

## **LADBROKES/CORAL MERGER INQUIRY**

### **Summary of hearing with The Gambling Commission on 3 February 2016**

#### **Background**

1. The Gambling Commission (**GC**) stated that it was an independent non-departmental public body sponsored by the Department for Culture, Media and Sport. It was set up under the Gambling Act 2005 and: (a) regulates commercial gambling in Great Britain in partnership with licensing authorities; (b) enforces the Gambling (Licensing and Advertising) Act 2014; and (c) regulates the National Lottery under the National Lottery etc. Act 1993.
2. The GC submitted that it was not an 'economic' regulator and that its statutory duty was to permit gambling insofar as it was reasonably consistent with the licensing objectives. The GC noted that it used a risk-based approach and focused its resources on those issues and operators that potentially presented the greatest risk to the licensing objectives.

#### **Main trends in the betting and gambling retail and online channels**

3. The GC stated that, as at 30 September 2015, it licensed 277 operators for the activity of non-remote general betting standard (GBS), ie operators that offer off-course betting and gaming products in licensed betting offices (**LBOs**) (**retail bookmakers**).
4. With regards the main trends in the gambling industry, the GC submitted that:
  - (a) there has been a decline in the number of non-remote GBS licensees over the past six months (less 20 non-remote GBS licensees), with a significant decline from 531 non-remote GBS licensees on 31 March 2011 to 277 on 30 September 2015.
  - (b) over the last 18 months there was a reduction of 3.27% in the total number of LBOs in Great Britain (299 LBOs in absolute terms).
  - (c) the big four retail bookmakers of William Hill, Ladbrokes, Coral and Betfred operate 87.3% of all the LBOs licensed in Great Britain and 91% including Paddy Power.

- (d) there has been a decline in the number of LBOs operated by independent retail bookmakers, whilst the number of LBOs operated by the main retail bookmakers has stagnated and started to decline with the closure of their less profitable LBOs.
5. The GC explained that:
- (a) whilst the gross yield from retail betting has declined over the past six years (by 15%) the gross yield from gaming content in the retail sector has increased (by 55.6%). The GC said that, looking at the combined picture, there was an overall 12.7% Gross Gambling Yield increase within retail bookmakers between 2008/2009 and 2014/2015; and
- (b) with the gaming machine yield growth now slowing down, the main retail bookmakers might close LBOs that are negative contributors or the least profitable within their business.
6. The GC further submitted that, although migration to the online channel was probably a growing issue for retail bookmakers, the main driver for the closure of LBOs has been the increase in operating costs at a faster rate than the growth in revenue.

## **Operational and regulatory costs**

7. With regard to the increase of retail bookmakers' operational and regulatory costs, the GC considered the acquisition of media rights to be one of the most significant costs of retail bookmakers.
8. The GC stated that the main retail bookmakers are likely to benefit from economies of scale in the acquisition of media rights, due to their bargaining power.
9. The GC further explained that:
- (a) a retail bookmaker would need to have contracts with two providers – SIS and Turf TV – to offer a full British horse racing picture service in its LBOs;
- (b) media rights costs have increased since bookmakers had to contract with two media rights providers;
- (c) the landscape will likely change again in 2018 because the majority of racecourses currently partnered with Turf TV have signed a contract to move back to the SIS; and

- (d) after 2018, therefore, it is likely that there will be only one primary provider of horseracing media rights, as before the entry of Turf TV in 2007.
10. The GC identified operating and premises licence fees, introduced in the Gambling Act 2005, as regulatory costs for retail bookmakers. It also mentioned other regulatory costs that retail bookmakers incur in order to comply with the Gambling Act 2005 (eg in areas such anti-money laundering, responsible gambling and age verification). By way of example, the GC noted that the main national retail bookmakers last year conducted over 13,000 Serve Legal Test Purchase<sup>1</sup> exercises.
11. The GC submitted that it had not seen evidence that the recent requirement of a sui generis planning permission to open a LBO:
- (a) has had much impact on retail bookmakers' costs; or
  - (b) has significantly affected the main retail bookmakers, being just another consideration retail bookmakers must face to open a new LBO.
12. The GC stated that the gross betting margins of retail bookmakers had been fairly constant over the years. The GC submitted that retail bookmakers margins across all betting products in the last years was:
- (a) 16.02% in 2014/2015;
  - (b) 16.07% in 2013/2014;
  - (c) 16.33% in 2012/2013; and
  - (d) 15.13% in 2011/2012.

## **Migration between the online and retail channels**

13. By way of example, the GC signposted the Competition and Markets Authority to data from Kantar Consumer Research which stated that:
- (a) approximately 54% of customers bet with retail bookmakers, 24% bet online and 22% used both retail and online channels; and
  - (b) 29% of retail customers also bet online and 47% of online customers also bet on retail.

---

<sup>1</sup> A Serve Legal Test Purchase is an independent, anonymous test purchase by an 18- or 19-year-old mystery visitor. A site achieves a PASS if official ID was requested for the visitor to purchase an age restricted product. If the visitor is able to purchase the product without proving their age then the site fails.

14. The GC's interpretation of this data was that online customers would be more likely to also use the retail channel than retail customers would be to also use the online channel.
15. The GC submitted that the growth of the online channel has driven the main bookmakers – which have both online and retail operations – to develop omni-channel or single wallet initiatives to promote brand loyalty between their remote and non remote businesses.

### **Potential entry**

16. Based on press speculation, the GC referenced BoyleSports, Skybet and Private Equity as potential new entrants in the non-remote retail betting industry in Great Britain, including through the acquisition of any LBOs divested within this proposed merger.

### **Importance of scale**

17. The GC stated that retail bookmakers with a high number of LBOs benefit from economies of scale with regards to some costs. The GC noted that any increase in costs cannot be easily passed onto the customer due to the notion of price value.

### **Local competition**

18. With regard to local competition between retail bookmakers, the GC noted that retail bookmakers tried to retain and attract customers through a number of differentiators, one example being through concessions such as offering 'best odds' guarantees.
19. The GC also stated that, in the past seven years, there has been a trend towards the concentration of LBOs in some high streets or particular areas, commonly referred to as 'clustering' of LBOs on the high street (for example, there are a significant number of retail bookmakers within a 200-metre radius in a particular area in Peterborough).
20. The GC noted that the so-called 'clustering' of betting shops was often misconstrued as a proliferation of LBOs and that the 'clustering' of LBOs resulted from the combination of three main factors:
  - (a) The limit of four gaming machines per LBO, whilst there was no limit placed on the number of LBOs in each locality.

- (b) The abolition of the 'demand test' under the Gambling Act 2005 which meant that there was no longer a limit on the number of LBOs in each area and that the number of LBOs in each area was determined, at the operational level, by competition and profitability considerations.
  - (c) A reduction in prohibitively high rents on the high street due to the number of closures of large retailers on the high street during the financial crisis meant that retail bookmakers were able to relocate their LBOs to prime locations in city centres.
- 21. The GC stated that the combination of these three factors resulted in 'clusters' of LBOs in the city centres or other areas with high demand.
- 22. Based on its knowledge of the gambling industry, GC submitted that:
  - (a) the main decisions relating to parameters of competition would usually be taken by the large retail bookmakers at a central level rather than locally;
  - (b) within the overall budget and strategy set out centrally, the main retail bookmakers would allow for some discretion to react to what competitors were doing locally;
  - (c) whilst local managers might have some autonomy in certain areas, the odds offered by each operator would be determined centrally;
  - (d) independent retail bookmakers would be more likely to flex their price offer at local level.
- 23. The GC also stated that as the demand for each LBO tended to be local, the number of retail bookmakers in each area was likely to be an important parameter of competition.