

William Hill PLC

Initial submission to the Competition and Markets Authority (**CMA**) in respect of the proposed acquisition by Ladbrokes plc (**LB**) of Gala Coral Group (**GCG**)

- 1 We act for William Hill PLC (**WH**) in respect of the above. WH was grateful for the opportunity to provide its views on the CMA's use of the fast track procedure, which it submitted in a letter of 22 December 2015. In light of the CMA's subsequent decision to refer LB/GCG for an in-depth phase 2 investigation, WH has now elaborated on those views, below. Naturally, WH would be happy to discuss this submission (or the matter more widely) with the CMA, as and when appropriate.

Summary

- 2 As the CMA will be aware, in 1998 the Monopolies and Mergers Commission (**MMC**) recommended that a merger between Ladbroke Group and the Coral betting business be prohibited and that Ladbroke be required to divest. Indeed, we understand that Hilton Group (formerly Ladbroke Group) subsequently gave undertakings preventing it from re-acquiring control of the assets of the Coral betting business, except in very limited circumstances¹.
- 3 In this submission, WH sets out its view that, despite changes in the licensed betting office (**LBO**) sector, as well as the emergence of online, the parties remain strong competitors and, in WH's view, the transaction would give rise to a substantial lessening of competition, just as it would have done in 1998. More specifically:
- (a) To the extent the market has changed, those changes reinforce the concerns set out in 1998;
 - (b) Internet betting and gaming do not impose a significant constraint on LBOs. Online represents a discrete revenue base, with materially different pricing, customer behaviour which suggest relatively low demand-side substitution, different customer profiles which value different product characteristics and quite different product mixes;
 - (c) Despite local market characteristics for LBOs, significant parameters of competition between the parties (both price and non-price) are still determined nationally;
 - (d) The static fascia counting methodology adopted in previous LBO mergers, as well as the recognised competitor set, should be treated with caution. Recent research [3<] suggests there will be a material reduction in local competition in the foreseeable future. WH therefore encourages the CMA to [3<] consider how this should be accounted for in the analysis it applies to local markets;
 - (e) Concerns over greyhound racing have not changed since 1998. Although marginally below a de jure majority, a combined LB/GCG estate would have 48.6% of the BAGS votes. Given that the BAGS voting system works on a de facto basis (i.e. based on voter turnout), it is relatively likely that the merged entity would still have a controlling interest in practice;
 - (f) Overall, obstacles to creating and expanding a LBO estate remain high;

¹ See paragraph 82 of the OECD report here: <http://www.oecd.org/unitedkingdom/2407625.pdf>

- (g) [3<]; and
- (h) Whilst it accepts that, in theory, a LBO divestment package ought to be capable of resolving local market concerns, WH is conscious that such a divestment may not be capable of re-establishing the third national force which would be lost as a result of the merger.

Despite changes in the LBO sector, as well as the emergence of online, a LB/GCG merger would still give rise a substantial lessening of competition, just as it would have done in 1998

- 4 We refer to the decision, by the MMC in 1998, to prohibit an acquisition by LB of the Coral betting business². Whilst there have been many industry changes since the MMC blocked that transaction, it is important to recognise that the structure of the market has changed relatively little since 1998. The number of LBOs has remained almost static, for example: in 1998 there were 8,983³, whilst in 2015 it is 8,958⁴ (on which, see further below).
- 5 Much of the MMC's original reasoning therefore remains valid. In particular:
 - (a) There is *"an important national component to competition in the provision of off-course betting services through pricing and through branding and quality of outlet"*;
 - (b) The merger has the effect of removing Coral (now GCG), which the MMC considered to have been an important third national competitive force in the market. In particular it would:
 - (i) *"lead to a weakening of price competition, actual and potential, at national level to the detriment of punters"*; and
 - (ii) *"have a dampening effect on innovation and reduce punters' choice of major LBO chains"*;
 - (c) *"the adverse effects can only effectively be remedied by restoring an industry structure which is conducive to the development of competition"*.
- 6 To the extent that the market has changed, those changes reinforce the concerns set out in 1998, or have no material impact on the 1998 analysis. This is evident from the five main identifiable market changes since 1998:
 - (a) **Market concentration:** Although there are still three main national players, a number of smaller players have been acquired in the intervening period by larger operators (e.g., *WH/Stanley (2006)*, *Ladbrokes/Jack Brown (2006)*, *Ladbrokes/Eastwood (2008)*, *Ladbrokes/McCartan (2008)*, and *Betfred/Tote (2012)*), and some smaller LBO operators have closed. Consequently, although LBO betting has maintained its scale (with 8,958 LBOs in 2015, compared to 8,983 in 1998⁵) the market is already significantly more concentrated than it was in 1998;
 - (b) **Market share of the merging parties:** The LB/GCG merger represents significantly greater concentration at a national level today than it did in 1998. LB and GCG have

² Monopolies and Mergers Commission, *Ladbroke Group PLC and the Coral betting business, A report on the merger situation, Presented to Parliament by the Secretary of State for Trade and Industry by Command of Her Majesty*, September 1998 (**MMC 1998**).

³ MMC report Table 2.1

⁴ Gambling Commission statistics, available at: <http://www.gamblingcommission.gov.uk/Gambling-data-analysis/statistics/Industry-statistics.aspx>

⁵ MMC 1998 and Gambling Commission, in which see above.

both increased their shares in off course betting (retail LBOs) in the intervening period (21.7% and 9.5% respectively in 1998 compared with 24% and 21% today);

- (c) **Internet betting and gaming:** The internet has become an important channel for betting and gaming in the UK. However, as the OFT recognised in *Betfred/Tote* and as further outlined below, the dynamics of competition for LBOs are very different to those for internet betting and competition from the internet will not form a sufficiently strong constraint on LB/GCG's LBO business to eliminate or even significantly mitigate the loss of competition resulting from the merger;
- (d) **Product mix:** The product mix within LBOs has changed significantly. In 1997, the MMC found that horseracing accounted for 71% of LBO over the counter betting turnover. Betting on UK horseracing now accounts for less than 30% of over the counter betting turnover (and less than 25% for leviable horseracing – the majority of which is based on the starting price (SP)⁶). By contrast, LBOs receive an increasing proportion of revenue and gross win from football bets and fixed odds betting terminals (FOBTs), the latter accounting for over half of the merging parties' gross win (compared to none in 1998). Many of these betting products, unlike UK horseracing, are freely priced by bookmakers, without reference to a universal pricing mechanism (such as the SP or a central provider), thereby increasing the impact on consumers of any reduction in competition between those bookmakers; and
- (e) **The regulatory landscape:** There have been a number of significant developments since 1998, notably⁷:
 - (i) The end of the "demand test" for local licensing of LBOs.⁸ However, as recognised by the OFT in its *Betfred/Tote* decision, it remains challenging to open new LBOs due to political considerations, new regulations and local issues around how local gambling is perceived (considered further below); and
 - (ii) Advertising: following the Gambling Act 2005, UK bookmakers were permitted to advertise on the TV and radio. As a result, firms now compete heavily on national marketing and advertising, in order to maintain their brands. A number of large operators (including the two merging parties) have invested heavily in advertising and have significant brand equity in the market in a way that was not the case in 1998.

7 In summary, none of these changes justifies a different approach today than the one applied by the MMC in 1998. Indeed, overall changes since 1998 have intensified the need for branding, innovation and investment in LBOs and this is a key dimension of national competition, as the OFT recognised in its 2005 *William Hill/Stanley* decision (considered further, below).

Internet betting and gaming do not impose a significant constraint on LBOs

8 In its two most recent cases, the OFT considered that the interaction between the internet and LBOs remains low. Specifically:

⁶ Based on ABB data, seen by WH. The starting price is set nationally and does not vary across operators. WH derives c. [3<] % of its gross win from horseracing from bets made at the SP.

⁷ Other regulatory developments, such as FOBTs and planning rules are covered in more detail, below.

⁸ Previously, a local authority would take into account local demand prior to granting a licence. Following the 2005 act, local authorities are no longer allowed to take into account demand when making a licensing decision.

- (a) In *Betfred/Tote* (2012), the OFT concluded that "*the relationship between internet revenue growth and LBO revenue decline...is not strong*"; and
- (b) In *Rank/Gala* (2012), in the context of casinos, the OFT concluded that "*there is insufficient evidence for online gaming to be considered a sufficiently strong constraint on bricks and mortar casinos to warrant inclusion in the product scope.*"

Online represents a discrete revenue base

- 9 Gambling Commission statistics still support the same conclusion that the MMC reached in 1998. In particular, these make it clear that the LBO business has not suffered discernibly from the rise in internet betting and gaming, with the online channel largely generating discrete revenue opportunities. For example, in the four years to 2014 online turnover has increased by more than 140%⁹ (a figure which may be understated because it may not include all offshore revenues), while:
 - (a) LBO gross win rose slightly over the same period (an increase of around 10%, albeit with an altered product mix, described below); and
 - (b) The number of LBOs in the UK saw a drop of just 3.5% (from 9,137 to 8,822).¹⁰
- 10 As noted above, the sources from which LBO revenue comes have changed over the same period, but the drivers for these are various and in general unconnected with online growth. For example, as discussed elsewhere in this document:
 - (a) Football revenues have grown in both channels, with little or no cannibalisation between the two¹¹;
 - (b) FOBTs have grown in LBOs¹²; and
 - (c) Customer preferences have shifted away from greyhound and horse racing in LBOs.

Pricing is materially different between LBOs as a whole and online

- 11 The Appendix to this submission outlines in more detail how prices are set in sports betting and FOBTs. The value to a customer of gambling is the amount they expect to win on the amount they choose to stake (this is often expressed as a % of the stake). In short, pricing is a combination of:
 - (a) the target margin a bookmaker builds onto its expected underlying probability (for a given event); and
 - (b) promotional activity that a bookmaker may offer (e.g. guaranteed odds in particular circumstances, money back offers etc).
- 12 To some extent, a bookmaker's LBO and online odds will naturally track each other, because they both depend on the bookmaker's anticipated probability of a particular event occurring, as well as the "weight" of money on each bet. However, even where the odds track one another across the two channels, the target margins may differ, resulting in different prices to consumers.

⁹ Gambling Commission statistics, tab 8, turnover for all General Remote Data combined.

¹⁰ Gambling Commission statistics, tab 1

¹¹ [3<]

¹² FOBTs are only available in LBOs. [3<]

13 The bookmaker's target margin for a particular outcome in a given event is known as the "overround" for that event. The overround is the uplift a bookmaker applies to its expected probabilities in order to set its odds. The overround can be characterised as reflecting how "good" the odds for an event are, with a lower overround reflecting, *ex ante*, a better deal for the consumer.

14 Any consideration of relative LBO and online prices therefore requires a comparison of their respective overrounds, in addition to promotional activity.

(See the Appendix for an explanation of why economic analysis that in other markets might be conducted on a firm's prices or margins (e.g., an assessment of relative prices or price correlations for market definition), in the gambling sector should be conducted using the overround rather than gross win.)

15 A significant proportion of [X]. For example:

(a) [X]. This has remained relatively constant over time, with no clear evidence of customers switching between channels in reaction to those differences;

(b) Although the margins on individual events differ and customers do not bet evenly across events¹³, even when one takes into account these differences, the price of football betting in LBOs remains significantly different to the price online. For example, for Premier League fixtures over the weekend of 31 October - 1 November 2015, had all [X]. WH considers this is a typical representation of price differentials for Premier League football and that price differences are higher still for lower league football events; and

(c) Despite the odds for the large majority of horse racing and greyhound bets being out of the hands of the operator¹⁴, the margin still differs between online and LBOs through the use of "best odds guaranteed" promotions in online markets.¹⁵ WH estimates that "best odds guaranteed" gives rise to [X]. WH does not offer "best odds guaranteed" in its LBOs.

16 Whilst this is not direct evidence of the absence of demand-side substitution, the persistence of a significant relative price difference between these two channels suggests that any substitution is unlikely to be significant.

17 Further, if the online market constrained LBOs, one would expect LBOs to respond to online promotions to prevent LBO customers from moving to online. However, the approach to price promotions differs substantially across the two channels. WH's approach to online promotion is driven by the competitors it faces in the online channel (including online-only operators such as bet365), not by LBOs. Indeed, many of its most significant promotions are only offered online. For example:

(a) The "best-odds guaranteed" promotion in horse racing (described above); and

(b) The promotion WH offers for all football matches which end in a 0-0 draw. Any customer who has placed a bet on the first goalscorer (e.g. Wayne Rooney) or a bet on the correct match score (e.g. 2-1) is offered the value of their bets as a credit to their account for use on a future bet.

¹³ With football, customers tend to bet more heavily on Premier League favourites than the outsider, for example.

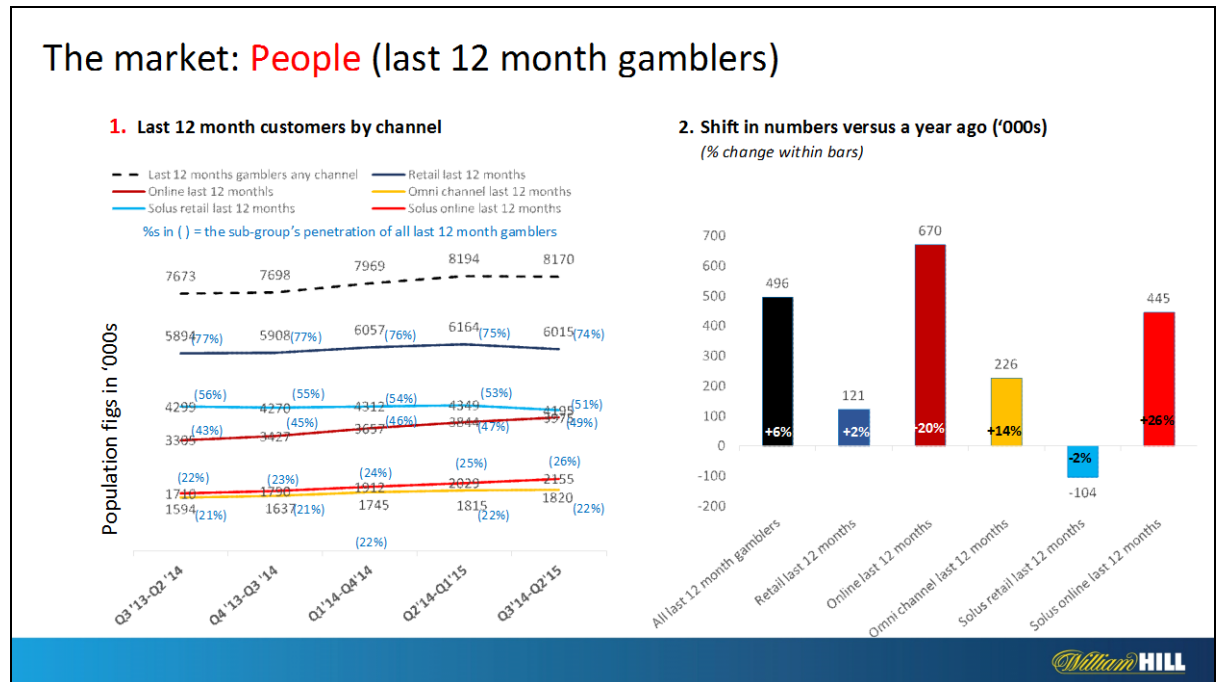
¹⁴ Due to the use of a universal pricing mechanism for the majority of these bets, known as the "starting price", or "SP", considered in the Appendix.

¹⁵ These schemes can result in online customers receiving better odds online than in an LBO.

Customers tend to use only one channel, suggesting there may be relatively little demand side substitution between online and LBOs

18 WH analysis based on Kantar data covering all UK gamblers over the past 12 months suggests that:

- (a) 51% of the UK gamblers only placed a bet in a LBO;
- (b) 26.3% only placed a bet online (whether on a computer, tablet or mobile); and
- (c) Only 22.4% placed a bet in both channels.



19 The above numbers are skewed by Paddy Power in particular, which has a high level of online use (although interestingly, still only 11% omni-channel¹⁶, according to the Kantar data set out below).

20 Kantar analysis on a sample of LB and GCG customers only suggests a considerably higher figure for solus retail. Specifically, in the last 12 months:

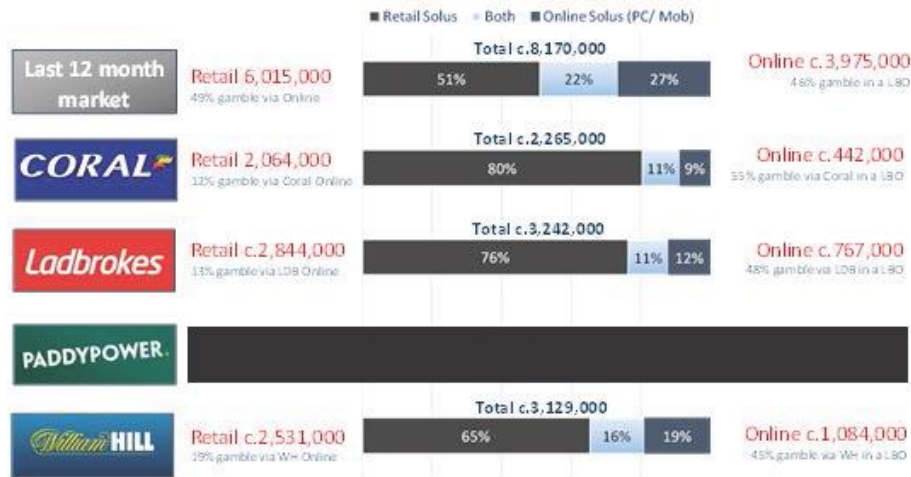
- (a) 80% GCG and 76% of LB UK customers only placed a bet in a LBO;
- (b) 9% of GCG and 12% of LB UK customers only placed a bet online; and
- (c) 11% of both GCG and LB UK customers placed a bet in both channels.

¹⁶ This is where consumers are using more than one channel of the same brand, e.g., WH LBO and WH online.

CROSS-CHANNEL USE RETAIL & ONLINE (LAST 12 MONTHS)

NB: All UK gamblers = c. 8,170,000 (16.9% of population)

How to read: 3.2 million gamblers used Ladbrokes in the last 12 months. 76% of those who gambled with Ladbrokes were Retail Solus customers



Source: Market sizing Q3/14 - Q2/15

Base: All Respondents (39,104). All retail or online last 12 months gamblers (6,506). All retail or online <brand> users in the last 12 months: Coral (1,762), Ladbrokes (2,543), Paddy Power (1,097), William Hill (2,436)

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- 21 These figures are backed up by other third party commentators. Mintel, for example, concludes that there are "low rates of cross-platform play seen among retail gamblers", "mobile device penetration is still low" and "retail gamblers are barely half as likely as average to use the PC and laptop platforms that dominate web-based play".¹⁷
- 22 It seems, therefore, that the two channels are distinct, with relatively little demand-side substitution, particularly in the case of the merging parties.
- 23 It is worth noting that the distinct product characteristic of betting makes it quite unusual in this regard. Traditional retail businesses are able to drive considerably greater omni-channel use. Two thirds of John Lewis customers, for example, shopped online and in-store in 2015¹⁸ as customers regularly interact with both channels, for example, researching in one, then purchasing in another, or ordering online then collecting instore and making additional purchases. By contrast, those same dynamics do not operate for betting, where there is no physical product to see and no need for collection or delivery, such as create natural links between online and bricks and mortar channels.
- 24 A better analogy might be *Thomas Cook/Co-Op* (2011), which involved the sale of package holidays. In its Phase I decision, the OFT noted that, despite the growth of the internet, retail remained the dominant form of distribution. It was therefore important to consider the impact on this specific group of customers. In Phase II the CC's own survey:

"provided evidence that, for the majority of customers booking package holidays in-store, the main reason for doing so was the benefit of face-to-face contact with the travel agent, including the personal advice and the reassurance gained from the travel agent making the booking. Internet-based travel agents do not provide customers with this face-to-face contact or the level of personal service" (paragraph 9.42).

¹⁷ Will gambling's dash for digital leave retail customers out in the cold? Mintel, 16 September 2014

¹⁸ <http://internetretailing.net/2015/10/master-shoppers-take-control-of-the-john-lewis-purchasing-journey/>

- 25 In betting, even where betting customers shop in more than one channel, they often use different providers for each channel, perhaps to take advantage of the different channel-specific products available in each (such as in-play in online or FOBTs in retail). Indeed, as discussed further below, many of the key product characteristics that are important for customers are different for LBO and online.

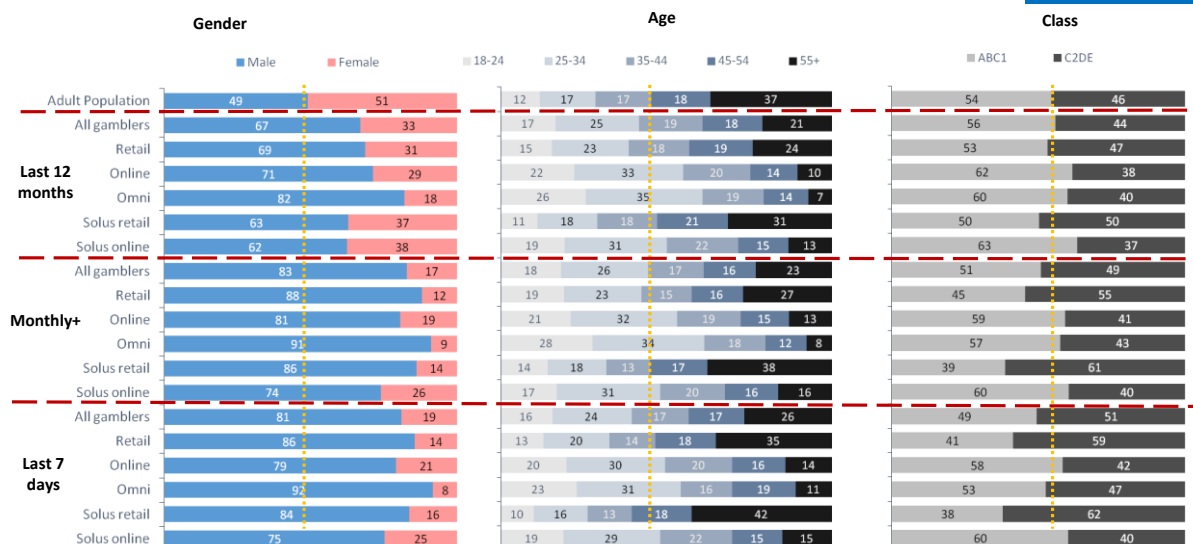
Online and LBOs are used by different customer profiles

- 26 The low degree of cross-channel use may be partly down to the fact that the online and LBO channels attract very different customer demographics. For example, as set out in the analysis below:

- (a) More affluent ABC₁ consumers are considerably more likely to use the online channel than their C₂DE counterparts (who prefer LBOs). For example, over a monthly time range:
 - (i) 61% of solus LBO customers were C₂DE; whilst
 - (ii) 60% of solus online customers were ABC₁; and
- (b) Similarly, the online channel has a materially higher uptake than LBOs for women (26% solus online vs 14% solus LBO on a monthly basis); and
- (c) Age demographics are also markedly different, with 38% of solus LBO customers aged 55+, compared to 16% for solus online. Unsurprisingly, the inverse is also true: Under 35s accounted for 48% of solus online but just 32% of solus LBO.

DEMOGRAPHIC PROFILES OF GAMBLERS – BY CHANNEL

How to read: 69% of last 12 months retail gamblers are male



Source: Kantar Market Sizing Survey Q3'14 – Q2'15 : Demographics

Base: All adults aged 18+ - (39,104); Last 12 month / Monthly+ / Last 7 days: All gamblers (12,094), Retail gamblers (x), Online gamblers (x), Omni channel gamblers (x), Solus retail gamblers (x), Solus online gamblers (x)

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The key product characteristics that are important for customers are different for LBO and online

- 27 Many of the key parameters of competition are different for LBOs and online. As can be seen from the Kantar research below in respect of WH customers, the key drivers for LBO customers are a convenient location, a quick service for placing bets and receiving payouts and safety. Although LBOs still have to be competitive on price, online customers are more sensitive to price.

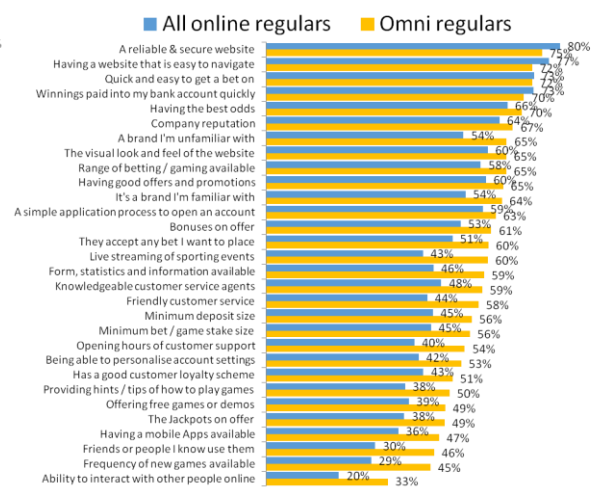
DRIVERS OF BRAND CHOICE: OMNI CHANNEL REGULARS VS. ALL REGULARS

How to read: 56% of omni channel regulars rate 'People I know go there' as an important factor in choosing a retail brand

Importance of drivers in brand choice - % deeming important - **Retail**



Importance of drivers in brand choice - % deeming important - **Online**



Source: Kantar U&A Survey Q2 '14 - Q1 '15:

R7cbl. How important to you are the following factors when deciding which betting shop to use? / O13f. How important to you are the following factors when deciding which online betting or gambling company to use?

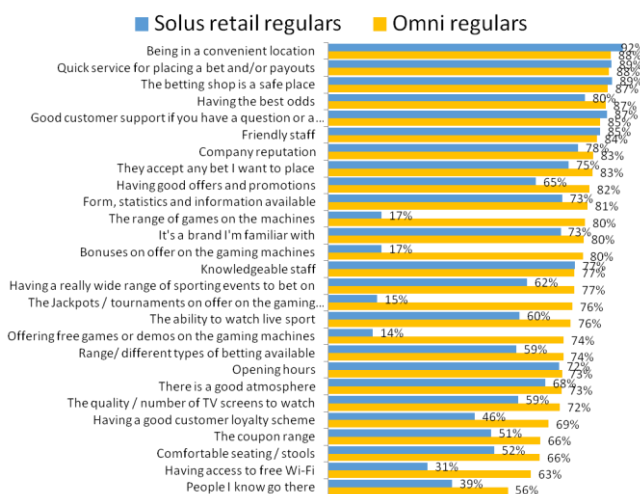
Base: All regular retail gamblers (4,998), All regular online gamblers (6,072), All omni channel gamblers (3,053)

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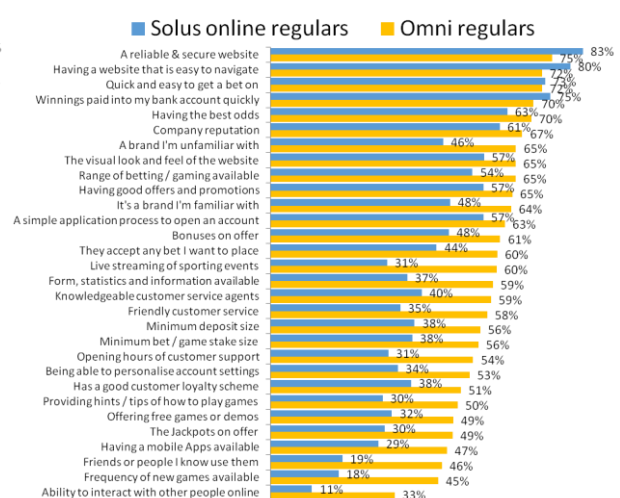
DRIVERS OF BRAND CHOICE: OMNI CHANNEL REGULARS VS. SOLUS REGULARS

How to read: 56% of omni channel regulars rate 'People I know go there' as an important factor in choosing a retail brand

Importance of drivers in brand choice - % deeming important - **Retail**



Importance of drivers in brand choice - % deeming important - **Online**



Source: Kantar U&A Survey Q2 '14 - Q1 '15:

R7cbl. How important to you are the following factors when deciding which betting shop to use? / O13f. How important to you are the following factors when deciding which online betting or gambling company to use?

Base: Solus retail regular gamblers (1,945), Solus online regular gamblers (3,019), All omni channel gamblers (3,053)

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28

Recent experience has shown that anonymity appears to be a key motivation for customers choosing LBOs over online. A good example is the recent requirement that LBO customers provide ID and register a telephone number or email address in order to place bets of £50 or more on a machine (known as the "£50 customer journey"). Internal WH data show that immediately following the change in regulation, there was an immediate [3<]% drop in revenues for customers staking £50 or more on FOBTs at WH, but a corresponding [3<]% increase in revenues for customers staking between £40 and £50 (where customers are able to continue to play on FOBTs anonymously). The net effect on total FOBT revenues has been, according to internal WH data, [3<]% decline in FOBT revenue for all stakes over £40. Overall, the gross win on B2 FOBTs have, in total, fallen by [3<]% between 2014 and 2015 (year to date), reflecting the fact that a large number of customers place smaller stakes on

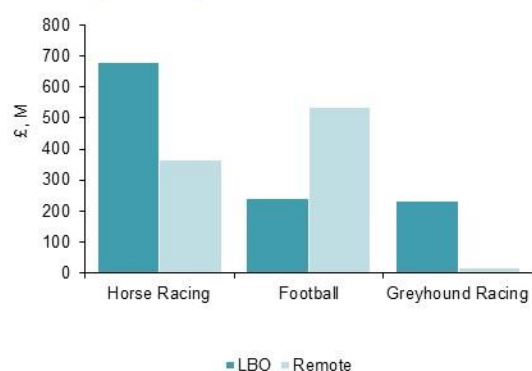
FOBTs, but that the extra requirements placed on customers staking £50 or more has had a material effect on overall FOBT revenues. The Government has estimated that this legislation will, as a consequence of changing FOBT betting behaviours, reduce overall gross win on UK FOBTs by c.£17m per year.¹⁹

- 29 Finally, different product characteristics are reflected in the fact that the industry has different associations for each channel, namely the ABB and the Bookmakers Committee (for horseracing) for LBOs and the Remote Gambling Association for online.

Online and LBOs display quite different product mixes

- 30 The revenue²⁰ mixes from sports derived by the online and LBO channels are substantially different. In greyhound racing, for example, this is particularly prominent, as the Mintel data below demonstrates.²¹

Revenue (2013/2014)



% revenue by channel:

	LBO	Remote
Horse Racing	65.1%	34.9%
Football	31.2%	68.8%
Greyhound Racing	92.9%	7.1%

- 31 There are also substantial differences in the *types* of bets placed in LBOs compared to online. For example:

- (a) online customers place many bets "in-play" (i.e. during a match), a product which has limited availability in an LBO. These types of bets account for [X<] % of WH online sports betting turnover; and
- (b) LBO customers, on the other hand, place a larger proportion of accumulator bets (i.e. betting on multiple outcomes occurring) than online customers. For example, based on WH data for 2015 YTD, [X<] % of football bets placed in LBOs were accumulators, compared to [X<] % online:

	Online	LBOs
Singles	[X<]	[X<]
Accumulators	[X<]	[X<]
Other	[X<]	[X<]

¹⁹ In its Gaming Machine (Circumstances of UK)(Amendment) Regulations 2015, IA No: DCMS 078, on 5 August 2014, DCMS predicted that the net cost to betting from the new regulations would be c.£17m a year.

²⁰ I.e. gross win.

²¹ LBO figures are taken from Mintel's Betting Shops Report from April 2015 (Page 42, Figure 21). Remote figures are taken from Mintel's Sports Betting UK Report from July 2015 (Page 21, Figure 10), and are computed by removing the LBO figures from the total for the three sports. They are, therefore, approximations, and will include telephone betting.

- 32 Customers in the two channels are also typically betting on different events. In football, for example, online sees a greater proportion of European leagues compared to LBOs. By way of example, for the weekend of 17 and 18 October 2015²²:
- (a) Barcelona was the [redacted] most placed bet by UK online customers but only [redacted] in LBOs; and
 - (b) Real Madrid was the [redacted] most placed bet online but only [redacted] in LBOs.
- 33 The different product mixes ultimately drive different dynamics of competition as LBOs and online operators have different key sources of revenue and profit.

Despite local market characteristics for LBOs, significant parameters of competition between the parties are still determined nationally

- 34 Whilst WH recognises that competition amongst LBOs has many local market characteristics, it is also keen to emphasise that, as in 1998, significant parameters of competition between the parties are still determined nationally. The OFT recognised this more recently in *Ladbrokes/Eastwood* (2008), where it noted that "*Competition on price takes place at a national level as LBO's tend to offer odds on a national basis.*"

Odds, terms and promotions

- 35 Overall, odds, betting terms and promotional strategy are still determined nationally across the industry, with individual retail outlets having limited discretion to adapt offers locally.
- 36 [redacted]:
- (a) [redacted]²³; and
 - (b) [redacted].
- 37 [redacted].
- 38 To the extent that its competitors have adopted local strategies, WH's impression is that these have had a similarly low impact. For example, WH understands that whilst LB's "Grid" promotion allows LB to flex bonuses in local areas, this is insignificant in terms of overall LBO revenues and is intended more as a customer acquisition tool to try to increase low take-up of LB's omni-channel strategy (on which, see above). [redacted]

Non price competition

- 39 The MMC's 1998 decision and various subsequent OFT decisions, such as *William Hill/Stanley* (2006), have recognised the importance of non-price competition. In the latter, for example, the OFT noted that "*third parties confirmed that all LBOs strongly compete on non-price elements: location; quality of the outlet; staff; pricing/promotions; service; product range; atmosphere and branding.*"
- 40 WH agrees with the OFT's conclusions, and notes the similarities with the parameters of competition described in the Kantar data (set out at paragraph 27) above.

²² The figures quoted for WH online related to all WH online customers. Over [redacted]% of these customers are based in the UK.

²³ [redacted].

- 41 Since the Gambling Act 2005 permitted operators to advertise on the TV and radio, they now compete heavily on marketing and advertising, in order to maintain their brands. Most of these marketing and advertising strategies are national. For example, each of LB, GCG and WH:
- (a) Conduct national campaigns across their retail estate. These include window displays and supporting marketing materials throughout their shops;
 - (b) Place nearly all of their adverts in the national newspapers and journals; and
 - (c) Have national sponsorship deals. For example:
 - (i) LB has deals with the Super League (as betting partner), as well as the Football Perimeter and the LB Challenge Cup. LB also sponsors Cheltenham (World Hurdle) and Doncaster (St. Leger);
 - (ii) GCG is the official betting partner for Walkabout and Talksport breakfast. It also sponsors key races at Cheltenham (Coral Hurdle) and Sandown (Coral Eclipse); and
 - (iii) WH, too, has various national sponsorship deals, including the FA Cup and the Handicap Hurdle at Ascot²⁴.

The static fascia counting methodology adopted in previous LBO mergers, as well as the recognised competitor set, should be treated with caution

- 42 WH notes the CMA's practice for catchment area analysis has been relatively well established over a number of MMC and OFT decisions. Whilst it does not propose summarising that precedent here, it does wish to express its concern that the CMA's static fascia counting methodology, as well as the recognised competitor set, should be treated with caution.

Recent research from the ABB suggests there will be a material reduction in local competition in the foreseeable future

- 43 Wide-ranging analysis conducted in June 2015 for the ABB sought to assess the likely level of LBO closures in the foreseeable future, from a data set of 6,347 British LBOs. The analysis was dynamic in the sense that:
- (a) It took into account the fact that even if an LBO is at risk of closure, it might not close immediately if it is burdened with material lease obligations; and
 - (b) When an LBO does close, some of its revenues will be captured by competing LBOs within its catchment area.
- 44 The ABB analysis simulated the likely effect of changes that have recently been implemented in the sector and that can be expected to affect LBO profits, as well as a series of other changes to taxes, regulations and costs that the industry knows will be implemented in the near future. The changes considered and modelled in the base case scenario of the ABB analysis included:
- (a) The increase in Machine Gaming Duty from 20% to 25% in 2014;

²⁴ A full list of WH sponsorship deals is available here: <http://www.williamhillplc.com/about/sponsorships/>

- (b) Higher costs, including higher payments to media companies for content, rent increases and labour costs;
 - (c) The introduction of "the £50 journey" regulation of FOBT stakes in April 2015; and
 - (d) The expected continued decline in horserace betting and a plateauing of other revenues.
- 45 This base case analysis found that:
- (a) [REDACTED]; and
 - (b) [REDACTED].
- 46 Further, additional ABB data suggests the number of independent bookmakers fell by 43% between December 2009 and the end of 2014.²⁵ This is backed up by recent press, which suggests the trend is set to continue. For example:
- (a) Mark Jarvis closed 8 stores in the last financial year, leading to an associated £3.7m drop in turnover²⁶; and
 - (b) Chisholm Bookmakers recently posted a loss of more than £100,000²⁷.
- 47 There are several possible further increases to taxes and regulations that, if also implemented, would increase the number of LBOs that fail to make a profit and which are, therefore, at risk of closure. These could include, *inter alia*:
- (a) Any reduction in the number of FOBTs allowed in LBOs (a measure that has, for example, been mooted in Scotland in recent weeks);
 - (b) Any further regulations on the amount that can be staked in FOBTs or requirements on customers who stake above certain amounts (e.g. in July 2015, 93 councils in England and Wales called for the maximum stake on FOBTs to be cut from £100 to £2²⁸ – although this measure was rejected, there remains some pressure for such measures which, if implemented, would have a significant negative impact on LBO revenues and profits);
 - (c) The Anti Money Laundering Directive may place additional requirements on LBOs which will increase their costs;
 - (d) Any further increase in taxes, such as increases in Machine Gaming Duty, gross profits tax and the levy on British horserace betting.

The CMA's local markets analysis ought to take account of the ABB's findings

- 48 In WH's view, the CMA simply cannot ignore the impact of the above analysis when designing a preliminary fascia-counting filter for LB/GCG. Indeed, we note the CMA's own guidance stresses the need for a cautious approach to identifying problematic areas when using a simple filtering process²⁹.

²⁵ KPMG Leisure Perspectives – September 2015

²⁶ High street bookie is taking a bashing – Leicester Mercury – 28 July 2015

²⁷ Bookies post lost of £100k – The Evening Chronicle – 13 February 2015

²⁸ BBC news: <http://www.bbc.co.uk/news/uk-33552719>

²⁹ CMA commentary on retail mergers, paragraph 2.9.

49 Accordingly, we would encourage the CMA to seek the raw data from the ABB and consider how this should be accounted for in the analysis it applies to local markets. For example, the CMA could consider:

- (a) Treating the process with caution, for example in terms of the number of acceptable fascia in the post-merger world;
- (b) Accounting for [§<] data when determining the effective competitor set;
- (c) Refining each local area to exclude those competing LBOs that are loss making or "at risk"; or
- (d) Factoring in the ABB's findings when designing surveys and related diversion-style economic analysis.

Concerns over greyhound racing have not changed since 1998

50 We encourage the CMA to seek the views of the Greyhound Board of Great Britain (**GBGB**), created when the National Greyhound Racing Club (**NGRC**) merged with the British Greyhound Racing Board in 2009.

51 Despite a reduction from 43% since 1998, the combined LB and GCG tracks still account for 29% of all Bookmakers Afternoon Greyhound Service (**BAGS**) races³⁰.

52 In the 1998 decision, the MMC outlined a clear theory of harm in relation to greyhound betting. A LB/GCG merger today raises similar concerns. In particular:

- (a) In 1998, under the Articles of Association, each board member had a single vote, regardless of the size of his/her firm;
- (b) However, voting by members on a poll at a general meetings was weighted according to the number of LBOs owned by each member firm. This provision meant that in 1998, an enlarged Ladbrokes would have been capable of controlling BAGS, as its LBOs would have accounted for over half of all LBOs owned by BAGS members; and
- (c) Today, the same mechanism applies. Although marginally below a de jure majority, a combined LB/GCG estate would have 48.6% of the BAGS votes. Given that the BAGS voting system works on a de facto basis (i.e. based on voter turnout), it is relatively likely that the merged entity would still have a controlling interest in practice.

Overall, obstacles to creating and expanding a LBO estate remain high

53 Despite the entry into force of the Gambling Act 2005 (which forbade Local Authorities (**LAs**) from taking into account local demand in their licensing decisions), overall barriers to entry remain similar to 1998. Indeed, the OFT considered the impact of the 2005 Act in its 2012 *Betfred/Tote* decision and concluded that the extent to which this reduced barriers to entry was not clear and political considerations may in practice have kept up barriers to securing licensing for new LBOs.

54 WH agrees with the OFT's 2012 analysis. As well as national regulatory developments (such as FOBT regulation, discussed above), at a local level, in practice many of the barriers to entry that were present in 1998 still exist and have recently been increased, such as:

³⁰ In 1998, 97% of greyhound turnover in LBOs was from betting on BAGS meetings. WH understands this figure is now c.99%.

- (a) The Town and Country Planning (Use Classes) (Amendment) (England) Order 2015 which effectively removed LBOs from the town centre use class A2, and placed them in a class of their own ("Sui Generis"). This had the effect of removing permitted development rights (where previously A2 use was permitted in units classed A3, A4 or A5) and also requiring a planning application for all proposed LBOs (the only effective exception being if it traded as an LBO previously); and
- (b) Planning applications are determined against adopted LA planning policies and the central government issued National Planning Policy Framework (**NPPF**). In practice, most adopted policies seek to protect A1 retail units (e.g. a typical high street shop). Any 'A' class unit is an accepted town centre use, whereas Sui Generis units are not.

[3<]

55 [3<]³¹.

56 [3<]:

- (a) [3<]; and
- (b) [3<].

57 [3<].

A remedy may not be capable of re-establishing the third national force which would be lost as a result of the merger

58 WH has observed the abundant press speculation over the number of divestments that might, ultimately, be required for the CMA to clear the proposed merger. Whilst it accepts that, in theory, a LBO divestment package ought to be capable of resolving local market concerns, WH is conscious that such a divestment may not be capable of re-establishing the third national force, which would be lost as a result of the merger.

59 It is questionable whether a divestment of even a significant LBO estate (e.g. to a private equity house or an entrant from outside the UK) would, in its own right, be sufficient to re-establish such a national force. Further, any new entrant would require:

- (a) considerable expertise in the betting industry;
- (b) major back-office, management and compliance infrastructure. Any divestment driven purely by local market overlaps between LB and GCG would be geographically disperse, presenting clear logistical and management issues;
- (c) a new brand, which would require an effective long term marketing strategy to generate a level of trust and credibility with a customer base used to a well known operator; and
- (d) GC and other operating licences (on which, see above).

60 [3<]:

- (a) [3<];

³¹ [3<]

(b) [3<].

APPENDIX - PRICING IN THE UK GAMBLING INDUSTRY

What is the price of sports betting?

- 1 The factor relevant to assessing pricing is the bookmaker's target margin (or "overround") for a particular event. This is the uplift a bookmaker applies to its expected probability of a particular event occurring in order to set its odds. In other words, the overround can be characterised as reflecting how 'good' the odds are for an event, with a lower overround reflecting, ex ante, a better deal for the consumer.
- 2 When pricing an event, a bookmaker computes its expected probability of each possible outcome (e.g. home win, draw, away win in football or the likelihood of a horse winning a race), and applies an uplift to that outcome probability, creating odds. By summing the implied probability of outcomes based on these odds, a bookmaker is able to calculate its overround.
- 3 As a worked example, consider the following football match between Ipswich Town and Bradford City:

	Ipswich Town	Draw	Bradford City	Overround
Expected probability	43.65%	30.28%	26.07%	
Expected probability + uplift	46.51%	32.26%	27.78%	
Decimal odds	2.15	3.1	3.6	106.5
Fractional odds	23/20	21/10	13/5	106.5

- 4 In this example, the operator has an expected probability of Ipswich Town to win of 43.65%, the two teams to draw of 30.28%, and Bradford City to win of 26.07%. It has then applied an uplift to each expected probability, reflecting its target margin. By dividing 1 by this percentage, the bookmaker can calculate its decimal odds for each outcome, which can then be converted into fractional odds, which are then offered to the customers.
- 5 In this instance, the bookmaker has priced the event to an overround of 106.5. Now consider if the operator wanted to increase the price (i.e. worsen the odds) to an overround of 112:

	Ipswich Town	Draw	Bradford City	Overround
Expected probability	43.65%	30.28%	26.07%	
Expected probability + uplift	48.89%	33.91%	29.20%	
Decimal odds	2.05	2.95	3.4	112.0
Fractional odds	21/20	39/20	12/5	112.0

- 6 The odds have now worsened ("shortened") on each outcome to the bettor. In doing so, the operator has close to doubled its overround.
- 7 In this example, the hypothetical bookmaker has reduced its odds for all three outcomes. However, for certain matches, and particular teams, an operator may opt to price a particular

outcome (e.g. a home win for a popular team) with a lower margin. Its average overround for the match, however, will often remain similar. For example:

	Ipswich Town	Draw	Bradford City	Overround
Expected probability	43.65%	30.28%	26.07%	
Expected probability + uplift	46.49%	33.91%	31.81%	
Decimal odds	2.15	2.95	3.1	112.2
Fractional odds	23/20	39/20	21/10	112.2

- 8 In this example, the odds for the popular home win bet is the same as when the overround was 106.5. However, the operator has worsened its odds on the other outcomes to increase its target margin.
- 9 The overround for the match is observable to the customer ex-ante, and provides them with an indication of the overall price set by an operator for a bet.
- 10 However, the actual result of a football match or a horserace might not coincide with what the bookmaker expects for two reasons.
- 11 The first is that predicting the likelihood of outcomes of any sporting event is, of course, subjective. For casino games, like roulette, the exact odds of different outcomes – such as the ball landing on red or black, or a particular number coming up – can be calculated precisely. This is not the case for sporting events, and so it is possible for bookmakers to miscalculate their odds.
- 12 The second is that even when the odds of an event are estimated accurately – i.e., the likelihood of a particular outcome is accurately calculated - the result ex-ante is still uncertain so results with an ex-ante probability of less than half (i.e., events that are not expected to occur) can and do occur. For example, the favourite horse does not win a horserace or that a lower league football team will cause an upset in a cup football match.
- 13 These two things both mean that the result of a sporting event can, on some occasions, leave the bookmaker paying out more in winnings than would be expected on average. On other occasions, they will have to pay out less.
- 14 Actual stakes less prizes for a sporting event (or, for that matter, any gambling event) are known as the gross win. Gross win as a proportion of stakes is often referred to as the "gross win" percentage.
- 15 The gross win is only observable ex-post – i.e., after the event has occurred. Because of the element of chance in any gambling event, the gross win can vary substantially from the overround (i.e. the expected win) on any given day, week, or even quarter for a gambling operator.
- 16 While the gross win is a measure of profitability of a bookmaker, it is not representative of the value bettors receive nor the competitiveness of a bookmaker's offering. The relevant measure of profit to assess the value a bettor receives is the ex-ante target margin, not the margin achieved. The margin achieved is substantially influenced by whether the bookmaker accurately predicted the likelihood of different events, and whether more or less likely events occurred in practice. The ex-ante target margin, by contrast, is not affected by these factors, and therefore isolates the value for money of a bookmaker's offer to a bettor. As a result, for any economic analysis that in other markets might be conducted on firms' prices or margins

(e.g., an assessment of relative prices or price correlations for market definition), for gambling, they should be conducted using the overround.

The interplay between online and LBO sports betting prices

- 17 During its 1998 assessment, the Monopolies and Mergers Commission (the **MMC**) noted the potential for weakened price competition at the national level, in a market where horse race betting accounted for c.70-80% of an LBO's gross win.
- 18 Since the 1998 decision, the mix of sports betting within LBOs has changed significantly. Horseracing now accounts for less than [X]% of an average LBO's gross win, with average LBOs receiving an increased proportion of gross win from football betting (c. [X]%) and fixed odds betting terminals (FOBTs) (c. [X]%).³²
- 19 This section outlines how each of these products are priced, and, where relevant, how the approach to pricing each of these products differ for LBOs compared to online gambling.

Football betting (and other sports)

- 20 Football betting represented [X]% of sportsbetting turnover in WH's LBOs in 2014, and there is no reason to expect that a broadly similar proportion of Ladbrokes' and Gala Coral's LBO gross win is not also accounted for by football betting.
- 21 It was noted above that an operator will price an event to an overround by applying an uplift to the operators expected probability of an outcome. Also as noted above, for certain events – particularly high profile football matches – operators may price certain outcomes with a lower margin than others.

[X]

- 22 [X].

- 23 [X].

Horse racing and greyhound bets

- 24 The large majority of bets placed on horse racing and greyhound racing – whether online or within an LBO – are "backed at the starting price".³³
- 25 The starting price, often denoted as the 'SP', is a mechanism that assigns a price (odds) to each horse or greyhound in a particular race after betting has closed i.e. just before the start of a race. The SP for an individual bet is calculated by taking an average of the odds offered by the on-course bookmakers i.e. those at the greyhound stadia or racecourse.

³² Shortly after the 1998 decision FOBTs were introduced into LBOs, and now account for around 50% of LBO revenues. Since the Gambling Act 2005 (implemented in 2007) FOBTs have been categorised as B2/B3 Gaming Machines. A maximum stake of £100 can be placed on FOBTs at any one time and each LBO can contain up to four. WH has an average of [X] FOBTs across its LBO estate and most of its competitors display a similar level of take-up, which accounts for a total of c. [X] FOBTs now in the UK.

³³ For WH, c. [X]% of gross win from greyhound racing ([X]% of bets) is derived from bets placed at the SP. In horse racing, [X]% of gross win ([X]% of bets) is derived from bets placed at the SP.

- 26 If a bettor has opted to back a runner at the SP, then regardless of whether they backed them in a WH LBO, on WH online – or at any of WH's competitors – the odds the bettor receives will be the SP, not any other odds that may have been offered at the time a bet was made.

Promotional activity means differences in price dynamics online and in LBOs

- 27 Recently, certain operators, including WH, have been offering a 'best odds guaranteed' product for horse racing bets through its online channel. If an online customer takes a pre-race price on a horse which ends up being lower (i.e. worse odds) than the SP, WH will pay that customer the SP price if the horse wins. This creates a difference between the margin earned from LBO customers for racing bets compared to the margin earned online. For WH, this difference in margin is c.1%. WH does not offer "best odds guaranteed" in its LBOs.

Price setting for Fixed Odds Betting Terminals

- 28 The price of gambling for fixed odds betting terminals (FOBTs) varies dependent on the game being played.
- 29 Roulette is the primary game played on these machines, and is a fixed odds game. The margin for roulette is set at 2.7%, and cannot be changed given the game design, although certain operators do offer local promotions in LBOs for roulette (e.g. roulette tournaments).
- 30 While roulette is an important source of FOBT revenue, the remainder of FOBT revenue is generated from slot based games, which are a growing, and therefore important, source of revenue for WH, and WH understands, for Ladbrokes. The prices for these other slot games are determined by a 'return to player' (RTP) percentage, a fixed percentage which controls the payout to players within a game. As a worked example, an RTP of 95% means for each £1 staked a player can expect, on average, to be returned 95 pence. The RTP percentages for each game are set by operators individually, and can differ across a number of dimensions:
- (a) the game being played, i.e. differing RTPs across different designs of slot games;
 - (b) the stake level within a game, i.e. differing RTPs dependent on whether a player is staking 10p, 50p, £2 and so forth; and
 - (c) the location of the LBO in which a FOBT is situated. 1%.

Promotional and non-standard pricing in LBOs and online

- 31 In addition to competing directly on prices, gambling operators offer other price benefits to customers, for example through the use of free bets and bonuses. These can include receiving part of a stake back if a certain event happens during a game (e.g. a red card), or a bonus if a certain parameter is met (e.g. betting £20 on football in a given week entitling the customer to a free £5 bet).
- 32 The use of other price benefits is commonplace across all online betting operators. Conversely, use in LBOs is limited in comparison. WH does offer promotions in its LBOs, and when it does so, it offers the same promotions consistently across its LBOs (i.e., nationally). These promotions are also set based on competition from other LBOs. WH's competitors typically offer more promotions in LBOs.

