



OFFICE OF RAIL REGULATION

ORR Retail Review Industry Workshop

8 May 2014

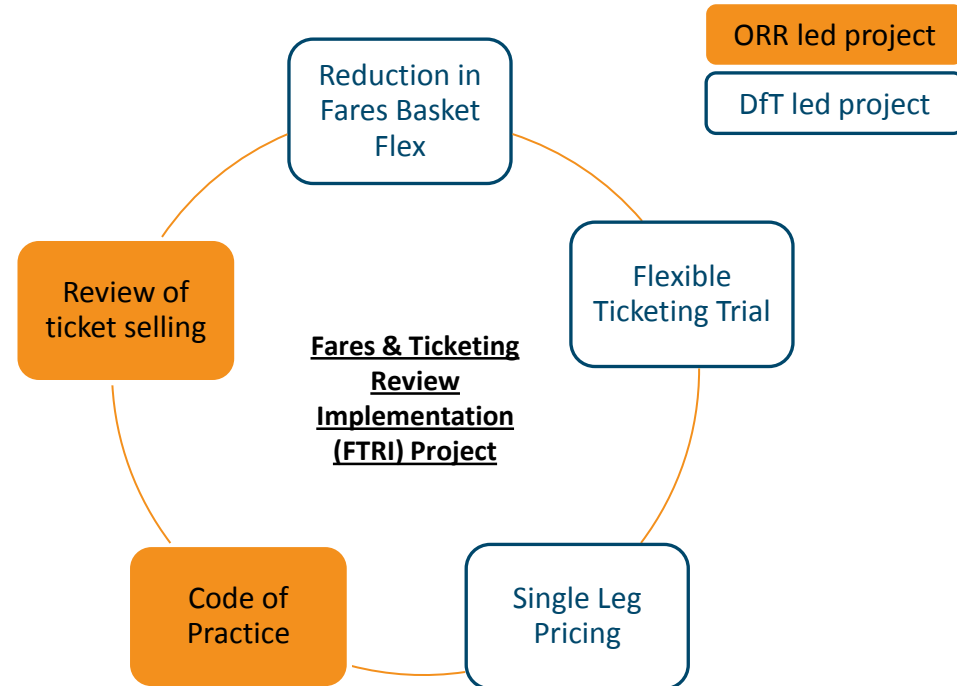
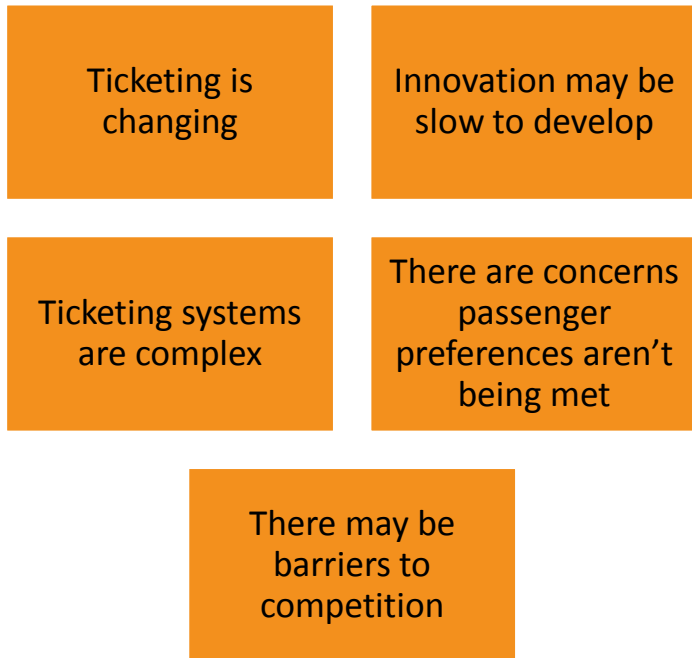
Introduction

- Welcome
- House-keeping
- Purpose
 - The purpose of the retail review is to consider how current regulation and industry arrangements and practices within the retail market are facilitating choice and promoting investment and innovation in the best interest of passengers.
 - The purpose of this workshop is to bring together stakeholders to share views on the potential opportunities and challenges within the retail market.
- Agenda for the morning
 - 09.30: Introduction to the workshop and the retail review – John Larkinson and Siobhán Carty
 - 09.55: Introduction to the opportunities and challenges in the retail market – a view from three industry stakeholders and ORR
 - 10.30: Break-out session – All
 - 11.30: Feedback and Q&A – All
 - 12.15: Next steps and conclusions – Siobhán Carty
 - 12.30: Close

While we don't expect that the workshop will enable us to reach any conclusions, the discussion is likely to inform our findings on the potential opportunities and challenges within the retail market. The workshop's slides and a note of the discussion will be published on our website, but comments will not be attributed to individual attendees or organisations.

Drivers and Context of the retail review

- The need for the retail review is driven by a range of factors.



- The review is part of the wider landscape of work to improve passenger experience, encourage more passengers to travel and facilitate changes that can provide benefits and allow operators to seek efficiencies.

Introduction to the retail review

Purpose and timing

- ORR's retail review is considering how current regulation and industry arrangements and practices within the retail market are facilitating choice and promoting investment and innovation in the best interest of passengers.
- The review is broadly made up of three stages:

Stage 1 (Feb to summer 2014):	Identification of the relevant issues, and the extent to which they are significant. This will be tested via a public consultation in August.
Stage 2 (Summer 2014 to early 2015):	Identification of potential options to address the issues. This will also be tested through a consultation in Jan/Feb 2015.
Stage 3 (Early 2015 to spring 2015):	Conclusion on ORR's recommendations and implementation (where applicable).

- This workshop forms part of the work to understand the relevance and materiality of the issues.



Introduction to the retail review

Framework for ticket selling – a reminder

- The market for ticket selling is not a typical market
 - Similarly, it is not a homogenous one. There are differences in ticket-buying habits across the market.
- Most TOCs operate under franchise agreements
 - While the picture is certainly not uniform, the franchises are likely to impact TOCs incentives/ability in retailing.
- TOCs are subject to rules around selling each others' products
 - Through tickets
 - Inter-available tickets
 - Impartiality obligation

These were established at privatisation to preserve commercial benefits for TOCs and to retain important network benefits for passengers.

 - These are facilitated through specific and complex industry arrangements
 - Ticketing and Settlement Agreement (the TSA); and
 - The Rail Settlement Plan (RSP), that provides the infrastructure for an integrated retailing system
- The arrangements are (broadly) owned by the TOCs and administered by ATOC.

Introduction to the retail review

Scope and approach

- ▶ The retail review is considering how current regulation and industry arrangements and practices are facilitating **choice** and promoting **investment** and **innovation** in the best interest of passengers.
- ▶ The retail review focuses on the arrangements within the TSA and the practices among TOCs and third parties.
- ▶ We are not seeking to make direct changes to the network benefit rules or the approach to franchising. Rather, we want to understand whether they give rise to any impacts that may need to be addressed.

- In and out of scope -

- ✓ TOCs' sales channels
- ✓ The impact of the impartiality obligation
- ✓ The impact of inter-available tickets and through tickets
- ✓ The impact of the franchising approach on retailing
- ✓ Inter-TOC and 3rd party commission rates
- ✓ RSP retailing charges
- ✓ ATOC's licensing of 3rd parties
- ✓ Ticketing infrastructure
- ✗ Review of individual fares/price levels
- ✗ Setting of minimum standard of innovation
- ✗ Criteria for determining ticket office opening hours
- ✗ Review of passengers' customer service, or review of the NRCoC
- ✗ Changes to revenue allocation or a TOC-specific arrangements
- ✗ Substituting one set of regulations over another
- ? Availability and quality of data

- ▶ Introduction to the opportunities and challenges in the retail market – a view from three industry stakeholders and ORR

09.55 – 10.30





ORR Retail Review

Mike Hewitson

What do passengers want from retailing

- Choice
 - products
 - channels
- Simplicity
 - easy to understand (know what you are buying)
 - provided with accurate, relevant information
- Trust
 - perceptions matter
- Value for money

Opportunities and challenges for the review

- What can improve choice
 - Innovation:
 - Tailored products that match new travelling patterns (flexible seasons, carnets, single-leg mix-and-match menu approach).
 - Competing on customer service
 - Retail channel:
 - Protecting choice: balancing needs of different groups
 - Clarity and consistency over which tickets can be bought from what channel at what price. For example: why is Group Save not available from all channels
- What can improve simplicity
 - Inform about restrictions and validities
 - Translating 'industry-speak'

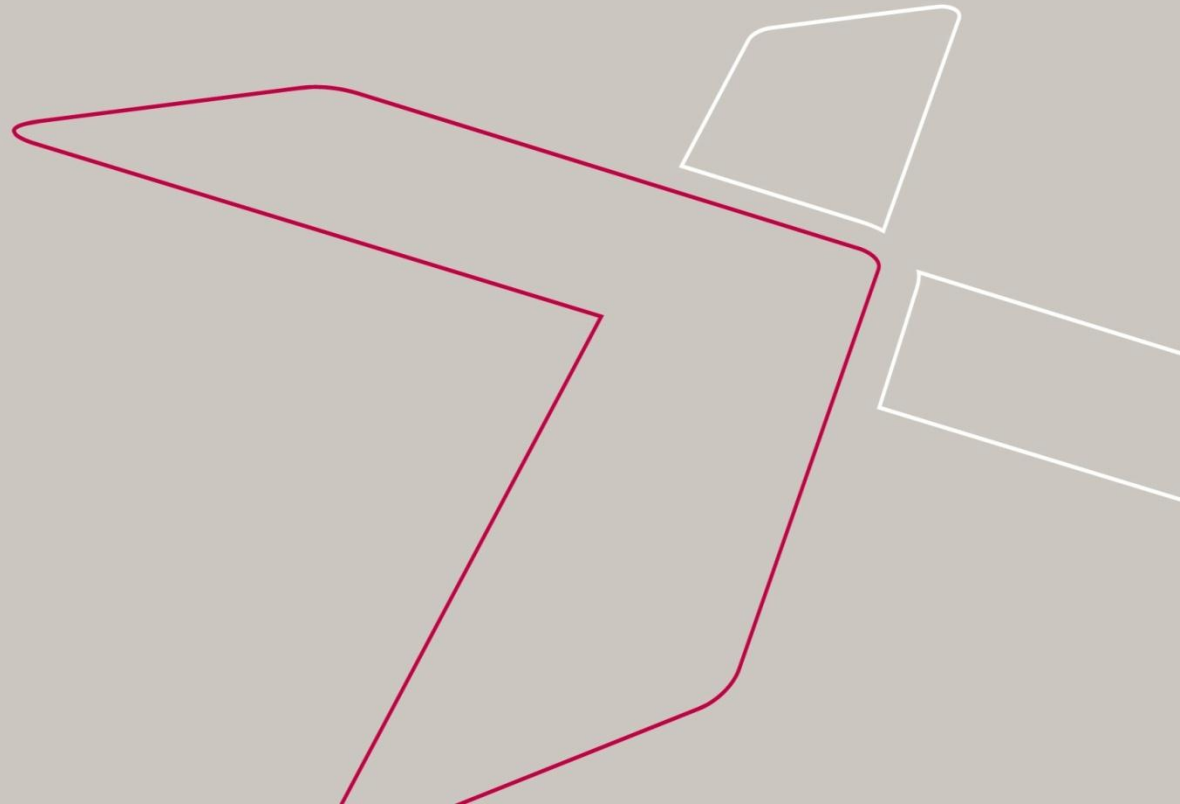
Opportunities and challenges for the review

- What can improve consumer confidence
 - Make it harder for me to buy the wrong ticket (e.g. Two Advance fares being more than an off-peak return)
 - What is the cheapest fare:
 - Split-ticketing is the elephant in the room
 - Consequences of getting it wrong are high

Opportunities and Challenges in the Rail Retail Market

- the CrossCountry Perspective

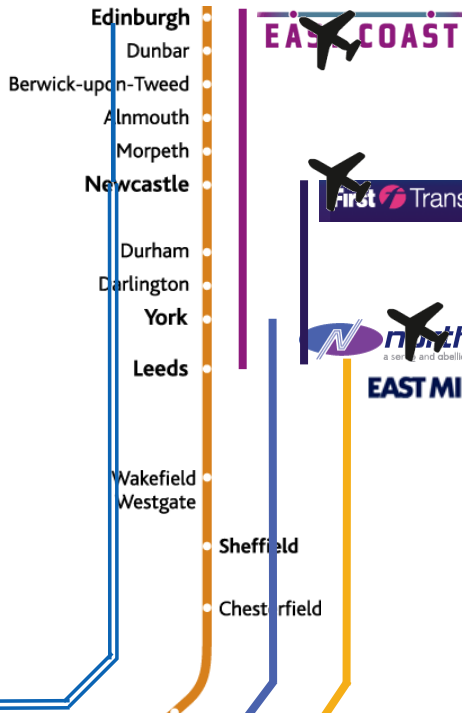
David Watkin
Commercial Director



- Complex geographic & demographic mix of markets
- No 'big London' flows
- No one XC flow is >1% of XC revenue
- Our principle route is Penzance to Aberdeen (the longest in Britain); 774 miles long; 46 station stops.



- Airports**
- Birmingham
 - Bristol
 - Exeter
 - Newquay
 - East Midlands
 - Leeds Bradford
 - Newcastle
 - Edinburgh




Private Cars

national express

megabus.com
low cost inter city bus travel

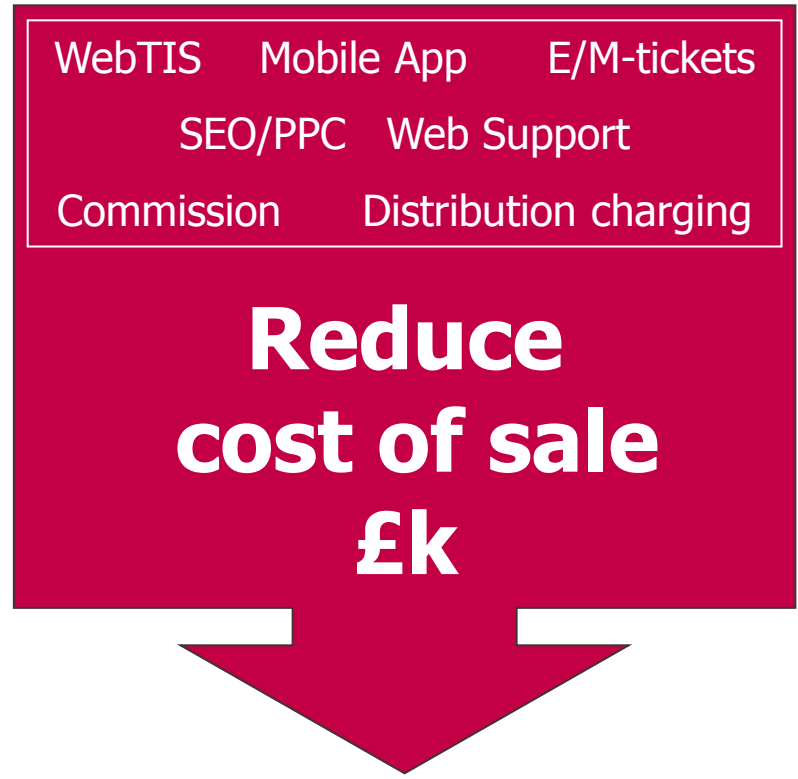
Roads

- M5 
- M1/A1 
- M42 

Other Train Companies

- EAST COAST**
- First TransPennine Express
- northern**
a serco and abellio joint venture
- EAST MIDLANDS TRAINS**
- First Great Western

XC Commercial Strategy



1. Complex geographic & demographic mix of markets
2. Busy, crowded, expensive market place
3. Lots of modal, TOC carrier and rail retail competition
4. Heavily regulated commercial world
5. Confused customers

1. Lots of TOC carrier and rail retail competition
2. Technology developments driving costs down
3. Changing customer retail needs driving innovation up and costs down

1. To increase revenues
2. To drive down costs
3. To ensure seamless delivery at the front line for our customers and staff

... with the support of a healthy, competitive retail market that delivers the above for us

- Wider distribution = more XC sales
- Rail retailer competition = more XC sales
- XC retailing itself = more XC sales
- Innovation = more XC sales

- Driving costs down is a core strategy
- It is cheaper for XC to sell online itself than through any other online channel
- I expect to drive costs down even further with technology innovation

- Complex industry, complex ticketing structures, simple customers!
- We must guard against dumping on the front line!
- Rail retailing comes with great responsibility – we are always vigilant and our staff aren't shy in telling us when they find problems!

- In my opinion, the British rail retail market has contributed to (not constrained) Britain having the fastest growing rail sector in most of the developed world.
- Our aim for rail retailing is for a healthy, vibrant, innovative retail sector to drive down costs and grow revenues; whilst ensuring the overall structure of the market is coherent and fair, and that it retails consistently and accurately.

Thank you for listening...



- Potential opportunities and challenges – ORR's early views, Beth Corbould



Potential opportunities and challenges

ORR's early views (1)

► Impact of preserving network benefits

	Potential opportunities	Potential challenges
<i>Integrated system for retailing</i>	Reduced costs	Slow to develop/improve
	Sharing of best practice	May be relatively expensive
	Capacity for new network-wide products e.g. railcards	Possibly limits innovation in systems and products
<i>Impartiality and need to offer full range of fares</i>	Passengers can get good information from all retailers	Constrains ability to tailor products by sales channels
		Constrains ability to sell certain products via specific sales channels
<i>Inter-available tickets</i>	Integrated network offers benefits to passengers, e.g. flexibility	May limit innovative products e.g. e-tickets

Potential opportunities and challenges

ORR's early views (2)

► Impact on 3rd party retailing

	Potential opportunities	Potential challenges
<i>Integrated system for retailing</i>	Integrated organisations makes industry liaison simpler	Restricted access to full range of products allowed to retail
	ATOC setting of commissions reduces transaction costs (no need for bilateral contracts)	Commission rates are set by ATOC, with limited input from third parties
	Established processes for 3 rd party involvement in the retail market	Business practices of 3 rd parties heavily dependant on ATOC
	May ensure standards in ticket retailing is maintained	Having to comply with certain retailing systems may limit innovation
		Access to and quality of relevant data may not be sufficient

Break-out session

10.30 – 11.15

› Purpose

- › To explore in more detail your views on the relevance / materiality of the issues, and the possible solutions to those.

› Approach

- › Please nominate a representative in your group to feedback the group's discussion. Paper is provided for note-taking.

› Questions

1. In the context of the objective and scope of the review, what are the top three opportunities and three challenges the retail review should focus on?
2. In the context of the opportunities and challenges the review should focus on, what should the future approach to the regulation of the retail market for ticket selling look like?
 - a. There are differences among markets (e.g. commuter, long-distance). Should this be reflected in the approach to retail regulation, and if so how?
 - b. What features of retail regulation for ticket selling should remain and what should be changed?

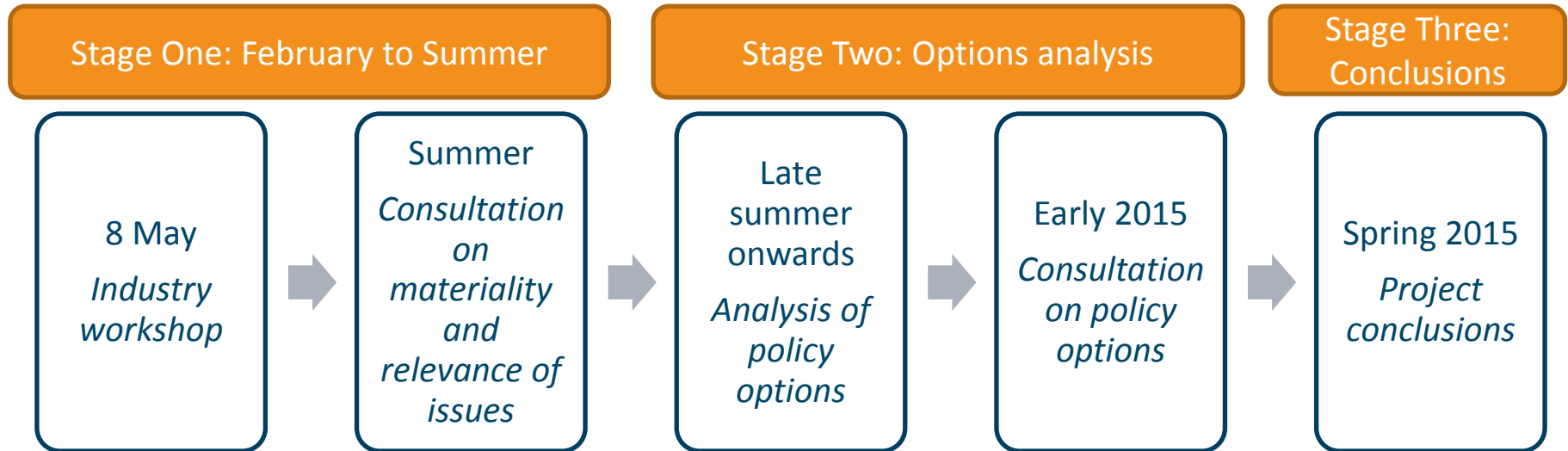
Group	Location	Facilitator
Group A	Room 2	Siobhán Carty
Group B	Room 2	Steve Armitage
Group C	Room 5	Annette Egginton
Group D	Room 6	Beth Corbould
Group E	Room 7	Nick Wortley
Group F	Room 8	Rachael Durrett
Group G	The Junction	John Holmes

**Please return to room 2 for
11.15 for tea/coffee.
Feeding back will start at
11.30.**

- ▶ Feedback from breakout session and Q&A
11.30 – 12.15

Next steps and conclusions

12.15 – 12.30



➤ Regarding immediate next steps

- We will make available the slides and a note of this workshop shortly.
- We continue to make ourselves available for bilateral engagement, where you would consider that helpful.

