

LADBROKES/CORAL MERGER INQUIRY

Summary of hearing with Satellite Information Services Limited on 16 February 2016

Background

1. Satellite Information Services Limited (SIS) said it was established in 1986 to provide a satellite-delivered television service comprising live coverage of initially British horse racing and greyhound racing to licensed betting offices (LBOs) in the UK and in the Republic of Ireland.
2. SIS explained that:
 - (a) its main business was to compile data (video and audio) from sport events, mainly horse races and greyhound races, process that data and provide that content to bookmakers;
 - (b) as part of its business, SIS acquired media rights from media right holders, including greyhound track operators, Bookmakers' Afternoon Greyhound Services Limited (BAGs) and from horse racing venues operators.
 - (c) its business model hitherto was essentially to pay for media rights on a fixed price per fixture basis (irrespective of LBO numbers) and recover its investment by charging a subscription to bookmakers on a per LBO basis, although it had recently started to acquire rights on a risk-sharing basis under which the price was linked to LBO numbers.

The greyhound industry

3. SIS stated that its business model and the greyhound industry in general were in a state of flux, primarily as a result of technological and structural changes in the industry.
4. SIS explained that:
 - (a) when Turf TV entered in 2007 as a satellite provider of sport events to bookmakers, it introduced competition for the acquisition of media rights for content for the bookmaking market, such content including (but not limited to) greyhound races in the UK;

- (b) at about that time, some of the main national bookmakers (Ladbrokes, Coral, Betfred, William Hill) wanted to differentiate the content offered at their LBOs as a result of which SIS offered to produce and/or distribute different channels for each of these main national operators while maintaining its SIS-branded 'generic channels' for all independent bookmakers.
5. SIS also stated that:
- (a) as online gambling increased, digital technology both facilitated the delivery of and stimulated the demand for richer and more differentiated media content to retail and online bookmakers; and
- (b) bookmakers were currently facing cost pressures in terms of the price paid for media content and regulatory costs.
6. SIS submitted that, as the offer of greyhound meetings was higher than the demand for media rights of these meetings:
- (a) both SIS and BAGS would choose what greyhound meetings they would integrate in their schedules, in view of what greyhound races bookmakers regarded as attracting more customers to their LBOS;
- (b) bookmakers tended to prefer greyhound races which ended with 'a photo finish' (close finishes); and
- (c) the opportunity for greyhound operators to expand within the BAGS schedule was limited.
7. SIS noted that, whilst historically BAGS would tender for greyhound fixtures on an annual basis, since around 1997 it started tendering on a three-yearly basis and no greyhound tracks had been invited to tender since 2006, with the existing contracts between BAGS and greyhound operators being rolled over in the last ten years.
8. SIS also stated that there had always been a core of around nine greyhound tracks that offered good races, which included the greyhound tracks operated by bookmakers and three or four greyhound tracks operated by independents. SIS also submitted that the main features required for an operator to offer good greyhound races and for the integrity of their product were mainly: (i) a stable and experienced management; (ii) good track maintenance; (iii) no track record of infraction with the greyhound racing welfare and fairness rules; and (iv) strong commitment to the established schedule and punctual starting of the races even in adverse weather conditions.

9. SIS noted that media-right holders currently had many alternatives for the sale of their rights, such as BAGS, SIS, Racing Post TV, ATR or Turf TV.

SIS's relationship with BAGS

10. SIS explained that:
- (a) BAGS' role fundamentally consisted of procuring rights from greyhound tracks operators, negotiating media right prices with the greyhound track operators and then licensing those rights to SIS;
 - (b) SIS was not involved in price negotiations between BAGS and greyhound track operators and in decisions regarding the identity of the greyhound tracks that would form part of the mix;
 - (c) BAGS' greyhound meeting schedule for each year was agreed by SIS and BAGS; and
 - (d) SIS negotiated with BAGS the price at which it would buy media content from BAGS for the bookmaking industry and that content would then be incorporated in the mix of other SIS media content.
11. SIS stated that, as there was some degree of dissatisfaction amongst bookmakers with BAGS, the role of SIS had been going beyond being a mere distribution arm for the offer of BAGS' greyhound media products as it had started to: (i) contract directly with some greyhound tracks; (ii) take a more active role in determining the product it offered to its customers; and (iii) innovate and develop new business streams.
12. SIS submitted that it was currently in competition with BAGS (as well as with other media right purchasers in the UK, such as TURF TV) for the acquisition of media rights of greyhound meetings.
13. SIS explained that currently the greyhound industry was working with BAGS and SIS schedules in parallel: SIS would inform BAGS of the schedules of its greyhound meetings and BAGS would build in the rest of the schedule around it.
14. SIS stated that any conflict of interests that might exist within BAGS would not be exacerbated as a result of the merger, noting that Ladbrokes and Coral seemed to be excluded from any decisions regarding the procurement of greyhound fixtures by BAGS.

SIS's relationship with Coral, Ladbrokes and other greyhound operators

15. SIS stated it acquired the media rights for Coral's greyhound meetings from 2009, when Coral's contract with BAGS ended and it decided that it wanted to have its own branded TV service. SIS also explained that it agreed with Coral that Coral would pay SIS to create and provide Coral's channel by offering SIS the media rights for the meetings at Coral's greyhound tracks as part consideration for an overall content and distribution arrangement.
16. SIS also explained that it was currently concluding negotiations with [REDACTED] to acquire the media rights to its greyhound meetings and that [REDACTED] was in a position to negotiate with SIS because its contractual obligation with BAGS had ended.
17. SIS stated that its schedule would include BAGS' meetings, [REDACTED].
18. SIS further explained that:
 - (a) in the past it had entered into a contract with the operator of Towcester Greyhound track to help develop the track, but the agreement with Towcester was terminated by mutual consent, one of the reasons being (from SIS's point of view) because the greyhound track was not producing races of sufficient quality, citing the lack of 'photo finishes' as an example; and
 - (b) [REDACTED].
19. SIS stated the price it paid for media rights of greyhound meetings in the UK was based on a rate card underpinned by its FRAND¹ policy, which meant that there was not much flexibility for price changes or price differentiation between greyhound operators. However, SIS considered that access to SIS's fixture schedule was likely to be more attractive to greyhound operators than price alone.

Impact on SIS business of a hypothetical price increase by the merged entity

20. SIS explained that the media rights of Ladbrokes' and Coral's greyhound meetings formed a very important and integral part of its product offering,

¹ Fair, reasonable and non-discriminatory.

Coral's meetings being supplied directly under contract, while Ladbrokes' meetings were supplied through BAGS.

21. SIS said that if the merged entity, hypothetically, requested a higher price for their media rights, or removed their greyhound meetings from SIS's portfolio, that might potentially be an issue in the short term insofar as it may be difficult to replace those greyhound meetings with other good quality races at short notice.
22. However, SIS stated that the merged entity would be unlikely to be able to impose a price increase, in particular given that:
 - (a) SIS had governance measures in place which would mitigate against this risk, including its 'FRAND policy' according to which all SIS suppliers and acquirers of media rights were treated equally and fairly;
 - (b) as part of its corporate governance, all bookmaker representatives were excluded from the board committee taking decisions on the acquisition of media rights at the Media Content Committee;
 - (c) any price increase relating to the acquisition of media rights would likely be passed through bookmakers, including Ladbrokes and Coral, and therefore, the price paid for media rights would be set out by reference to what was necessary for a greyhound track to produce good greyhound races and provide a fair level of prize money;
 - (d) [REDACTED];
 - (e) SIS would expect to be able to fill the slots in its greyhound schedule without Coral's greyhound meetings, for instance by replacing them with greyhound meetings from independent greyhound tracks with an established reputation for staging high quality racing, based on the price set out in the SIS rate card;
 - (f) in the medium to long term, other greyhound operators that currently had contractual obligations with BAGs would be able to contract with SIS for the sale of their media rights;
 - (g) greyhound operators might be interested in contracting with SIS, because its new schedule meant they would not have the same scheduling constraints as with BAGs;
 - (h) the current importance of SIS as a provider of media content to bookmakers would give SIS some leverage in the negotiations;

- (i) the fairly lengthy negotiation periods and relatively long duration of contracts would allow other greyhound race tracks to at least partially replace the merged entity's tracks in the event of an unacceptable price increase: although the number of greyhound tracks that currently would be able to produce good greyhound races might be limited, with the support of bookmakers, in the medium term, SIS would be able to support some greyhound operators to produce better races;
 - (j) [redacted]; and
 - (k) SIS would expect its bargaining power to increase, as international greyhound content tended to be cheaper than the UK content.
23. SIS submitted that, overall and for the reasons explained above, it was not concerned with the impact of the merger on the price it paid for greyhound media rights.

Greyhound operations – catchment area

24. The greyhound tracks operated by Ladbrokes and Coral – ie, Crayford and Romford were not in competition with each other, as they had different catchment areas. SIS explained that the River Thames was an important geographic and psychological barrier and that racegoers tended to have a strong attachment to the greyhound track of their locality. In other words, SIS submitted that if hypothetically the Crayford greyhound track was closed, its customers would not cross the River Thames to attend greyhound meetings in the Romford greyhound track, or vice versa.
25. By way of illustration of the narrow geographic areas from which the greyhound tracks draw their audience, SIS noted that when the Catford greyhound track closed, its customers did not switch in material numbers to the Crayford greyhound track, even though it was only 7 miles away, despite several attempts to encourage customers to do so.
26. SIS also submitted that greyhound track operators also competed against bingo halls, cinema, and other sporting or televised events.