

ORR RAIL RETAIL REVIEW

ARRIVA CROSSCOUNTRY RESPONSE

3rd November 2014

Introduction

CrossCountry ('XC') is the trading name for XC Trains Ltd. We are part of Arriva UK Trains ('AUKT'): the operator of three UK rail franchises (CrossCountry, Chiltern Railways and Arriva Trains Wales); a joint venture partner in London Overground (LOROL); the operator of the Tyne & Wear Metro and the open access operator of Grand Central. Arriva itself was acquired by Deutsche Bahn AG ('DB') in August 2010 and subsequently became a division of DB, known as DB Arriva.

The CrossCountry franchise is the most extensive rail network in Great Britain and the only train operator linking the 3 countries of GB together. We provide services to England, Scotland and Wales across 1650 route miles carrying c33 million passengers a year. Our 298 weekday services (fewer at weekends) operate on 7 radial routes from Birmingham, with the extremities of these routes comprising Penzance, Aberdeen, Bournemouth, Manchester, Cardiff, Stansted Airport and Nottingham. CrossCountry operates no stations or booking offices, instead we retail direct to our customers through digital retail channels (website, app, mobile web), telesales and on-board.

This submission supports and is complimentary to the submission from Arriva UK Trains. Where appropriate this submission refers to and cross references the AUKT submission.

Executive Summary

Britain has the fastest growing rail market in Europe and most of the developed world. Clearly a lot is working well, so this response is written in that context.

However, there are areas where 'good' could become 'better'. The rail retail market suffers through regulation from multiple sources, often with contradictory objectives. One consequence is that change and innovation is stifled, with businesses forced to the lowest common denominator. This is most visible in the continue preponderance of magnetic stripe paper ticketing in the industry; and, from CrossCountry's perspective, in the lengthy, costly and torturous process to secure agreement for the expansion of Advance Purchase retailing ('APOD') to the day of travel.

The franchising system is designed around regional franchises, regulated by their franchise agreements. However, the Ticketing & Settlement Agreement ('TSA') creates obligations to retain a single integrated network. The breadth of the TSA's scope has the consequence of preventing TOCs from creating positive business cases for change and innovation, as it is has proved almost impossible to remove anything that already exists. TOCs are committed to better outcomes, but need the right incentives and structures to be able to deliver.

Some regulation is clearly in the best interest of customers. However much of it we believe actually mitigates against changes that customers would welcome. Differential pricing by sales channel, for example, has been a critical component of positive change in almost every successful retail market, but is prevented in rail. Regulating Off-Peak ticket prices in the long distance market prevents full revenue management (and therefore maximisation of capacity) where, for example, busy trains in the 'shoulder peak' face overcrowding due to the presence of regulated, walk-up Off-Peak fares. Franchise tenders that specify the 'right' answer are written with the intention of creating positive change, but often prevent TOCs from innovating. TOCs with the incentive to grow and the right regulatory structures will come up with the right commercial answers.

The requirement for TOCs to create 'anywhere to anywhere' pricing without sensible limits results in complexity, split-ticketing anomalies which risk damaging industry revenues unintentionally, and result in TOCs needing to move together on retail fulfilment. Passengers are already leading the market by migrating from through ticketing to self-packaging individual TOC offers, and regulation should catch up with this natural market movement.

The rail retailing market is not broken, but it is capable of improvement. We welcome the chance to engage further to make this happen.

Question Responses

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?

We have nothing to add to the AUKT submission.

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?

We have nothing to add to the AUKT submission.

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

In addition to the points made in the AUKT submission, CrossCountry would be happy to share its experiences, insight and customer research from its development of Advance fares on the day of travel ('APOD'). This innovative development has proved popular with customers, revenue generative and effective in changing passenger behaviour to assist with revenue and capacity management on a capacity constrained network. However APOD required changes to the Ticketing & Settlement Agreement ('TSA') and the intervention of DfT to allow this innovation to proceed.

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?

We have nothing to add to the AUKT submission.

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?

In addition to the points made in the AUKT submission, we would add that from a CrossCountry retailer perspective, we are probably closer in nature to third party retailers than most other TOCs due to us not operating any stations or booking offices. We are keen to attract customers to our channels of sale, but unlike 3rd party retailers where commission earnings are the principle driver, for CrossCountry as a retailer our objectives are 2-fold:

- To capture XC customers onto our database and therefore into our CRM programme for future marketing and communications purposes; driving a better, closer, more lucrative relationship with our customers.
- To reduce our costs, as it is cheaper for us to sell to our customers direct than through most other retail channels.

However CrossCountry is first and foremost a train operator with a duty to our customers at all stages of their journey; from information gathering, through the journey itself, to post-journey support. We therefore do not consider ourselves to be in competition with any other rail retailer, as our focus is much wider than just the ticket sale. We are responsible for our customers' entire customer experience and we are held liable for that experience by customers. It is therefore essential that train operators remain at the centre of the decision-making process for rail retail decisions and that third party retailers are conscious of their responsibilities to ensure the customer is sold the right ticket with the terms & conditions properly communicated.

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?

We have nothing to add to the AUKT submission.

7. With respect to split ticketing, what are your views? Are passengers appropriately safeguarded 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?

In addition to the points made in the AUKT submission, CrossCountry is the train operator most at financial risk from the dis-benefits of split ticketing, due to the extent of its network crossing multiple geographic and demographic markets (and train operators) where different pricing strategies are deployed. We are therefore keen that government, the regulator and the train operators work together to remove these anomalies and instead explore ways of reflecting what customers actually want where a change of train is required and more than one operator is involved in the journey. The ability for the customer in these reasonable circumstances to 'self-package' the best prices from the different operators, rather than relying on the often more expensive 'through' inter-available fare, is one we are keen to support and develop.

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 services? What challenges does this obligation give rise to, if any? Where there are issues, what could be done to address them?

We have nothing to add to the AUKT submission.

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

We have nothing to add to the AUKT submission.

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?

In support of the points made in the AUKT submission, CrossCountry has no current plans to charge fees for its online (web, App, mobile) retailing activities should this be permitted. However we agree it is a clear distortion of the market that this is prevented. Any regulatory constraints that prevent TOCs reflecting the differential costs of sales channels in pricing (and using sales channel pricing to ensure appropriate volumes for new sales channels) distort the market and place train operators at a competitive disadvantage in the rail and competing modes sectors.

- 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?**

We have nothing to add to the AUKT submission.

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

We have nothing to add to the AUKT submission.

- 13. With respect to third party retailers' arrangements, to what extent does the nature of their relationship with TOCs enable them to benefit passengers, including bring 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?**

We have nothing to add to the AUKT submission.

- 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?**

We have nothing to add to the AUKT submission.

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

We have nothing to add to the AUKT submission.

- 16. What are your views 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.**

We have nothing to add to the AUKT submission.

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

We have nothing to add to the AUKT submission.

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

We have nothing to add to the AUKT submission.