

Anticipated merger between Ladbrokes plc and certain businesses of Gala Coral Group Limited

Summary of provisional findings

Notified: 20 May 2016

1. On 11 January 2016, the Competition and Markets Authority ('CMA') referred the anticipated merger between Ladbrokes plc ('Ladbrokes') and certain businesses of Gala Coral Group Limited ('Gala Coral', and the businesses being acquired, 'Coral') (the 'Transaction') for further investigation and report by a group of CMA panel members ('Inquiry Group').
2. Ladbrokes operates a betting and gaming business in the UK and in a number of other countries. As of 12 October 2015, it operated 2,154 licensed betting offices ('LBOs') in Great Britain and 77 in Northern Ireland. Ladbrokes also offers online and telephone betting and gaming services. In addition, Ladbrokes owns and operates two greyhound tracks at Crayford in Kent and Monmore Green in the West Midlands.
3. Coral is the holding company of a betting and gaming group which is active in Great Britain and Italy. Coral operates around 1,850 LBOs in Great Britain. It also offers betting and gaming services online and betting via telephone. Gala Coral owns and operates two greyhound tracks at Hove in Sussex and Romford in Essex.
4. On 24 July 2015, Ladbrokes and Gala Group Finance plc entered into an agreement to merge their businesses by way of the acquisition by Ladbrokes of the entire issued share capital of the holding company for the Coral retail, Eurobet retail and Coral online businesses (jointly referred to in this report as Coral). Ladbrokes and Coral (the 'Parties') formally notified the Transaction to the CMA on 15 December 2015.
5. In terms of the rationale for the Transaction, Ladbrokes and Coral stated it would give rise to several opportunities, including the potential to deliver faster online growth, the creation of the UK's largest LBO estate and the delivery of significant synergies.

6. The four largest national LBO operators in the UK are William Hill, Ladbrokes, Coral and Betfred, which together have a share of supply in the UK of approximately 87% by number of LBOs.
7. In terms of wider industry trends, the sector has seen significant growth in the online channel, whereas the total number of LBOs operated by the main national LBO operators and their gross gambling yield has remained fairly stable for the last few years. All the major LBO operators now also provide gambling products online where they compete with many online-only operators.

Relevant markets

8. Our assessment focused on the impact the Transaction may have with regard to the Parties' overlapping activities in the supply of betting and gaming (together referred to as 'gambling') products. We also examined whether the Transaction may impact on competition relating to the operation of greyhound tracks.

Supply of gambling products in LBOs – constraint from the online channel

9. In light of the significant growth of the online channel, we considered whether the retail and online channels could be regarded as substitutable such that they should be treated as forming part of the same relevant product market.
10. We found that there has been a material degree of migration from the retail channel to the online channel over time, which appears to have had at least a medium- to long-term impact on the Parties' strategies insofar as product development and innovation of their retail offerings are concerned. The growth of the online channel appears to have also had at least a small impact on the Parties' pricing strategies for the retail channel.
11. However, on balance, the evidence indicated that the constraint from the online channel on the retail channel is not sufficiently strong for these channels to form part of the same relevant product market. Our provisional views are based on several pieces of evidence, including a comparative analysis of prices and margins across the retail and online channels, a review of internal documents and submissions by third parties. We also considered the results of several surveys, including a survey commissioned by the CMA (the 'CMA survey').
12. Overall, we provisionally considered that the growth of the online channel and the fact that some customers are migrating online do not mean that customers who currently choose to gamble in an LBO would divert to the online channel

to a sufficient degree to make a price increase (or worsening of the product offering) in the retail channel unprofitable. We have, however, recognised that the online channel constrains the retail channel and have taken this constraint into account in our competitive assessment of the Transaction.

13. Therefore, we provisionally concluded that the relevant product market for the purposes of our assessment of the competitive effects of the Transaction should be the supply of gambling products in LBOs (also referred to as the retail channel).
14. With respect to the geographic scope of the market, we examined the Transaction both at the local level and at the national level within Great Britain.
15. We observed that some parameters of competition between LBOs are altered or 'flexed' locally in response to local conditions of competition, including decisions relating to the refurbishment of LBOs and the offering of concessions to customers. In terms of the geographic scope of the local areas we examined, we used catchment areas of 400 metres around LBOs as a starting point for our analysis. However, we also took into account competitive constraints beyond 400 metres for the purposes of our competitive assessment of the Transaction at the local level.
16. We found that other parameters of competition are generally determined centrally and applied uniformly across the Parties' estates, including the odds and betting limits. As such, we assessed the effects of the Transaction on these parameters across the Parties' estates in Great Britain.

Operation of greyhound tracks

17. With regard to the operation of greyhound tracks, we provisionally decided to assess the effects of the Transaction on the basis of a product market consisting of the operation of greyhound tracks only. However, we recognised that there are constraints from other forms of entertainment outside of this market.
18. We provisionally found that it was not necessary to conclude on the precise boundaries of the geographic market for the operation of greyhound tracks, as we assessed the geographic overlap between the relevant greyhound tracks based on more precise information about the respective customers' location, transport links, and third party views on the local geography.
19. We assessed the effect of the Transaction on the market for the purchase of media rights for all greyhound races on a national basis within Great Britain.

Loss of competition at the local level in the supply of gambling products in LBOs

20. We assessed whether the loss of an existing competitor in the retail channel may be expected to give rise to competition concerns in the various local areas where the Parties compete.

Main features of the market forming the basis of our assessment

21. The evidence available to us indicated that LBOs compete more strongly the closer they are to each other geographically and that, as such, distance is generally a good proxy for the strength of competitive constraint. More specifically, we found that the competitive constraint one LBO exerts on another LBO diminishes sharply as the distance between them increases. The evidence also indicated that the industry is characterised by clusters of LBOs in some local areas and that the cumulative constraint from several LBOs taken together is relevant to the assessment of local competitive dynamics.
22. The identity of the brand or 'fascia' of a given LBO operator was generally shown to be less important and we found relatively little differentiation between the major brands. However, independent LBO operators did appear to exert a weaker constraint than large, national LBO operators.

Approach to the competitive assessment of the Transaction

23. We considered various approaches to assess the impact of the Transaction at a local level with a view to adopting a methodology that takes account of the wide variety of evidence available to us and best reflects the key parameters of competition at the local level, in particular the importance of location and distance. The approach we have provisionally decided to adopt, which we refer to as the weighted share of shops or 'WSS' model, provides us with a strong foundation for our competitive assessment. It incorporates the main provisional findings, including that:
- (a) the Parties respond to competition – for example by refurbishing their LBOs or by extending concessions in response to the opening of a new LBO in the vicinity – primarily from LBOs located within 400 metres, although there are a few examples of competitive responses to LBOs located further away;
 - (b) the competitive constraint exercised by one LBO on another LBO diminishes significantly as the distance between them increases;

- (c) in areas where the Parties own several LBOs within close proximity, the competitive constraint that they exert on each other is determined by the number and location of all their LBOs, not just the LBOs that are closest;
 - (d) the geographically closest LBO tends to be an even closer alternative for customers than its distance from the LBO around which we conducted our analysis would imply; and
 - (e) the identity of the brand of the LBO is generally less important, although the competitive constraint exercised by independent LBO operators is generally weaker than the constraint exercised by large, national LBO operators.
24. In essence, the WSS model systematically incorporates these findings by applying specific weights to each LBO in a given local area based on its distance from the merging party's LBO around which we conducted our analysis. By dividing the sum of the weights assigned to the other merging party's LBO(s) in that local area by the sum of the weights assigned to all LBOs present in the area, we calculated a WSS percentage. This captures the competitive constraint exercised by one merging party on a given LBO of the other merging party, taking account of the competitive effect of other LBOs in that area.
25. In designing the WSS approach, we took into account that the constraint from the online channel was already inherently incorporated in some of the evidence we analysed. We also considered what the CMA survey, as well as the surveys conducted by the Parties, could tell us about the level of the online constraint. The CMA survey indicated a low diversion ratio to the online channel of 6%, whereas the Parties' surveys, apart from their face-to-face survey, indicated a higher diversion ratio, with one survey pointing to online diversion of 14% on a comparable basis to the CMA survey. Overall, we considered it to be reasonable, appropriate and more reflective of the various pieces of evidence available to us to apply an online diversion ratio of 10% for the purposes of our competitive assessment.

Setting and adjusting an intervention threshold

26. We applied the WSS model in order to produce a WSS figure for each local area where the Parties' LBOs overlap. Having established a clear relationship between the evidence on local competitive responses and the WSS methodology we applied, we considered a range of intervention thresholds that would allow us to identify local areas where the Transaction may be expected to raise competition concerns.

27. Taking into account the evidence available to us, including estimated diversion ratios and pricing incentives in light of the high level of variable margins, we initially considered a range of potential WSS thresholds between 30% and 40% with a view to identifying a 'candidate threshold' as a starting point. We provisionally found that it would be appropriate to use a WSS candidate threshold of 35%, primarily on the basis that it is most reflective of and consistent with the evidence available to us, including our evidence on circumstances in which entry prompts a refurbishment, when concessions are offered, and how entry or exit of LBOs affect the volume of stakes. It therefore served as our threshold for the purposes of identifying local areas that may give rise to competition concerns.
28. Given that the evidence available to us indicated that the vast majority of competitive interaction takes place within 400 metres of an LBO, we initially focused on local areas of up to 400 metres from each of the Parties' LBOs. We identified 653 local areas in which the Parties overlap within 400 metres with a WSS of 35% or higher.
29. We then conducted further analysis and sensitivity checks, primarily with a view to ensuring that competitive conditions in local areas with a very high or low degree of density of LBOs, including beyond 400 metres, would be reflected appropriately. As a result, we provisionally:
 - (a) identified an additional 30 local areas of concern where the Parties' LBOs are located between 400 metres and 800 metres apart and the Transaction would result in a reduction in the number of competing LBOs from two to one within 1,600 metres; and
 - (b) considered that 24 local areas (out of the initially identified 653 local areas) with four or more competing LBOs within 400 metres are unlikely to raise competition concerns, as the Parties are likely going to be subject to sufficient competitive constraints after the Transaction in those areas.
30. Taking account of these adjustments and further sensitivity analysis, we provisionally found that the Transaction may be expected to result in a substantial lessening of competition (SLC) in 659 local markets for the supply of gambling products in LBOs.
31. However, we note that some of the local areas in which we have provisionally found an SLC may overlap. Therefore, should these provisional findings be confirmed in our final report and should divestiture be selected as the appropriate remedy, it may be the case that divestiture of one LBO would remedy, mitigate or prevent the SLC or any resulting adverse effect in more than one area.

Impact of the Transaction at the national level as a result of the aggregated loss of competition at the local level

32. We also found that there are parameters of competition which, even though they reflect an aggregation of local constraints, are not ‘flexed’ at the local level and are instead set centrally and applied uniformly across the Parties’ estates. These parameters generally include odds in sports betting, the return to player in gaming, promotions, betting limits and certain product ranges. We therefore assessed whether the Transaction may give rise to competition concerns at a national level in respect of these parameters of competition.
33. In order to assess the impact at the national level, we sought to estimate the proportion of one merging party’s customers who would regard the other merging party’s LBOs as their next best alternative taking into account the evidence on closeness of competition at the local level.
34. We calculated an estimated aggregated diversion ratio between the Parties ranging from 10 to 20% based on the CMA survey results. We provisionally considered that, in light of the high variable margins we observed, in this case, this level of diversion indicates that there is likely to be a material incentive for the Parties to worsen aspects of their offering which are: (i) determined by the constraints across all local areas where the Parties overlap taken together; and (ii) applied uniformly across their entire LBO estates.
35. Therefore, on balance, we provisionally concluded that the Transaction may be expected to result in an SLC at the national level as a result of the aggregated loss of competition at the local level.

National theories of harm

36. We also found that there were other forms of competition between the Parties at the national level that were not merely a reflection of aggregated local effects.

Top price competition

37. Some LBO operators compete to offer the best odds for particular selections at a national level. More specifically:
 - (a) in horseracing, the Parties and some other bookmakers compete to be ‘top-price’ for races covered by the Racing Post’s Pricewise column (which tend to be the most popular races); and

- (b) in football, the Parties and other LBO operators guarantee to give the top-price on their football coupons for certain selections against a limited number of other bookmakers.
38. However, the evidence indicates that competition for the top-price in Racing Post's Pricewise list is not limited to LBO operators. Several online operators also compete for the top-price, meaning that the anticipated combined entity (the Merged Entity) would still face competition from a large number of operators for the top-price in the Racing Post Pricewise selection.
39. We therefore provisionally found that the loss of rivalry between the Parties for top-price in the Racing Post Pricewise selections may not be expected to result in an SLC at the national level.
40. We also considered that competition to offer the best odds for certain selections on football coupons is not limited to LBO operators in relation to which a guarantee is currently provided (namely the Parties, William Hill and Betfred).
41. Following the Transaction, other LBO operators will continue to offer football coupons and, if they found it commercially desirable to do so, may offer better odds than the Merged Entity for any of these selections or coupons. Given also that the coupon top-price football selections do not account for a large proportion of the Parties' gross win in football, we provisionally found that the Transaction may not be expected to result in an SLC in the national market for the supply of gambling products in relation to the top-price commitment for football coupons.

Loss of potential competition

42. We also assessed whether the Transaction may be expected to lead to a loss of potential competition in areas where the Parties may open new LBOs and compete against each other.
43. On the basis of the Parties' past and future expansion plans, we provisionally concluded that they would not expand significantly into local areas in which they were not currently present. In other words, the evidence did not indicate that the Parties would, absent the Transaction, create material additional local overlaps over and above their respective pipeline plans of entry into specific areas (which we considered as part of our local theory of harm). Therefore, we provisionally found that the Transaction may not be expected to result in an SLC as a result of a reduction of potential competition at the national level.

Loss of innovation

44. We considered whether the Transaction may affect innovation in ways other than the aggregation of the change in competition at the local level. Evidence from third parties and internal documents indicated that: (i) innovations rolled out by the LBO operators were frequently developed by third parties; (ii) LBO operators sought to replicate online functionalities in their retail environment, indicating that the sources of innovation were not limited to retail competitors; and (iii) competitive interaction between the Parties was not regarded as driving innovation and the Parties themselves were not particularly innovative.
45. Based on this evidence, we provisionally found that the Transaction may not be expected to result in an SLC at the national level as a result of the loss of innovation.

Operation of greyhound tracks

Impact on racegoers

46. We also considered the impact of the Transaction in relation to the operation of greyhound tracks. We provisionally considered that Romford and Crayford greyhound tracks (the only potentially overlapping tracks of the Parties) do not compete closely with each other and there is unlikely to be a significant number of customers switching between them. The evidence indicated that customers would be more likely to cease attending greyhound races altogether or switch to other forms of entertainment in response to an increase in price at their local track. In addition, we were mindful of the fact that the Parties would continue to face a level of constraint from other forms of entertainment in setting their policies relating to pricing and other aspects of their offering.
47. We therefore provisionally concluded that the Transaction may not be expected to result in an SLC in relation to greyhound racegoers in the local markets for the provision of greyhound track racing at the Crayford and Romford tracks.

Impact of the Transaction on greyhound racing media rights

48. We also provisionally found that the Transaction may not be expected to result in an SLC in the sale of media rights for greyhound racing, in particular because:
 - (a) the Parties have a relatively small share of the overall market;

- (b) there are several alternative 'quality' tracks and other tracks that have the ability to improve their quality if required in response to a price increase by the Parties; and
 - (c) there is capacity to broadcast additional races from other greyhound tracks in the short term and to develop additional capacity in the medium term.
49. We also provisionally found that the Merged Entity would be unlikely to be able to increase its allocation of broadcast greyhound races to the detriment of other greyhound track owners. This is because the evidence indicated that the Parties are unlikely to have the ability to influence the decisions of the relevant media rights purchasers on the purchasing and allocation of greyhound races to the detriment of other greyhound track operators.

Other theories of harm

50. There were several other areas where we considered the impact of the Transaction.
51. As regards the Parties' relationship with Playtech – a supplier of gambling software to the Parties and other UK bookmakers with an equity interest in Ladbrokes – we provisionally found that the Transaction is not likely to give Playtech an incentive to favour the Merged Entity to the detriment of other bookmakers, because any gains that may accrue from any foreclosure strategy would be unlikely to outweigh the losses Playtech would suffer as a result of such a strategy in both the short and long term. We also provisionally found that the Merged Entity is unlikely to be able to leverage its relationship with Playtech to the detriment of the Merged Entity's rivals.
52. In relation to the supply of gambling products online, we provisionally found that the Transaction may not be expected to result in an SLC in the supply of gambling services online due to the large number of other online bookmakers and the low combined share of the Parties.
53. We also provisionally found that the Transaction may not be expected to raise competition concerns on the basis of increased buyer power of the Merged Entity in the acquisition of media rights for horse races and/or greyhound races.

Countervailing factors – entry and expansion

54. We examined whether entry of new operators or expansion by existing operators would be likely to prevent or mitigate the SLCs that we provisionally

identified. We provisionally found that there are material barriers to opening a significant number of LBOs and that, in view of the expansion plans of the LBO operators operating in Great Britain, entry is unlikely to occur on a sufficient scale, within two years, in the different markets where we provisionally found an SLC in the supply of gambling products.

55. We therefore provisionally found that entry or expansion is unlikely to prevent or mitigate the SLC that may be expected to result from the Transaction.

Overall provisional conclusions

56. We have provisionally found that the Transaction may be expected to result in an SLC:
- (a) within 659 local markets in Great Britain for the supply of gambling products in LBOs; and
 - (b) within the market for the supply of gambling products in Great Britain, as a result of the aggregated loss of competition at the local level.