

## Joint West Midlands Integrated Transport Authority and Centro Response to ORR Retail Market Review - October 2014

### Chapter 2

1. *Is our description of the retail market for tickets and passenger buying behaviour correct? If not, are there any relevant trends/issues we are missing?*

The description is broadly correct. However, it doesn't recognise Centro's highly successful Direct Debit and Corporate Travel (selling directly to employees of major companies) schemes.

This not-for-profit 3rd Party initiative retails rail and multi-modal zonal season tickets to over 21,500 passengers (March 2012) on behalf of operators. These rail and multi-modal products are issued on equipment supplied to Centro by London Midland.

Centro has also, on behalf of the seven West Midlands Metropolitan Councils, issued over half a million English National Concessionary Scheme passes which are valid for travel on off-peak (post 0930 weekdays and all day at weekends) rail services in the West Midlands metropolitan area.

These Concessionary passes are issued on ITSO compliant Smartcards and entitle the users to purchase local rail and multi-modal pre-0930 season tickets at a 50% discount on the standard all day season ticket.

2. *Have we appropriately captured the most significant changes to ticket retailing in the last 10 or so years? Do you consider that the pace and level of developments and changes have been appropriate in meeting passengers' changing needs?*

#### *Smart Ticketing*

Whilst there has been progress elsewhere, the development and introduction of Smart and integrated ticketing solutions in the West Midlands has been frustrated by lack of progress in the franchised rail environment.

In particular, there has been a lack of incentive for train operators to switch to systems such as ITSO smartcard and even where this has been a franchise commitment operators (such as London Midland) have failed to meet the original timescales and ticket volumes.

Where the TOC has introduced limited smart-ticketing (e.g. on the Birmingham Snow Hill suburban lines) this has not even covered the full range of available Season Ticket fares, which has restricted passenger choice and resulted in an unattractive product (see response to question 5).

#### *Closure of Ticket Offices*

The closure of large numbers of station booking offices in the West Midlands area has had a significant detrimental impact on the range of ticket purchase options available to passengers.

Passengers at such stations are now unable to purchase the full range of tickets (especially advance or local multi-modal tickets) from the TVMs and are no longer able to get ticketing advice from local station staff.

We are not advocating that station booking offices should never be closed. However, the wider benefits of stations with a visible staff presence (safety, security & passenger assistance) need to be considered. As a minimum, passengers ought to be able to purchase the same range of rail and multi-modal tickets from a TVM as those available on-line or from a booking office. The

TVMs should also provide clear instructions as to ticket validities and restrictions, as this is not always available in a consistent, understandable or accurate format.

- 3. Are there insights on passenger behaviour, market share and sales channels from other sectors that are worth considering?*

When considering other sectors there are examples of integrated ticketing and retailing in European city regions which could be considered.

However, insights from Aviation sector are unlikely to be appropriate for commuter and City Region transport markets. If comparisons are to be drawn with other modes, then the Bus and Light Rail sectors must also be considered in the context of transport in urban areas.

### **Chapter 3**

- 4. Have we accurately described the ticket selling arrangements in respect to i) retailers' incentives in selling tickets; ii) retailers' obligations to facilitate an integrated, national network; iii) retailers' governance arrangements; iv) retailers' industry rules; and v) retailers' industry processes and systems?*

The highly successful West Midlands' Direct Debit and Corporate Travel (selling directly to employees of major companies) schemes are managed on a not-for-profit basis by Centro on behalf of the bus, tram and rail companies which serve the metropolitan area. The schemes now have in excess of 17,500 customers.

The products available are based on Annual Season ticket prices, which facilitates significant discounts to customers (compared with the cost of standard 4 weekly or monthly season tickets) without the up-front expenditure on an annual product. From an operator perspective, this 3<sup>rd</sup> party Direct Debit scheme supports customer retention and helps reduce the traditional Monday morning booking office season ticket renewal queues. The convenience of the scheme (which includes, for example, the flexibility of being able to skip a month if the passenger is going on holiday) also acts as a catalyst to patronage growth and long-term customer retention.

Effectively Centro acts as an agent for the principal local operator (London Midland) and uses LM's systems and machines to issue tickets.

### *Chapter 4*

- 5. What are your views on the impact of the retailers' incentives in the way they sell tickets? To what extent do the incentives discussed herein impact retailers' approaches, and how do these differ by retailer type? From the point of view of a retailer, what factors have to be present to make the development of new products an attractive proposition?*

#### **Example 1**

Centro introduced on-line Direct Debit season ticket sales via its Network West Midlands website in 2011.

<http://tickets.networkwestmidlands.co.uk/directdebit/> An average of 70% of applications are now submitted via the online portal and within the last twelve months the Buy 1st Ticket option has been introduced. This allows online applicants for direct debit to pay for their first months

ticket with a debit or credit card thereby accessing the savings offered immediately. This has proved to be hugely popular with over 60% of all online customers choosing to take advantage of this new option.

All these initiatives has made it much easier for customers to purchase season tickets and driven a massive 32% increase in scheme membership between 2011/12 and 2012/13

### **Example 2**

Under the Central Trains franchise, Centro (West Midlands PTE) took the nominal revenue risk on local rail fares and controlled both fare pricing, fare product range and marketing of fares and services.

Specific measures were taken to grow the market (through keeping off-peak fare increases below the regulated rate specified by DfT) and simultaneously manage demand and generate income for investment (through increasing peak fares at a level which was 1% above the DfT's regulated rate).

In order to encourage further travel at off-peak times Centro introduced products such as Friends and Family returns (which offered discounted off-peak fares to passengers accompanying season ticket holders) & Super Off-Peak evening returns available after 18.30.

These fares were marketed successfully by Centro during the Central Trains franchise, however, since losing responsibility for revenue risk and product marketing to new TOC London Midland, there has been an almost total absence of promotion for these innovative products (other than via Centro's own Network West Midlands website and Bus, Train and Metro Ticket Guide leaflet) and they are not available from ticket vending machines - [www.networkwestmidlands.com/TicketHome/family\\_fare.aspx](http://www.networkwestmidlands.com/TicketHome/family_fare.aspx)

This is primarily due to a mismatch in retailer objectives and incentives. As a public transport specifier and co-ordinator, Centro's primary aim was to use retailing tools to grow the rail market (especially in the off-peak where considerable spare capacity is available). In contrast, a commercial TOCs retail focus is primarily on maximising revenue. In the West Midlands, this has led to significantly reduced promotion of local tourist/retail attractions as the operator's focus has shifted to promotion of more lucrative long distance markets.

### **Example 3**

What is more concerning, from a whole rail industry standpoint is that, not only are the aforementioned innovative off-peak products no longer marketed, but the standard regulatory framework provides a strong incentive for the regional TOC to increase the price of unregulated off-peak day return fares to just below the price of the regulated peak return fares.

This results in an erosion of the price differential between peak and off-peak travel which significantly removes the incentive for passengers to travel off-peak which can worsen peak time overcrowding.

### **Example 4**

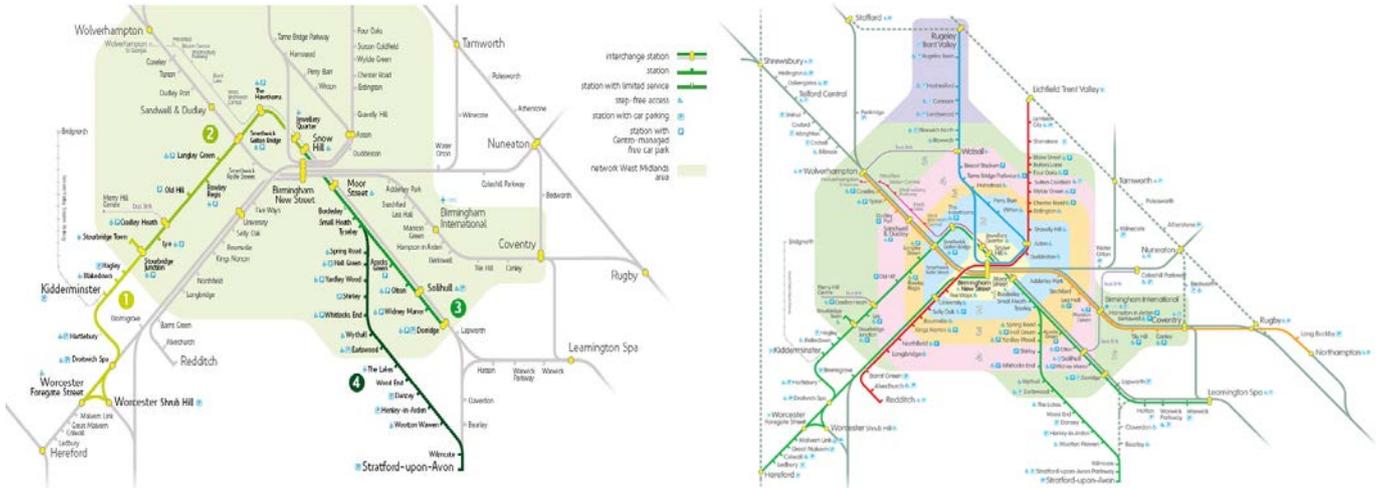
The 2007 franchise agreement between the Secretary of State for Transport and London and Birmingham Railway obliged London Midland to have a set percentage of passengers using ITSO Smartcards by a target date.

Whilst not in a position to comment on whether or not this target has been met, it is clear that the relatively loose specification of this requirement has had some negative impacts on passenger choice and inter-availability of tickets compared to the existing paper-based ticketing offer.

In particular, London Midland’s ITSO Smartcard “The Key” is only available for (newly introduced) point-to-point rail only season tickets the Snow Hill route (the green lines on the left-hand map below).

This is problematic as the entire West Midlands rail season ticket offer is based on a multi-route zonal fare structure (right). Whilst the new Smartcard fares offer a small discount on the established Season Ticket products they remove the season ticket holders flexibility to use alternative routes (e.g. between Worcester or Smethwick Galton Bridge and Birmingham New St) and to take advantage of their existing zonal ticket to make other journeys (e.g. weekend leisure trips) across the wider rail network.

Based on market research, we know that passengers want a smart-ticketing scheme based on the current zonal fares structure, including multi-modal products valid for local rail, bus and tram services and supplemented by the addition of new ticketing products such as multi-trip carnets.



6. *What are your views on the impact of the impartiality obligation? What is your view on passengers’ awareness of impartial retailing? How does the cost of impartial retailing impact passengers’ services? How could this be addressed?*

The multitude of different fares and operators adds complexity to the fare offer on many parts of the rail network and contributes significantly to passenger confusion. Impartial retailing, whilst fine in principal, is not always easy to achieve, especially when passengers need to fully understand all the consequences of purchasing the cheapest product. These consequences can include: restrictions as to the route, operator, time of travel or even specific service used.

For example, whilst “Virgin Only” fares exist between Wolverhampton and Birmingham, the passenger need to understand that Virgin only operate **one** of the **ten** hourly services on this route. Whilst this information **may** be given to the customer at a booking office, the full implications of the “Virgin Only” restriction are not immediately apparent when such fares are purchased at a Ticket Vending Machine.

7. *With respect to split ticketing, what are your views? Are passengers appropriately safe-guarded against the risks attached to split ticketing? To what extent do industry*

*processes and systems enable split ticketing to be developed by industry and used by passengers? Where there are issues, what could be done to address them?*

Split-ticketing would be unnecessary if long distance fares were more competitively priced.

Examples of the passenger benefits that can be obtained from split ticketing are clearly highlighted on the undertaking a journey from Birmingham to Leeds, returning the same day on any train.

Train	0903 Birmingham to Leeds	1003 Birmingham to Leeds
<b>Anytime Return</b>	<b>£116.00</b>	£116.00
<b>Off-peak return</b>	N/A	<b>£58.10</b>
<b>Advance single</b>	£55.10 (£110.20 for return)	£55.10 (£110.20 for return)
<b>Birmingham – Derby</b>	£18.00 (anytime)	£16.70 (off-peak)
<b>Derby – Sheffield</b>	£11.10 (off-peak)	£11.10 (off-peak)
<b>Sheffield - Leeds</b>	£10.80 (off-peak)	£10.80 (off-peak)
<b>Total split ticket cost</b>	<b>£39.90</b>	<b>£38.60</b>
<b>Saving by split ticket</b>	<b>£76.10 (66%)</b>	<b>£19.50 (34%)</b>

For this journey, the savings are substantial, especially considering the high advance ticket price. Buying three tickets creates no risks for passengers, and passengers paying the full £116.00 would no doubt be surprised about how much they could save. However, for Cross-Country, promoting the split ticket option on this important flow would significantly undermine revenue.

Considerable savings are possible and in most instances, with the exception of some advance fares, the risks are minimal. In the short term, the ability to split-tickets must therefore be protected to protect passenger choice.

However, in the longer term the price of through tickets, especially for walk-on fares, ideally needs to be reduced to more reasonable levels to reduce the need for passengers to search for the best options fare options through split-ticketing.

The concept of a price-match promise has become familiar in the retail sector, however the rail industry is significantly behind the curve. In order to give passengers confidence that they are being sold the cheapest ticket for their journey and remove confusion both for passengers and staff, there is a case for a similar price-match promise on rail, so that through tickets (whether regulated or unregulated) should be price-matched to the cheapest combination of split-tickets for the same journey. Such an arrangement would effectively do away with the need for split-ticketing.

A further benefit of this would be that the railway industry would receive more accurate data through LENNON on the origin and destination of passenger journeys, as split-ticketing will lead to a skewed picture of where passengers are travelling from and to.

Operators retail systems and advanced ticket quotas also need to be more flexible. For example, it is often possible to buy separate advance fares for different legs of a journey but not a single advance fare for the whole journey (even when that journey is being made on the same train!)

8. *What are your views on the requirement on TOCs to create and retailers to sell inter-available and through tickets and to offer a timetabled, walk-up service? What are your*

*views on the benefits passengers and TOCs derive from these tickets and the timetabled, walk-up service? What challenges does this obligation give rise to, if any? Where there are issues, what could be done to address them?*

It is essential for customer flexibility and choice that passengers are able to purchase inter-available through tickets and have a timetabled walk-up service offer.

However, the price of walk-on fares, especially long distance “Anytime” fares, has in many instances risen dramatically above the rate of inflation, whilst passenger choice has been severely curtailed, either through the wholesale removal of established products such as “Super Saver” or Cheap Day Return fares, or through the imposition of increased restrictions on the times at which products such as “Off-Peak returns can be used.

As an example, prior to privatisation in 1997 the Birmingham to London “Any Permitted Route” fare range included Cheap Day, Super Saver, Saver and Standard Open return fares. Whilst the new Train Operator for this route introduced a wider range of advance fares, the Cheap Day and Super Saver walk-on fares were abolished.

Between 1998 and price of the regulated Saver (now Off-Peak) return from Birmingham to London increased from £28.50 to £50.50 - a 77% increase broadly in line with inflation over the same period.

However, the unregulated “Standard Open” (now Anytime) return increased from £61.50 to £164.00 over the same period – a staggering 167% increase over the same period.

Birmingham - Euston Fare Changes 1998 - 2014	Cheap Day Return (Unregulated)	Off-Peak Saver (Regulated)	Anytime Standard Open (Unregulated)	Anytime / Off-Peak Differential
1998	£20.50	£28.50	£61.50	116%
2003	Withdrawn	£35.30	£93.00	163%
2014	Withdrawn	£50.50	£164.00	225%
Lowest increase since 1998	146%	77%	167%	
Increase if Anytime now req.	700%	475%	167%	

Even worse for walk-on passengers is the fact that the restrictions on Off-Peak travel (which in 1998 allowed use of trains from 09.15 and only prevented use of the two busiest evening peak services from Euston to Birmingham) now only allow travel from 10.10 and prohibit use of any Virgin Trains departures from Euston between 15.01 and 18.44 – an evening peak period which now extends to almost 4 hours.

As a result, many walk-up passengers who would have bought a Super Saver or Cheap Day Return for a journey in 1998, now have to purchase a much more expensive Standard Open Return fare for the equivalent journey in 2014. In the extreme case of the (now abolished) Cheap Day return fare this represents a fare increase of 700% (almost 10 times the rate of inflation) since 1998.

This highly undesirable outcome from a passenger perspective has been driven both by the failings of the current regulatory structure (whereby off-peak walk-up fares are regulated but anytime fares and off-peak usage restrictions are unregulated) and by the train operator’s understandable objective to increase revenue.

However, the aforementioned changes to the Birmingham – London fare structure have also had negative consequences for the industry as a whole, especially in relation to management of demand from London Euston in the evening peak.

This disproportionate increase in the price of the unregulated Standard Open Fare has increased the **Peak/Off-Peak fare price differential** from **116%** in 1998 to **225%** in 2014.

The fact that a walk-up Peak Ticket now cost more than three times as much as the Off-Peak product has created a “Cliff Edge” in the pricing structure which leads to overcrowding on the first off-peak evening trains whilst discouraging use of those services at the tail end of the peak period. This results in sub-optimal use of rolling stock and station congestion around this shoulder-peak period. (It is worth noting that on the parallel Chiltern Railways route the Peak/Off-Peak price differential is less than 80%).

9. *With respect to having minimum obligations on TOCs to have their station ticket offices open, what are your views on the impact of these obligations on how the market can develop in line with passengers’ needs?*

The West Midlands experience has shown that the Schedule 17 Franchise commitment to staffing of station booking offices is effectively worthless.

Although subject to consultation process which received more than 18,000 objections (including from Passenger Focus and Centro) the vast majority of London Midland’s proposed reduction in booking office opening hours or closure were approved. Even where the closures of the Booking Office was not approved, in some instances the reduction in opening times to a just a couple of hours on a couple of days a week was both impractical to manage and largely useless from a passenger perspective.

This had a devastating impact on station staffing across the West Midlands region and took no account of the wider customer facing role that station staff can have. Rather than the wholesale de-staffing of stations across the network for large parts of the day, a more pragmatic approach would have been to widen the remit of booking office staff to cover more general passenger assistance and, where appropriate station security roles.

One of the main problems with Booking Office closures is that passengers are no longer able to purchase the full range of ticket products at their local station. This is a particular issue in the West Midlands where two of the main products, the multi-modal Daytripper and Nnetwork 7 Day Season tickets are not available from the (Ticket Vending Machines) TVMs.

Similarly passengers are unable to purchase tickets in advance from TVMs (although some offer a pick-up facility for tickets purchased on-line), nor are they able to purchase tickets for journeys starting at another station (a facility which is useful for many passengers e.g. season ticket holders wishing to make journeys beyond the range of their season ticket).

In penalty fare areas, where the product the customer wishes to purchase is unavailable (Or only a PERTIS machine is provided) the passenger is still expected to buy either a ticket they don’t want or a Permit to Travel. This requires the customer to make two transactions in order purchase the product that they actually want. And, in the event that the conductor does not come down the train (often the case on busy peak-time services), the passenger faces the inconvenience and delay of having to queue up to buy their ticket on arrival at their destination. This has led to scenes of lengthy queuing at Birmingham New Street, as passengers queue up to buy a ticket to enable them to exit the ticket gate-line.

Effectively passengers at stations without Booking Offices are discriminated against, as even when fares for their journey are available from a TVM, they are often unable to make an informed choice as to which fare is best for them as only limited information is available.

This includes some disabled passengers and other vulnerable groups, for whom a TVM is difficult or impossible to use. At unstaffed stations Station Facility Owners should, as a minimum, provide information perhaps in the form of posters, listing the key fares available to the most popular destinations from the station and the restrictions, if any on their use.

*10. With respect to TOCs being prohibited from charging fees, what are your views on the impact of this requirement? To what extent, if any, does this give rise to a distortive effect between TOCs and third party retailers?*

TOCs should not be allowed to charge fees, other than for provision of significant additional services such as, for example, guarantee next day delivery of tickets.

However, at least one TOC (CrossCountry) already charge passengers for picking up on-line ticket purchases at Ticket Vending Machines, whilst 3<sup>rd</sup> party retailers such as thetrainline.com even charge a booking fee over and above the commission which they receive.

If the restriction on TOCs charging fees is removed, there is a real danger of “Ryanair” scenario emerging whereby Train Operators charge passengers for Credit or Debit Card Transactions or for other, currently free services. If anything, the prohibition on charging fees should be extended to specifically cover third party sales and charges on picking up tickets from TVMs.

## **Chapter 5**

*11. What are your views on the current form of industry governance? Are there specific examples where the governance has enabled or limited retail innovation? Where necessary, how could industry governance be improved?*

Passenger Transport Executives and Integrated Transport Authorities have been huge drivers of rail ticketing innovation in their areas, developing and promoting new fares for different market segments and promoting use of off-peak travel.

Crucially PTE/ITAs have been at the forefront of provision, development and promotion of integrated ticketing across all public transport modes, which has dramatically improved the passenger offer. PTEs have also led the provision of simplified Zonal fares structures in the Metropolitan areas, which are both easier for passengers to understand and allow more flexible use of the network (e.g. allowing season ticket holders to make additional discretionary leisure trips to areas which may not on their daily commute).

However, certain train operator initiatives (e.g. the re-introduction of point-to-point season tickets by London Midland for Smartcard users) or introduction of single operator only fares within the Metropolitan area can undermine the integrated, easily understood and customer-friendly public transport retail offer which has been developed over many years.

PTE/ITAs and future Devolved Rail Authorities ideally, therefore, need to have the power to veto such initiatives where these could adversely impact on the local public transport retail offer.

*12. What are your views on the current form of industry rules? What benefits do they give rise to, and how? Are there any specific aspects of industry rules that limit or dampen innovation in retail? How could they be addressed?*

No Comment.

*13. With respect to the third party retailers' arrangements, to what extent does the nature of their relationship with TOCs enable them to benefit passengers, including bringing about competition and innovation? How are the arrangements between the wholesale provider and the third party retailers in other sectors relevant to rail? What is the impact of third party retailers in rail not having access to a wholesale market / wholesale price? Do the industry governance, rules, processes, and systems pose additional impacts for third party retailers that we have not captured?*

As already discussed, Centro currently acts a 3<sup>rd</sup> party retailer (albeit using London Midland systems) retailing and marketing Direct Debit and Corporate Travel Season tickets on a not-for-profit basis.

However, we are to some extent beholden to the Train Operator whose systems we use. Greater freedom to retail these products (via rail industry systems) independently of a train operator could therefore have some advantages.

*14. What are your views on the current form of industry processes and systems? What benefits do they give rise to, and how? Are there any specific aspects of industry processes that limit or dampen innovation in retail? Do these processes have other impacts, either causing problems or leading to benefits?*

No comments

*15. With respect to industry data, how does access to and quality of data manifest? What is the impact?*

Greater access to ticket sales data would be of advantage to transport planners in the metropolitan areas, especially when considering future areas for investment in the transport network.

However, quality - doesn't reflect PTE ticket sales or impact of Splitting

## **Chapter 6**

*16. What are your view on our proposed approach to assessing the materiality and relevance of the impacts? Please particularly consider the extent to which the incentives, obligations, governance, rules, processes and systems in place facilitate or inhibit i) passengers being active, empowered and engaged in the market, causing suppliers and retailers to reduce costs and raise quality; and ii) retailers can compete to deliver services that meet consumers' needs and expectations.*

The West Midlands Integrated Transport Authority and Centro want to be closely involved the ongoing review and to have the opportunity to drive forward sensible changes which take full account of specific requirements of West Midlands city region not just focussed on the London and South East and Long Distance rail markets.

*17. What are your views on proposed approach to Stage Two of the Review?*

The proposed approach appears sensible and the West Midlands Integrated Transport Authority and Centro want to continue to be closely involved in the process.

*What other views have you regarding the Review that has not been captured in the questions above?*

Other issues which the West Midlands Integrated Transport Authority and Centro consider have not been captured in the questions include:

- The impact of closing station booking offices on revenue protection and customer security / perception of security
- The future integration of HS2 ticketing structures with national and local metropolitan area ticketing structures
- The disproportionate impact of unregulated Station Car Park Charges on the total cost of travel which can perverse outcomes, especially in metropolitan travel to work areas

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