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4 November 2014

Dear Siobhán

RESPONSE TO THE OFFICE OF RAIL REGULATION'S STAGE 1 PUBLICATION ON THE RAIL RETAILING MARKET REVIEW

This response sets out the views of Stagecoach Rail (South West Trains (SWT) and East Midlands Trains (EMT)) with regard to the Office of Rail Regulation's (ORR) Rail Retailing Market Review. This follows Stagecoach's initial response to the ORR's Market Review earlier in 2014, which focused on responding to the ORR's questions posed in its letter to stakeholders of 19 February, 2014. In addition, this also follows on from Stagecoach Rail, through its subsidiary East Midlands Trains, meeting with the ORR on 23 October 2014.

This response is independent to that which is being prepared by the Association of Train Operating Companies (ATOC) however, it is important to acknowledge that Stagecoach has contributed to that response too. Stagecoach Rail is in broad support of all of the points ATOC has raised in its response. However, in addition, we would like to reaffirm and highlight a number of key points as the ORR continues its Review following the Call for Evidence.

- The UK rail market has shown exceptional growth over recent years and does not suggest there is a significant problem with the retail market, if anything it is quite the reverse;
- The third party retail channel has grown more quickly than any other, be that third party Travel Management Companies (TMCs) or white label website retailers. This suggests that this market is also performing efficiently;
- The different commission rates that are used in the market reflect a plethora of different models and multiple factors from the regulated train operator (TOC) ticket office requirements approach under Schedule 17, to the off station third party management companies. It is using these different factors and business models that enables ATOC to determine what commission rates should be. ATOC has demonstrated in some detail in its response the reasoning behind these rates. TOCs we believe have also been very careful to ensure that retailers are dealt with as even-handedly as possible and that objective justifications exist for commission levels;
- Of concern to Stagecoach Rail and East Midlands Trains in particular, is that there appears to be less cognisance of the fact many bi-lateral agreements are in place between TOCs and TMCs. These arrangements are purely local TOC by TOC and TMC by TMC and are valued by both parties and help provide the TMCs with opportunities to drive journey and revenue growth in line with market forces. These arrangements are commonplace in the wider TMC market;
- Current regulations do not allow TOCs to charge any incremental charges such as booking fees, credit card fees, although third party retailers can. When these further charges are added to the third party retailers' commission, this makes the effective commission rate significantly greater than 3-5%;

- ATOC has pointed out that commission rates taken in isolation can be misleading. Stagecoach would like to highlight that third party retailers as a rule have much higher average transaction values than TOC retailers, meaning that albeit the margin may still be only 3-5%, but the values generated can be considerably greater than what a TOC may earn;
- Third party retailers have pointed out previously that at times, there are some discounted fares that some TOCs may apply on their own websites which they may not have access to. It should be noted that there is nothing to prevent third party retailers from discounting products themselves, as long as they settle at the full ticket price through Rail Settlement Plan (RSP);
- We agree with ATOC that their licences are fairly 'light touch' and do not, we believe, impose disproportionate obligations upon third parties. Bonding is a reasonable commercial requirement and ATOC/TOCs have been proactive in introducing TARIF as a lower cost method of bonding for TMCs; and
- Of continuing concern to Stagecoach Rail is some aspects of the current regulatory framework, particularly Schedule 17, which we believe continues to constitute a significant market distortion.

Stagecoach Rail believes that the current market model for third party retailing seems to have worked reasonably well, but we are open to discussion on alternatives, if a better model can be identified. ATOC is actively considering possible alternatives as part of its consultation response. However, our understanding of the alternative models identified so far by ATOC do appear to all have drawbacks as well as potentially more attractive elements.

Stagecoach Rail, along with ATOC continues to be content with the approach the ORR is taking with this Review and remain open as we already have been to participate fully in stakeholder workshops and any further discussions should you require it.

Yours sincerely



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