The Go-Ahead Group plc

The businesses

Thameslink

The Thameslink franchise is operated by GOVIA which is a partnership between the Go-Ahead Group plc (Go-Ahead) and Keolis. Thameslink runs services from Bedford through London (stopping at Kings Cross Thameslink, Farringdon, City Thameslink, Blackfriars and London Bridge) to Brighton. It also provides a commuter service for the south London suburban area on the Streatham–Wimbledon–Sutton line.

During peak periods Thameslink services are overcrowded, but there is significant capacity off-peak.

By improving passenger awareness, refurbishing trains and improving the timetable Thameslink has managed to increase its market share between London and Gatwick Airport from between 7 to 8 per cent to between 14 to 15 per cent. It now runs more trains from Brighton to London than Southern. However, it has proved quite difficult to increase Thameslink's market share any further because the product has remained the same while competitors have renewed their fleets.

During the last two or three years Thameslink has suffered disruption as a result of the work being undertaken at St Pancreas in connection with the Channel Tunnel rail link. Thameslink is also subject to the following constraints:

- it is the only train operating company (TOC) which runs services through the centre of London. Its trains are funnelled down a two track railway and services on the Brighton Main Line (BML) travelling via London Bridge pass through a section of single track; and

- the railway south of the Thames is one of the most congested and heavily used railways in the UK. It is used by South-East trains, Southern, the Gatwick Express (GEX) and to a lesser extent Virgin and freight companies. If one service is disrupted it impacts on the whole system.

Southern

When Go-Ahead acquired the Southern franchise it inherited a fleet of old slam-door trains which it was required to replace by December 2004 (subsequently extended to November 2005). However, a combination of the introduction of new air conditioned, double glazed trains (which have provision for luggage) and vigorous advertising (including it air side at Gatwick Airport, focusing on price and latterly quality) and has enabled Southern to compete with the GEX, resulting in high levels of growth (25 per cent year on year). Southern's peak time services in to London Bridge are very well used. Southern only operates a few off-peak services to London Bridge.

The decision to invest in Southern rather than Thameslink is a product of the franchising process. The new Southern franchise has provided the funding to completely renew the Southern mainline fleet. It is also partly due to the fact that GOVIA will shortly cease (March 2006) operating the Thameslink franchise so the opportunity to make a business case for expenditure that will yield returns in the longer term is no longer available. GOVIA has had to find ways of protecting profitability on the route and one area that could be addressed was marketing expenditure.

The presence of new trains on the BML has resulted in increased market share (primarily in the off-peak). Overcrowding is a problem for passengers travelling on the BML during peak hours. One of the ways of addressing this problem would be the implementation of the SRA's Route Utilization Strategy (RUS) which suggests that the GEX, which absorbs a lot of capacity, should be merged with Southern to create a service offering eight fast trains an hour to Gatwick (which would then continue to a variety of coastal destinations including Brighton, Eastbourne, Littlehampton and Bognor Regis in about the same journey time as the GEX, albeit with more stops on route).

Southern is keen to improve its operating performance and timetable. The implementation of the BML RUS would remove some of the performance constraints from the timetable and would increase peak capacity by 2.4 per cent.

The relevant markets

Although Thameslink has tried to segment the market into City and West End, the Gatwick London market is generally regarded as being London-wide. The vast majority of passengers travelling to and from Gatwick fall within the catchment area of Victoria/the West End. Thameslink has found it difficult to persuade people, even those within its own catchment area, to use its service. It attributes this to the fact that Victoria and the GEX have a high profile, and, that passengers travelling to the City are unaware that that the journey can be completed in less time if they take a direct (Thameslink) train.

The TOC's have been so successful in increasing the usage of rail services that the national network is facing a lack of capacity. As a result the obligations placed upon operators in the more recently let franchises are a lot more prescriptive and give them less freedom than the original franchises set by the Office of Passenger Rail Franchising. Although this has reduced the ability of TOC's to operate more services, they are able to bid against the timetable specification. Timetable proposals are submitted to Network Rail for approval and then to the Strategic Rail Authority/Department for Transport/Office of Rail Regulation (ORR) before operators are given the right to run services.

The market is changing and the proportion of business travellers using Gatwick is falling. Low-cost airlines such as easyJet have replaced operators such as British Airways (which has decided to concentrate on the North Terminal). Passengers using the low-cost airlines are more conscious of price, particularly in circumstances where the rail fare could be a significant element of the overall fare. Leisure passengers tend to travel outside peak times and are interested in price and convenience.

Thameslink has worked hard to generate increased market share at Luton Airport Parkway and has a number of marketing initiatives with the airlines and airport authorities. The use of Luton Airport Parkway has increased considerably as the airport has grown. It has also experienced growth as a result of increased usage by commuters who park their cars there before travelling on to London.

Fares and ticketing

Once a franchise has been awarded the operator has little freedom to increase revenue through price increases because fares are constrained by fares regulation. Any relaxation of fares regulation is on a no net gain and a no net loss basis. It is possible to increase individual fares up to RPI +6 provided an operator's overall fare basket remains within RPI +1. There are also a number of other fares such as London travel cards (which form a large part of the market) that are set externally and which impose a constraint on all the TOC's except the GEX (which does not stop at any of the stations between Gatwick and Victoria). The influence of Transport for London's policy on fare increases also has had a significant effect on all London operators because it limits their ability to increase fares within their fare basket. GOVIA, therefore, looks to increase its revenue through growth in volume, primarily in the discretionary market (ie off-peak), by offering a variety of pricing options. GOVIA's ability to pass on rising fuel costs (eg diesel) to passengers is also restricted.

Gatwick station is run by Network Rail which subcontracts the operation of the platforms and the retailing of tickets to the GEX. Southern and Thameslink do not believe that ticket retailing at Gatwick station is impartial and consider it is operated contrary to the spirit of the Ticketing and Settlement Agreement. Both companies have asked Network Rail and the British Airports Authority to ensure that other operators are treated fairly. Thameslink operates duplicate retail facilities in the South Terminal to ensure it receives reasonable representation, and advertises throughout the terminal buildings leading to the station. Southern also has a ticket desk land side in the south terminal. Southern does not does not have any ticketing arrangements with airlines (such as that enjoyed by the GEX and easyJet) at Gatwick airport. There are automatic machines (operated by GEX) which offer Southern fares although the fares on these are hard to find.

There are a few inter-available fares between Gatwick and London. It was obligatory for Southen (although no longer Thameslink) to set their own fares between Gatwick and London (this is specified by the ORR's inter-availability directive).

There are a number of season ticket fares available on the Gatwick to London flow including an inter-available season ticket which is valid on all operators (set by the GEX) which costs £74.30 a week; a ticket which is only valid on the GEX and costs £69.80 a week; a fare which is valid on Southern and Thameslink but not the GEX which costs £53.10 a week; and a fare which is just valid on Southern which costs £50.00 a week.

Almost all the fares on routes north of London are inter-available fares. Thameslink offers two dedicated fares (day saver and Flyaway) on the routes north of London. Midland Main Line (MML) offers a first class saver return.

Revenue is allocated between the companies (north of London) according to the number of passengers carried by each.

Competition

Southern and Thameslink are run separately and both companies have the freedom to pursue whatever strategies they believe are appropriate. Thameslink does compete vigorously with the GEX and has invested a great deal in advertising in order to attract passengers from the GEX.

Thameslink competes with Southern, GEX and a small number of Virgin trains on the BML and with MML (which serves Luton Airport Parkway, Luton and Bedford) north of London. Thameslink and MML compete strongly for capacity and market share on journey time, frequency, convenience of London station and quality rather than price. Although the MML service to St Pancreas is faster than the Thameslink service to Kings Cross Thameslink, a lot of people choose to travel on Thameslink because the overall journey is shorter to destinations within the City). Thameslink has lost passengers to MML as a result of the latter scheduling stops at Luton Airport Parkway.

Thameslink believe that National Express Group may not have the same emphasis on attracting customers to the City.

Switching

With regard to switching, speed (41 per cent) is the most important factor followed by improved reliability (38 per cent) and price (25 per cent). Price has clearly been important in terms of the growth in revenue Southern has experienced in the last year. Go-Ahead believe that if the GEX increased its fare by 5 per cent about 2 or 3 per cent of GEX's passengers would switch to Southern. However, rail passengers are becoming increasingly sophisticated and there are a lot of other influences which determine a passenger's choice of operator including the cleanliness of the train, luggage facilities, customer care and the time taken to purchase a ticket.

The market for air travellers is relatively inelastic although switching between Southern and the GEX is becoming more common. It is unlikely that a small fare increase by either Southern or Thameslink would result in switching because their passengers are travelling to different destinations.

Substitutes

Go-Ahead do not view coach services or the car as competitors to rail due to their frequency, their potential unreliability, and the fact that they have to travel round congested road networks. Coaches comprise a separate market which is extremely price sensitive. There is some competition at the margin but the primary competitors of Southern and Thameslink are those rail companies providing similar services to common destinations.

Car usage is determined by a number of factors including; point of origin; time of travel; overall convenience; cost of parking; and the number of people travelling. Passengers may decide to use a taxi if a large number of people are travelling because it is more economical than the train.