

Why do rail companies offer such a large range of tickets and prices for the same journey?

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Abstract:

This essay explores the question ‘Why do rail companies offer such a large range of tickets and prices for the same journey?’ For people who use rail travel it is common knowledge that rail companies offer a large variety of ticket options, and also a wide range of prices for these tickets. So, some reasons as to why there is such a wide range of train ticket prices for the same journey will be discussed – they include: the way in which consumer behaviour affects the way in which rail companies allocate their limited number of seats, and also the way the costs of rail travel influence and are reflected in the prices that are set.

When searching for a train ticket you cannot help but notice the variety of tickets and the range of prices that rail companies offer. Look at **Table A** in the appendix, which shows the prices of all the different ticket prices when travelling from Edinburgh to Carlisle for the two companies who use this route – the cheapest is £8.00, for the 1hr 20min journey, and the price rises all the way to £94.00. Given that each train ticket reflects a different service, it does not answer the question as to why they offer so many options. This essay explores the reasons for there being such a large variety of train ticket prices for the same journey.

To try and answer this question, it is important to address several economic principles. First is the allocation of resources. Rail companies have a fixed quantity of seats for any set of carriages on a particular route, so this principle will look at how allocating seats will make the company most profitable (in this model it will be assumed they are first class and standard carriages). However, before considering this, customer preference and characteristics of the consumer will be explored, since the behaviour of the consumer in this market is definitely a factor as to how seats are allocated and prices set.

On this particular journey from Edinburgh to Carlisle, it is assumed there are different types of people travelling, meaning each consumer has different characteristics and thus constraints (e.g. money available to spend) that will influence their choice of train ticket. For example, a student will look for the cheapest ticket possible because they are on a tight budget, compared to a businessman with more disposable income, who can afford to purchase the more expensive tickets – thus showing the budget determines what ticket a

consumer can purchase. As well as this, it is important to note that an article by Vaidyanathan (2010) states: 'The consumer research company Mintel has studied the profile of train passengers in standard and in first class in the 12 months to November 2009, and has found little difference.' This suggests that consumer preference is a key factor in choice, because despite a person's social standing, some consumers prefer the benefits while others, who are still able to afford these benefits, choose not to. However, it is more likely that a consumer will always prefer more benefits but are restricted by their budget. To illustrate this, if you were given the choice between first class and standard class for the same price you would definitely choose first class, because you would get a better service at the same cost. It is therefore fair to conclude at this point that some travellers are trying to maximise their utility with a more flexible budget, whereas others are more concerned with minimising costs by limiting their budget and therefore the service they receive. Consequently, a consumer's choice of ticket depends mostly on the consumer's budget and the service they demand.

Now that consumer behaviour has been considered, it could be assumed that rail companies are trying to maximise utilisation of seats, by using the range of prices and services they target as many types of consumer as possible, in order to minimise average costs – a reasonable answer to why there is a large variety of tickets and prices. However, a recent report, 'Realising the Potential of GB Rail' (2011, pg. 29-31), explains that train utilisation (the number of passenger-km per train-km) in GB is significantly lower in comparison to other countries, by around 20-25% from the median of these comparators,

which has a corresponding adverse effect upon total unit cost per passenger kilometre'. The report does give plausible reasons for lower utilisation, including 'different geographies and population distributions, different train lengths and capacities, different frequencies and service patterns'. This contradicts the assumption that rail companies are simply trying to maximise their sales. Therefore, it could be that rail companies are able to generate higher profit at a point in which revenue is maximised, but not necessarily maximised sales, even though total unit cost per passenger kilometre is greater.

It is important to look at the costs rail companies face, because price should have a direct link to cost. Based on calculations (appendix: **Cost Calculation**) the cost per traveller from Edinburgh to Carlisle is greater than £23.49. According to the Stagecoach group website, 'average operating margin of train operators in the UK has remained fairly constant at around 3p to 4p in every £1 of the cost of a rail ticket', meaning a ticket price of £24.50 and above seems very reasonable for this model, but it also raises the question as to why the rail companies still offer an advance ticket as low as £8.00. General research shows what the limitations of the ticket are: it is non-refundable, can only be used for the booked times of travel and usually sold in limited numbers. For these reasons, the ticket is a way to generate some guaranteed income without having to sell only cheaper tickets. Moreover, awareness of the fact that, according public transport consultant Barry Doe in an article by the Guardian (2007), 'just 17% of journeys made are with advance purchase tickets' implies the majority of sales come from the more expensive tickets, meaning if the cheaper ticket is in fact loss making, the mark-up on the more expensive ticket should be enough to cover this.

However, the more expensive ticket does mean a better service which would be associated with greater cost. At the same time, purchasing an off-peak ticket would not incur higher costs for the rail company – cost is only greater for first class which does appear to have a huge mark up for what first class is likely to cost.

Before concluding, there are factors which have not been covered in detail. The first is the market structure, which could imply that prices are merely set as a competitive technique relevant to the competition within the rail market and also the wider travel market. Other factors include consumers' perception of value and the psychological use of prices (i.e. are higher prices just a way to make the normal ticket look much more attractive). There are also various limitations of the analysis. The arguments are all based on one route from Edinburgh to Carlisle, meaning it probably isn't the most accurate representation for all UK routes. In addition, some of the figures are generalised and potentially outdated so some arguments are not necessarily valid.

From the arguments that have been presented, based upon the model used, the main reason for having such a variety of prices is so that rail companies can generate necessary demand to reach the greatest level of profit despite possibly incurring greater costs. This seems reasonable since the rail companies are evidently able to persuade most consumers to purchase the higher priced tickets and also fill enough seats. However, it is important to be aware that an answer to the subject in question would be more valid if those factors that

have not been discussed were considered in detail, since they can influence the reasons for having such a large variety of train ticket prices.

Appendix:

Ticket	TransPennine Express	Virgin
Advance - book in advance and travel on a specific train.	£8.00*	£9.00
Off-Peak - cheaper tickets for travelling on trains that are less busy.	£24.50	£24.90
First Class Advance – first class ticket and bought in advance.	£24.90	£33.50
Anytime - flexible tickets with no time restrictions on when you travel.	£46.50	£46.50
First Class Anytime - first class ticket and anytime.	£94.00	£94.00

Table A

*For some times, this figure is £15.00

This table shows the prices of the different tickets a consumer can choose when travelling from Edinburgh to Carlisle, which takes approximately 1 hour 20 minutes. This does not include any offers or rail cards which can alter the prices for different consumers. The figures are taken from

<http://ojp.nationalrail.co.uk/service/timesandfares/EDB/CAR/171212/0845/dep> .

Cost calculation:

For 2009/10, unit cost was just over 20p per passenger km ('Realising the Potential of GB Rail' (2011, pg. 21)) and the distance directly from Edinburgh to Carlisle is roughly 117.46km (www.distance-calculator.co.uk), giving a cost per traveller of greater than £23.49 - since the route taken will definitely be further.

Referencing:

Articles:

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Stagecoach Group PLC 'The facts about rail fares', available:

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Books:

Hal R. Varian (2010), 'Intermediate Economics, A Modern Approach'