlord to terminate leases formed under the 1954 Act, but station operators told us that protected leases are difficult to contest because the circumstances necessary to use these grounds arise infrequently and the process is or can become very costly.
18. Absent intervention, our understanding is that the rate of natural attrition of protected leases will likely be minimal, thereby precluding competition for many of these outlets for the foreseeable future.
19. We have also found a number of issues resulting from the commercial incentives faced by station operators, which in turn have a bearing on their approach to managing stations. We have found that the selection process of catering companies has recently rarely taken the form of an open competition. We have found that the most common practice is to propose a lease renewal or an extension of the lease to the incumbent catering company. It means that when opportunities to compete for outlets at stations do arise, catering companies have very little chance to either be

informed of the opportunity or to compete for them. These issues are fundamental to competition in this market.

## Proposed actions

20. We have been exploring possible actions, but we are not introducing specific interventions at this stage of the review. This will be part of our work in the second and final phase of our study. For now, we propose to start working in three areas as summarised below:
- **Highlight the negative impact on competition of protected leases** in the context of station catering and to call for change. Relevant to this objective is that the Law Commission has started a [review](#) of the legal framework of protected leases. We intend to participate in this review in order to address the competitive effects from protected leases in railway stations.
  - Explore the scope for recommendations that enhance the **incentives of station operators** to make the most of their station catering proposition. Our aim will be to promote practices whereby station operators and catering companies share a common interest in delivering quality services and attracting passengers, as well as fully leveraging the revenue potential of this sector for taxpayers.
  - Engage with public funders of the railway to encourage a greater focus on the retail offer, optimise revenue, and better align with passenger needs.

## Next steps

21. Building on the issues described above and in this report, we will continue the market study and publish our final report by 15 June 2024 in accordance with our statutory timetable. The next phase of the study after this interim report will focus on developing a package of remedies to address the issues identified. We will continue to engage with stakeholders as we do so.
22. We invite comments on our emerging findings and our proposed actions set out in this report by close on Friday 26 January 2024.

# 1. Introduction

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- 1.1 In this section, we provide context to the market study, summarise the evidence gathering we have conducted so far and explain the purpose and structure of this interim report.

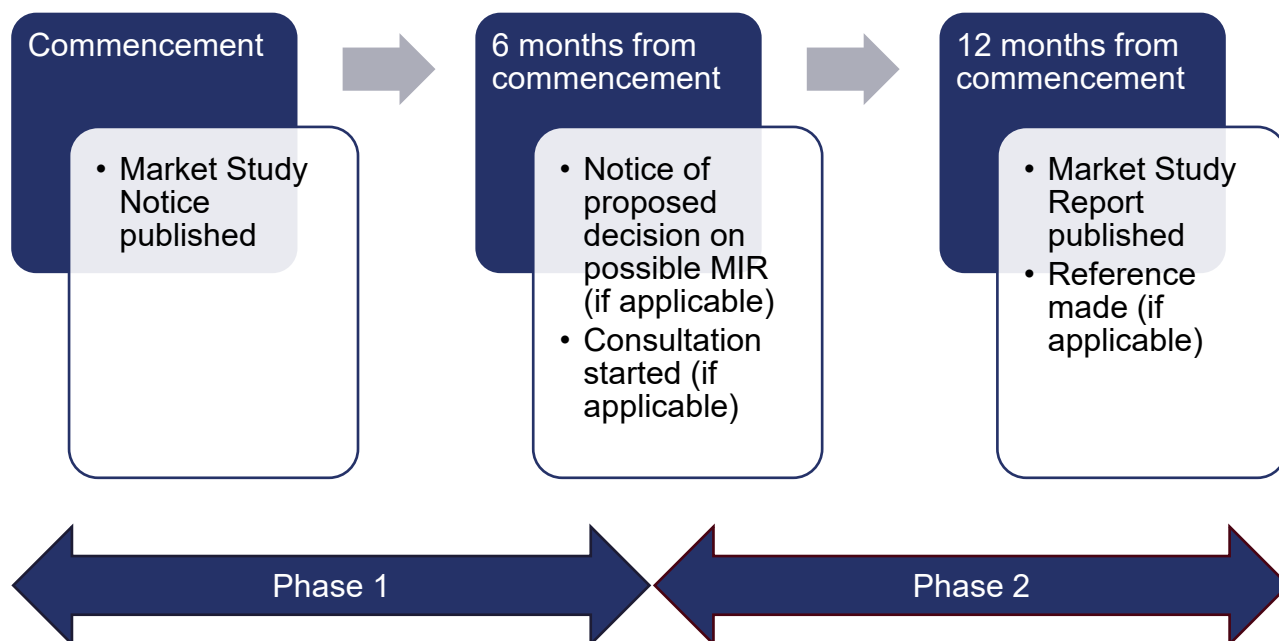
## Context

### Purpose and process of market studies

- 1.2 On 16<sup>th</sup> June 2023 we launched a market study into railway station catering under section 130A of the Enterprise Act 2002 (the Enterprise Act). Market studies are formal examinations into whether particular markets may not be working well and, if found not to be working well, where necessary, how the causes may be best addressed. One such means is a reference of the market to the CMA to conduct a market investigation.
- 1.3 Market studies are conducted under our general function to keep under review the provision of railway services, in accordance with the legal test set out at section 130A of the Enterprise Act as applied by section 67(2C) of the Railways Act 1993. In the course of market studies, we may utilise formal investigation powers in order to gather evidence from relevant parties.
- 1.4 A market study has two phases. Phase 1 commences through the publication of a market study notice and consists of the collection and analysis of information from market participants. Six months from commencement, we must publish the notice of our proposed decision regarding a possible Market Investigation Reference (MIR) to the CMA. This concludes phase 1. This interim report is published the same day as the notice of our proposed decision. It contains the rationale for this proposed decision, and it marks the commencement of phase 2 which consists of further analysis and the development of remedies. We must publish a final report of the market study within 12 months from commencement.



Figure 1.1 The phases of a market study



## Issues to investigate

1.5 The publication of the Market Study Notice on the 16<sup>th</sup> June 2023 was accompanied by a Statement of Scope which summarised the concerns that led us to prioritise the study of this market. It also described the boundaries of the market study. Our initial concerns related to a series of issues as summarised below:

- From a **passenger perspective**: We observed that prices for station catering are often higher than on the high street. Historic evidence suggests that satisfaction with the station catering offer is low in some instances. We also observed that there may be issues around underinvestment in catering outlets at stations.
- From a **retail business perspective**: We noted a high degree of concentration and low degree of churn amongst catering outlets at stations, and potential difficulties for new companies to enter the market.
- From a **station operators' perspective**: We observed the potential barriers to improving the retail offering at stations.
- From a **taxpayers' perspective**: Where station operators are unable to get better terms from their tenancy agreements, this challenges their ability to

maximise commercial revenues from catering operation in their stations. Stations are directly or indirectly subsidised by public funding but revenues from commercial activities could to a reasonable extent minimise public funding.

- 1.6 Launching a formal market study enabled us to use formal information gathering powers to collect evidence from market participants, thereby developing a stronger understanding of this market.

### Scope of the market study

- 1.7 The scope of our study encompasses all 'ready-to-eat' food and beverage sold at railway stations, which we refer to as simply 'station catering'. This is by a distance the largest category of retail at stations, and the area in which our initial research suggested the greatest harm may occur. Suppliers that provide station catering alongside other products (for example newspapers or groceries) are also in scope. On-Board catering and vending machines were excluded from scope though we used them as comparators.
- 1.8 Geographically, our market study covers the supply of catering services in railway stations in the whole of Great Britain. Within scope are all mainline stations operated by either Network Rail or Train Operating Companies (TOCs). This scope encompasses stations in Scotland operated by ScotRail and by Network Rail, and stations in Wales operated by Transport for Wales (TfW). This scope covers the majority of mainline stations. It does not cover stations operated by Transport for London (TfL).

### Evidence gathering

- 1.9 During phase 1 of the study, our main activity was to gather information using our powers (where necessary) and to analyse it. We are grateful to all parties who have engaged with the study and helped us make substantial progress over the last six months. We will continue to engage with stakeholders and, where appropriate, conduct further evidence gathering during phase 2 of the study. This section describes the tools we used to gather information.

### Call for inputs

- 1.10 When we launched the market study in June 2023, we published our [Statement of Scope](#) and we invited consumers, businesses and other interested parties to send us their views of the market by responding to the consultation questions.

- 1.11 We received 14 submissions from a wide range of respondents: consulting firms, law firms, vending machine companies, potential and new entrants in the market, catering companies active in the market, firms having exited the market and members of the public.
- 1.12 These responses have given us valuable insights on a range of aspects, such as the challenges of operating retail outlets in railway stations and obstacles to entering the market. Evidence drawn from these responses will be used throughout this report. This report will also respond to the comments we received on our choice of scope for the market study. We do not intend to publish these submissions.
- 1.13 We formally launched this study via a published [Market Study Notice](#). This Notice invited parties to send us their representations if they considered the market should be referred to the Competition and Markets Authority (CMA) for a market investigation. No such representations were received.

### Requests for information

- 1.14 Following the publication of our Statement of Scope, we sent over 30 requests for information (RFIs) to interested parties. We contacted Network Rail in its capacity of station operator (for its managed stations) and superior landlord of most mainline stations; and all the TOCs or their owning groups in their capacity as station operators. We also sent RFIs to public funders of the railway (Department for Transport and Transport Scotland), to the Rail Delivery Group (RDG) and Great British Railway Transition Team (GBRTT) as well as to 10 catering companies present at stations.

### The information we collected

- 1.15 The information we requested through RFIs included:
- Details of the retailers occupying units at each station
  - Rental income and retail revenue for each outlet
  - Examples of leases, lease terms and lease start/finish dates
  - Descriptions of the roles of the various parties involved in the tenancy process and the processes used.

### Accuracy and consistency of data

- 1.16 Most respondents provided complete responses including all of the information we requested. Some respondents provided incomplete datasets or data in a format

that was not readily accessible. And there were some inconsistencies in the data provided between respondents – for example some respondents included data on retail units that are out of scope of our study and units that are vacant.

- 1.17 As a result, we have in some cases relied on estimates to replace incomplete data. We are aware of the possibility for variations in statistical estimates, however, our sensitivity analysis indicates that these inconsistencies do not materially change the conclusions we have drawn.

### Interviews

- 1.18 We conducted 14 interviews with market participants. Some were with catering companies (would-be entrants and new entrants in the market). A significant number of interviews were conducted with entities outside the scope of the market study, but which we used as comparators. Within the rail industry these organisations included Transport for London (TfL) and High Speed 1 (HS1). We also engaged with the property agents working for station operators, and with companies offering airport, vending machine, on-board services and motorway catering services.

### Web scrape

- 1.19 We carried out a web scraping exercise, comparing Google Maps reviews of outlets at all GB railway stations against high street comparators.

### Mystery shopper exercise

- 1.20 We commissioned Mystery Shoppers Ltd (MSL) to carry out a mystery shopper exercise to investigate the extent to which passengers using stations are getting a 'fair deal' – in terms of prices, quality and overall experience. This exercise compared station catering against comparable activities taking place at other locations within GB, namely the high street, motorway service stations, and airports.

### Site visits

- 1.21 We visited eight different stations of various sizes across Great Britain. Two of the visits were led by the leading catering company in the market. Six visits were led by one of Network Rail, HS1, or the TOC responsible for managing the station. Site visits were valuable evidence gathering exercises especially so as to better understand the operating environment, including the available space and access, 'backstage' arrangements and facilities at stations.

## Regulators

1.22 Since launch, we have continued to engage with CMA as we have progressed our work and will continue to do so during phase 2 of the study. We have also engaged with the Civil Aviation Authority to discuss the similarities and differences in the supply of catering services at airports compared to train stations.

## Structure

1.23 This interim report is structured as follows:

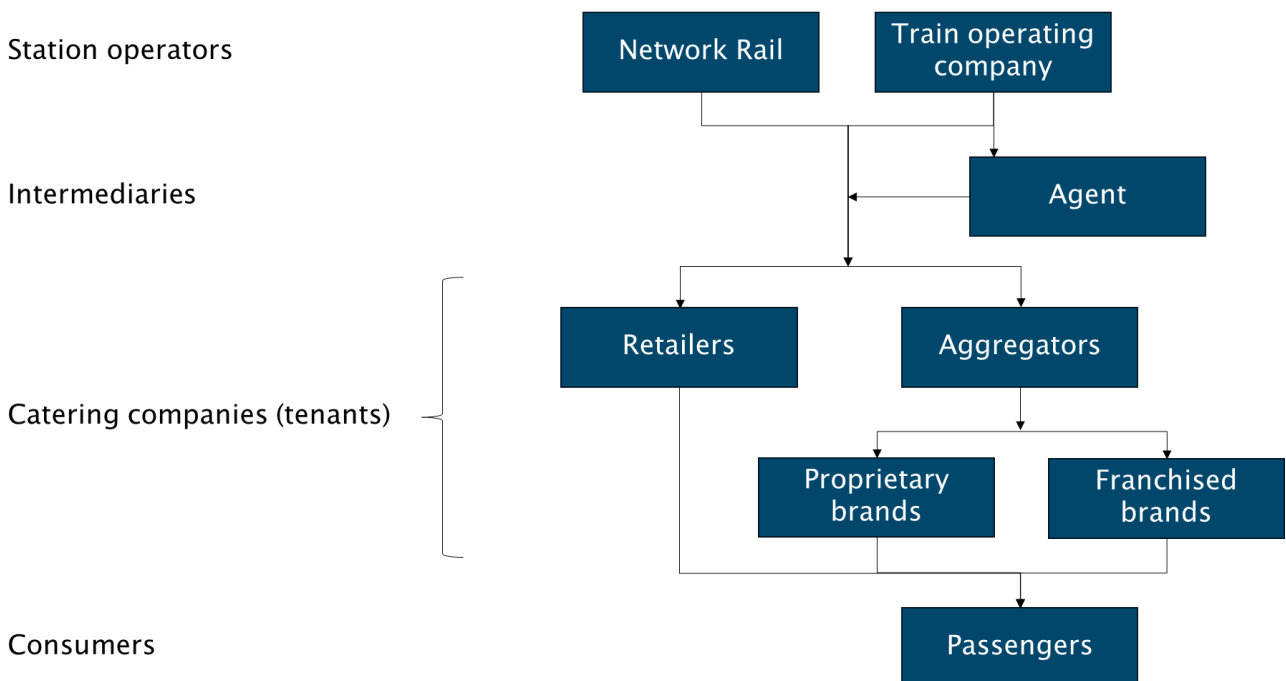
- Chapter 2 describes the structure of the market, how the market functions; who are the main players and their relationships.
- Chapter 3 summarises our findings on the current state of competition in the market, highlighting our concerns about where it is weak.
- Chapter 4 covers the outcomes of the state of competition for passengers and taxpayers.
- Chapter 5 identifies features of the market which we believe are barriers to competition for catering outlets at stations.
- Chapter 6 sets out our decision on making a market investigation reference to the CMA.
- Chapter 7 sets out our proposed actions following our decision not to make a market investigation reference.

## 2. How the market functions

### Overview

- 2.1 In total 2,367 rail stations fall within the scope of this study. Nearly all of these stations are owned by Network Rail and operated by TOCs via leasehold agreements between them. The 20 stations that are operated by Network Rail are among the largest on the mainline railway both in terms of size and footfall. Where stations are operated by TOCs, Network Rail remains the superior landlord and therefore is involved in decisions affecting the fabric and appearance of station buildings such as renovating or modifying retail units.
- 2.2 Figure 2.1 below shows the players in the station catering market and the value chain. SSP is the biggest aggregator offering proprietary brands such as Upper Crust and Café Ritazza and franchised brands such as Starbucks and Burger King. WH Smith and Costa Coffee are some of the most commonly found retailers away from the aggregator model.

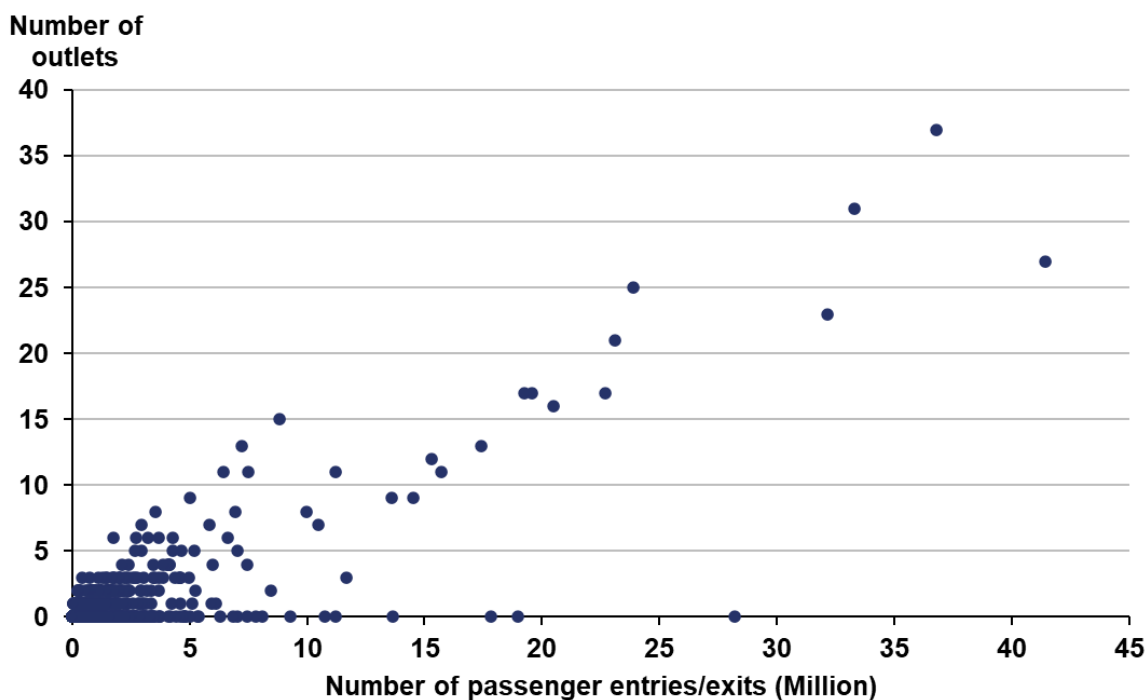
**Figure 2.1 Overview of the key groups of players and transactions in this market**



- 2.3 The majority of mainline stations (around 80% of the total) do not have any station catering services. Such stations typically lack sufficient footfall to support a viable business, or are physically constrained in terms of space and/or access to essential services.

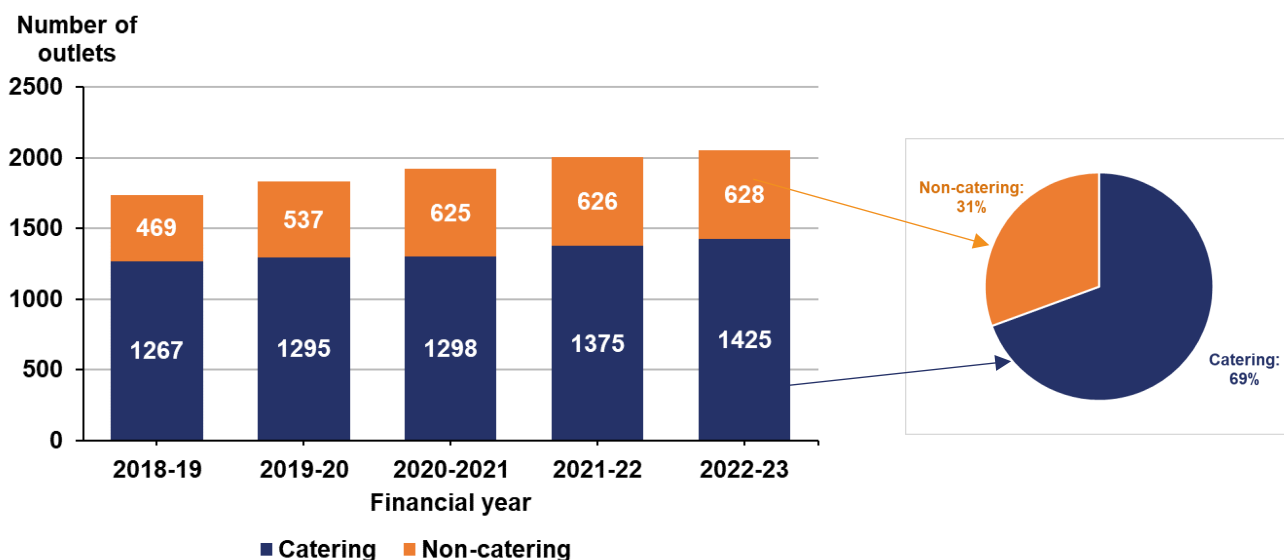
2.4 There is, as expected, a relationship between station size and the number of catering outlets, with the largest stations tending to have the most catering outlets. Figure 2.2 below summarises this relationship based on station footfall (combined entries and exits by station) data correct for the year 2021/22 together with data on catering outlets provided to us by station operators.

**Figure 2.2 Correlation between the size of stations (by ticket gate entry/exits) and the number of catering outlets**



2.5 Station catering is the predominant type of retail outlet in stations with around 69% of all station retail units providing station catering.

**Figure 2.3 Breakdown of catering vs non-catering retail outlets at stations**



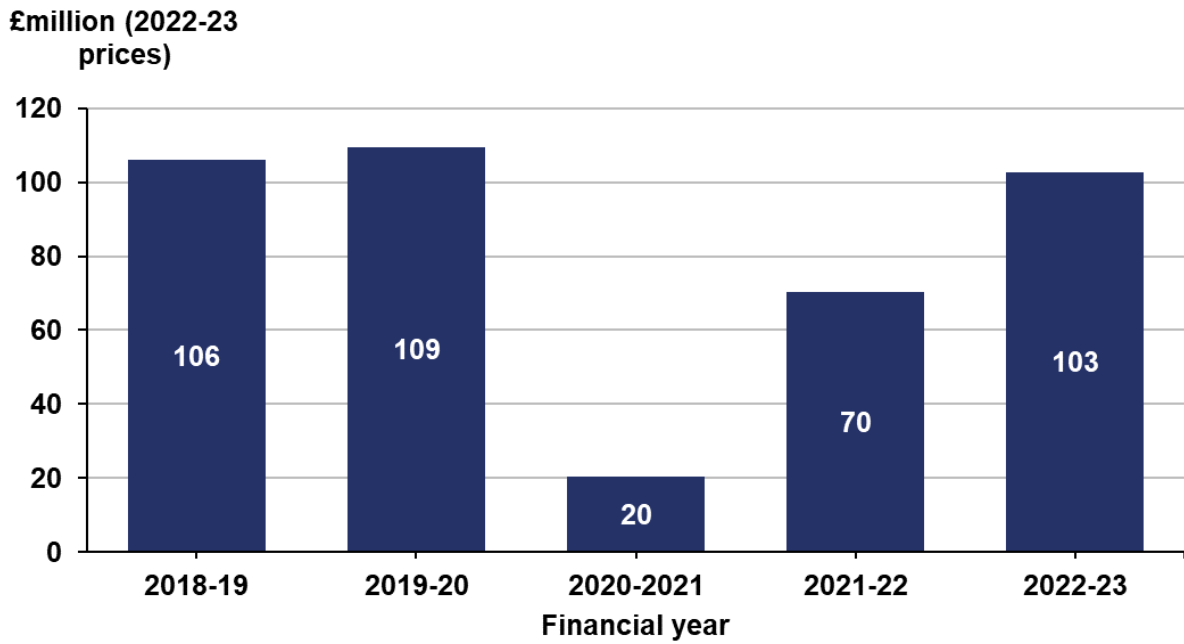
2.6 Suppliers are awarded leases by the station operator permitting them to occupy retail units and to access facilities such as loading areas and utilities in stations. Leases vary in length and terms though most leases are awarded for a six year term.

2.7 Network Rail is the owner and therefore superior landlord for stations operated by TOCs. Leases for units are tri-partite between Network Rail, the train operating company and retailers (who are the end leaseholders). Network Rail must agree to new leases between the station managing TOCs and the retailers as well as to any material changes to the station which has in the past included moving till points or erecting new signage. Station operators and suppliers told us this can be an excessively costly and time-consuming process which smaller businesses require specialist help to get through. Property leasing is also common practice in retail space in the high street.

2.8 As shown in Figure 2.4 below we estimate that station operators earned a little over £100m in rental income from leaseholders in 2022/23. This total shows a significant recovery from the lows of the pandemic but remains, pending further recovery, down from pre-pandemic levels in inflation unadjusted terms (we comment more fully on the impact of the pandemic later in this chapter).

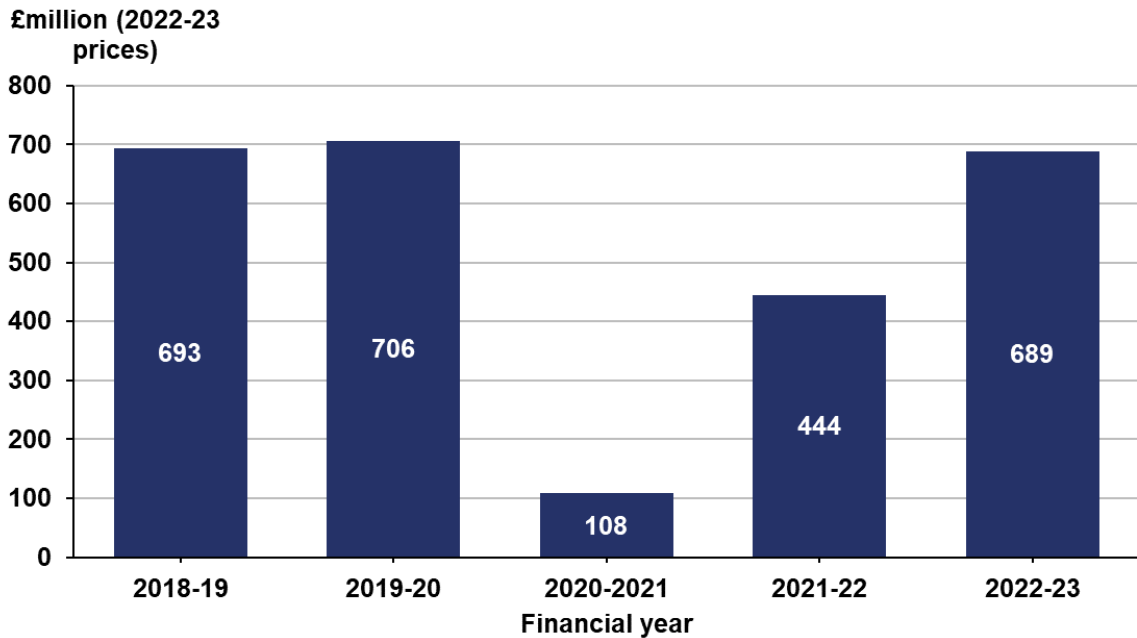


**Figure 2.4** Estimated rental revenue (in £million, 2022-23 prices) earned by station operators between 2018-19 and 2022-23.



2.9 We used the same dataset and estimation methods to arrive at an estimate of total customer spend on station catering of £678m in 2022/23.

**Figure 2.5** Estimated retail revenue (in £million, 2022-23 prices) earned by station catering outlets between 2018-19 and 2022-23.



## Station operators' objectives from station catering

- 2.10 The station operators we engaged with typically characterised station catering as a relatively small part of their business' focus, relative to train operations. It is typically only a relatively small commercial team within the head office which manages station retail whilst staff at stations are more or less entirely operationally focused. However, station operators also clearly understood that station catering was valued by passengers. One long-distance TOC told us that a 2022 survey revealed that around 80% of its passengers consume food and drink at the station or on the train, and of these passengers around 70% purchase at the station or on the train.
- 2.11 All station operators have described a change in priorities for the use of space in stations, including before the pandemic but particularly afterwards. Many operators describe a general decline in interest in the Confectionary, Tobacco and News (CTN) category due to consumers' changing habits. Since the pandemic there has also been a decline in some catering categories as a result of the change in station user demographic from predominantly commuter to leisure. Many station operators told us they were looking to diversify their offering to include more community services.

### The role of agents

- 2.12 All but one group of TOCs use a third party property management company to manage their estate. There are three agents active in the market: Amey TPT, Lambert Smith Hampton and (Abellio) Advance Ventures. The largest agent manages around a third of stations on behalf of seven operating companies.
- 2.13 Agents' roles vary somewhat across operating companies but all operators who use agents use them to manage the day-to-day oversight of the estate and relationship with tenants and superior landlords. They also provide expert advice on retail design, accounting/credit control and tenancy agreements. Agents are not responsible for making decisions about the choice of suppliers; this is the preserve of the station manager, but they do play a highly influential role by identifying consumer demand and finding, evaluating and recommending suppliers.

### How suppliers are appointed

- 2.14 There are broadly three situations that could trigger the appointment of a new supplier or reappointment of an existing supplier. These are:

- Renewal/replacement of a protected lease
- Renewal/replacement of an unprotected lease
- A new lease for an empty or new retail unit

2.15 Leaseholders with protected leases benefit from the right to automatically renew the lease on the same or similar terms. These units therefore rarely become available and station operators have very limited opportunity to appoint a new supplier. The choice of retail offering is largely the preserve of the leaseholder.

2.16 For the remaining outlets that are not protected there are broadly two approaches station operators use to select suppliers:

- By far the most common approach, which is used by all but one group of operators, is for the station operator (or its agent where applicable) to approach suppliers it perceives best fit consumer demand. Operators/agents may invite several suppliers to tender or a single supplier if they have a strong preference. Agents are awarded fees for finding, negotiating with and completing contracts with suppliers.
- One group of operators, which does not use an agent, tenders more openly using a commercial property letting agency which charges a fixed fee to advertise vacant units. Although the operator may tender for a specific type of supplier, for example if a unit is fitted out for or lends itself to a specific use, the opportunity is open to any compatible supplier to apply. The operator reports receiving very high levels of interest from a broad range of suppliers from major high street brands to independents.

2.17 Most operators and agents appear to prioritise retailer types according to their understanding of consumer demand. Station catering is typically prioritised above other types of retail as it is perceived to be in greatest demand, therefore smaller stations with limited outlets are more likely to have only ready-to-eat food and drink offerings. The amount of analysis carried out to determine consumer demand varies. Some operators/agents use large scale passenger survey information to develop passenger 'personas' and surveys of the local area.

2.18 Network Rail supplied us with what it termed a 'full tender' version of a recent Invitation to Tender pack for one of its catering outlets. Under a full tender, Network Rail appoints catering companies based on a weighted average scoring system, encompassing a range of elements as listed below:

- Financial – Network Rail asks would-be tenants to make a financial proposal, incorporating a minimum guaranteed rent and a turnover contribution:
- Non-financial – this element includes:
  - Store design;
  - Product and service;
  - Team and operations;
  - Marketing/promotion; and
  - Sustainability and safety.

2.19 TOC station operators told us that, when they tender competitively, they adopt similar approaches, albeit in a proportionate, sometimes less formal, fashion in the case of smaller outlets.

## Catering companies

2.20 Across the economy as a whole there are many brands active in catering markets, ranging from well-known high street brands to independents and SMEs. The brands that are active in travel markets are typically found in railway stations and also at hubs for other transport modes including motorway service stations and airports.

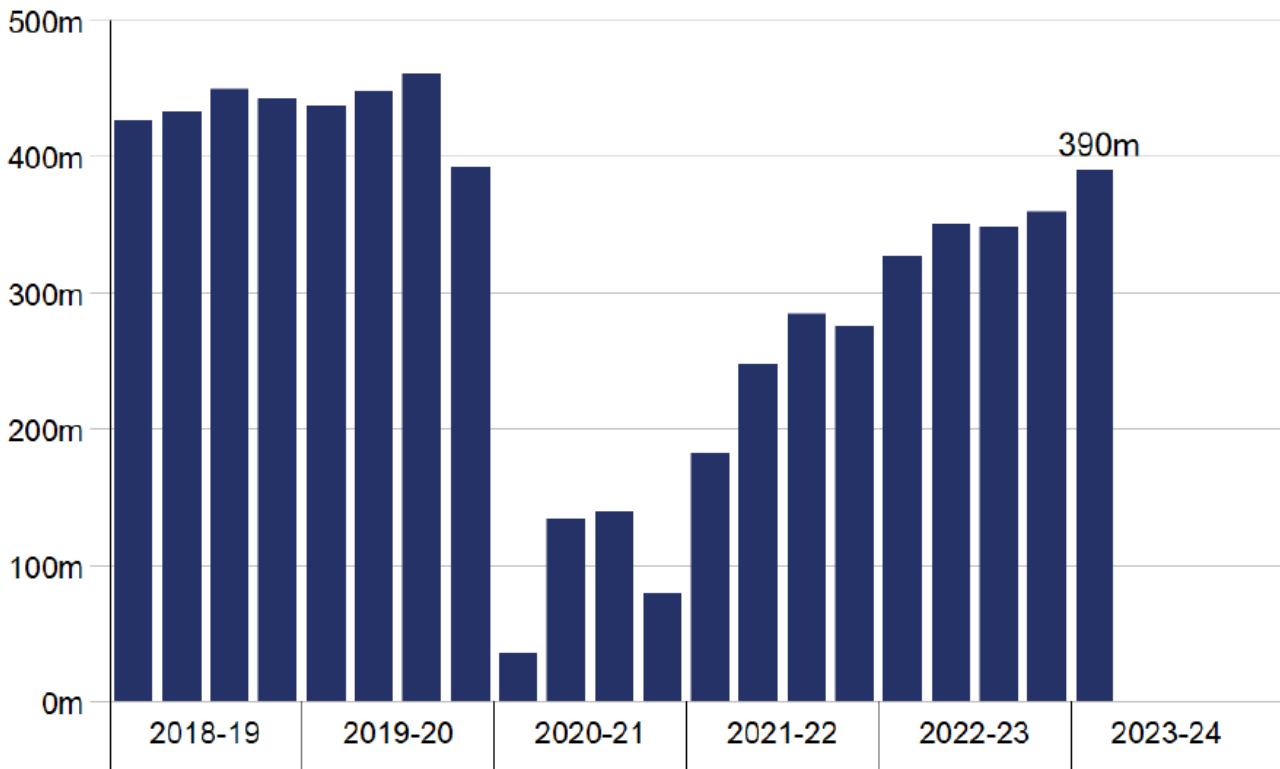
2.21 The largest single player in station catering is SSP. SSP is an aggregator concessionaire specialising in acquiring retail space in transport locations which it fills with a mixture of own brands such as Upper Crust and Café Ritazza and franchised brands such as Burger King and Starbucks. Costa Coffee and WH Smith, who have an established presence in other travel locations such as airports, are the next largest players in stations. Many stations also host vending machines offering cold snacks and drinks which are popular outside the usual opening times of station catering and high street outlets. As explained in our Statement of Scope vending machines are outside the scope of the study but have been used for comparison purposes.

2.22 Rental models vary but catering companies typically pay a fixed rent on a monthly basis together with a variable turnover-based percentage which may be paid on a quarterly basis following the submission of accounts.

## Impact of the Coronavirus (COVID-19) Pandemic

2.23 The lockdowns associated with the Pandemic in 2020 and 2021 resulted in a dramatic reduction in footfall at railway stations. The number of passenger journeys fell to just 8% of pre-pandemic levels and had only recovered to around 30% one year later. At the time of publication of this report, passenger journeys are still less than pre-pandemic levels, at 89% relative to the 437 million in the same quarter four years ago (April to June 2019).

**Figure 2.6** Number of passenger journeys per quarter



2.24 Although railway stations remained open throughout the pandemic in order to provide essential transport for key workers, retail outlets spent significant amounts of time closed for business in compliance with lockdown restrictions. Once able to reopen, retailers faced a number of challenges, principally demand uncertainty but also relating to the retention and recruitment of staff. A number of retailers experienced significant financial difficulty as a result of the pandemic. Notably, AMT Coffee went into administration in November 2022. 25 AMT Coffee outlets have since been acquired by SSP.

2.25 Most station catering operators were able to benefit from government support (including grants, loans and business rates relief). Additionally, many businesses

negotiated rent relief with station operators. In return, some station operators were able to negotiate more favourable lease terms including, significantly, the withdrawal of some protected leases. However, most operators report being concerned about losing all of their retail tenants and their emphasis was therefore on making adjustments to ensure they retained as many as possible.

- 2.26 A number of respondents to our information requests reported a reduction in interest from new retailers wishing to enter the market, or a reluctance by existing retailers to grow and invest, since the pandemic. Although they generally perceive the railway to have a secure future, especially given the move towards more environmentally sustainable transport, the change in station user mix has introduced an element of uncertainty that has led both retailers and their investors to wait for the market to settle before exposing themselves to risk.

## Comparisons with similar markets

- 2.27 Airports, like rail, host a mix of leisure and business travellers, however, due to the nature of air travel, passenger dwell times are typically longer and this drives a different mix of demand for eating in restaurants, bars and retail outlets as well as ready to eat provision. Furthermore, the majority of outlets are airside making them inaccessible to non-passengers, whilst passengers do not have the option of leaving the airport to shop elsewhere.
- 2.28 We found that motorway services are more comparable to airports insofar as they also see a wider range of customers, in particular HGV drivers, who dwell for longer periods.
- 2.29 We observed some similarities between airports and St Pancras Station which sees greater demand for a mix of ready to eat, seated catering and mixed retail provision. This particular station is the terminus for HS1 with international rail services to the continent and thus passenger behaviour is more akin to that of air passengers than rail.
- 2.30 In relation to footfall, high street retailers can, to some extent, experience a more reliable stream of customers spread more evenly across a shorter day compared with the railway - where longer opening times and inconsistent footfall peaks, particularly in times of disruption, make staffing and stocking more challenging.
- 2.31 Airport tenancy arrangements are notably different to rail insofar as units in airport terminals are typically licenced rather than leased. Airports told us that licensing has the advantage of greater flexibility allowing them to exit and move retailers

around the terminal more freely. However, retailers demand longer agreements to mitigate the lack of certainty and secure a return on investment in fit out costs. In common with many station catering outlets, airports often charge a fixed minimum guaranteed rent plus a turnover percentage.

- 2.32 Food and beverage vending machines can also be found in a number of railway stations. We noted that most are licenced rather than leased, which we understand is because licensing provides the flexibility to move the machines if needed. Vending companies are given permission to place vending machines by either Network Rail, the TOC, or its agents and.
- 2.33 In terms of guarantees, one leading provider advised it must give a minimum guaranteed rent (MGR) return to the train companies, but there are no guarantees back, and there are no guarantees on space.
- 2.34 We noted that time of day and dwell time within the station are the biggest influencers in deciding a passenger's choice between using a vending machine and a catering outlet. For example, one leading vending machine provider told us that 50% of all sales are made after 5pm.

## 3. How competition is working

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### The scope of our study

#### Introduction

3.1 As set out in our Statement of Scope, the focus of this study is on:

- **catering**, in other words the activity of selling ready-to-eat food and drink; which takes place
- in mainline railway stations;
- in Great Britain.

3.2 In this section we explain why, in our view, this focus remains appropriate in the light of the responses which we received to our Statement of Scope and the subsequent research and analysis which we have carried out.

#### Catering

3.3 As explained in the previous chapter, our focus is on station catering, as defined in Chapter 2 of this document.

3.4 The principal reason for this focus, to the exclusion of those other retail activities which take place at stations, is the pre-eminence of catering, accounting for around two thirds of all station retail outlets. Other categories of station retail are relatively diverse in terms of tenants and we have not been made aware of any widespread competition concerns about such outlets.

3.5 The above notwithstanding, it is possible that at least some aspects of our findings (such as the role played by station operator incentives) will have some read-across to other station retailing activities. We will consider any possible wider implications of our study for other station operator property during the next phase of our review. As explained in our [PR23 final determination](#), it is essential that Network Rail efficiently drives all of its income streams so as to reduce the level of funding that it requires from track access charges and network grants. Rental income from retail activities including station catering has the potential to help Network Rail outperform the projected income and expenditure which we have set it for CP7.



## Railway stations

### The high street and other alternatives

3.6 Some responses to our statement of scope argued that our review's narrow focus on catering at stations risked omitting important aspects of the competitive dynamic. The clearest example of this was in the response submitted by one catering company, which argued that:

“..It is important to consider the entire journey of a rail passenger, from the moment they leave their home to the moment they arrive at their destination, in order to identify the full set of its competitors. [our company] considers that competition takes place to differing degrees at each stage of a passenger's journey as follows:

- (i) *home: a passenger may choose to take their own food and drink with them on their journey. Customers may source their food and drink from a variety of locations, e.g. supermarkets and convenience stores;*
- (ii) *en route to the railway station: it is likely that a passenger will pass many food and beverage retailers on their journey to the station, e.g. supermarkets, cafés, convenience stores, coffee shops etc;*
- (iii) *around the station: it is likely, particularly in city centres or other urban areas, that there will be retailers in the immediate surrounding area of the station from which a passenger can purchase food and drink;*
- (iv) *at the station: at stations of a certain size, there are typically multiple catering outlets for the customer to choose from. In addition, customers can also source food and drink from vending machines where those are available; and*
- (v) *on-board catering: TOCs generally provide on-board catering on inter-city routes.”*

3.7 This response identifies the potential for, at the margins, a degree of substitutability between station and off-station catering. Substitutability within this context means that catering products available in stations are, or can be, replaceable with food and drinks brought from home or bought elsewhere. This is particularly true of those station catering outlets which are located close to a high street with a comparable retail offering.

3.8 We remain satisfied, however, that station catering remains an appropriate focus for this study. Our review of the contemporaneous documents supplied by stakeholders pointed to a strong local (i.e. within-station) element to the competitive dynamic. In particular:

- Station operators did not provide us with detailed evidence in this area but the responses that we did receive suggested to us a belief in local markets. For example a response submitted by one major operating group said that *“Convenience is a decisive factor. Customers are less likely to venture far from the station to obtain cheaper catering for fear of missing their train or an important service announcement unless they are familiar with the surrounding area.”*
- A catering company supplied us with a contemporaneous competitor review which it had carried out with regard to an outlet at a major station. This review appeared to dismiss the relevance of another large supermarket branch located around 200 metres from the station outlet in question on the grounds that the potential competitor was, *“outside the bounds of the station”*. Indeed, the competitor review appeared to consider that an important element of competition took place on a very local basis, by focusing particularly on outlets which were located in the same small area within the station as its focal outlet.
- Documents supplied to us by SSP in our view supported our approach. Notably some of these documents:
  - (ii) Referred to some of its proprietary brands as a *“convenience driven”* proposition; and
  - (iii) Alluded to a possible threat to SSP’s business from a low-cost chain *“...if brand succeeds with planned Rail expansion...”* (our emphasis added).

3.9 We remain of the view that the alternatives to railway station catering, namely on-board catering and vending machines, should remain out of scope and be used only as comparators for price and quality metrics, since:

- On the demand side:
  - These alternatives typically offer relatively small product ranges, and are not universally present across the network, with onboard catering in particular being largely restricted to intercity services (at the time of

writing the National Rail [website](#) listed a total of 11 train companies and services which offered onboard catering compared with 19 which did not); and

- None of the contemporaneous evidence that we reviewed suggested that such alternatives have an important bearing on the competitive dynamic for station catering. A station catering aggregator told us that, *“...When considering new business on a station we do not factor in whether or not the trains have catering on-board...”*
- These other railway alternatives also exhibit quite different supply side characteristics to station catering, including, as far as we have been able to determine, freedom from the entry barriers described in Chapter 5 of this document. In particular, our stakeholder engagement suggested that TOCs who are dissatisfied with an outsourced on-board catering offering can credibly threaten to switch to self-supply these services. We were provided with examples of TOCs taking this decision.

### Other transport modes

3.10 Large aggregators such as SSP are often present in multiple transport and other markets. In the UK, SSP has a number of outlets in UK airports and hospitals. Other aggregators including the competitors to SSP who we list in Chapter 4 of this document have similarly broad portfolios.

3.11 Our principal reasons for focusing on rail to the exclusion of other modes within a broader concession foodservice market are as follows:

- Our research suggests, within the concession space, a market dynamic within GB that is unique to rail. One other aggregator characterised its ambitions to date to grow within the GB rail market as having been largely limited, in its view, by rail-specific barriers to entry (discussed later in this chapter and in Chapter 5), arguing that as a result of these:
  - *“[we understand] that SSP has a ...[dominant]... F&B market share at UK railway stations, verging on monopoly in many locations. This is a widely known fact in the industry and intuitive to any rail traveller”*; and
  - *“This is a uniquely British problem – to [our] knowledge there is no equivalent situation, where one dominant competitor controls F&B, in any other railway station market within Europe”*.
- By way of comparison:

- For **airport services**, during our study we met with two airport operators who described, relative to rail catering, a market in which tendering is common, it uses licensing rather than leasing arrangements and therefore protected leases are not an issue.
- For **motorway services**, during our study we met with a motorway services area operator. Our engagement suggested some material differences in the business model relative to the GB rail market. In particular, the facility owner, the operator, negotiates its franchise agreements with almost all catering companies that are present in its premises. The company acts itself as the catering company, hiring all staff and being responsible for all food preparation and so on, albeit in each case acting in accordance with the relevant terms of its commercial agreement with the franchised brand holder. As such, there is much more limited scope for the franchisor catering company to influence the outcome through the exercise of any potential market power.

### Exclusion of TfL and other metro operators

3.12 Our statement of scope explained a decision not to include metro operators such as TfL within the scope of our study. Our stated reason for this decision was, that, *“[o]ur initial findings suggest that the market dynamics in these stations differ from those operated by Network Rail and TOCs”*.

3.13 None of the responses to our statement of scope offered strong reasons to argue that TfL stations should fall within scope. The balance of the evidence provided by stakeholders did point towards a difference in competitive dynamic. Most notably, TfL’s tenants are overwhelmingly (95%) SMEs, which contrasts with the pattern seen in rail (see the discussion of supplier shares below). TfL told us that this focus on SMEs, *“...better allows us to ensure the portfolio meets the needs of local people and whilst supporting small business and entrepreneurship in the capital.”* It is also worth noting, relative to the TOCs at least, TfL’s relatively long time horizons, which have a material bearing on its incentives as discussed in the next chapter of this document.

## Competition ‘in the market’ at individual stations

### Introduction

3.14 Information and documents provided by stakeholders show that station catering companies compete for passenger business on standard metrics, in particular:

- **Price** – documents provided to us by one catering company showed that the company monitors customers’ reaction to prices at stations with some care;
- **Product range and quality** – documents provided by a catering company showed how the chain tracks customer satisfaction, measured by net Promoter Score (NPS) across all of its outlets; and
- **Location** – information provided to us by industry participants showed that catering companies devote considerable attention to the location of their station outlets. A notable example of the importance of location in a very narrow sense in this market is the role played by ‘gateline’ grab and go catering outlets typically located next to a station gate or platform. Relatively small (in square footage terms) outlets of this sort are capable of earning relatively high revenues.

3.15 Information provided by Network Rail shows that passengers’ top five priorities from all station retail including catering (e.g. *Retail Recovery: Station User Survey*, Sept 2022) were, in order of descending importance:

- Range of eating/drinking options available options;
- Price of eating/drinking options;
- Range of shops available;
- Speed of customer service in shops and cafes; and
- Price of shopping (i.e. non-catering) options.

3.16 In our statement of scope we said that, *“The primary focus of our study will be on the strength of competition to occupy station outlets between would-be catering tenants, although we will also consider the role played by head-to-head competition between rival outlets at larger stations.”*

3.17 The emerging findings of our review to date have supported this approach:

- Of the approximately 20% of stations which have a station catering offering, almost half (47%) have only one outlet. This large number of single outlet stations acts as a natural barrier to head-to-head competition at stations. SSP is present at around one quarter of multi-outlet stations.
- There appears to be a strong tendency for those station catering operators, including SSP, who have a national presence to practice national pricing,

with no station specific discounts or variations in offering. This limits the extent to which we would be concerned about apparent dominance at individual stations (although, as explained in Chapter 5 of this document, such positions may have implications for competition).

- 3.18 The range of catering options available varies considerably across the many catered GB rail stations and, for the reasons summarised in the previous paragraph, very widespread head to head competition ‘in the market’ at individual stations is unlikely to be a realistic aim. Our focus has instead been on competition to supply stations, as explained in the rest of this chapter.

## Competition ‘for the market’ between would-be tenants

### Introduction

- 3.19 For the reasons summarised in the previous subsection, the primary focus of our review has been the strength of competition to occupy station outlets between would-be catering tenants. Chapter 2 provides a summary of how this process works.

### Overall shares of the market

- 3.20 Using data submitted to us by station operators, we calculated the overall shares of station catering companies.
- 3.21 We used the most recent full financial year for which stakeholders held data. We recognise that, as set out in the CMA’s [guidance](#), it is usually easier to draw strong inferences from stable and consistent market shares than from a single snapshot. Nevertheless, our approach is a proportionate one and one that is capable of providing a reasonable degree of insight. This is for two reasons. Firstly, the information-intensive nature of a multi-year exercise relative to the statutory timescales imposed by the market study regime. Secondly, and more importantly, the relatively long lease agreements and low switching rates which are prevalent in this market (as discussed later in this chapter), provides a high degree of confidence that market shares are likely to have changed only very marginally in recent years.
- 3.22 The calculation of shares in this market is potentially complicated by the role of aggregators. As explained in the previous chapter, an outlet of a branded chain, such as Starbucks or Costa, might go to market by means of either direct contracting with the station operator or by contracting through an aggregator. Given the focus of this study on competition between would-be tenants, wherever

possible and data quality permitting our market share calculations have focused on the identity of tenants rather than on customer-facing brands.

3.23 The data provided by station operators for 2022/23 suggested that SSP's share of all outlets is larger than that of the next six largest players combined. We found that the next largest tenants, WH Smith and Costa Coffee, each has a share of the total number of outlets in the 5-10% range. We calculated SSP's share to be, within station catering as a whole:

- 20-30% of all outlets;
- 30-40% of all rents paid by station catering companies; and
- 40-50% of all passenger spending on station catering.

3.24 SSP's higher share in revenue and rental terms may reflect SSP's focus as a business on large stations with high footfall. It could also, potentially, be reflective of a degree of market power on SSP's part vis-à-vis station operators. Sensitivity analysis which we carried out shows that SSP's share of outlets at the largest 100 stations, which collectively account for almost half of all passenger entries and exits, is in the region of 40-50%.

### Insights from lease expiry case studies

3.25 We analysed the outcomes of negotiations between station operators and catering companies. We did this based on a sample of lease agreements which had recently (since January 2022) concluded.

3.26 As with a number of other aspects of our impact of this study, the recent impact of the pandemic meant that very large amounts of recent data was not available to us. We were reluctant to rely on any evidence taken from 2020 or 2021 because of the extreme nature of trading conditions during this period, or on evidence taken prior to 2020, given that such evidence would not be very recent and might potentially reflect trading conditions which have changed for at least the short term. As such, we were obliged to rely on a relatively small series of case studies, supplied to us by a total of nine station operators including Network Rail.

3.27 We asked station operators to supply us with information regarding instances where they had an opportunity to negotiate terms with catering companies (i.e. the completion of new retail units or lease expiry for existing units). The information that we asked for included whether a competitive tender had been held; what had happened to rental levels; and how far if at all the possibility of competitive tendering had been precluded by factors such as lease protection. Not all

stakeholders were able to provide us with complete information in a consistent format, though we were able to obtain a reasonable sample size from which to draw inferences.

3.28 Our key observations from the data were as follows:

- Competitive tendering at lease expiry was very rare. In all, we found that competitive tendering occurred only 7 times in a sample of 148 lease renewal situations post January 2022, i.e. just under 5% of the time. Key reasons provided by stakeholders for this lack of tendering included:
  - Protected leases;
  - Satisfaction with the performance of the tenant or with terms (new or existing);
  - Practical considerations, including future plans to combine or invest;
  - A perceived lack of interest amongst would-be tenants including because of the size/attractiveness of a unit; and
  - Station operator loyalty to certain outlets or brands which they believed were popular with their passengers

An important caveat to the above is the closeness of our sample to the immediate post-pandemic period. Anecdotal evidence supplied by some station operators suggested a somewhat greater historic propensity to tender, although we were not provided with a quantification. One operator who did not supply us with detailed data in the same format as summarised above told us that it used competitive tendering as a matter of course and that it believed this approach had enabled it to, relative to other TOCs, bring about benefits for passengers and taxpayers, in terms of investment in an up-to-date product offering, and also in terms of rent paid.

- We looked for evidence of any correlation between barriers to switching with what happened to rental levels at the time of renewal or re-negotiation. Specifically, we compared, for 116 instances of lease expiry where ‘before and after’ data on rental levels was available:
  - instances where station operators had told us that they believed they had the option to consider the case for a new tenant (i.e. where the factors listed in the previous case did not apply) against;



- instances where the highest form of barriers existed in the form of protected leases.

3.29 Across our sample we found some, albeit not conclusive, evidence to suggest that on average lease protection tends to put downwards pressure on rentals. Of the 9 station operators in our sample, data from 2 appeared to clearly support this result (with no evidence to suggest upward pressure on rentals resulting from lease protection but a number of instances of either insufficient data to conclude or no evidence of an effect either way). The data averaged out over all of our examples suggests that lease protection placed downward pressure on rentals amounting to around 10% of the starting minimum guaranteed rent.

3.30 A number of caveats apply to these two results, in particular:

- As noted above, our sample of opportunities was relatively small, and may in part reflect atypical trading conditions associated with the aftermath of the pandemic.
- Our analysis did not take into account investment carried out by catering companies. Stakeholders told us that such investment in a few cases formed a key element of lease negotiation.
- Our analysis focused on minimum guaranteed rents only, and not on revenue share, although a preliminary analysis suggested few changes within our sample.

3.31 We are not, however, aware of any *a priori* reasons why these omissions should lead to any systematic bias in our calculations.

### Interpreting market share data and lease extension case studies

3.32 As noted above, SSP has a high share of this market (within the 20-50% interval, depending on the measure used). Whilst we have only gathered market share data for a single year, the evidence we gathered on contract length, combined with SSP's historic status as incumbent, indicate that SSP's share has been at comparably high levels for a number of years.

3.33 We have also observed a low recent rate of tendering and as such a lack of direct competition. That SSP would therefore have a high share of the overall market is perhaps unsurprising given its status as the incumbent in this market, a number of its leases in prime locations having been obtained from the sale of Traveller's Fare (originally owned by British Rail) in 1988. We have also seen evidence suggesting

that the opportunity to tender competitively may drive up the income (from rents) earned by station operators.

3.34 The responses that we received regarding SSP's position within the market, and about the level of competition within the market generally, were mixed.

- Whilst noting the impact of entry barriers including protected leases, station operators did not strongly argue that SSP's position should be viewed as a source of concern from a passenger or taxpayer perspective.
- However, some would-be competitors argued that the SSP's position was a concern, notably:
  - One would-be catering company argued that: *“structural features of the market prevent effective competition to win F&B Leases at railway stations in Great Britain... The lack of effective competition in railway stations in Great Britain is evidenced by the dominance of SSP...”*; and
  - A former market participant argued that, *“...The industry is dominated by SSP who have very close ties with Network Rail. They have protected leases... Their product quality is terrible... They aim to grow total revenues and not much else...”*.

3.35 In interpreting these contrasting viewpoints, together with the results of our data analysis summarised above, we consider first, in Chapter 4, the range of evidence which we gathered during our study on outcomes and then, in Chapter 5, our emerging findings on the key barriers within this market.

## 4. Outcomes for passengers and taxpayers

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### Introduction

- 4.1 Evidence on outcomes, namely prices and service quality, is key to understanding the extent to which our findings on the state of competition have implications for passengers and taxpayers.
- 4.2 A standard approach in competition policy analysis is to draw inferences about the workings of a market by comparing the level of prices (and/or profits) as well as service quality with those in similar markets which are recognised as being effectively competitive.
- 4.3 A key theme of our study was a dual focus on the passenger and taxpayer perspectives. In these markets there may be an element of trade-off between the interests of passengers and taxpayers, in cases where profits earned by station catering companies are passed through to station operators in the form of rent.

### Survey evidence and service quality

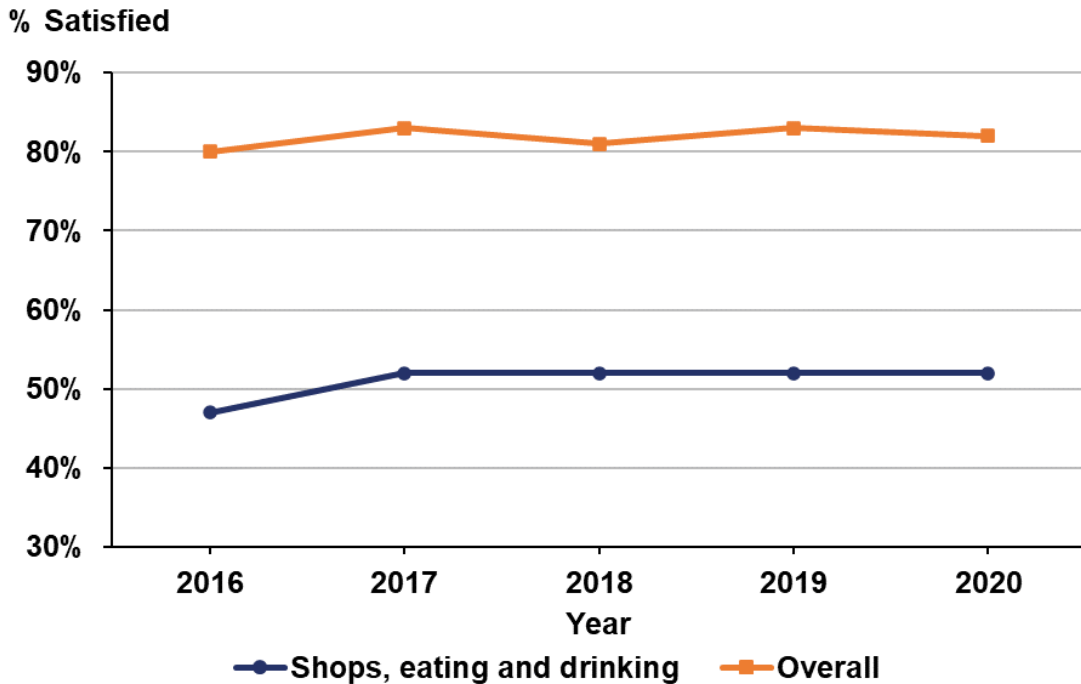
#### Introduction and stakeholder submissions

- 4.4 The GB rail sector historically benefitted from survey data measuring passenger satisfaction across various dimensions including retail activities such as catering. However, there has been a reduction in the collection of survey data since the pandemic.
  - Transport Focus' National Rail Passenger Survey (NRPS) was discontinued following its Spring 2020 wave.
  - From 2019 Rail Delivery Group (RDG) carried out an in-depth 'Wavelength' survey, but after March 2020 the scope of this survey was reduced in a number of ways including the exclusion of catering services.
- 4.5 These two data sources are scheduled to be superseded by a new industry customer experience survey launching in 2024.
- 4.6 Figure 4.1 below, taken from the NRPS, shows passenger satisfaction with '*The choice of shops/eating/drinking facilities available*' relative to passenger satisfaction overall. Retail, which as explained above is dominated by catering

services, was consistently one of the lowest scoring areas, ranking much lower than average.

4.7 An important caveat is that according to the NRPS, station catering ranked fairly low down passengers' priorities. Station catering was included as part of an 'Others' category within the NRPS. Train punctuality was by some distance the most important driver of both passenger satisfaction and dissatisfaction.

**Figure 4.1 NRPS Spring 2016-2020 survey results – responses, % satisfied or good**



4.8 Network Rail told us that it has historically relied on the NRPS to measure passengers' satisfaction towards the current provision of retail and catering at its managed stations. It did, however, provide us with evidence from a document titled 'Retail Recovery: Station User Survey Sept 2022'. This document appeared to suggest a degree of satisfaction with Network Rail's retail offering (of around three quarters) which was in excess of the nationwide figures provided by the NRPS in Figure 4.1. Some of this difference might be explained by the much greater average size and consequent breadth of offering at Network Rail's managed stations.

4.9 Documents provided to us by Network Rail also compared the importance and rating of the station offering across various dimensions for Network Rail's managed stations only. These documents appeared to show:

- Higher importance, lower rating with the retail prices charged for station catering; and
- Higher importance, lower rating with the range of options available and speed of service.

4.10 TOCs told us that they are in the main reliant on externally commissioned research, such as the NRPS, for insights in this area.

4.11 Station catering operators provided us with a range of survey evidence. Large players regularly collect survey data on satisfaction at their outlets. Such evidence appeared to be primarily used by catering companies to track within-company performance over time, and to compare within-company performance across products and outlets: As such, it did not enable us to compare station catering outcomes with those prevailing in other markets. The information sent to us did, however, provide some insights in this area, including the following:

- One chain coffee provider told us that it believes station customers prioritise speed of service to a much greater extent than high street customers. This view was supported by survey evidence provided to us by another large player.
- One chain coffee provider told us that, "...year-to-date figures for 2023 show scores for our rail stores are marginally above our UK average on Net Promoter Score and Overall Satisfaction, as well as value for money ('worth the price paid')...".
- Another chain provided us with data which showed satisfaction levels for its rail outlets which were comparable but marginally lower (82% satisfied/very satisfied) than across the rest of its estate (86% satisfied/very satisfied).

### Web scraping exercise

4.12 We sought additional evidence on passenger outcomes by carrying out an analysis of online customer reviews of all GB railway station outlets against high street comparators. Our methodology is summarised at Annex A of this report.

### Results

4.13 We first show the results of within-chain comparisons carried out for ten well-known chains with the highest aggregate presence in both stations and on the high street.

4.14 Figure 4.2 below summarises our evidence on within-brand percentage difference in average customer rating (between 1 and 5). Positive (negative) figures denote an average review for rail that is higher (lower) for rail outlets than for high street comparators. Figure 4.2 shows that 9 out of 10 brands had a lower average review at stations. The simple average discrepancy across all the ten brands reviewed was around 4-5%.

**Figure 4.2 Percentage difference between Google Maps reviews of the top 10 brands for railway outlets against the high street outlet**

[redacted]

4.15 Figure 4.3 below compares within-station and non-station outlets across the most common broad Google Maps categories of outlet within our dataset. It shows that, for five out of six categories, the experience at rail stations was rated lower than at non-station outlets and that overall, rail is slightly lower rated than the high street.

**Figure 4.3 Percentage difference between railway station outlet and high street. Overall Google Maps reviews and rail categories**

[redacted]

## Mystery Shopping Exercise

4.16 In May 2023 we commissioned the market research company Mystery Shoppers Ltd (MSL) to provide insight into the passenger experience of railway station catering outlets at mainline stations across the GB rail network. We summarise key aspects of MSL's approach at Annex A of this report.

## Results

### *Retail prices*

4.17 We summarise MSL's results on retail prices later in this chapter.

### *Customer Experience Analysis*

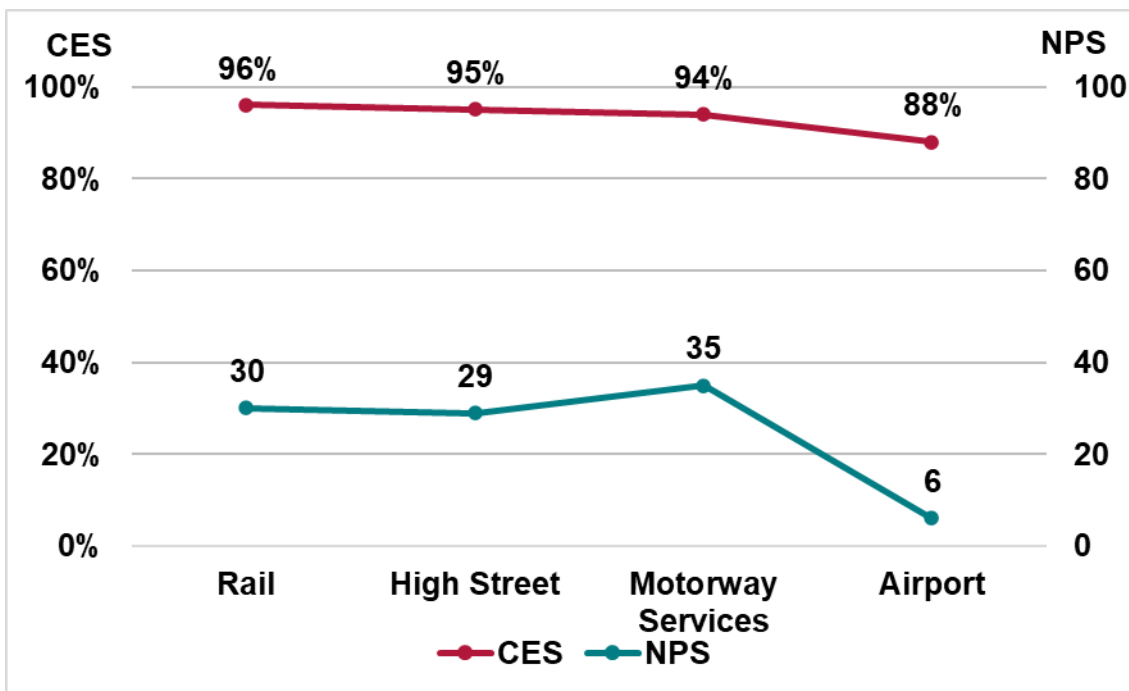
4.18 MSL used the CES and NPS measures (see above) to benchmark the customer experience between railway stations, high street, motorway services and airports. Figure 4.3 above shows the CES and NPS scores.

- **CES** - ranked in order of highest scoring to lowest (between 0-100%), the overall average CES by comparator showed that rail outlets (96%) ranked

first, high street (95%) outlets ranked second, motorway services (94%) ranked third, and airports (88%) ranked fourth.

- NPS** - ranked in order of highest scoring to lowest, with a higher value NPS indicating a field worker is more likely to recommend the outlet, and therefore, indicating a more positive customer experience (with NPS scores ranging from -100 to +100). The NPS scores showed that motorway services ranked (35) first, rail (30) ranked second, high street (29) ranked third, and airports (6) ranked last.

Figure 4.4 **CES / NPS results for rail, high street, motorway services, and airports.**



4.19 Overall, the CES / NPS measures showed very little difference between the customer experience at rail, motorway services, and the high street, although all three appeared to outperform airports, particularly when using the NPS measure.

## Evidence on pricing and profitability

4.20 An important part of our study is to understand the extent to which rail station catering offers value for money. We attempted to gain an understanding of the extent to which pricing and/or profitability issues were, firstly, significant and, secondly, widespread.

4.21 The remainder of this subsection is ordered as follows:

- Stakeholder submissions – the information provided to us by stakeholders did not allow us to directly assess value for money but did provide some useful contextual insights.
- Mystery shopping (see above for a summary) – as part of this exercise MSL compared retail prices at rail stations with those prevailing on the high street and at other transport hubs; and
- Profitability analysis.

### Stakeholder submissions – retail prices

4.22 Passenger survey evidence supplied to us by Network Rail suggests that price is the top priority for passengers when they pay for station catering services.

4.23 Station operators told us that their role with regard to retail prices is relatively ‘hands off’. Key points from the submissions that we received included the following:

- Station operators sometimes take retail prices into account as a factor when appointing tenants, although it would rarely be decisive, particularly in the case of outlets which are already occupied.
- Station operators carry out little in the way of formal monitoring of retail prices, although this may sometimes take place on a relatively informal basis.
- Station operators told us that they do not attempt to influence the retail prices charged by their tenants.

4.24 Station operators acknowledged the tension that can exist between the interests of taxpayers and passengers when it comes to retail pricing. For example:

- One TOC told us that, *“For passengers, the current station catering offering does not offer particularly good value for money compared to alternatives outside the station environment e.g. on high streets. However, it should be considered that passengers at stations are a captive market similar to those at airports or event venues. It is therefore expected that prices in stations will be higher than average and the value for money of the offering should be viewed in this context”*.
- Another TOC told us that, *“...The current income based letting model maximises the potential income. To achieve parity with the high street on unit price of products there would need to be change to more traditional fixed high*



*street rents which would result in a reduction in yield. However, there is no... guarantee that the benefit of the reduction in rental prices would be passed to passengers purchasing goods from station-based retailers”.*

4.25 We found evidence that retail prices at stations may in some cases be constrained by factors beyond local supply and demand. In particular:

- Evidence provided to us by catering companies on the importance of reputational effects in the case of chains which have both a high street and railway station presence. This evidence suggested to us that catering companies exercise caution when setting prices at stations, considering wider reputational issues alongside the potential for profit maximisation at stations. One such document, assessing the impact of recent price changes at two of its station outlets, drew on passenger feedback to read a recommendation that, “...careful consideration needs to be given when changing the pricing in our [station] convenience stores, as increasing prices in existing station stores... [which] risks damaging [our company’s] convenience brand and therefore sales.”
- Evidence provided to us by both aggregators and the owners of franchised brands pointed towards instances whereby retail prices at franchised station outlets had been the subject of negotiations between the two set of parties at a central rather than local level.
- We found that station catering operators in the main do not vary their pricing, either in terms of individual items or promotions, by geography.

4.26 A number of large chains told us that they do not keep comprehensive records on the retail prices under which their branded products are sold since many of its outlets are run by franchisees who are able to influence retail prices.

4.27 Whilst intra-brand price comparisons are not straightforward (see the discussion of our mystery shop), some of the documentary evidence supplied to us by SSP from 2022 suggested a belief that its proprietary brand outlets were expensive relative to comparators on a like-for-like basis. For example, one SSP document described [redacted] and also stated [redacted]. Another document stated [redacted].

4.28 Stakeholders were consistent in agreeing that it is common for station outlets of large chains to charge higher prices at stations compared with the high street. The size of this premium can vary considerably by operator. We provide an indication of the approximate spread of such differences in the discussion of our mystery shop below. This discussion focuses on the price of individual items, although we

did receive evidence to suggest that price differences may in some cases take the form of variations in the availability of promotions or meal deals. We received evidence to suggest that meal deal promotions, where available, can in extreme cases reduce the total price of a meal by up to around 50%.

## Stakeholder submissions – unit rentals

- 4.29 In Chapter 3 we summarised evidence on a relationship between entry barriers, competition, and the level of rent. A common theme in stakeholder responses was that it would not be possible for us to objectively arrive at counterfactual ‘going rates’ for catering unit rentals. In the words of one stakeholder, *“The traditional method by which retail asset owners value shopping centres etc is rental £/per metre squared. This does not apply in the rail sector as kiosk units can distort this metric.”*.
- 4.30 A number of station operators argued that the widespread use of turnover rents within the industry went some way towards ensuring value for money for the taxpayer. Our stakeholder dialogue suggested that the turnover percentages agreed between station operators and catering companies are, within station operators, fairly widely used to compare the rents offered by different tenants.

## Mystery shopping

- 4.31 As noted above, we asked our consultants MSL to carry out mystery shopping research into retail prices at stations. We asked MSL to focus its price comparison analysis on within-brand comparisons (such as comparing prices at station Starbucks outlets with their high street equivalent) so as to avoid potentially misleading results. MSL’s research found retail prices to be generally higher at station outlets than in comparable high street outlets. Figure 4.4 below provides summary data for MSL’s 13 most surveyed catering chains, based on up to six products per chain as summarised above. For each chain, MSL calculated a simple average price premium across all of the surveyed products. It suggests that 11 out of MSL’s top 13 most surveyed outlets charged a price premium in rail compared to the high street. This premium ranged from -1% to + 34%.
- 4.32 We did not ask MSL to attempt to calculate robust estimates of the average price premium across the whole market. We took the view that such an exercise would be disproportionate given the large number of outlets and products that would be involved in such an exercise. Robustly calculated averages would need to take into account buying patterns across all station catering and also involve a potentially information-intensive benchmarking exercise for the high street,

including the increasing role played by 'meal deal' promotions (MSL's analysis focused on individual item prices only).

- 4.33 Nevertheless, for indicative purposes, we have sought to calculate a price premium for the main brands included in the mystery shopping exercise (i.e. which have a presence at both stations and on the high-street). Our interpretation of the results in Figure 4.5 below is that an average in the region of 10% would be a reasonable approximation for the premium charged at rail stations.
- 4.34 As a sense check, we calculated an average all-outlets premium for two products only, namely the lowest priced bottle of water on sale and a 500ml bottle of branded cola, and found a very similar average rail premium (compared to the high-street) of 10%.
- 4.35 As summarised above, MSL's analysis focused on within-brand price comparisons. We discussed contemporaneous evidence related to SSP's proprietary branded offer earlier in this chapter.

**Figure 4.5 Average premiums for railway station outlets, against high street outlets (within brand price comparisons only)**

[redacted]

- 4.36 MSL used the same approach to compare within-chain retail prices at railway stations with those at comparable UK motorway service stations and airports. Retail prices at motorway services appeared to be at least as high as at railway stations, being higher across 26 out of 43 brands, with rail's premium over motorway services ranging between -24% and 12%. Retail prices at airports appeared to be higher than at rail stations, with rail's premium over prices at airports ranging between -12% and -1%. Overall, taking all available evidence into account including cross-brand data on the price of the lowest priced available bottled water and cola as described above, our judgement is that retail prices at both motorway services and airports tend to be around 5% higher than at rail stations.

## Profitability analysis

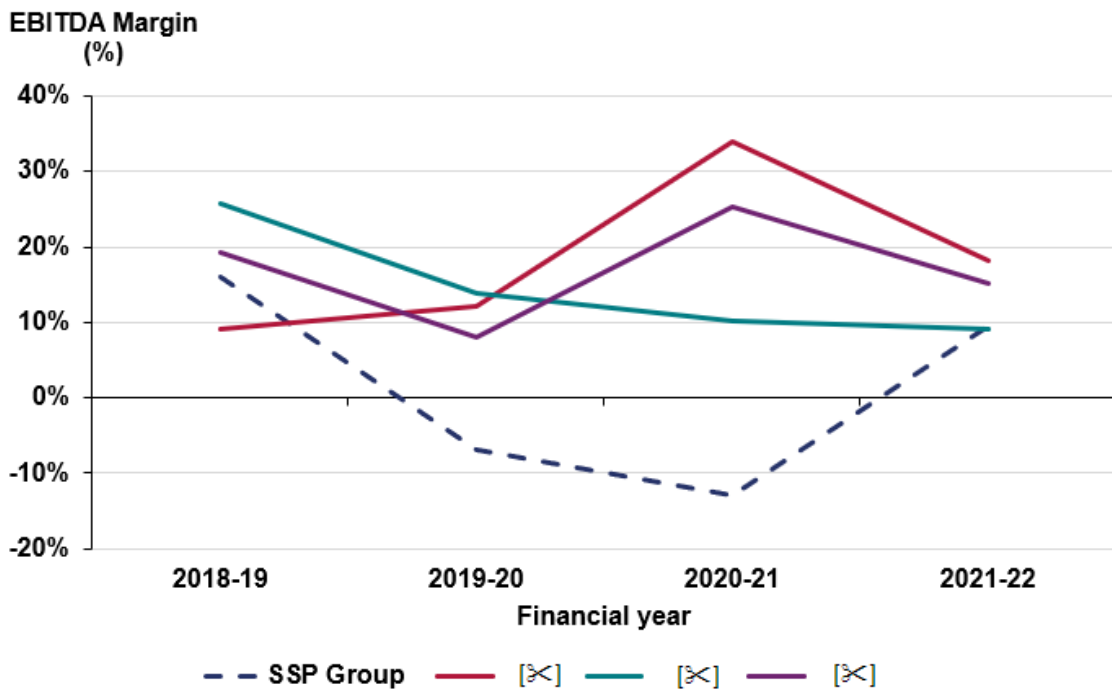
- 4.37 Our study included an analysis of the recent profitability of SSP. We focused on SSP, to the exclusion of other market players, given SSP's position as the largest player in the market and the suggestion made by some competitors (see Chapter

3) that SSP in effect enjoys a position of market power when competing for tenancies.

- 4.38 As noted in the CMA's [guidelines for market investigations](#), the ability to earn profits persistently above the competitive level can, other things being equal, be suggestive of competition problems. Both the size of the gap between the level of profitability observed and benchmark profit levels and the length of the period over which the gap persists are relevant to such analysis.
- 4.39 The impact of the pandemic presents a particular challenge for the analysis of the recent financial performance of companies in this market, which, given that the demand for station catering is in large part derived from that for rail services as a whole, has exhibited considerable volatility over the past few years. The very low passenger volumes seen during 2020/21 and to a lesser extent the 2021/22 financial year, meant that we were obliged to put very little weight on financial results from these years. Recognising both the ongoing challenges faced by the wider rail sector and the recent trend of improvement in this study, we have been circumspect about the strength of any inferences which we might look to draw from profitability data.
- 4.40 We focused on profitability as measured by Earnings Before Interest, Tax, and Depreciation (EBITDA) margins. We adopted this approach given:
- (a) the relatively light capital intensity of station catering activities (some ongoing investment in station outlets notwithstanding); and
  - (b) the focus on this measure that we found in our review of contemporaneous documents supplied by SSP.
- 4.41 A challenge of focusing on EBITDA, relative to measures such as Return on Capital Employed (ROCE) and Internal Rate of Return (IRR), which are more traditionally used in competition and regulatory contexts, is that EBITDA margins cannot be meaningfully compared with a company's weighted average cost of capital (WACC). For benchmarks we have therefore relied on SSP's self-assessed peers in the aggregator space. This approach provided us with a sample of comparators that was relatively small but of a high quality in terms of closeness of business model. Representations made by players in this space persuasively argued that, outside of GB rail, competition to supply transport catering services is in the main characterised by effective competition.
- 4.42 Contemporaneous documents obtained from SSP showed that it internally benchmarks aspects of its financial performance against [redacted].

4.43 The volatility of recent returns in this sector is illustrated in Figure 4.6 below, which compares group-wide EBITDA margins for SSP Group and comparators. It shows that SSP Group’s overall returns do not appear to be an outlier above the range provided by comparators. SSP’s returns appear to have been more volatile over the pandemic period.

**Figure 4.6 EBITDA margins, SSP group and selected comparators**



4.44 Most of SSP Group’s profits are generated outside of GB rail markets, meaning that for the purposes of our study it was necessary to examine SSP’s returns at a more granular level. We did this using bespoke reports compiled at our request by SSP, which individually reported on SSP’s GB rail and UK air businesses. These reports further broke down each of these two broad areas, in line with SSP’s internal reporting conventions, into discrete ‘retail’ and ‘catering’ activities. Our review of this reporting did not find any evidence to suggest, even under a range of assumptions for cost allocation, that SSP’s GB rail business was anomalously profitable by the standards provided by either its own UK air business or the comparators listed in Figure 4.6.

4.45 Within the reports provided by SSP, data from the most recent available full financial year (2021/22) appeared to show that SSP’s GB rail business paid a smaller proportion of its income out to landlords in rent than its UK air business.

This appeared to be true even when controlling for differences in business model (under the 'licensing' model which is prevalent at UK airports, retailers are not liable to pay business rates, and as such are able to pay a higher proportion of income out in the form of rent) and including all payments to landlords including service charges. Controlled in this way, the rental payments made by SSP's GB air business appeared to be [redacted] higher in aggregate than in rail. This picture was, however, less clear in the other year which we scrutinised, namely the pre-Covid 2018/19 (SSP's financial years run from 1 October to 31 September meaning that 2019/20 was strongly impacted by Covid). In this year the extent to which SSP's airline business paid higher proportional rentals appeared to be smaller, closer to [redacted].

- 4.46 We have not drawn strong conclusions on the back of these results. The first reason for this is the significant uncertainty around the reliability of the most recent years' worth of data, which have been heavily influenced by the pandemic and its aftermath. A second area of uncertainty concerns 'mix effects', whereby SSP's rail and air catering businesses have differing proportions of different types of catering outlet (notably outlets where food is consumed on/off-site). Our analysis controlled for these differences in a limited way by not making comparisons across what SSP internally terms 'catering' and 'retail' activities, but a comprehensive analysis would consider outlet type in greater detail.

### Outcomes - summary

- 4.47 The goal of our analysis in this market study was to obtain an evidence base that would give us a reasonable understanding of the prevalence and scale of any issues from both passenger and taxpayer perspectives.

- 4.48 In summary:

- Historic survey evidence from the NRPS suggested that station catering is, by the overall standards of the railway, an area of low passenger satisfaction but also, relative to other factors such as train punctuality, low priority;
- In terms of new research and analysis carried out in support of this study:
  - our web scrape exercise found evidence of lower ratings for station catering than for the high street. The magnitude of this difference is difficult to quantify in the light of the spread of ratings within the broad category of station catering; but

- Our mystery shopping exercise, which assessed the wider customer experience without directly considering product quality or prices, did not find evidence that station catering compared unfavourably with the high street or with the offering at other transport hubs. Indeed, the evidence suggests that railway station catering is more favourably regarded than similar services at airports.

4.49 Pricing and profitability is a complex area for our market study to address comprehensively from both passenger and taxpayer perspectives, particularly given the possible trade-off between the interests of these groups. In summary:

- Our analysis of data supplied by SSP did not suggest that the profitability of its GB rail business is anomalously high by the standards of comparators both within SSP and the peer group identified within SSP's contemporaneous documentation.
- The same dataset did, however, suggest that, on a like-for-like basis, its GB rail business may pay relatively less rent (as a proportion of retail revenues) than a close comparator in the form of SSP's UK aviation business.
- In terms of the wider rental/taxpayer picture, our analysis of the evidence provided by stakeholders as summarised in Chapter 3 of the rents paid to station operators by catering companies found evidence to suggest a relationship between entry barriers, competition, and the level of rents;
- Retail pricing was an area which it was difficult for us to address comprehensively in this market study, given the very large number of outlets and products in the market and the possibility that at least some price variation can be explained by higher costs at rail station outlets. In summary:
  - Our mystery shopping found evidence of pricing at the station outlets that was higher than at high street outlets within the same chain.
  - But this evidence also suggested that that the price premia charged at rail catering outlets may be relatively modest, particularly when compared to transport hubs in other modes.
  - Documentary evidence from 2022 supplied by SSP suggested an awareness of high retail prices at SSP proprietary branded outlets

## 5. Barriers to competition

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### Introduction

- 5.1 In the previous two chapters, we considered various indicators of the state of competition in station catering, and the extent to which passengers and taxpayers are getting value for money from this market. In this chapter we consider the principal factors which our stakeholder engagement and analysis suggest can prevent catering companies active in the market, or future new entrants, from competing to occupy station catering outlets.
- 5.2 We begin by discussing three barriers which impact the potential for opening and competing for new outlets. These are **limited space at stations**, **station usage**, and **fit out costs**. Although important in explaining the current landscape, these barriers are less important to our study. This is because they primarily impact an area of the market in which all existing and potential market participants are affected to similar degrees; and because they may not be directly addressable through a market study or reference.
- 5.3 The second sets of barriers primarily impact competition to occupy existing outlets, which emerged during our study as the primary area of stakeholder concern. These are **protected leases**, **commercial incentives and the conduct of station operators**, and the effects of a strong **incumbent presence** at individual stations.

### Limited space

- 5.4 Except when they have recently undergone redevelopment, GB mainline rail stations are not optimised to provide significant space for retail activities including station catering. In particular:
- There is limited space to create more catering outlets in railway stations.
  - Such space as is available for retail may only be viable for certain uses as a result of factors including limited connection to water and power utilities and proximity to facilities such as kitchens and storage areas.
  - Even where retail activity is technically possible, it may in some instances be commercially unattractive as a result of factors similar to those listed at the previous bullet point. A lack of proximity to kitchens or storage areas can



generate additional staff costs compared to typical high street operations. It can also disincentivise new entrants from choosing the stations as a place to set up a catering facility, despite the assumed flow of footfall.

- 5.5 A number of the station operators who responded to our consultation described what in their view amounted to a lack of dedicated funding to redevelop stations. Stakeholders also described the frequency with which listed building status makes work more difficult and the approval process to get changes done longer.

## Station usage

- 5.6 The potential for catering services at railway stations is intrinsically linked to station usage. Footfall is a key driver of the potential for catering services at stations. Our data analysis, in conjunction with stakeholder input, suggests that the most compelling case for a catering outlet at a station is when there is approximately 750,000 or more entries and exits annually (based on 2021/22 data). Footfall also dictates which type of catering companies are present at which types of stations. Larger catering companies told us that they require a minimum level in terms of size (number of customers) and of scope (possibility to offer a wider range of products) to operate at a given station.
- 5.7 Footfall is largely driven by the number of passenger journeys. As described in Chapter 2 of this document, overall passenger rail usage remains below pre-pandemic levels despite a trend of recovery.
- 5.8 Station usage is also driven by travel patterns. Some catering companies told us that they view the recent shift towards leisure travel as providing an opportunity, since leisure travellers tend to be ready to spend more for catering and to be more quality conscious.
- 5.9 Stakeholders told us that in the post pandemic period industrial action has had a detrimental impact on their revenue and operations. Some stakeholders argued that the uncertainty associated with such events can deter potential new entries into the market.

## Fit out costs

- 5.10 Considerable costs can be incurred when setting up outlets to a catering company's specifications. It is standard business practice if a company wants to create differentiation and be recognisable. Catering companies argued that the

most common lease length within the market of six years is often inadequate to enable the recovery of the costs of a more significant fit-out of an outlet.

- 5.11 A number of catering companies told us that fit out costs at stations are high in part because of the selection process, the handling of contracts and the authorisation process for access and intervention. Acting to lower these barriers (see below) could have a positive knock-on effect on fit out costs.

## Protected leases

- 5.12 Protected leases are commercial leases formed under Part II of the Landlord and Tenant Act 1954 (the 1954 Act), which applies throughout England and Wales (though not Scotland). They give a security of tenure for the tenants, which means giving them the right to automatically renew the lease at the end of its initial term. Further, the tenant gains a legal right not only to renew their commercial lease but to do so on similar lease terms (including rent reviews) once renewal is due. There are grounds of opposition for the landlord to terminate these leases, but these are limited and generally give rise to a right to statutory compensation. According to station operators, these are too difficult and costly to apply, except when stations are redeveloped (station operators will still have to pay compensation).
- 5.13 We have found that there is still a significant proportion of protected commercial leases under the 1954 Act within the station environment. The effect of this being that station catering units infrequently become available on the open market and competition for station outlets becomes by default limited. Some 24% of station outlets, accounting for 27% of total rental revenue, are currently covered by protected leases.
- 5.14 We were told by stakeholders that, over recent years, commercial leases for new outlets were typically concluded outside of the 1954 Act. Stakeholders also told us that the total number of existing protected leases decreased in the aftermath of the pandemic. Station operators put into place measures including rent relief to support the worst affected catering companies with virtually no activity in stations during the successive lockdowns. This support was in some instances conditional on a revision of commercial lease terms. Some tenants relinquished their protection under the 1954 Act. Other tenants with protected leases also decided to exit the outlets they occupied early, and the new leases were offered outside of the 1954 Act.
- 5.15 In spite of this trend, we have found that the number of protected leases across all stations with catering remains high and that SSP still holds the majority of units

covered by protected leases. Absent intervention, we consider that the rate of natural attrition of protected leases is too slow to address our concerns about competition for the market.

## Commercial incentives and the conduct of station operators

- 5.16 A recurring theme across our dialogue with stakeholders was the shortcomings in the commercial incentives faced by station operators. These incentives have a bearing on the station operators' approach to managing stations, including the low propensity to competitively tender summarised in Chapter 3.

### Overview of commercial incentives and approaches

#### Network Rail

- 5.17 Network Rail plays a key role in this market. It is the station operator for 20 of the largest stations in Great Britain with correspondingly high revenues from catering activities. It is also the superior landlord for most stations, which means it is often involved in the contractual process for catering activities at stations it does not directly manage.
- 5.18 Network Rail is provided with incentives to take all retail activities in its stations seriously. It faces a general expectation from the Secretary of State to grow the income that it receives outside of the Network Grant (which is direct income from funders in England & Wales and Scotland) and its income from track access charges. Network Rail is expected to maximise the level of its 'other income' in order to mitigate these two primary income sources.
- 5.19 As noted in Chapter 3, other income, including retail income, is the subject of an efficiency challenge during CP7 – which is the five year control period starting on 1 April 2024. Network Rail forecasts some £4.0 billion of other income in CP7 which represents 9% of its total income in CP7. Around half of all this income comes from retail income at stations operated by Network Rail (which covers catering as well as non-catering retail at stations). Network Rail has a dedicated commercial team for retail activities at its stations. Our evidence suggested that their approach is customer oriented and based on experience of passenger needs.
- 5.20 The strength of the pressures faced by Network Rail to maximise its property income is inevitably moderated to a degree by its status as a public sector company without the full set of commercial incentives faced by most firms. This means that there can be discrepancies between the aspirations of the commercial

team and what happens in stations. Its structure also creates a long sign-off process for all works and actions that need to take place in stations to ensure smooth operation, a process that often requires several different parts of Network Rail to coordinate their actions. As the strength of commercial pressures may vary across these parts of the company, procedures can take a long time to create outcomes and this impacts on the commercial capabilities of the stations.

- 5.21 The same constraints are dealt with differently by operators in other environments. A major regional airport group advised that it recognised the complexities with its secure environment which can influence costs. It was proactive in ensuring efficient processes are in place, including initiating its planning phases early, competitive tendering wherever appropriate, as well as creating contractual incentives for its providers. It used project teams who specialised in airport environments which helps manage the complexities efficiently for commercial unit 'fit out' and maintenance. We were told that the alignment of contractual incentives was also a key factor in the approach taken by [redacted] in relation to [redacted].

### TOCs

- 5.22 We were told that the relatively short length of passenger contracts since privatisation has dampened the incentive for TOCs to invest in the longer-term commercial side of stations. We were told that these effects have been exacerbated by the growth of National Rail Contracts (NRCs), under which TOCs do not face revenue risk, and by the number of TOCs that have been under the operator of last resort scheme (the former LNER, Northern, TPE, and SE Trains franchises). Under NRCs, government retains all revenue risk. Under such circumstances, TOCs face significantly weakened incentives to maximise revenues from commercial activities, including station catering.

### Public funders

- 5.23 We have found that TOCs commissioned by the DfT face limited direction in the area of station catering. The DfT's primary focus for stations is to improve passenger experience through supporting comfort, availability and accessibility of stations. It does not cover retail activities at stations. Under NRCs, TOCs receive a Performance Based Fee. Performance is assessed against four categories, including customer satisfaction. Customer satisfaction is defined in the Service Quality Regime (SQR) set by the DfT. The Service Quality Regime also does not cover retail activities. Similarly, we have found that there were no formal targets and monitoring of income from commercial activities at stations. Through NRCs, TOCs must produce an Ancillary Revenue Plan. This plan seeks to optimise

ancillary revenue, which covers tenancy income from retail outlets. It gives a direction of travel but no firm objectives.

- 5.24 In Scotland, the Rail Policy and Strategy from Transport Scotland recognises the crucial role of stations to the passenger experience. It calls for stations to be accessible for passengers and integrated within their communities. The responsibility for setting the strategy for retail activities at stations rests with Scottish Rail Holdings Ltd (SRH Ltd) – which owns and oversees Scotrail Rail Train Ltd (Scotrail). Scotrail operates most of the stations in Scotland. We understand that recent changes explain that there are no objectives and strategies in place regarding catering activities at stations operated by Scotrail: SRH Ltd was created in April 2022 and Scotrail brought the management of catering activities in-house in April 2023, whereas it was previously outsourced to an agent.
- 5.25 In Wales, Transport for Wales (TfW) has a long-term vision of the use of available space at stations. The objectives of increasing rental revenue and enhancing passenger experience are balanced against the need to support local communities. Community lettings connect the local area with the station specifically when available space is greater than required for commercial exploitation or the station profile does not support a commercial operation. Space can be used for various purposes linked to the needs of their local communities. It can be ATMs; click and collect lockers; or taxi offices in rural locations. In Cardiff, there are plans to redevelop Cardiff Central Station and give more space for retail activities because the footfall can support this.

### The role of agents

- 5.26 Relatively weak TOC incentives may also be exacerbated by the role of agents. As described in Chapter 2, depending on the station operator, agents can run everything from the identification of the category of offer needed at a given outlet up to the organisation of the tender process. The ultimate choice (and decision) of catering company is left to the station operator. Our understanding is that many of the agreements between TOCs and agents include 'finder's fees' which can act to make changing tenants relatively unattractive to TOCs.

### Selection process

- 5.27 We have found, as explained in Chapter 3 of this document, that the selection process of catering companies by most TOCs rarely takes the form of an open competition on the merits.
- 5.28 For vacant outlets, the most usual way is to organise a tender process, typically limited to a category of offer determined by station operators. This means they say

that a specific outlet should be filled with coffee, quick service restaurants, grab-and-go or other facility determined by the type of product, etc.

- 5.29 In the case of existing outlets, we have found that the most common practice is to propose a lease renewal or an extension of the lease to the incumbent catering company (see Chapter 3 – competition for the market). Data supplied to us by TOCs suggested that they only openly tendered for existing outlets at 5% of the leases which have expired since January 2022. In such instances, prospective entrants are given very little chance to either be informed of the opportunity or to compete for it.
- 5.30 We discussed the reasons for this approach with a number of stakeholders. As explained in Chapter 3, our data on tendering rates must be interpreted in the context of its spanning the fairly immediate post-pandemic period. Station operators described to us a number of considerations they employ which can narrow the pool of potential tenants at a station. Some described the potential issues (from both revenue maximisation and passenger experience perspectives) associated with vacant or inactive outlets. Others described the benefits associated with continuity of relationship with large, well-established players, particularly where such players bring experience of the challenges of operating in stations.
- 5.31 We acknowledge that there are, situationally, often sound arguments in favour of infrequent tendering. We are, however, mindful of the potential benefits for passengers and taxpayers. For example, consumers can benefit from a wider range of offer and competitive pressure on incumbent companies can translate into more revenue for station operators.

### Contractual framework

- 5.32 We have found that the handling of contracts between station operators and catering companies is seen as an obstacle to entering the market by catering companies. There are three obstacles cited by most catering companies.
- 5.33 First, **‘tripartite leases’**. Catering companies and the station operators are the main signatory parties to these leases. However, the involvement of Network Rail is also necessary to allow longer lettings to straddle the end of a station lease. Most catering companies and TOCs (or their agents) concur in finding Network Rail’s involvement makes the process unduly complex and lengthy, and therefore costly. They argue that this complexity and length can deter would-be entrants, especially smaller companies if they do not have the skills to deal with it or the financial capacity to wait for an agreement to be reached.

- 5.34 Second, **variety of model contracts**. Catering companies point out discrepancies from one station operator to another in the models of contracts in use. They argued that this added an extra layer of complexity, and costs, especially for companies with a multi-station approach.
- 5.35 Third, **authorisation for intervention** on outlets leased to catering companies. The process for work approvals covers a range of intervention from fit out to repair and maintenance. These are often considered costly and lengthy by catering companies. Station operators justify this process by the safety requirements of operating in railway stations.

## Incumbent presence at individual stations

- 5.36 During our review we were presented with evidence that the control of multiple outlets at a single station can provide incumbent operators with important competitive advantages over other prospective bidders. One of these advantages is the access to supporting facilities at a number of larger stations. These facilities can be storage areas or kitchens that the incumbent operator occupies, sometimes under protected leases. We have seen facilities that can be shared and used to supply all the outlets one operator runs at larger stations and, in the case of London, at neighbouring stations as well. In the words of one would-be competitor, this enables such incumbent operators to serve a number of outlets from a single kitchen, benefiting from economies of scale and reducing overheads.
- 5.37 This barrier can interact with other barriers such as protected leases. One such possibility that we were made aware of during our study was where multiple outlets at a single station share a single kitchen. A protected lease covering only one of these outlets can in effect provide protection for the others.

## Barriers to competition - summary

- 5.38 We considered a range of evidence on the factors which can prevent catering companies who are active in the market, or future new entrants, from competing to occupy station catering outlets.
- 5.39 Some of the barriers which we identified relate primarily to opening or occupying new outlets. We consider that such barriers are unlikely to be addressable in a proportionate fashion by regulatory intervention. Our focus has therefore been on barriers which primarily impact competition to occupy existing outlets, mainly **the persistence of protected leases** and the **commercial incentives** and the **conduct of station operators**.

- 5.40 Some 24% of station outlets are currently covered by ‘protected’ leases formed under Part II of the 1954 Act. Such leases provide security of tenure for the tenants, meaning an automatic renewal of leases on similar lease terms (subject to rent reviews). There are grounds of opposition for the landlord to terminate leases formed under the 1954 Act, but station operators told us that protected leases are difficult to contest because the circumstances necessary to use these grounds arise infrequently and the process is or can become very costly. Absent intervention, our understanding is that the rate of natural attrition of protected leases will likely be minimal, thereby precluding competition for many of these outlets for the foreseeable future.
- 5.41 We have also found a number of issues resulting from the commercial incentives faced by station operators, which in turn have a bearing on their approach to managing stations. We have found that the selection process of catering companies has recently rarely taken the form of an open competition. We have found that the most common practice is to propose a lease renewal or an extension of the lease to the incumbent catering company. It means that when opportunities to compete for outlets at stations do arise, catering companies have very little chance to either be informed of the opportunity or to compete for them. These issues are fundamental to competition in this market.
- 5.42 Our emerging view is that the evidence we have gathered and presented in chapters 3 to 5 is consistent with a reasonable suspicion that the market may not be functioning as effectively as it could be. The evidence we gathered on outcomes is consistent with these concerns without on its own providing the kind of conclusive evidence of very widespread, strong, detriment that would create a presumption in favour of the strongest forms of intervention.
- 5.43 In the next chapters, we consider whether a market investigation by the CMA would be the most appropriate form of intervention to address the issues caused by these barriers (Chapter 6), and we are share our emerging views on how some of the barriers could be lowered (Chapter 7).



## 6. Decision not to refer the market

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- 6.1 This chapter sets out the reasons why we have decided not to make a MIR to the CMA.
- 6.2 A market investigation is a more detailed investigation into whether there is an adverse effect on competition (“**AEC**”) in the market(s) for the goods and services referred. In this case this would be the railway station catering market in Great Britain. If any AECs are identified, the CMA would decide what remedial action, if any, would be appropriate. Following a market investigation, the CMA has a wide range of legally enforceable remedies (including legally binding orders), aimed at making the markets more competitive in the future.
- 6.3 Under section 131B(1) of the Enterprise Act, we have a duty to publish our provisional view of whether we are minded to make a market investigation reference (MIR), within six months of launching our market study. We received no representations arguing that an MIR should be made in response to our market study notice published on 16 June 2023. We are required to decide by 15 December 2023 whether to begin the process of consulting on making an MIR.

### Legal framework

- 6.4 Under the Enterprise Act, we have a power to make an MIR to the CMA when the findings of a market study give rise to reasonable grounds for suspecting that a feature or combination of features of a market or markets in Great Britain prevent, restrict or distort competition, and an MIR appears to be a proportionate response.
- 6.5 The legal test does not require ORR to have concluded that there are, in fact, features of a market which prevent, restrict or distort competition. Where the legal test is met, ORR must then use its discretion to determine whether or not to make an MIR. We apply the four factors listed in paragraph 3.20 of [ORR's approach to monitoring and reviewing markets](#) (“our Guidance”) as well as the criteria set out in the CMA’s [Market Investigation References guidance \(OFT511\)](#) in order to determine whether, in the specific circumstances of this market study, a market investigation reference appears to be an appropriate and proportionate response:
- The scale of the suspected problem is such that a reference would be an appropriate response;

- Whether there is a reasonable chance that appropriate remedies would be available;
- Whether it would not be more appropriate, instead of making a reference, to address the concerns through undertakings in lieu of such a reference (UILs); and
- Whether it would not be more appropriate to address the competition problems through alternative powers available to the CMA or through our sector-specific powers.

6.6 We must also, in determining whether or not to make a reference, have regard to our obligation to discharge our functions in a manner best calculated to achieve our duties under section 4 of the Railways Act 1993.

6.7 In exercising our discretion and having regard to our legal duties as to whether or not to make an MIR, we recognise the significant impact a MIR would have on the sector, including significant costs, both to participants in the markets under scrutiny, and to the CMA to whom the markets would be referred.

## Assessment of the legal test for an MIR

6.8 For the reasons set out throughout this document, we have identified areas in which we may have reasonable grounds for suspecting that a feature or combination of features of the railway station catering market in GB prevents, restricts or distorts competition, such that the discretion to refer this market to the CMA is open to us.

6.9 In summary, we find there are reasonable grounds to suspect there may be features that prevent, restrict or distort competition in connection with the supply of catering at railway stations. Our main concern stems from the interplay of a number of factors, principally **the prevalence and characteristics of protected leases**; and **the incentives and approaches adopted by station operators**.

6.10 **However, we do not propose to make an MIR.** Our primary reason for this decision relates first to the availability of appropriate remedies which we are able to pursue ourselves and secondly, given the remedial options ORR has, whether an MIR would be a necessary and proportionate means of addressing the issues summarised above.

6.11 For completeness, in the remainder of this chapter we provide an overview of our assessment of the case for an MIR against the relevant criteria:

- The scale of the suspected problem:
  - This is not a small market within the context of the GB railway sector. Total passenger spend on station catering at GB mainline stations was around £700m in 2022/23.
  - The barriers we have identified impact a significant proportion of this market. Notably, approximately 24% of leases fall under the protection of the 1954 Act. Furthermore, the issues we have identified concerning station operator incentives and conduct appear to be strongly prevalent throughout the market.
  - As explained in chapter 3 and chapter 4, we have found evidence to suggest that these barriers may be leading to harm to passengers and taxpayers.
  - The nature of the barriers which we have provisionally identified and summarised in chapter 5 are such that many of these issues have persisted in various forms since privatisation. Without intervention, these problems are unlikely to quickly self-correct. On the issue of protected leases, stakeholder feedback suggests that these protections are only likely to dissipate upon station redevelopment and not before.
- The availability of remedies:
  - Protected leases:
    - (b) A likely key focus of any remedies aimed at this market would seek to mitigate the issues associated with protected leases. Such mitigations could consider areas such as the maximum term for commercial leases and lease renewal conditions.
    - (c) The CMA has extensive powers under Schedule 8 of Enterprise Act to impose remedies in the event that a market investigation finds adverse effects on competition in a market in the UK. The framework for remedies following a market investigation is set out in Part 4 of [Competition Commission Guidelines for market investigations: Their role, procedures, assessment and remedies \(CC3\) \(Revised\)](#). The remedies available to the CMA include structural remedies, such as divestiture and transfer of rights, and behavioural remedies which govern the conduct of market

participants, such as enhancing transparency and prohibiting certain commercial practices.

(d) We do not believe that remedial powers including divestments and behavioural remedies would be an effective, appropriate, or proportionate means of addressing the issues associated with protected leases. The protected leases on station outlets have been lawfully formed and achieve the protection under the 1954 Act, even if these may not be fit for purpose within the modern railway stations environment. The CMA does not hold the power to amend primary legislation such as the 1954 Act.

- Commercial incentives and conduct: Past CMA interventions show that it would be more likely to tackle issues related to commercial incentives and conduct through recommendations to key organisations within the industry, potentially including government, rather than using structural or behavioural remedies.
- ORR has also powers to make recommendations to relevant stakeholders, including government, such as market-opening measures with the aim to reduce barriers to entry and promote dynamic competition within the stations.
- **Strong incumbent presence at individual stations:** Our findings do not suggest that this barrier is widespread enough to justify the use of remedial options which are only available to the CMA, such as structural remedies.

6.12 In conclusion, while the CMA has a range of remedies that could be deployed, it is important to recognise that the most suitable solutions may not reside or exclusively reside within the CMA's purview. We believe that extended and active engagement with Network Rail and other industry stakeholders to address the distorting features we have identified would provide for more effective, proportionate and timely resolution. To this end, ORR, in its capacity as the regulator for the railways sector, is well-placed to use its sector-specific expertise to lead and implement these measures.

- Undertakings in lieu:
  - (i) As we have decided not to make an MIR to the CMA, we do not seek Undertakings in Lieu (UILs) of a reference.

- Alternative powers:
  - (i) Most of the companies within the scope of this market study, other than Network Rail and the TOCs, are not licensed and are therefore not subject to sector-specific legislation. Nevertheless, because they offer services to the railways sector, they are subject to our competition and markets powers.
  - (ii) We have concurrent powers to enforce against suspected breaches of competition law. At present, we do not have reasonable grounds to suspect a breach of the CA98 within the railway station catering market.

6.13 For the reasons above, we decided that an MIR is not the most suitable course of action, and alternative and more suitable approaches are available to us.

## Conclusion

6.14 An MIR would enable a deeper and more comprehensive investigation into the issues in these markets, and allow remedies, such as divestment and access remedies. Whilst the size of the market, and potential value of regulatory intervention might justify an MIR, we do not consider that the CMA's greater powers of intervention would be a more effective and proportionate means of addressing the issues that we have identified.

6.15 Therefore, we are not referring this market to the CMA. As we explain in the next chapter of this document, our intention is to address the issues we have identified by working with industry, funders and other parts of government to develop a package of market-opening remedies that will aim, among other things, to alleviate the restrictions that prevent competitive entry or expansion. This work will form the second phase of our market study.

## 7. Proposed actions

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- 7.1 Our emerging findings identify a number of issues that limit the potential for competition between station catering companies. As highlighted in Chapter 5, these issues include protected leases; the commercial incentives and conduct of station operators that lead to operational complexities for entering and expanding within the station catering market; and issues relating to how ancillary station space (for example facilities, storage, and kitchens) is managed. Chapters 3 and 4 of this document explain the ways in which these issues can adversely impact on passengers and taxpayers.
- 7.2 This chapter sets out our provisional thinking on possible actions that might be pursued in order to mitigate these issues. For the avoidance of doubt, we are not presenting detailed remedial proposals or advocating for specific interventions at this time.
- 7.3 The primary focus of our proposed actions is on measures which will have the potential to open the market and reduce barriers to entry while promoting rivalry between potential tenants of existing station catering outlets. We have not considered in any depth:
- Measures aimed primarily at issues associated with competition to supply new outlets. As explained in chapters 3-5 of this document, our primary focus is on existing outlets as competition for newly created outlets seems to be more effective and is not negatively affected by protected leases; or
  - Measures aimed at directly influencing outcomes for passengers and/or taxpayers through the retail price setting and/or rent setting process. Such measures would entail a degree of intervention that our powers and evidence base would not support, and would require long-term regulatory involvement and oversight in a way that measures designed to promote competition would not.

### Ensuring protected leases work for today's commercial leasehold market

- 7.4 Part II of the 1954 Act gives business tenants the right to renew their tenancies when they would otherwise come to an end, allowing businesses to remain in their premises. This legal right to a new tenancy is often referred to as “security of tenure”.

- 7.5 The security of business tenure provided by the 1954 Act dates back nearly 70 years. While the 1954 Act has been subject to reviews and amendments over the years, the most recent review was nearly 20 years ago. The commercial leasehold market has rapidly evolved and has been affected by recent global events such as the Covid-19 pandemic. Currently, the 1954 Act instead of facilitating business, seems at times to pose challenges, hindering modern commercial practices and often leading landlords and tenants to opt to contract out of it. Railway stations are an example of these less functional market conditions.
- 7.6 To address these issues, while keeping useful protections in place, the Law Commission has started (in March 2023) another review of the 1954 Act following a referral by the Department for Levelling Up, Housing, and Communities. A review of Part II of the 1954 Act will also be in scope. The aim of the review is to ensure that the leases contracted under the 1954 Act work for today's commercial leasehold market and the initiative also forms part of the Government's Anti-Social Behaviour Action Plan. The Law Commission aims to publish a consultation paper by early 2024.
- 7.7 Drawing on the evidence base of our study, we will actively engage with the Law Commission's review. This engagement will involve presenting insights from our data, assessment and analysis, and ultimately specific recommendations by way of a response to its consultation paper. Our recommendations will aim to address the adverse consequences of protected leases within the station catering market, while retaining useful protections for businesses and their current and future needs.
- 7.8 We will work collaboratively with the Law Commission to identify and propose suitable legislative changes.

## Mitigating issues associated with station operator incentives and conduct

### Alignment of incentives and conduct

- 7.9 As explained in Chapter 5, our emerging finding is that this market faces several issues when it comes to station management both by TOCs and Network Rail. Among the issues we would like to address are: the selection process for business tenants, the impacts of tripartite leases, the variety of model contracts, the process around letting and fit out of retail units and related issues around approval for work and maintenance.

7.10 We propose to make recommendations to station operators (Network Rail and TOCs), aimed at mitigating these issues:

- We will develop these recommendations in the light of stakeholder engagement which we will carry out during the second phase of our study.
- Our recommendations could encompass a number of dimensions, the overall aim of which is to enhance the adaptability of catering services to meet customer needs and to optimise revenue. Areas of focus for our recommendations may include identifying and promoting the following:
  - Best practice which is capable of enhancing the overall catering experience for railway passengers in Great Britain;
  - The value of clear guidelines;
  - The value of competitive tendering (in particular of transparent and competitive processes);
  - Changes to the contractual process including the fit-out of units, maintenance and repair, to help address the impact of delays and complexities on catering companies; and
  - Mechanisms for monitoring performance.
- We will consider the potential for TOC, Network Rail and other industry customer panels to play a role in promoting passenger choice.
- We will also, in light of the barriers to effective competition discussed in Chapter 5 of this report, consider the potential for remedies relating to access to infrastructure, including shared kitchens and storage facilities.

### Enhancing retail offer in stations

7.11 The DfT sets policies and regulations for railway stations and franchise agreements with TOCs, including requirements for managing station facilities and catering services. Devolved authorities in Scotland and Wales shape franchise management, station facilities, and catering services in their regions.

7.12 We anticipate making recommendations to the DfT and to the devolved authorities that will promote strategic input relating to these markets. Such input can incentivise station operators to enhance the retail offer, optimise revenue, and align with passenger needs.



## Summary

- 7.13 The possible actions outlined in this chapter represent proactive steps to address the identified issues in the railway station catering market. We have decided against a CMA referral and will, instead, use our position as the sector regulator to promote a more competitive, customer-centric, and commercially oriented catering market at railway stations.

## 8. Next steps

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8.1 This interim report has set out our provisional views on competition in the market for catering at railway stations. It concludes the first six months of our market study. It also starts the second phase of our market study which must conclude within six months. We summarise below what we are going to do during this second phase.

### Invitation to comment

8.2 We have decided not to make a reference under section 131 of the Enterprise Act in relation to the market of catering at railway stations. We are not required under section 131B of the Enterprise Act to consult interested parties before making our decision, and we are not inviting comments on this decision.

8.3 However, we welcome submissions with supporting evidence that would help us test and refine our findings on the main areas of concern. We also welcome views on the proposed actions we have identified so far.

8.4 To send comments, please email your submission to:  
[cateringstudy@orr.gov.uk](mailto:cateringstudy@orr.gov.uk) Please send your submission by close on **Friday 26 January 2024**.

8.5 When you send your submission:

- Please supply a brief summary of the interests or organisations you represent, where appropriate.
- If you consider that any of the material you provide to be confidential, please explain why this is the case, and provide both a confidential and non-confidential version of your response.

### Phase 2 of the market study

8.6 With the publication of this interim report, we are entering the second and final phase of the market study. During this phase, we will work towards our final report. The final report will contain our final decision and supporting assessment.

8.7 We must publish our final report within 12 months of the date of publication of the Market Study Notice, that is, no later than 15 June 2024.

# Annex A: Summary of our web scraping and mystery shopping methodologies

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## Web scraping

- A.1 We sought additional evidence on passenger outcomes by carrying out an analysis of online customer reviews of all GB railway station outlets against high street comparators. We used Google Maps reviews as a data source and collected this data using web scraping, i.e. a method for extracting large amounts of data from web pages in an automated fashion. On Google Maps, all scores are rated on a scale from 1 to 5 stars, with 5 as the highest rating. The review score is the average of all ratings submitted to Google for that outlet.
- A.2 Two important characteristics of our approach are as follows:
- Customer expectations are typically driven, in part, by prices, with customers having higher expectations where prices are high. Our relatively simple web scrape, based on the headline scores provided by Google Maps, did not allow us to isolate passenger satisfaction with both price and non-price aspects of station catering.
  - Considerable caution must be applied when reading online reviews, which have themselves been the subject of considerable scrutiny from a consumer law perspective (See <https://www.gov.uk/cma-cases/online-reviews>). Online reviews bring a risk of data quality arising from fake and/or misleading reviews.
- A.3 In summary, the online aspects of our web scraping exercise were conducted as follows:
- We used a list of terms to be searched for using Google Maps. The format of these search terms was: '[station postcode] & [catering search term]'. For example, ['L1 1JD' & 'café'], where L1 1JD is the postcode of a station (Liverpool Lime Street).
  - For the station postcode search term, our web scraping covered the station postcode of all GB stations which fell within our study's scope.

- Our list of catering search terms included: coffee shop, café, fast food restaurant, and sandwich.

A.4 The scraping returned data for all businesses which were picked up by the search – with the full output including: average ratings, number of reviews, business type, and latitude/longitude coordinates.

A.5 Following the collection of data, we carried out further offline analysis as follows:

- Classified outlets as being either ‘in-station’ or ‘non-station’ using the central co-ordinates for all GB rail stations and for all our scraped catering outlets. Where an outlet’s coordinates were less than 50 metres from a station’s central co-ordinates, we classified this outlet as within station. If an outlet’s coordinates were more than 500 metres from a station’s central co-ordinates, we classified this outlet as non-station. Our searches’ focus on station postcodes meant that ‘non-station’ in almost all cases meant the high street. We adopted this approach in order to have a relatively high degree of confidence that we did not mistakenly identify outlets as in-station or non-station. A downside of our approach meant that we did not examine any of the ratings of outlets located between 50 and 500 metres of central station co-ordinates;
- Filtered out non-relevant businesses, since our scraping inadvertently captured data relating to a number of non-catering businesses; and
- Used this dataset to calculate average reviews for station outlets compared with high street outlets, including within brand comparisons, such as comparing average ratings for within-station and non-station branches (for example, Costa Coffee) and comparisons based on outlet types as defined within Google Maps, such as ‘sandwich shop’ and ‘coffee shop’.

A.6 Our web scraping provided reviews on a total of 745 in-station outlets, and 15,423 high street comparators. This sample comprises over 4.2 million individual reviews.

## Mystery shopping

A.7 In May 2023 we commissioned the market research company Mystery Shoppers Ltd (MSL) to provide insight into the passenger experience of railway station catering outlets at mainline stations across the GB rail network.

- A.8 Our aim was to investigate the extent to which passengers using stations were getting a 'fair deal', in terms of prices and overall customer experience by comparing station catering outcomes with those seen on the high street and at other transport hubs. For this exercise we asked MSL not to consider the role played by any underlying differences in cost in influencing prices or the role played by product quality in influencing customer satisfaction. These issues fell outside the scope of MSL's brief.
- A.9 MSL used in-person mystery shopping surveys to carry out its brief. MSL compared the passenger offering for station catering against comparable offerings on the high street, UK motorway service stations and airports.
- A.10 MSL's sampling methodology covered the nine English regions plus Wales and Scotland and surveyed the top ten highest footfall stations in each region alongside relevant comparators. MSL field workers visited allocated locations and surveyed all eligible (and within scope) outlets at each location. MSL collected data from different outlet types (such as café, coffee shop, and convenience shop) and brands (such as Starbucks, Greggs, and Costa).
- **Retail prices** - field workers collected price data on a selection of up to six products (depending on availability) per outlet, specifically two each of cold drinks, hot drinks, and food items. Products were selected by agreement between MSL and ORR.
    - By agreement with ORR, MSL's primary focus was on 'within brand' price comparisons. This involved comparing the same items at chains of the same brand at stations and different transport hubs. This was to avoid drawing inferences from price differences which could be easily explained by differences in product quality.
    - MSL's fieldwork was completed within a one-month timeframe to minimise the impact of recent inflationary pressure on its results.
    - MSL focused on the headline prices of individual food and drink items rather than on meal deals or other promotions.
    - MSL's analysis did not explicitly consider the impact of any geographic variations in price or any differences in eat-in/take-out prices. ORR's stakeholder research suggested that such differences tend not to be widespread in station catering.

- **Customer experience** - field workers made a purchase at each surveyed outlet and completed a questionnaire related to their experience of the outlet to provide a net promotor score (NPS) and a customer experience score (CES). NPS is a market research metric based on survey questions asking field workers to rate the likelihood that they would recommend the outlet to a friend or colleague. MSL generated a CES per comparator using the scoring question results from a customer assessment form completed by field workers. CES questions related to cleanliness, queue times, customer service, overall experience. This approach did not include an assessment of individual product quality.
- Overall, MSL conducted 935 site visits – with an outlet breakdown of 447 stations, 244 high street catering outlets, 226 motorway services and 18 airports. MSL’s research included data from 104 distinct outlet brands including chains and independent outlets. MSL arrived at a dataset which included a total of 2,770 product prices and 935 distinct visits for its customer experience analysis.



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