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Response to Retail market review for selling tickets – call for evidence

Dear Siobhán Carty,

As requested I am writing to respond to your call for evidence in your letter dated 19th February 2014. I respond to each of the questions below.

1) What additional drivers (if any) of the review should be considered?

One of the key barriers to more effective rail retailing is the complexity of the current fare structure, including the huge number of different ticket types (and associated restrictions/routing guide considerations).

We have experienced a number of examples where the complexities are such that ATOC/RSP systems have internal inconsistencies, and it's not possible to gain clarity about how the current system works, even when there is willingness from all parties to provide the necessary transparency.

The situation is such that customers are being asked to adhere to fare conditions that have not been disclosed to them. In many cases it's not possible to obtain a definitive answer on what conditions apply, even following manual intervention by retailers in conjunction with ATOC.

Therefore we would like to see "How can simplicity be increased?" or similar as a key driver of the review.

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

The scope looks good on the whole and it is encouraging to see ORR considering these issues.

We would welcome more specificity and detail on the relationship between TOCs and third-party vendors.

There is currently ambiguity in the market as to whether third-party vendors have the ability to sell exactly the same tickets as TOCs, or if there are certain tickets/fares that only TOCs are allowed to sell.

Specifically, TOCs currently discount their own Advance fares, and it is not clear whether third parties are permitted to discount Advance fares in a similar way in order to effectively compete with TOCs, or whether it is only the non-discounted Advance fares that Third Parties can sell. The current scope of the review addresses TOCs and Third Parties separately, and this doesn't leave full room for discussion of the relationship between the two.

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

Discounting Advance fares works well on the whole, as it does in lots of different rail markets in Europe (see below).

However there is lots of confusion amongst passengers about how to buy the most appropriate/cost effective tickets for their journeys. This is primarily due to the fact that in the marketing of TOCs and other retailers, Advance fares are characterised as "savings". The savings percentages calculated versus the full walk-up fare but this calculation is only disclosed in small print. This leads to confusion because customers fairly assume that there must be another saving in effect, specific to the retailer they are purchasing from.

Framing prices in this way works to the advantage of retailers who can imply that their pricing saves money versus other retailers, but from the customer perspective is simply confusing and outdated now that so many passengers are familiar with the need to book early in order to pay below the full "walk-on" fare. The ORR could consider more closely regulating the marketing of different fare types in order to provide better transparency and reduction of confusion for customers.

On the whole the main thing that needs to be fixed is the confusing array of restrictions and permitted routes available for each ticket type. Notwithstanding the need to avoid "gaming the system", there is no need for fare structures not to be hugely simplified.

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

Having had exposure to fare structures in other major European countries (particularly France, Germany and Spain) we at Loco2 feel that we are well positioned to answer this question.

Return tickets

The UK is fairly unique in offering of “Open return” tickets that allow return travel on any train. With the exception of certain regional trains in Europe most return journeys are simply 2 X the single price, and are tied to specific return trains.

This is both an advantage and a disadvantage. It is helpful for customer to have flexibility for their return journey, but it also contributes to confusion when comparing different options for return journeys (often customers may choose 2 X Advance Singles and then be confused about whether they are tied to a specific return train). We note that this issue is already being addressed by DfT -- <https://www.gov.uk/government/news/simplified-tickets-for-the-rail-industry>.

Yield managed/demand-led pricing

Discounting peak versus off-peak trains, and rewarding customers for booking early are examples of post-privatisation innovation that has worked well and no doubt contributed to rising passenger numbers. This is to be considered against the backdrop of yield-managed pricing becoming more prevalent across Europe, largely as a response to the model working well for flight pricing.

France follows a similar yield-managed approach to pricing but has a very small number of fare types exposed to the passenger, with the resulting fares usually organised into simply “Flexible”, “Semi-flexible” and “Fully flexible”. There is the potential for some confusion over these terms (e.g. a UK passenger may take “Fully flexible” to mean “Anytime” but actually the flexibility usually only refers to refunds/exchanges) but on the whole the simplicity makes for a much simpler purchasing experience than in the UK.

We would suggest limiting the number/name of fare types exposed to the customer. It may be that it is necessary to keep the fare names for TOCs and other retailers to refer to amongst themselves at an industry-level as pricing is decided, but customers do not usually care or need to see the exact name of the fare they are purchasing, as long as they understand the conditions attached to it.

Reducing complexity and using technology intelligently

As mentioned above it would be highly desirable to hugely increase the simplicity of the fare types available to customers, and to standardise the restrictions and conditions associated with each fare type. It is noted that the UK’s close-knit network and high population density poses challenges not present in other European markets, but nevertheless there is a lot that can be done.

We would welcome a public and transparent appraisal of the technology landscape associated with the current fare structure, as this is likely to be crucial to increasing simplicity and stimulating/safeguarding genuine competition. Lots of sectors have benefited from the ongoing digital revolution and there are numerous ways that these learnings can be brought into the rail sector.

The more open the technology used to deliver any required changes, the easier it will become to spot opportunities for simplification, efficiency savings and to address other problems that may arise. Technology and data analysis will be able to provide

pointers towards solutions to problems. Existing systems are largely closed and opaque to new market entrants and this poses a problem for innovators (as well as unnecessarily increasing costs).

Tim Berners-Lee has made various points about the openness of data that have relevance to the types of challenges faced in rail retailing and we would encourage the open data debate to touch retailing as well the real-time and other rail-related data that it has touched so far.

We acknowledge that encouraging a shift towards innovation and away from unnecessary complexity/bureaucracy encompasses inherent risks when it comes to a public service as crucial as the railways, and so there is a clear balance that needs to be struck. As part of this process it will be important for Government to remain sensitive to private sector involvement when private enterprise is set to benefit commercially from any contracts, particularly if involvement is not accompanied by full transparency. This is perhaps one of the most important lessons to take from the evolution of the rail retailing market since privatisation.

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

The timescales and general approach are encouraging and we welcome the opportunity to further contribute as part of this process.

Yours sincerely,

Jamie Andrews

Co-founder and CEO
Loco2 Ltd