

LADBROKES / CORAL

LADBROKES PLC AND GALA CORAL GROUP LIMITED – INITIAL SUBMISSION

1 Introduction

- 1.1 Ladbrokes plc (**Ladbrokes**) and Gala Coral Group Limited (**Gala Coral**) welcome the opportunity to provide an Opening Submission to summarise their views on the competitive dynamic against which the anticipated merger of Ladbrokes with the betting and gaming operations of Gala Coral (the **Merger**) should be considered.¹
- 1.2 The Merger is taking place in the context of a marketplace that is very different from that which existed when the MMC last reviewed this deal in 1998. Even the last 5 years have seen significant (and ongoing) changes in the market dynamic. These are driven by the considerable growth in online betting and gaming (in particular via mobile) together with the emergence of a greater number of sizeable retail competitors including Betfred and the new entry of Paddy Power. These changes have fundamental implications for the competitive effects of the proposed transaction.
- 1.3 A substantial (and growing) proportion of the Parties' retail customers now bet and/or game online, with retail customers increasingly switching consumption between the two channels. This is borne out by the fact that customers place online the same types of bets that would otherwise have been placed in retail (or play the same types of games) and typically reduce their spend in retail when they start gambling online. Moreover, this substitution remains an ongoing constraint for all operators, whether retail, online or both: of customers who started betting in a retail shop, a large proportion of them (44-56%) now use online channels at least once a month.² Indeed, 37% of the Parties' regular retail customers also gamble online.³ Furthermore, of customers who started gambling *online*, 17-18%⁴ now regularly gamble in retail shops. It has therefore become a pressing strategic imperative for bookmakers to respond to the challenge posed by online betting, which competes with every licensed betting office (LBO) in every local area.
- 1.4 In addition to this overarching online constraint, within each local market where their LBOs are situated, the Parties compete against other retail operators, all of whom are viewed as credible and effective competitors, not least because there is very little differentiation in the standard LBO offering. Competition among retail operators is entirely local across all parameters of competition, with operators' performance determined by how well they compete in each local area. In this way, retail competition takes place on a local basis, with the majority of competitive decisions being made at the local level or by reference to competition that takes place locally.
- 1.5 The Parties must therefore have regard to all local retail competitors as well as online operators when setting their propositions, and these constraints will remain post-merger. As described in the following sections, this is demonstrated by the Parties' actions and the economic evidence. In particular:
- **Section 2** summarises the background to the Merger, and the Parties' rationale for the Transaction;
 - **Section 3** explains how online betting has fundamentally altered the competitive dynamic in retail betting, and shows that the Parties are constrained by the behaviour of online operators;

¹ Each of the Parties' businesses is explained in Section 3 of the Notification (pp. 17 – 20) and the terms of the Merger are explained in paragraph 2.10 of the Notification.

² The Parties' online survey found that [REDACTED]

³ Kantar's market sizing survey Q1 15 – Q4 15.

⁴ The Parties' online survey found that [REDACTED]

- **Section 4** explains that competition between LBOs for betting occurs locally, with all rival LBO operators exerting an equally credible competitive constraint; and
- **Section 5** relates specifically to gaming, and explains why the competitive environment for gaming is equally, if not more, intense than for retail betting.

1.6 Should the CMA conclude that there are specific local areas in which there may be a realistic prospect of a substantial lessening of competition, the Parties are willing to consider making appropriate local divestments to address these concerns. The Parties submit that these divestments, which would ensure that there is no significant change to the strength of competition in any local area, will be sufficient to ensure that no detriment arises from the transaction.

2 Background

2.1 Between 2009 and 2014, online gross win increased from £1.5 billion to almost £3 billion, a compound annual increase of approximately 15% in five years.⁵ Moreover, online growth is expected to continue, with Mintel forecasting that the market value of the online gambling segment will reach £4.27 billion by 2019, up approximately 10-12% per year. This growth in online gambling has occurred across the market and at the expense of gambling in retail shops. Around 37% of the Parties' regular retail customers currently gamble online as well as in retail shops, with only around one third of those customers gambling with the Parties' own online offerings (reflecting the strength of the proposition of other online operators).

2.2 This huge growth in online betting and gaming has led to significant variation in the way in which betting and gaming customers engage with LBOs, and there is no such thing as an 'average' customer. Every customer will have their own view as to what constitutes a good value proposition. The lack of customer homogeneity is apparent from the very different choices that customers make about how and when to gamble, through different channels, in different amounts, with different levels of sophistication, and taking into account their own preferences as to the various elements of the LBO offering.

2.3 In contrast, the retail market has hit maturity and is now in structural decline, as it struggles with the twin pressures of responding to competition from online operators and regulatory changes. In particular, the Parties have witnessed a significant decline in their retail sports betting turnover. Gross win from OTC sports betting has decreased from £180,490 per LBO in 2009 to £168,601 per LBO in 2014, a decrease of approximately 7%.⁶ OTC sports betting is expected to continue to decline, with Mintel forecasting that the market value of the OTC betting segment will fall from £1.435 billion in 2014/15 to £1.31 billion by 2019/20, a decline of an average of approximately 2% per year. The growth in machine gaming revenues, which until recently counter balanced these declines, has now plateaued. In addition, retail operators have been more susceptible to the cost increases resulting from changes to taxation and regulation⁷ because of the decline in their sports betting revenues and their already high fixed cost base in comparison with those of online-only operators.

2.4 As is to be expected, given this background and the impact of the online constraint in each and every local area, the innovations that bookmakers are introducing in their shops and to their retail propositions are being driven by a desire to ensure that the retail product remains competitive for consumers.

⁵ H2 Gambling Capital Data.

⁶ H2 Gambling Capital Data.

⁷ The UK government has made significant changes to the taxation of the gambling industry since the 1998 decision: in 2014 it increased Machine Gaming Duty to 25%, which forced William Hill to close 108 of its betting shops, and introduced a 15% tax on online gaming. The UK government has also introduced regulatory changes, such as a £50 staking maximum for FOBTs without staff interaction and the requirement to seek planning permission to convert a site that has not previously been used as a betting office.

- 2.5 Whilst there has been a reduction in the number of retail bookmakers overall since 1998, there is now a larger number of sizeable retail bookmakers, with the significant expansion of Betfred and a dramatic increase in the shop numbers of Paddy Power, together with the presence of a number of smaller chains, such as JenningsBet, Stan James, Corbett, Mark Jarvis and Scotbet. All of these competitors have a strong customer proposition and are viewed by the Parties as credible competitors. As noted above, a betting shop is a relatively standard offering and each contains the same basic elements. Pricing (where it can be controlled) is increasingly standard as a result of the transparency created by betting exchanges, price comparison sites (such as Oddschecker) and all other online operators. The range of bets offered is broadly standard, as is the content that is available and the screen systems through which it is broadcast. Moreover, all LBOs are permitted to have four gaming machines (known as fixed-odds betting terminals or FOBTs), with the vast majority now also offering self-service betting terminals (SSBTs).
- 2.6 The rationale for this deal is therefore to combine the expertise of the Parties to accelerate growth in their online propositions and to create a more sustainable retail estate. Given the highly competitive nature of the betting and gaming markets, the merged entity will have strong incentives to realise and use the savings from projected cost synergies in order to compete more effectively against other operators in retail and online.

PART 1 - BETTING

3 Online betting has fundamentally altered the competitive dynamic in retail betting

3.1 There is now a very substantial overlap in terms of customer demand between online and retail betting, and the customer experience between the two channels has become increasingly close and continues to converge. There is strong evidence demonstrating that (1) customers are increasingly substituting between retail and online betting and (2) online competitors are exercising a constraint on the Parties' behaviour as a result. This constraint will increase in the future.

(A) The Parties' businesses are increasingly becoming more exposed to, and more reliant on, the online channel

3.2 First, the threat from online presents a simple business fact for both Parties. The Parties have not only seen an increasing share of their business move to online, but have also seen an increasing number of their retail customers using online alternatives. Indeed recent data from Kantar shows that approximately 46% of all the Parties' regular customers and 37% of the Parties' retail customers use online channels. The proportion of the Parties' retail customers is shown below:⁸

Figure 1: Retail Only customers as a % of Retail Customers (monthly+ users)

[✂]

Source: "Kantar Cross Channel Usage by Brand Q4 2015"

3.3 In paragraph 38 of the Phase 1 Decision, the CMA states that 80% of Coral's and 76% of Ladbrokes' customers are retail only. However, as already explained to the CMA, this figure is misleading, as it refers to the proportion of the Parties' Total Customers that used the Parties' own website. The relevant measure for assessing the competitive constraint placed upon retail by the online channel should be the proportion of the Parties' *retail customers* that use *any* online website, as above. Indeed the fact that a lower proportion of the Parties' Total Customer base bet online using the Parties' own websites as compared to the other main players simply reflects the relative lateness with which the Parties' have rolled out their online platforms. When looking at the same statistic for other brands such as Paddy Power and William Hill (as shown in the table below), it is clear that their online businesses are more significant and they have been much more successful in capturing retail customers migrating over to the online channel, something the Parties wish to emulate through the merger.

Table 1: Retail and online business, by brand

	UK Retail Revenue as a % of Total Net Revenue (*) ⁹	Retail brand customers as a % of all brands' customers (Kantar UK) (**)
Coral	84%	85%
Ladbrokes	82%	82%
Paddy Power	[30-40]%	[✂]
William Hill	[60-70]%	[✂]
Betfred	[80-90]%	[✂]

⁸ The retail only customers as a proportion of all the Parties customers is shown in Annex 1.

⁹ The total net revenue figure for each brand include some element of the relevant brand's European online business. The total net revenue figure for Coral excludes the Gala and Eurobet brands. The figure for Betfred is based on estimates from its annual accounts filed at Companies House and it includes Betfred's on-course operations (but not its Tote pool betting business). The figure for each brand also refers to H1 2015, except in the case of Betfred, which refers to the 18 month period ending September 2014.

Source: Public data and Kantar Q4 2015 data. (*) The UK total net revenues are best estimates as operators do not report their UK online revenues separately and their revenues include some elements of their European businesses. (**) 'Retail brand customers' includes the relevant brand's retail only customers and half of the relevant brand's multi-channel customers.

3.4 The fact that the Parties' businesses are vulnerable to this online substitution is evident from the Parties' internal documents, of which a sample are set out below.

(a) [REDACTED].

(b) [REDACTED].

(c) [REDACTED] (provided at **Annex 14.8** of the Notification and set out in Annex 1 of this submission) states that [REDACTED].

(d) [REDACTED] (attached at **Annex 14.9** of the Notification)) indicating that [REDACTED].

(e) [REDACTED].

3.5 The existence of online as a constraint on the Parties' LBOs is also seen by the way in which the Parties conduct their day to day business operations and pricing decisions. For example as explained in paragraph 14.103 et seq of the Notification, the Parties' trading teams have constant reference to, and rely on, information about the level of online odds while both compiling and adjusting their retail odds. [REDACTED].

3.6 Furthermore, the Parties' set their odds offered in retail and online at the same level for the vast majority of events in horse racing, greyhound racing, other sports and for numbers products. In football, the odds are comparable on those selections in the higher leagues where the majority of staking takes place. This parity on odds reflects the greater visibility of "true prices" for bookmakers and also the increased transparency of odds for customers, many of whom regularly check odds online. Bookmakers have limited ability to deviate from competitive odds in either segment or to set different odds across channels. Were the Parties to offer poorer odds to retail customers compared to the odds offered to online customers, the migration to online would further accelerate and cannibalise their retail customer base. Therefore where possible, there is an incentive to maintain odds at the same or similar level across both channels.

3.7 Finally it should be noted that the Parties have no ability to mitigate this threat of migration simply through price discrimination in favour of retail customers who use online channels. This is because the Parties are not able to identify with certainty those retail customers who also use online channels and those who do not, since the vast majority of retail bets are placed anonymously. There is no way for the Parties to use the Coral Connect and Grid Card loyalty schemes to differentiate on price, as customers who do not participate in these schemes can still gamble online. Indeed, as the Kantar data shows, whilst approximately 11% of the Parties' regular retail customers also gamble with the Parties' own online offerings (and therefore may theoretically be identified), 26% of their regular retail customers use a different brand for gambling online (and therefore cannot be identified). This means that the Parties are unable to identify over two thirds of their regular retail customers who also gamble online.

(B) The Parties' retail strategy has been focussed on emulating online and encouraging multi-channel use

3.8 Second, the threat from online has driven many of the key innovations within the retail space, in order that the retail offer remains competitive with the online offer. This is reflected in online propositions being replicated in retail (see paragraph 3.9(d) below, for example). Indeed, many retail bookmakers have focussed on the introduction of multi-channel offerings, with converging retail and online propositions under a single brand. This is also aimed at ensuring that, to the extent that customers bet online rather than in retail, they do so using the online platforms of that retail operator. In this

way, the operator attracts online custom¹⁰ and also retains the ability to cross-sell its retail offerings and retain retail custom.

3.9 A number of recent innovations by retail LBOs, including the Parties, have been driven by the need to compete with online operators and to offer retail customers some of the benefits of online betting. Examples include:

- (a) the introduction of self-service betting terminals (SSBTs) as a direct response to the increasing penetration of online betting. SSBTs deliver a large number of the features of online betting to the retail environment, including (i) the ability to bet in-play; (ii) greater flexibility in creating accumulator bets (e.g. mixing and matching different sports); (iii) a larger number of betting markets than are available OTC; and (iv) the ability to bet in privacy (i.e. without needing to interact personally with someone). As well as reflecting these features, it is notable that the SSBT's user interface is also similar to betting websites;
- (b) an increased prevalence of facilities that allow customers to bet in-play, either through SSBTs or other means (such as Coral's dedicated bet-in-play terminals which effectively offer the Coral website in-store). Given the popularity of in-play betting online, operators are seeking to replicate in-play betting in the retail environment;
- (c) multi-channel offerings, which seek to make the retail and online experiences more interchangeable. For example, online winnings can now be withdrawn in a retail environment, and bonuses/loyalty points can be earned based on combined activity across both channels; and
- (d) specific initiatives which were previously available only online, but are now also available in retail LBOs. For example, it is now possible to "cash out" of retail bets early, and to track bets in real time.

(C) The Parties Survey strongly supports online as a substantial constraint on retail

3.10 Third, the Parties' recent online and telephone surveys tell a strong and consistent story of online as a significant constraint on retail operators. These two surveys used different methodologies and asked different sets of customers but both came up with a remarkably consistent view that online is a strong constraint on retail[REDACTED].

Table 2: Responses to Parties' Survey [REDACTED]

[REDACTED]	[REDACTED]		[REDACTED]	
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

3.11 [REDACTED].

3.12 The Parties' survey is consistent with retail users migrating to online channels[REDACTED].

¹⁰ The Parties' data indicates that multi-channel customers are at least [REDACTED] more valuable than sole channel customers (see Ladbrokes [REDACTED] document at **Annex 14.16** of the Notification). See also Coral's statement at page 10 in its Annual Report, noting that online players recruited through Connect (Coral's multichannel offering) are twice as valuable and cheaper to recruit (report attached at **Annex 8.14** of the Notification)

3.13 The Parties' survey also provides strong support for online gambling being a substitute for retail gambling (rather than purely complementary). [REDACTED].

3.14 Whilst the survey result for online substitution from the Parties' in-store survey was weaker, the Parties have already submitted that the in-store methodology suffered from both a low response rate (and hence a lack of representativeness), and a potentially substantial framing bias away from online substitution. In the Parties' view, this framing bias is particularly acute in the context of the diversion question being asked when a customer is standing in a retail store, either before or after having just made a retail bet. Indeed given that the telephone and online survey provide consistent but different substitution rates from the in-store survey, the evidence suggests that the in-store survey does indeed suffer from the issues above and therefore is less reliable evidence than the other consistent methodologies, namely telephone and online.¹¹

(D) There is clear evidence of an industry wide substitution between retail and online

3.15 Fourth, as has been explained in paragraphs 14.22 to 14.55 of the Notification, the long term industry trends provide strong evidence of migration from retail to online betting, demonstrating that customers consider the two channels to be substitutable. Whilst we do not repeat all the evidence that has already been provided to the CMA, (although for convenience we provide further detail in Annex 1), we summarise the main findings below.

(a) Independent analyst reports refer frequently to the threat to retail LBOs from the migration of customers to online gambling.

(b) OTC gross win within retail was rising steadily until the growth of online betting. Subsequent to the start of online betting, retail has peaked and has started falling steadily, in synch with the growth of online.

(c) The number of retail only gamblers has fallen steadily over time. Between Q2 2014 and Q3 2015 the proportion of all regular retail only bettors fell from 56% to just over 46%. This is also seen in their expenditure as the proportion of total spend from regular retail only bettors declined from 50% in Q2 2014 to 37% in Q2 2015.

(d) The proportion of gamblers who only bet online now, but previously gambled in retail shops has been consistently high, showing significant levels of migration have occurred and continue to occur. Indeed Kantar findings show that 53% of online-only customers have bet previously in retail and therefore have migrated. This is broadly consistent across the last 5 quarters and has similar positive results for each of betting (59%) and gaming (42%).

(e) The decline of retail at the expense of online is expected to continue in the foreseeable future given (i) the higher usage of online betting amongst younger gamblers; (ii) the increasing usage of mobile phones for gambling, with regular mobile-only gamblers, going from 16% in Q2 2014 to almost 25% in Q2 2015; and (iii) the increase in smartphone penetration and improvements in wifi and 4G technologies.

3.16 In summary, the Parties believe that there is strong and compelling evidence that online betting is a significant constraint on retail competition. This constraint is not only substantial today, but will become stronger as online and mobile penetration increases amongst gamblers.

4 Competition from retail LBOs occurs locally with all rival operators exerting an equally credible competitive constraint

4.1 Competition between retail LBOs in relation to off-course fixed-odds betting takes place locally, in a similar fashion to other retail markets recently analysed by the CMA. This reflects the fact that when customers decide which shop to visit, they will choose only between those shops that are available

¹¹ The Parties note that Kantar uses a telephone survey rather than a face to face survey because of the latter's biased results. [REDACTED].

within a relatively tightly defined local area (or, indeed, a customer can place a bet online on a mobile device or at home). To attract and retain customers, each of the Parties' LBOs must therefore be competitive within its local area. As noted in a Ladbrokes strategy document, [REDACTED]¹²

- 4.2 This conclusion is supported by the conduct of the Parties' day-to-day operations, where the vast majority of competitive decisions are either: (i) made locally; (ii) made centrally but by reference to local conditions of competition;¹³ or (iii) made centrally and are uniform across the estate, but reflect the aggregation of local competitive constraints. The Notification provides examples of this at paragraphs 15.10 to 15.68 and makes clear that the local nature of competition applies across all price and non-price parameters of competition, including product range, service quality, look and feel of shops, brand and innovation.
- 4.3 The fact that certain decisions are taken centrally and applied uniformly does not detract from their dependence on the local nature of competition. When considering whether to increase a uniformly set price, for example, a key consideration will be the loss of volumes that the price increase will entail. This loss of volumes will be the aggregate effect on the volume of sales across every shop in the estate. The magnitude of lost sales in each local area will be determined entirely by the alternative offerings available locally for customers, plus the option of switching to online. By definition, therefore, the level of a centrally determined price for the whole estate is predicated on the cumulative constraints posed by all rival LBOs with which the operator competes locally (including online operators). This applies equally to all centrally determined parameters of competition including aspects such as brand and innovation.
- 4.4 The key implication is that if the strength of the constraint in each local market is not significantly changed (which could be achieved, for example, by suitable divestments), then the relevant considerations when prices are centrally determined, or indeed when any other competitive variable is centrally determined, will also not be significantly changed. Therefore any concern regarding centrally determined competitive variables can be solved by simply ensuring that local competition is unchanged. It follows that, in order to reach a view on whether the competitive constraints on the Parties will significantly change post-merger, it is only necessary to consider the constraints imposed by each competitor LBO in each location in which the Parties operate, plus that imposed by online operators.
- 4.5 The Parties view all competitor LBOs, irrespective of the identity of the LBO operator, as equally credible reflecting the fact that all of the LBOs they face locally have a customer proposition that is at least as appealing as the Parties' own offerings. As described in more detail below:
- (a) customers tend to care most about the convenience of an LBO's location, the customer service offered and the quality of the shop environment when choosing in which shop to place a bet (all of which are locally set parameters of competition);
 - (b) this reflects in large part the fact that other dimensions of a shop's offering are more comparable across LBO operators – a similar range of bets, availability of SSBTs, number of FOBTs, similar types of promotions and concessions (some of which are determined locally and some centrally) and broadly comparable odds; and
 - (c) the Parties' actions and the competitive offer they provide to customers clearly show that the Parties need to respond to all retail LBO operators (demonstrating the effectiveness of local constraints from all bookmakers).

¹² [REDACTED]

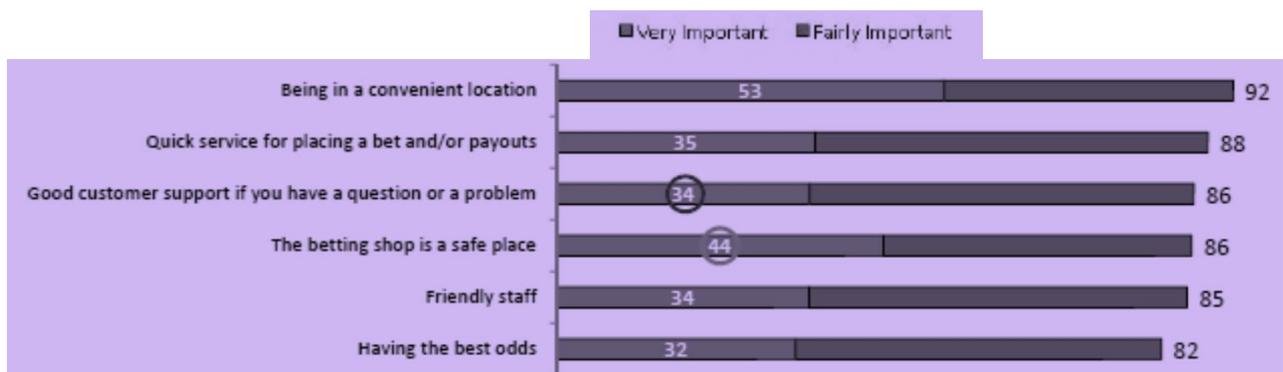
¹³ The CMA recognises this in its Phase 1 Decision, noting, at paragraph 52, that “based on the evidence that [the CMA] has found, [...] Ladbrokes and Coral can and do vary certain aspects of their offering in response to variations in local conditions of competition (including the presence of competitors).”

4.6 These points are supported by a range of market research, internal analyses and documents and economic evidence, as described in turn below. This evidence clearly shows that all competitor LBOs are capable of being a credible constraint within each local catchment area and, similarly, that there is no *a priori* reason to suggest that the Parties' LBOs are closer competitors to one another than they are to the LBOs of any other bookmakers.

(A) Customers care most about location, customer service and the shop environment

4.7 Survey evidence shows that location, convenience, customer service and quality of facilities are the top drivers of choice for customers when selecting an LBO. This is clear from the survey extract reproduced at Figure 2 below [redacted] (see for example the figure at paragraph 14.67 and Figure 21 of the Notification).

Figure 2: Factors in choosing a betting shop among OTC bettors (by percentage of respondents)¹⁴



Source: Kantar U&A Gambling Report Q3'15: Retail or Online (Annex 14.51 of the Notification).

4.8 The importance of these parameters of competition is also clear from the Parties' internal documents, which demonstrate that they seek to differentiate themselves from their competitors by reference to the quality of their staff, customer service and the 'look and feel' of their LBOs (see paragraphs 14.56 to 14.80 of the Notification). For example, [redacted].

4.9 As regards Coral, [redacted]¹⁵[redacted].

4.10 On the other hand, the importance of the odds offered by bookmakers and their concessional or promotional offering are consistently ranked below non-price factors as drivers to customers' choice of venue in customer surveys, as demonstrated by Figure 2 above.¹⁶

4.11 A lack of differentiation on pricing between retail LBOs is one factor likely to explain the lower importance of pricing to customers (see further discussion of this at paragraphs 4.13 to 4.19 below). However, in addition, the ability for bookmakers to compete on price is limited.

(a) In relation to horseracing, approximately 80% to 85% of bets are placed at either the starting price (often referred to simply as the "SP") or board prices for a given race. These prices are determined by the on-course market at the racecourse at which the relevant event is being held. The proportion of bets placed at these prices increases to approximately 98% for greyhound racing. There is therefore limited price competition among retail bookmakers.

(b) While the odds for football betting products are set independently by each off-course bookmaker, the ability of bookmakers to adjust prices is nevertheless limited. Football

¹⁴ Note: Figure 1 is a portion of the entire slide.

¹⁵ Coral has surveyed the impact of the new format in [redacted] locations and has found that [redacted].

¹⁶ See for example Kantar's U&A Gambling Report for Q3 2015 (Annex 14.51 to the Notification), which shows that among regular retail gamblers surveyed "Having the best odds" is ranked sixth behind "Being in a convenient location", "Quick service for placing a bet and/or payouts", "The betting shop is a safe place", "Good customer support if you have a question or a problem" and "Friendly Staff".

betting products are predominantly offered to customers in LBOs by way of physical coupons. This practice is driven by customer preference as evidenced by the Parties' internal documents.¹⁷ In addition, many bookmakers (including the Parties) are unable to print coupons in-shop, so any changes outside of the printing schedule must be communicated to customers at the till (negatively impacting customers' experience).

- 4.12 Betting operators also offer various types of promotions and concessions to customers across different events. Concessions and promotions are aimed at increasing overall volumes by encouraging customers to visit an operator's local shops and are clearly a way in which competitors can differentiate themselves, although their importance as a driver of customer choice of LBO (and thus as a parameter of competition) is not high. For example, Kantar survey evidence lists "*having good offers and promotions*" as the 14th most important factor in choosing an LBO (see **Annex 14.51** of the Notification), in other words even less important than headline odds.¹⁸ Their limited importance is reflected in the fact that they account for a minimal amount of gross win; in FY15, [X].
- 4.13 Finally, as noted above, brand is relatively unimportant for customers in their choice of local betting shop. The Kantar survey indicates that brand is the 10th most important factor in choosing an LBO behind competitive odds and promotions and concessions, and that there is limited brand loyalty among customers (see paragraphs 14.94 to 14.98 in the Notification). This position is reflected in the Parties internal documents. [X] (for example, there is a link between brand recognition and search engine results optimisation).

(B) Comparability of offers between retail LBOs on other dimensions of competition

- 4.14 As the Parties have articulated in the Notification (see Section 14), retail LBOs offer an increasingly standard product to customers. All LBO operators therefore have a credible customer offering and there is no *a priori* reason for believing that the Parties compete more closely with one another than they do with other bookmakers.
- 4.15 The growth of online betting has been a primary driver of this through increasing the availability of pricing information that then allows retail LBOs to price up a wider range of bets than was possible previously and also through driving new innovations. In particular:
- (a) all competitors offer a similar range of OTC betting products – all take bets on horses, greyhounds, football, other sports and numbers games (and broadcast content is almost identical) – and within these products all offer a similarly wide range of bets;
 - (b) most LBO operators now also offer one or more SSBT in their shops, if they have the space available – this innovation has been driven by the need to compete with online, as described above;
 - (c) nearly all LBOs have the maximum number of four FOBTs, reflecting the importance of gaming revenue as an income stream for LBOs;¹⁹ and
 - (d) LBO operators are investing in their multi-channel offering, again driven by the threat from online alternatives.
- 4.16 In addition, on those aspects of pricing that are within the Parties control (in particular, early prices for horseracing and the setting of odds for retail football coupons) an analysis of pricing of the five major LBO operators shows that all are credible competitors.

¹⁷For example, [X]

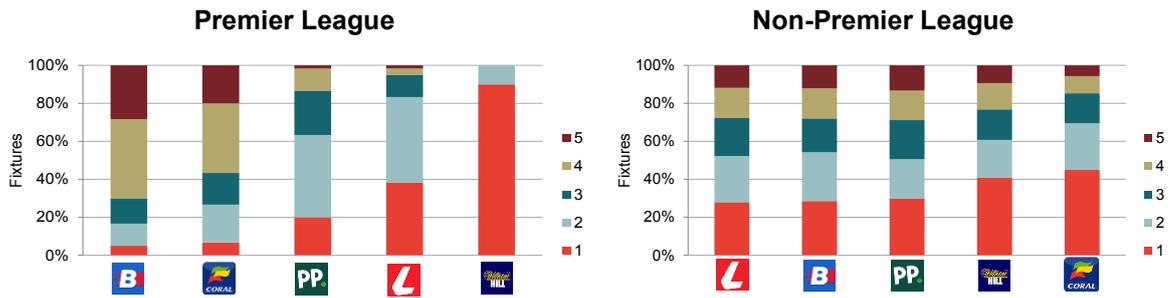
¹⁸ This is supported by the Kantar Q3 2015 U&A Gambling Report (see **Annex 14.51**).

¹⁹ Since many betting customers will also play FOBTs, the availability of FOBTs alongside the OTC offer will also be relevant to a bettor in choosing where to place a bet.

- 4.17 The Parties' economic advisers conducted two analyses of publicly available pricing data. The first analysis was based on pricing data for advertised prices on horseracing from 2012 to 2015 (see Annex 2). Looking at data on pre-race advertised prices, if the Parties were particularly important constraints on each other, one would expect them to have relatively closer prices for a relatively high frequency of the time. However this does not appear to be supported by the analysis (see the results at Table 7 of the Notification). A similar analysis was conducted for football pricing across four bookmakers for the match favourite, which generated similar results (see the results at Table 8 of the Notification).
- 4.18 A more detailed analysis of football odds for the favourite selection²⁰ has been conducted subsequently based on retail football prices offered by the five major operators of LBOs across nine weeks in the 2015/16 football season to date. This analysis suggests that Ladbrokes and Coral are not close competitors on price, and face strong competition from all other bookmakers. Indeed, to the extent that there is a degree of differentiation on price, there are other competitors that are closer competitors to the Parties than the Parties are to each other.
- 4.19 The results of this analysis are set out in Annex 3 to this submission and summarised in Figure 3 below. In brief, the analysis shows that:
- (a) William Hill most frequently offered the most competitive odds on **Premier League** favourite selections. Ladbrokes appears to compete closely with William Hill, offering the most competitive odds in the highest number of fixtures after William Hill. Conversely, Coral offered the most generous odds on only a small number of fixtures, and in most fixtures was less competitive than Paddy Power. As a result, there were very few cases where Coral and Ladbrokes had the "top" two offers in the market;
 - (b) In relation to the odds for favourite selections in **non-Premier League fixtures**, all LBOs compete closely, each ranking first or second more than half of the time. Within this context, William Hill and Coral offered the most competitive odds on the greatest number of fixtures, whereas Ladbrokes tended to offer the most competitive odds on fewest fixtures, and was less competitive than Paddy Power and/or Betfred on many fixtures. As a result, and similar to Premier League fixtures, there were relatively few instances where Coral and Ladbrokes had the "top" two offers in the market; and
 - (c) Moreover, across both **Premier League** and **non-Premier League** fixtures, in the few instances where Ladbrokes and Coral both offered the most competitive odds on the favourite selection, in the majority of cases there was at least one other LBO offering the same odds as the Parties.

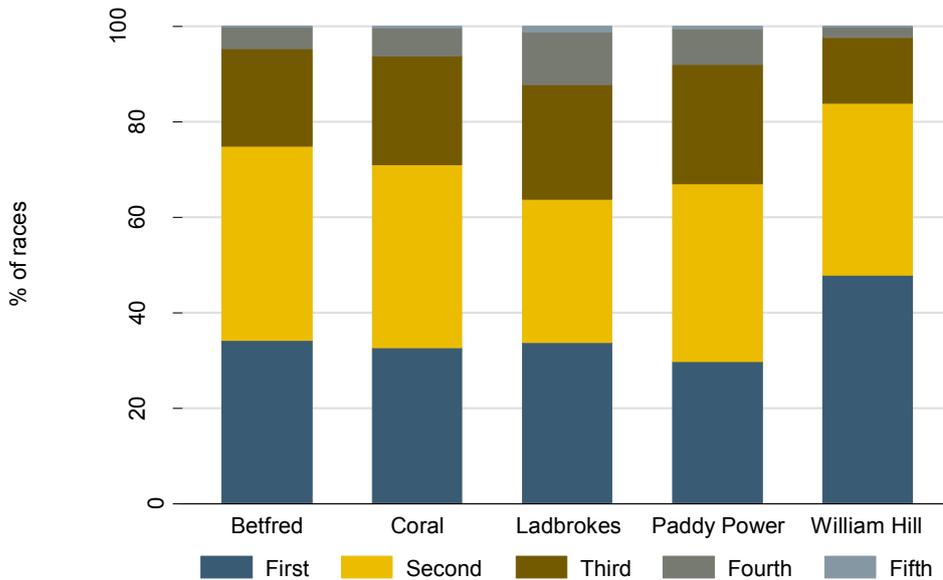
²⁰ Approximately 80% of retail football betting takes place on the favourite for an event, hence the analysis has focused on understanding the comparability of bookmakers' pricing on this outcome.

Figure 3: Ranking of bookmakers on favourite odds in Premier League and non-Premier League fixtures



4.20 As regards horseracing, one concern with the analysis provided in the notification may be that whilst the Parties and other competitors have very similar prices across all runners, as regards prices on the favourite, where it is estimated that 45% of all bets are taken, the results may be different. To consider this the diagram below shows the ranking of bookmakers on race favourite odds from the PriceWise data.

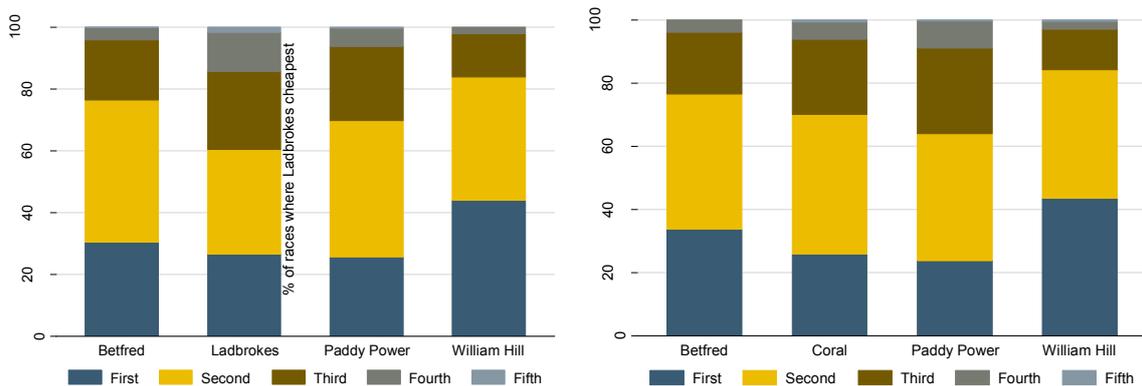
Figure 4: Ranking of bookmakers on race favourite odds 2012-2015



Source: CRA analysis of Coral Pricewise data

4.21 As can be seen, nearly all Parties are the best price on the favourites almost an identical proportion of the time (with William Hill being the best price slightly more frequently). Looking at who is most likely to be the runner up when either of the Parties' are the best price, the graphs below show a similar picture:

Figure 5: Ranking of bookmakers on race favourite when Coral/Ladbrokes is the most competitively priced 2012-2015



Source: CRA analysis of Pricewise data

4.22 As the figures show, in neither case is either Party the strongest competitor when the other Party is the cheapest price on the favourite. Indeed across the cases in which the Parties offer the best odds on the favourites, all the other LBO operators are relatively similar in frequency of being runner up – albeit William Hill and Betfred are runners up most frequently. This provides further support for the fact that neither Party is a close competitor and all other competitors are strong constraints on the Parties.

(C) Actions of the Parties confirm the credibility of all local rival LBOs

4.23 The Notification sets out a range of compelling evidence demonstrating the credibility of the rival LBO operators that the Parties face in local markets, confirming that there can be no *a priori* reason to believe that the Parties are close competitors.

4.24 First, both Parties respond to initiatives of local competitors by making requests for defensive capex. These requests are made irrespective of the identity of the local competitor, consistent with all competitors being deemed equally effective competitors.

4.25 Coral [redacted]. An analysis of the Parties' capex requests shows that these requests have been made in relation to [redacted].²¹

(a) For Coral, in relation to [redacted].²²

(b) [redacted]^{23,24}

4.26 Second, a historical analysis by Coral of the impact of incursions during financial years 2008 to 2013 was carried out in October 2014 and looked at the EBITDA impact in years one to five following the incursion (as explained in greater detail at paragraphs 15.96 to 15.97 of the Notification). [redacted].

4.27 Third, while not a key parameter of competition, the Parties respond to competitors through concessions and promotions.²⁵ [redacted] Similarly, for Ladbrokes, Similarly, for Ladbrokes, [redacted]²⁶[redacted]²⁷

Conclusion on the strength of retail LBO competitors

²¹ A number of examples are provided at paragraphs 15.90 and 15.91 of the Notification. See also Annex M of Appendix 1 and Annex 14 of Appendix 2 to the Notification.

²² Provided at Table 1 on page 140 of the Notification.

²³ [redacted].

²⁴ Provided at Table 2 on page 141 of the Notification.

²⁵ See further at paragraph 15.38 of the Notification.

²⁶ [redacted].

²⁷ See section 7 of Appendix 1 to the Notification.

4.28 The key competitive parameters of competition in relation to off-course fixed-odds betting are local. This is either because decisions are made at the local-level or because when made centrally, they are determined by location-specific factors or are an aggregation of all local competitive constraints. In relation to these parameters, the Parties are constrained by all operators present in that location, whether national chains, smaller independents or online operators.

PART 2 – GAMING

5 The Parties' submissions in relation to betting also apply to gaming

5.1 Competition in relation to gaming broadly mirrors the way in which competition for betting takes place, as set out above. In particular, the Parties' gaming offers are constrained by those of online operators, the key parameters of competition are the same for gaming as they are for betting, and competition at the local level is equally – if not more – fierce for gaming than for betting. In relation to the latter, the ability for non-LBO retail venues, such as AGCs and bingo halls, to provide certain types of gaming machine means that there are alternative venues to LBOs for customers wishing to engage in gaming activities.

(A) Online gaming is a real constraint on retail gaming

5.2 There has been dramatic growth in online gaming, similarly to online betting. The proportion of online gross win as a proportion of total gaming gross win has increased from 2% in 2003 to 29% in 2014. In addition, Kantar survey evidence suggests that there has been migration between retail and online gaming. For example, between Q2 2014 and Q3 2015, the *proportion* of retail-only users fell from 38% to 31% (see Figure 4G at page 93 of the Notification). When account is taken of the average spend of regular gaming customers, the trend is more pronounced. The figure below shows that the proportion of total spend from retail-only gaming customers has declined dramatically from 46% in Q2 2014 to 26% in Q3 2015 while spend by gaming customers using online platforms has increased: spend from multi-channel customers has increased from 37% to 44% while spend from online only customers has nearly doubled from 17% to 31%. Taken together, these suggest that customers who also use online platforms spend larger amounts than retail-only customers.

Figure 6: Use of different channels over time for regular gamers (by value)

[✂]

Source: Kantar Market Sizing Q2'14 (97347) Q3'14 (102164) Q4'14 (108418) Q1'15 (114178) Q2'15 (124709) Q3'15 (121445). Figures in parentheses refer to total spend by regular gamers.

5.3 Similarly to betting, mobile gaming has been a key driver behind the decline of the retail channel, (see Figure 6G at page 94 of the Notification). This is consistent with many of the retail gamers having migrated to mobile gaming, a trend that is likely to continue in the future given that mobile gaming is still at a relatively immature stage compared to retail gaming.

5.4 Furthermore [✂] to Kantar, 20% of regular retail customers were both OTC and gaming customers. [✂].

5.5 In summary, the evidence indicates that if anything, retail gaming is even more constrained by online alternatives than retail betting.

(B) The key drivers of customer choice are the same as for betting

5.6 It is important to note two important features of this market, which affect the competitive dynamic.

- (a) First, the maximum number of FOBTs in each LBO is limited to four by regulation. In practice, almost all retail bookmakers have the maximum of four machines in every shop across their estates. This limits the degree to which bookmakers can differentiate their gaming offering to a considerable extent.
- (b) Second, gaming is an important source of revenue for bookmakers and without these revenues many LBOs would be unprofitable. For example, approximately half of the Parties' gross win is generated from gaming machine revenues.²⁸

²⁸ Coral's FY14 annual report shows that machines accounted for 54% of gross win, while Ladbrokes FY14 annual report shows that machines accounted for 53% of gross win.

- 5.7 Similarly to betting, survey evidence shows that the key drivers of customer choice are factors relating to location and the shop environment (staff quality, customer service and quality of facilities), whereas factors such as range of products, price, innovation and branding are less important. Indeed, the top six important factors in choosing an LBO among retail gamers are the same as those for betting (at Figure 2 above) albeit that the order is slightly different. [REDACTED] (see for example paragraphs 14.201 – 14.209 of the Notification).
- 5.8 Similarly to betting, price is not an important parameter of competition. The headline “price” paid by gaming customers is the amount they stake, less the Return to Player (**RTP**) applicable to the game.²⁹ It is normally expressed as a percentage; an 85% RTP ratio for a game means that over time, a customer would win 85p for every pound staked.
- 5.9 Setting the RTP at an attractive level for customers is important, but the RTP itself is not a competitive lever that is flexed frequently by bookmakers to gain competitive advantage. In fact, bookmakers rarely alter them (see paragraphs 14.245 to 14.249. There are two reasons for this.
- (a) First, RTP is not an important driver of customer choice. Kantar survey data indicates that pricing is as unimportant a driver of competition for gaming customers as it is for betting customers. Anecdotal and survey evidence suggests that customers do not tend to pay particular attention to the actual RTP applicable to a game, rather customers value the perception that a game will pay out and will stop playing games if they fail to win with sufficient frequency and/or they lose stakes at a faster rate (see **Annex 14.44** of the Notification [REDACTED]).
- (b) Second, to the extent that it is possible to change the RTP, it is difficult and costly to do so.
- (i) For some games, such as roulette (representing the vast majority of staking) and other casino games, the RTP is determined by the rules of the game and cannot be varied.³⁰
- (ii) For other games, such as “slots” games,³¹ while the RTP can be varied, it cannot be done by the bookmaker alone and requires amendment to the game itself, which can take a number of months given the need to redesign and recertify the game. In addition, the customer behaviour that results from the change can be difficult to predict and can take time to emerge. [REDACTED].
- 5.10 Aside from the very limited role of competition in relation to RTPs, gaming operators can, of course, compete by offering concessions or promotions, primarily free money bonuses or extra spins. The Parties’ expenditure on promotions and concessions is [REDACTED].³² This is consistent with the fact that promotions and concessions are not a key driver of regular retail gamers’ choice of venues, ranking 12th out of 15 in the Kantar survey provided at **Annex 14.51** of the Notification.
- 5.11 While product range is an area where bookmakers seek to differentiate their gaming offerings, there is limited scope to do so and this is not an important driver of customers’ choice of gaming venue. There are two elements to product range (1) the gaming machine cabinet and (2) the content

²⁹ The RTP ratio is the average amount that a customer will win as a proportion of his stake over time (RTPs are determined based on long-term averages rather than on any short-term metric – typically over 10,000 or 100,000 games or greater). See further at: <http://www.gamblingcommission.gov.uk/FAQs/Gaming-machines/how-much-should-a-gaming-machine-pay-out.aspx>

³⁰ The chances of winning roulette is effectively fixed by the nature of the roulette wheel (each of the 37 numbers from 0 to 36 has an equal chance of being selected), with the result that the RTPs for roulette games are set at 97.3% (reflecting the 2.7% chance of the number zero being selected and the operator therefore retaining the stake). Competitors therefore cannot differentiate themselves on the basis of pricing for these games, other than by offering bonus features in addition to the standard game (often referred to as “premium roulette”).

³¹ Slots are digitised games that are similar to the physical games traditionally played on ‘slot machines’ or ‘fruit machines’ with three or more reels which spin when a button is pushed or lever pulled.

³² [REDACTED].

available on those machines. In either case, the competition between bookmakers on the basis of product range is limited for a number of reasons.

- 5.12 In relation to gaming *machine cabinets*, each LBO is limited to a maximum of four machines and even as regards differentiation in relation to these cabinets, bookmakers have a limited choice between two gaming machine suppliers (SG Gaming or Inspired Gaming). Consequently, all of the major bookmakers (and many independents) have broadly equivalent cabinet offerings.³³ These are refreshed relatively infrequently (every three to five years) and major bookmakers typically all upgrade over a relatively short period.
- 5.13 As regards survey evidence, the ‘range of games on the machines’ does not feature among the top 15 most important factors in choosing an LBO among a sample of regular retail gamers in the Kantar Q3 2015 U&A Gambling Report (see **Annex 14.51** of the Notification). Kantar does not even ask a question about cabinet hardware in its survey. For gaming *content*, there are several factors that limit the degree to which operators can compete around it.
- (a) First, roulette games, which by definition are very similar to one another³⁴, account for the majority of gross win on gaming machines and roughly 80% of amounts staked. In other words, the vast bulk of consumer demand is for a product which has very little scope for differentiation.
 - (b) Second, while slots games are more open to differentiation on the basis of content than roulette games, this is limited by virtue of the fact that they all have the same basic parameters (mimicking the play on a physical slot machine).
 - (c) Third, the majority of games offered on bookmakers’ cabinets tend to be supplied by the cabinet manufacturers, which have very successful content divisions.³⁵ In particular, there is a “core” of popular slots games, to which customers return time and again, which tend to be owned by the cabinet manufacturers. Whilst the remainder of the content will be refreshed at regular intervals, these core games (which are all non-exclusive as between operators with the same cabinet manufacturer) will be retained and will be the focus of the display screen on FOBT cabinets. This limits the role of other games as a differentiator.
- 5.14 It is also important to note that while content is refreshed on a regular basis, with the large retail chains rolling out multiple games per year, that ongoing roll-out of content is not driven by competition between bookmakers so much as it is based on the tendency of gaming customers to get bored with games and stop playing them (other than as noted above, the core games that customers tend to return to). Therefore, even if the Parties faced no competition, they would still be expected to refresh games with the same frequency.

(C) Other non-LBO retail venues provide machine gaming

- 5.15 Unlike retail betting, there are alternative venues on the high street where customers can gamble on gaming machines. Category B2 games are available in casinos.³⁶ Category B3 games are also available in a number of other licensed retail premises, namely casinos, AGCs, and bingo premises. In addition, Category C and D gaming machines are permitted in public houses. Customers can, and

³³ Revenue sharing arrangements are based on a percentage of the gross win generated by each cabinet. A more detailed explanation of gaming machine hardware can be found at paragraph 14.223 *et seq* of the Notification.

³⁴ As set out in paragraph 14.215 of the Notification, most roulette games are “standard” roulette. Operators also offer “premium” roulette with additional possibilities for bonuses or free spins.

³⁵ In relation to content supplied by the cabinet manufacturer, including core games, the Parties note that such content will generally not be available on a competing cabinet. However, most games have an equivalent on each cabinet type. For example, Rainbow Riches® on SG Gaming cabinets and Lucky Leprechauns on Inspired Gaming cabinets, as shown in Figure 13G of the Notification). Further, third party game developers are increasingly developing slots games that are not cabinet-specific.

³⁶ The Parties note that casinos primarily offer Category B1 games, which are similar to B3 games in terms of content and staking limits but have a higher payout.

do, choose to game using the machines in these venues as an alternative to gaming in an LBO. Gambling Commission statistics on the revenues generated on gaming machines in retail venues in 2013/14 also show the importance of gaming in venues other than LBOs; this data shows that 30% of gaming machine GGY³⁷ in venues licensed to provide Category B3 (or above) gaming machines³⁸ was generated outside of LBOs.³⁹

5.16 Moreover, there is evidence in the Parties' internal documents that shows that these competitors are relevant to their businesses. For example, [REDACTED]⁴⁰ [REDACTED]⁴¹

5.17 This constraint is only likely to increase as bookmakers restrict B2 stakes (following Government regulation introduced in March 2015, a maximum of £50 stakes applies unless the customer submits to closer supervision) and seek to increase the proportion of their business generated from slots games, which are predominantly Category B3 and therefore available in AGCs and bingo halls. AGCs also continue to seek parity with LBOs to offer B2 gaming machines (see further at paragraphs 14.190 to 14.193 of the Notification).

(D) The competitive landscape for gaming at the local level is equally fierce as that for betting

5.18 As is the case for competition in retail betting, the fact that competition takes place at the local level reflects the demand-side considerations of retail customers. As with customers of other retail establishments, retail gamers choose their gaming venue based on the alternatives available in their local area. On the supply-side, LBO operators take decisions in relation to gaming in the same way as they do for betting and these decisions reflect the competitive constraints faced by operators at the local level, as explained in detail in paragraphs 15.149 to 15.198 of the Notification. Accordingly, it is necessary to examine the conditions of competition within each local catchment area and as with betting, there is no *a priori* reason why the Parties should be closer competitors to one another than to other bookmakers' LBOs.

5.19 In support of this statement, there is compelling evidence that shows that all competitors have credible offerings, to which the Parties respond.

5.20 As described at paragraph 4.25 above, Coral regularly [REDACTED]. These requests demonstrate that the Parties respond to [REDACTED]. It is clear from these capex requests that a significant proportion of the business that was expected to be lost to the entry of the competitor was gaming machine revenue. Similarly, it is envisaged that the improvements will mitigate the expected loss and, in many cases, include improvements to the machine area or zone. Gaming specific examples are provided at paragraphs 15.206 to 15.210 of the Notification.

5.21 Coral also carried out an incursion analysis for gaming similar to that for betting (as described at paragraph 4.26 above). [REDACTED]⁴²

5.22 The Parties' economic advisers have also assessed the incidence of use of concessions/promotions across the Parties' local estates. The analysis looks at the extent to which Coral adjusts its promotional activity within an LBO, where promotional activity is expressed as the total amount of

³⁷ The Gambling Commission defines the annual gross gambling yield by reference to the following formula: $A + B - C$ where: A) is the total of any amounts that will be paid to the licensee by way of stakes in the relevant period in connection with the activities authorised by the licence; B) is the total of any amounts (exclusive of value added tax) that will otherwise accrue to the licensee in the relevant period directly in connection with the activities authorised by the licence; C) is the total of any amounts that will be deducted by the licensee in respect of the provision of prizes or winnings in the relevant period in connection with the activities authorised by the licence.

³⁸ LBOs, AGCs, bingo halls and casinos but excluding pubs/bars and Family Entertainment Centres.

³⁹ Gambling Commission statistics. Available at <http://www.gamblingcommission.gov.uk/docs/Industry-statistics-April-2008-to-September-2014.xlsx>. Gaming machine revenues represent a significant proportion of total revenues in each of these different types of venue. In 2013/14, gaming machine GGY in the UK as a percentage of total retail GGY was 51% for LBOs, 40% for bingo halls and 14% for casinos. AGCs obviously generate the vast majority (if not all) of their GGY from gaming machines.

⁴⁰ Provided at **Annex 15.1** of the Notification.

⁴¹ [REDACTED].

⁴² [REDACTED].

free bets redeemed by customers as a proportion of gross win. This demonstrates that [X]. The analysis is set out in detail at paragraphs 15.215 to 15.226 and includes a regression analysis of the data, corroborating the results of the initial analysis.

5.23 Finally, the Parties' internal documents demonstrate that they consider that all competitors have credible offerings. [X].

5.24 While Coral's monitoring documents do not focus on AGCs, Coral monitors all of the major bookmakers on a regular basis (in terms of gaming performance, advertising/promotions, and content roll out). It also monitors developments in the retail gaming market on an *ad hoc* basis (such as the periodic roll out of new cabinets or reactions to legislative/regulatory changes).

Conclusion on the approach to assessing location competition in gaming

5.25 As for retail betting, the key competitive parameters of competition in relation to retail gaming are local. In addition, the central features of the gaming market are broadly similar to those for betting, contributing to the relative homogeneity in bookmakers' LBO offerings, with the most room for differentiation in relation to staffing and the quality of the shop environment. However, there is no scope for systematic differences between competitors, despite the inevitable local differences, reflecting the "ebb and flow" of competition. Moreover, given the strong online constraint, as well as the additional constraints in relation to retail gaming (e.g. from other venues with gaming machines), it is clear that any divestments relating to retail betting will also address any problems in retail gaming.

6 Conclusion

6.1 The economic evidence explored above and the examples of the Parties' responsive actions (which are further developed in the Notification) demonstrate that the market dynamic against which this transaction is taking place is now very different from that which existed even five years ago. This is due to both the very substantial growth in online betting and gaming and the greater number of sizeable retail competitors, both of which provide credible constraints which are felt in every local area where the Parties have LBOs. In particular:

(a) online betting and gaming has fundamentally altered the competitive dynamic in retail. There is clear evidence that customers are increasingly substituting between retail and online betting and gaming. The Parties' retail strategies have accordingly been focussed on emulating online to ensure that the retail proposition remains competitive and encouraging multi-channel use; and

(b) competition for retail LBOs occurs locally, with all operators exercising an equally effective competitive constraint in the local areas in which they overlap with the Parties. The Parties must therefore have regard to all local retail competitors, as well as online operators, when setting their competitive propositions.

6.2 The Parties accept that, should the CMA conclude that there are specific local areas in which there may be a realistic prospect of a substantial lessening of competition, divestments may be required to address these concerns. Any such divestments would ensure that there is no significant change to the strength of competition in any local area and therefore that no detriment arises from this transaction.