KPMG

Towards a Future Fares Strategy

Report to Rail Delivery Group

May 2018

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Glossary

Term	Definition
Account Based Ticketing (ABT)	A fare collection system architecture that uses the back office system to apply relevant business rules, determine the fare, and settle the transaction.
Customer Relationship Management (CRM)	Strategy for managing an organisation's relationships and interactions with customers and potential customers.
Leg Based Pricing (LBP)	Concept where the price of a rail fare is calculated based on the additive price of the number of legs in the journey.
Mobility as a Service (MaaS)	The use of a digital interface to source and manage the provision of a transport related service(s) which meets the mobility requirements of a customer.
Office of Road and Rail (ORR)	Independent safety and economic regulator for Britain's railways with responsibility for monitoring Highways England's management of the strategic road network.
Pay-as-you-go (PAYG)	Payment structure where transactions are made in real time based on a customer’s actual use of the network.
Rail Delivery Group (RDG)	The RDG membership comprises the passenger train operators and their owning groups, freight operators and Network Rail.
Single Leg Pricing (SLP)	The sale of tickets on a single leg basis so that customers are able to choose the most appropriate ticket for each leg of their journey.
Ticket Vending Machine (TVMs)	Machines designed to provide rail customers with the opportunity to make quick and easy ticket purchases at the train station.

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Executive summary

Introduction

This document provides a description of preparatory analysis to support the development of a Future Fares Strategy for the rail sector in Great Britain. The work defines the 'case for change' and identifies a number of important aspects of fares and ticketing that need further consideration prior to the specification of a suitable 'end state'. The analysis draws on information from a desk-based review of fares and ticketing, discussions with representatives from the Rail Delivery Group (RDG) and Train Operating Companies, and new customer research. The work was commissioned by RDG and independently undertaken by KPMG.

Context

The railways serve a number of different markets, each with different needs and priorities. Products and services are designed to meet customer needs but for a variety of historical, commercial and regulatory reasons some customers find rail fares confusing, inflexible and low value for money. Only one in three rail customers surveyed reported that they were very confident that they bought the best value ticket for their last journey and fewer than one in three were very satisfied with the experience of buying their ticket.[1]

Both the industry and government have a responsibility to rail customers and taxpayers to keep the underlying systems that govern the railway under review, to make sure that the right protections are in place and that systems work to promote positive outcomes.

Previous analysis

Reforming the structure of rail fares is of interest to many stakeholders. An extensive body of evidence has been assembled by a number of organisations on how best to achieve this. Significant analysis on fares and ticketing includes detailed customer research undertaken by Transport Focus, analysis produced as part of the independent report by Sir Roy McNulty on 'Realising the potential of rail in Great Britain', as well as the Department for Transport's consultation on fares and ticketing in 2012 and the Office of Rail and Road's Retail Market Review in 2015. This work highlights the need to respond to changing market conditions to make sure that rail fares and ticketing contribute to the delivery of the broader objectives for the railway.

Objectives sought from a Future Fares Strategy

RDG brings together the companies that run Britain's railway into a single team with a stated goal 'to deliver a better railway for you and your community'. In delivering a better railway, RDG has pledged to a number of commitments, two of which are connected with the development of a future fares strategy:

— RDG Commitment 1: Strengthen the railway's contribution to the economy, keeping running costs in the black, freeing up taxpayers' money.

— RDG Commitment 2: Increase customer satisfaction by improving the railway to remain the top-rated major railway in Europe.

[1] KPMG Nunwood quantitative research, 2018.

These commitments focus on securing wider economic benefits, improved customer experience and better value-for-money for customers and taxpayers. We note that a fares structure that supports the attainment of these commitments will need to help: grow the market, encourage innovation, provide commercial flexibility, improve efficiency, promote effective market choice, fund investment and deliver value for money on government expenditure. It will also need to be: transparent for customers, predictable, customer-led, affordable and fair, trusted, able to manage demand, compliant with regulations, and integrated.

To meet the challenges and opportunities ahead, a Future Fares Strategy will need to balance objectives to:

— Improve customer satisfaction.

— Enable a sustainable long-term model.

— Provide value for money for government expenditure.

Given the sensitivities associated with rail fares, the sector will need to work hard to develop a package of reforms that leave all stakeholders better off. It will need to win public trust and demonstrate a strong case for change.

Case for change

The case for change centres on the need to improved transparency and trust by customers, to provide products and services to meet changing customer requirements, to make use of technology to improve product design and delivery, and to better manage and communicate how the system works.

Towards a Future Fares Strategy

To meet the objectives of improving customer satisfaction, delivering a sustainable long-term model and providing value for money for government expenditure, significant reform of fares and ticketing is required. This reform will need to cover the range of available products, their design, the mechanisms that control the relationships between them, and the approach to ticket retailing.

We have identified and reviewed a number of alternative dimensions of fares and ticketing which can be combined to help shape a discussion on a Future Fares Strategy. From our analysis of the alternative dimensions we note the following observations:

— There is merit in retaining a set of core products, with greater levels of personalisation as part of improved customer relationship management (CRM) and promotions.

— There is scope to offer more flexible reward and recognition through flexible-seasons, volume discount arrangements and personal travel accounts, for example.

— Railcards and selective local discounts can continue to be used to address specific social equity considerations.

— Differential pricing by time-of-day and day-of-week is needed to manage demand.

— Single Leg Pricing (SLP) and Leg Based Pricing (LBP) could improve transparency and could support the provision of Pay-as-you-go (PAYG) arrangements and price caps.

— Customers expect a discount for limiting their travel flexibility and this provides a practical way to differentiate fares.

— There is merit in retaining a set of core national products, with pricing and promotions determined locally.

— A move to Account Based Ticketing (ABT), SLP and LBP could create scope to integrate modes as part of defined price caps or subscription arrangements.

— Cost-reflective fares could enhance transparency and predictability for the customer, but may limit long-term sustainability of the market and demand management relative to a value-based approach. This trade-off may be able to be managed via LBP.

— There is a case to provide static fares for core products with more dynamic pricing introduced for less flexible, service-specific fares and promotions.

— Rationale of national Railcards needs further analysis and appraisal, especially where they are not simply a means for commercial price differentiation.

— Regulation of fares is needed to protect customers in markets with inelastic demand where there is limitations on their choices.

— There are clear advantages to accelerating digital (e.g. smart cards and mobile tickets). Core walk-up products should also be available from station ticket offices and ticket vending machines (TVMs).

— There should be a short-term push to traditional digital with a longer term push to ‘open gating’ and biometric tokens.

— A balanced approach to digital and traditional retailing is needed with incentives to encourage ABT.

The observations provide a useful starting point to shape a discussion of a Future Fares Strategy that will need to be developed and tested. This will require further preparatory work including:

— Public consultation.

— Industry-led trials.

— Ongoing engagement with stakeholders.

It is likely that the delivery of fares reform will require commercial changes to retailing and marketing as well as changes to policy and legislation, changes to the way the sector is regulated and potentially changes to franchise agreements.

1 Introduction

This document provides a description of preparatory work to support the development of a Future Fares Strategy for the rail sector in Great Britain. The work was commissioned by the Rail Delivery Group (RDG) and was independently undertaken by KPMG between 6th February 2018 and 1st May 2018.

The analysis makes use of a combination of:

— Desk-based review of published evidence and case studies on rail fares and ticketing.

— Workshops and interviews with representatives from RDG and Train Operating Companies.

— Qualitative and quantitative research with more than 5,000 rail customers and almost 1,000 respondents who do not currently use rail services.

The document is structured as follows:

— In Section 2 we describe the 'problem statement' that sets out the case for change and defines a set of principles to guide the development of the strategy.

— In Section 3 we identify alternative dimensions of fares and ticketing and draw out observations for the specification of the strategy.

— In Section 4 we provide some brief conclusions and outline the next steps.

2 Problem statement

2.1 Context

The railway connects people and places. It supports greater participation in economic and social activities and is seen by many to facilitate economic growth by connecting people to jobs and businesses to the customers they serve. It also unites people with friends, families and essential services, as well as helping to reduce carbon emissions and air pollution.

Over the last 20 years rail passenger numbers have risen dramatically.[2] This growth has been stimulated by sustained investment in rail infrastructure, rolling stock and safety systems.[3] It has also been driven by private sector involvement and commercial incentives.

Whilst private sector involvement has delivered benefits, regulation of fares and ticketing has been and continues to be needed to support network integration and protect customers. Much of this regulation however remains as it was specified at the time of rail privatisation and it has not kept pace with the changing needs of customers and train operating companies. For example, smartcards and contactless bank card payments have revolutionised travel in London, and smartphones are now routinely carried by the majority of people,[4] but the benefits of these advances have not yet been fully leveraged across all of the rail network.

Both the industry and government have responsibilities to rail customers and taxpayers to keep the underlying systems that govern the railway under review, to ensure that the right protections are in place, and that regulations and systems work to encourage positive change where possible.

2.2 Objectives sought from a Future Fares Strategy

RDG brings together the companies that run Britain's railway into a single team with one goal: 'to deliver a better railway for you and your community'. In delivering this better railway, RDG has pledged to a number of commitments,[5] two of which are connected with the development of a fares strategy.

RDG Commitment 1: Strengthen the railway's contribution to the economy, keeping running costs in the black, freeing up taxpayers' money

This commitment focuses on securing wider economic benefits and providing value for money for taxpayers. We note that a fares system that supports these aims will adhere to the following principles:

Grow the market: The fares system should be set in such a way that encourages further growth in the rail market, by attracting new customers to the railway. An increase in railway journeys due to generated travel will also bring wider economic benefits through increased mobility, while modal shift, particularly in urban areas, can release further economic

2 Number of passenger journeys was 1.7 billion in 2016-17 compared with 0.7 billion in 1994-95, Source: ORR, Rail Statistics Compendium 2016-17 Annual, 2017.
3 Private sector investment in the rail industry of £6.9 billion (2016/17 prices) between 2006-07 and 2016-17, Source: ORR, Rail Finance 2016-17 annual statistic release, 2017.
4 94% of adults have a mobile phone, with 76% of adults having a smartphone, Source: Ofcom, Fast Facts – UK, 2017.
5 RDG, In Partnership for Britain's Prosperity, 2017.

benefits through reductions in highway congestion. Overall this may be represented in positive welfare impacts.

Encourage innovation: The fares system should foster private sector innovation where this can deliver positive impacts for customers.

Provide commercial flexibility: The fares system should allow operators to respond to market conditions and manage revenue risk, subject to any protections necessary to enable the market for rail travel to operate in the consumer interest and without having an adverse impact on economic growth.

Improve efficiency: Better use of current and emerging technology, particularly through digital sales mechanisms, can reduce the cost of sales, while reduction in the complex regulations that govern the rail industry could reduce cost overheads and make future innovations easier to implement.

Promote effective market choice: A fares system should enable operators to make commercial decisions and to create innovative new products that appeal to their customer base, enabling the competition that drives efficiency in the system. A fares system that makes the rail system more competitive with other modes of travel will encourage modal shift, most significantly from private car use.

Fund investment: A fare offering which is trusted has the potential to attract more people to travel by train which would support investment in the railways, in turn supporting measures to grow the rail market and manage additional demand, creating a virtuous circle as new passengers make better use of the railways. Further economic benefits are created through increased mobility, which should also continue to be considered in any rail investment.

Deliver value for money on government expenditure: Where changes to the fares system impact on government expenditure, those changes should deliver value for money to the taxpayer. Understanding the financial risks and opportunities of transitioning to a new fares system will be important as well as the need for any risk mitigation strategies.

RDG Commitment 2: Increase customer satisfaction by improving the railway to remain the top-rated major railway in Europe

This focus on delivering improved customer outcomes in terms of delivering simpler ticketing, more services, quicker journeys and better value-for-money for customers. We note that a fares system that supports these aims will adhere to the following principles:

Transparent: Information should be available to customers ahead of purchase, in terms of the cost of the ticket and the terms and conditions, to enable customers to make informed choices about their travel options before and during their journey. Customers will wish to avoid hidden costs, and will want to know whether their ticket enables them flexibility to choose between services.

Predictable: Customers should be able to trust that they can have confidence in the price of their rail ticket. Information provided ahead of time should be accurate, and customers should have the confidence to travel without the fear that large price variances will put the price of travel beyond their reach. Price rises year on year should be justifiable and customers kept notified.

Customer-led: The voice of the customer should be heard in decision-making, so that customers' concerns are known and understood when decisions are made.

Affordable and fair: Protections should be in place for customers in groups who are less wealthy but who nevertheless rely on the railways in their everyday lives. This may be in the form of existing Railcard and other products, but industry should have the ability to suggest and develop new products, working alongside government to achieve aims that are shared or which form part of the government's wider inclusivity agenda. This includes mechanisms to provide reward and recognition for customer loyalty and compensation for poor performance.

Trusted: Customers feel passionately about the railways. The fares system should be open, with decisions well explained to foster trust between customers and rail operators. The full range of fares should be freely available, ideally through a range of fulfilment methods, to enable customers to easily find the correct fare for their journey and to trust that they are getting the best deal.

Able to manage demand: Subject to consumer protections for those unable to be flexible in their travel, the fares system should be able to encourage customers to make use of the railways in the off-peak period where capacity exists. This will make best use of existing infrastructure, although recognising that a requirement for peak travel remains a reality for many.

Compliant: Any fares system must be compliant with relevant consumer protection measures, as with services offered by any critical service provider. Where necessary, governing regulations, guidance and agreements should be updated to provide a clear and comprehensive set of rules that are understood and followed by all parties. These should set a clear foundation for any future changes, but without being overly prescriptive.

Integrated: Integrated fares, coupled with a sales mechanism that customers find easy to use, could provide an opportunity for increased take-up of multi-modal ticketing.

A Future Fares Strategy will need adhere to the principles listed above, balancing objectives to improve customer satisfaction, to enable a sustainable long-term model, and to provide value for money for government expenditure.

2.3 The case for change

The case for change centres on the need for improved transparency and trust, adapting fares to meet changing customer needs, use of technology to improve product design and delivery, and better management and communications of fares changes.

Improved transparency and trust

The current range of fares has been simplified in some areas although customers still do not feel they fully understand the options available to them. Surveys show that only around a third of rail customers are very confident that they bought the best value ticket for their last journey.[6] Furthermore, around one in eight customers finds it difficult or confusing to select the right ticket from the available range.[7]

This lack of transparency is due to the large number of fares available, variations in fares between retail channels, differences in departure time restrictions and variations in permitted

[6] KPMG Nunwood quantitative research, 2018.
[7] KPMG Nunwood quantitative research, 2018.

routes and services.[8] The confusion is particularly acute for infrequent travellers, contributing to low levels of public trust in the industry.[9]

This is not to say that fares need to move to a one-size-fits-all approach but rather that products must be clear, transparent and driven by customer needs.

Changing customer needs

The product range does not always meet customer needs. For example, changing economic and labour market trends mean that many people work at different locations on different days of the week and travel at different times of the day. As a result, traditional Season ticket sales have fallen and sales of Off-peak and Advance tickets have risen. As working patterns become more varied, there are opportunities for operators to offer better products and at the same time promote more efficient use of capacity by providing incentives to travel at less busy times.

Customers increasingly want a fares system that they can trust to give them the best deal available. The want a system that provides flexibility to meet varied needs but they do not always feel that this is currently the case.[10] This concern may heighten as customers start to see the benefits of Mobility as a Service (MaaS) and come to expect ticketing systems for different modes of transport to work together to present seamless and personalised transport solutions.

Better use of technology

Technology is increasingly employed to bridge the gap between service provider and customer, and customers are increasingly trusting technology to help them buy the services they want to use. For example hotels and online retailers are able to employ complicated pricing structures, but the interfaces that have been developed are able to present options in an easier way, giving customers confidence that they are buying what they want at the best price.[11] Customers increasingly expect new retail technologies including voice-recognition, map-based interfaces and intelligent systems that provide bespoke recommendations to be available when buying a rail ticket.[12]

Technology can also drive improvements in the allocation of fares revenue between operators, which is not directly linked to usage of specific services. As use of smart tickets and digital tickets becomes more prevalent, it will be easier to know which train was used by each customer, and thereby allocate the revenue from that ticket more accurately. This will help strengthen the link between revenue and ridership, and will help incentivise operators to drive growth and satisfaction with their services.

Better fares management and communications

The fares setting cycle has become a predictable source of media coverage three times a year – in January when fares rises take effect, in the summer when the relevant RPI figure is announced, and in the autumn when fares for the following year are published.

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8 KPMG Nunwood focus group research, 2018.

9 Fares and retailing accounted for two out of the top four most complained about issues in rail, Source: ORR, Rail Statistics Compendium 2016-17 Annual, 2017.

10 ORR, Rail ticket retailing: the passenger perspective, 2015.

11 KPMG Nunwood quantitative research, 2018.

12 KPMG Nunwood focus group research, 2018.

This cycle has contributed to increased public concern, greater political control of fare changes and a subsequent reduction in the flexibility of operators to respond to changing market conditions.

The way that fare changes are currently managed does not always provide the right level of consumer protection, does little to support better capacity utilisation and makes it difficult for operators to remove fare inconsistencies and anomalies. The franchising and regulatory authorities each have important parts to play in enabling change.

2.4 Customer expectations for fares and ticketing

There is clear relationship between customer needs, current experiences and future expectations with regard to rail fares and ticketing. Table 1 reports the findings of new customer research by KPMG Nunwood. It shows that customers expect consistency, transparency, simplicity, a degree of personalisation, security, flexibility and loyalty when searching for, buying and receiving rail tickets.

Table 1: Customer expectation from fares and ticketing

	Customer needs →	Customer experience →	Customer expectations
Consistent	I want to find the best deal	Inconsistent pricing makes finding the best deal difficult	Expectation for a clear and consistent pricing across the rail network and across retail platforms
Transparent	I want a clear understanding of the different options available	Number of options available means that there is a perceived lack of transparency	Clear communication and clarity around fare structure and prices
Simple	I want to be able to purchase tickets quickly	Queues at stations or slow functioning ticket machines inefficient	An easy process to help customers in their fare/ticketing process
Personalised	I want to find tickets to meet my individual needs.	Fares that don't match needs leading to reduced value for money	Offering personalised service with their relevant needs
Secure	I want my money and details to be secure	Multiple login details to remember can be an inconvenience	A quick and easy system to input personal details – one click retailing
Flexible	I want peace of mind that I will have my ticket at the time of travel and flexibility to change	A long refund and cancellation process	Giving customers the choice to select and amend their ticketing options, including route options
Loyal	I want my loyalty to be recognised	No benefits or system in place for regular travel	Acknowledging customers through rewards based schemes

Source: KPMG Nunwood qualitative research, 2018

3 Towards a Future Fares Strategy

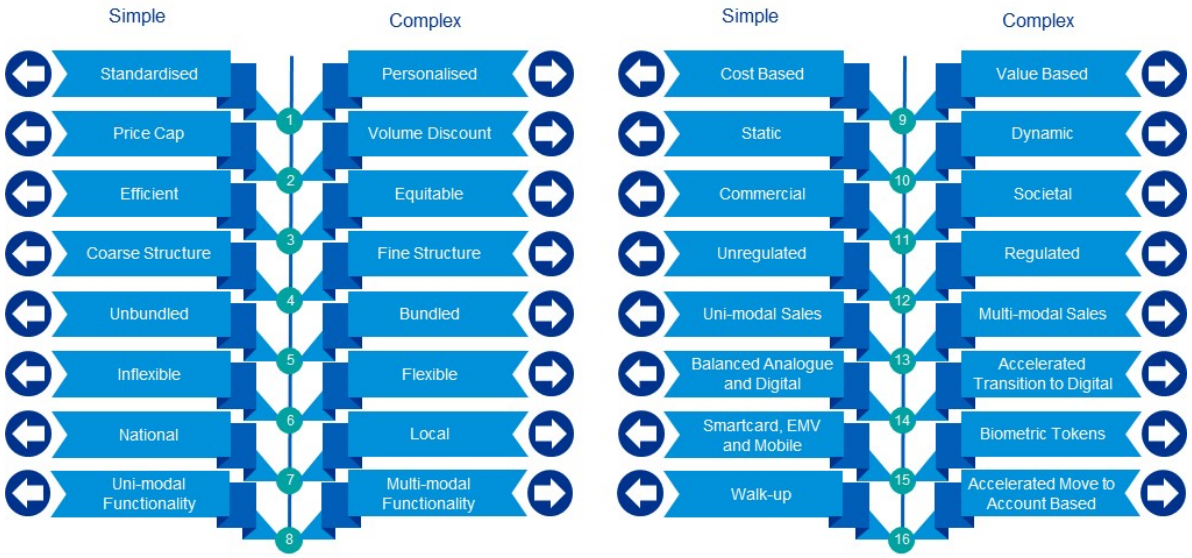
3.1 Introduction

To meet the objectives of improving customer satisfaction, enabling a sustainable long-term model and providing value for money for government expenditure, significant reform of fares and ticketing is required. This reform will need to cover interrelated components including the range of available products and their design, the mechanisms that control the relationship between them and the approach to ticket retailing.

3.2 Review of End State dimensions

We have identified 16 different dimensions which can be combined to form a possible end state for fares and ticketing. The dimensions are shown in Figure 1 with further details presented in Table 2.

Figure 1: End State dimensions



Each dimension can be approached in a relatively simple or a relatively complex way depending on the context and the needs of the customer, the operator and public policy. In this regard it is useful to draw a distinction between:

— **Retail** markets which customers have a choice of travel alternatives where fare and ticketing are driven largely by retail considerations.

— **Utility** markets where customers have less choice and fares and ticketing are driven more by consumer protection.

We have reviewed the pros and cons of a relatively simple and relatively complex approach to each dimension using a combination of desk-based research, consultation with representatives from RDG and train operating companies, and new customer research.[13]

[13] Seven focus groups held in London and Leeds include commuter, leisure, business and non-users or rail services and a quantitative survey of 5,064 existing rail customers and 945 respondents who currently do not use rail services.

Table 2: Review of End State dimensions

Dimension	Description	Situation analysis
Standardised versus Personalised	Standardisation is based on offering every customer a given product at the same price at a point in time. Personalisation is the process of understanding customers' preferences, measuring their willingness to pay, and providing a unique offering.	Customers are known to value the predictability and transparency of having a clear and well-defined set of products to select from. The current limited use of personalised offerings during the sales process relative to successful implementation in other industries, reduces the ability to manage demand as well provide customers offerings which fit with their evolving expectations.
Price Cap versus Volume Discount	Price Caps place restrictions on the total amount that is charged to customers for use of the service over a given period of time such as a day or week. Volume Discounts enable customers to purchase items in bulk at a reduced price prior to use.	Increasing customer demands for improved reward systems for regular travellers especially those with flexible and part time commuting demands. Price caps have proven popular when rolled out in metropolitan areas. Limited ability of operators for innovation to develop new products or respond to change due to regulatory structure covering season tickets.
Efficient versus Equitable	Economic efficiency based structures focus on ensuring that the most effective allocation of capacity is applied relative to customers' willingness to pay. Equitable outcomes cover providing access for certain socio-economic groups and encouraging positive externalities.	There is a need to ensure that vulnerable customers are continued to be protected through the overall fares system.
Coarse Structure versus Fine Structure	Customers have different levels of willingness to pay for different products. In rail the focus of product differentiation is the timing of travel and quality of the experience.	Number of services experience excess or underutilised capacity. Customers can find the existing structure of 'peak', 'off-peak' and 'super off-peak' confusing.
Unbundled versus Bundled	Bundling is the practice of offering a number of goods and/or services together as a single product. The practice of bundling covers four key identifiable elements including the offer, type of products, degree of integration and price level.	Existing bundling practices can create inconsistencies for customers which reduce the transparency and predictability of fares. The regulation of bundled products potential places limits on the ability of operators to develop innovative products.
Inflexible versus Flexible	Inflexible products are those that can only be only used on a specific train. Flexible products are those that can be used on a range of trains over a given period of time.	Advance tickets have proven popular for providing the option for customers to specify travel on a given train for a better value price. Some customer's value having full flexibility.
National versus Local	National pricing strategies are standardised fares structures across geographic markets. Local fare	Customers value the flexibility of being able to travel from any given station to any other station.

Dimension	Description	Situation analysis
	structures allow for greater geographical pricing which is tailored to local conditions.	Customers in specific locations may demonstrate a willingness to pay for more localised products to travel on any train they want.
Uni-modal functionality versus Multi-modal functionality	Multi-modal refers to the ability to link rail fare structures with other modes as opposed to uni-modal where rail fare are limited to rail specific products.	Development of Mobility as a Service (Maas) products represents an opportunity which may prove popular with customers as travel demands evolve.
Cost Based versus Value Based	Cost based pricing is the practice of setting prices based on the total cost of producing a particular good or service. Value based pricing focuses on the price that a seller believes a customer is willing to pay given the benefits that the customer derives from the offering.	Value based pricing provides the most efficient outcomes to set fares on as it is based on customers willingness to pay, allowing for greater ability to manage demand on the network. At present however value-based pricing can lead to customer confusion and fare anomalies including split tickets.
Static versus Dynamic	Static pricing is where the price of a product is held constant over a given period of time. Dynamic pricing is where the price of products change to reflect the level of demand and willingness to pay of customers over time.	Static pricing allows for greater predictability and transparency for fares but reduces the commercial flexibility of operators and reduces their ability to innovate and manage demand.
Commercial versus Societal	Commercial pricing is where fare levels are set to reflect market incentives and willingness to pay of customers. Societal pricing is where fare levels are set to account for societies preferences to allow from improved welfare outcomes for certain groups.	There will be a need to ensure that vulnerable customers are continued to be protected.
Unregulated versus Regulated	Unregulated products are those set by operators based on market conditions using standard commercial incentives. Regulated products are those where a government or independent organisation sets limitations on the level of prices charged in the interests of customers.	Regulation is needed that both encourages innovation and also provide customer protection.
Uni-modal Sales versus Multi-modal Sales	Multi-modal refers to the ability to link rail fare with other modes in the sale of tickets as opposed to uni-modal where rail fare are limited to rail specific products.	Developing Mobility as a Service (MaaS) products represents an opportunity for operators based on delivering against changing customer demands.
Balanced Analogue and Digital versus	Balanced analogue and digital covers the ticketing distribution to include both traditional physical routes as well	Digital tickets provide an improved customer experience. Need to recognise customer protection

Dimension	Description	Situation analysis
Accelerated Transition to Digital	as digital offerings. Accelerated transition to digital would be advancing the move from analogue to digital routes to market.	challenges of certain vulnerable groups being able to access digital sales platforms through.
Smart, EMV and Mobile versus Biometric	Smartcard, EMV and mobile are all recognised approaches to ticketing. Biometric tokens are where individuals themselves are the ticket, which could be through facial recognition or touch screens.	Smartcard, EMV and mobile have proven to improve experiences for customers. Biometric ticketing may facilitate additional improved outcomes for customer and help manage demand although customer protection would need to be reviewed.
Walk-up versus Accelerated Move to Account Based	Balanced approach relies on a mixed of ticketing approach including station, digital and also ABT. An accelerated move to account based ticketing would be a proactive strategy to encourage users to switch to this mode of ticketing distribution.	Customers value the predictability of being able to buy a ticket both online and from a station. ABT allows for improved innovation by operators.

The following observations emerge with regard to a possible end state:

— There is merit in retaining a set of core products, with greater levels of personalisation introduced as part of customer relationship management (CRM) and promotions.

— There is scope to offer more flexible reward and recognition through flexible-seasons, volume discount arrangements and personal travel accounts, for example.

— Railcards and selective local discounts can continue to be used to address specific social equity considerations.

— Differential pricing by time-of-day and day-of-week is needed to manage demand.

— Single Leg Pricing (SLP) and Leg Based Pricing (LBP) could improve transparency and could support the provision Pay-as-you-go (PAYG) arrangements and price caps.

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— There is merit in retaining a set of core national products, with pricing and promotions determined locally.

— A move to Account Based Ticketing (ABT), SLP and LBP could create scope to integrate modes as part of defined price caps or subscription arrangements.

— Cost-reflective fares could enhance transparency and predictability for the customer, but may limit long-term sustainability of the market and demand management relative to a value-based approach. This trade-off may be able to be managed via LBP.

— There is a case to provide static fares for core products with more dynamic pricing introduced for less flexible, service-specific fares and promotions.

— Rationale of national Railcards needs further work, especially where they are not simply a means for commercial price differentiation.

— Regulation of fares is needed to protect customers in markets with inelastic demand where there is limitations on their choices.

— There are clear advantages to accelerating digital (e.g. smart cards and mobile tickets). Core walk-up products should also be available from station ticket offices and ticket vending machines (TVMs).

— There should be a short-term push to traditional digital with a longer term push to ‘open gating’ and biometric tokens.

— A balanced approach to digital and traditional retailing is needed with incentives to encourage ABT.

4 Conclusion

Our work has focused on setting out the case for change and undertaking a situational analysis of the current system.

The case for change is based, in part, on a sense of frustration from customers, operators and the wider community that rail fares are confusing, inflexible and low value for money. There are also arguments to support the view that a significant reform of fares and ticketing is needed to meet the challenges and opportunities ahead.

The observations identified through the situational review provide a useful starting point to shape a discussion of alternative future end states that will need to be further refined and tested. Good evidence will be needed to develop the fares strategy so that the opportunities for customers, operators and public policy can be properly appraised. This will require further preparatory work including:

— Public consultation.

— Industry-led trials.

— Ongoing engagement with stakeholders.

It is likely that the delivery of fares reform will require commercial changes to retailing and marketing as well as changes to policy and legislation, changes to the way the sector is regulated and potentially changes to franchise agreements.

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