LADBROKES/CORAL MERGER INQUIRY

Summary of hearing with Jenningsbet on 1 February 2016

Background

1. Jenningsbet (UK) Limited (**Jennings**) stated that it was established in 1961 and that it currently operated a network of around 100 licenced betting offices (**LBOs**). It explained it had a website based in the Isle of Man operated by a third party provider.

Local and national parameters of competition

2. Jennings said that the odds offered for some of its betting products (eg Irish Lottery, 49s, football betting) would vary depending on the level of competition in each local area. The level of competition in each local area depended more on the identity of the bookmakers competing with Jennings rather than on the number of competitors.

3. Jennings explained that:

   (a) its trading team monitored the odds offered in each area by Jennings' competitors and decided centrally whether or not to change Jennings' offer for a particular location based on that information; and

   (b) Jennings' area managers reported regularly on each area's local competition.

4. Jennings stated that the extent to which a competitor's offer impacted Jennings' business at the local level would depend, among other factors, on the distance between that competitors' and Jennings' LBOs, but also on how many other LBOs there were between them.

5. Jennings submitted that, generally, it would be in competition with LBOs within around 250 metres and 800 metres from its LBOs in metropolitan and urban areas, respectively. However, it explained that other factors such as the design of the town centre and transport links would affect the extent to which a competitor located within these radii competed with Jennings.

6. With regard to the main factors of local competition Jennings said that:

   (a) the main factors differentiating its offer from those of its competitors were concessions and promotions;

   (b) staffing levels mainly depended on how much business each of Jennings' LBOs did and was driven more by safety considerations than by the degree of competition in each local area;

   (c) it tended to follow a seven-year refurbishment cycle, although it would expedite the refurbishment of a particular LBO in response to local conditions of competition; and

   (d) when deciding whether to open a new LBO, Jennings would take into account the level of local competition (ie how many LBOs there were in the area), the footfall in other LBOs in the area, the existing transport links and accessibilities.

Competitive constraints

7. Jennings identified Betfred as particularly competitive in the Lottery and 49s games, and Paddy Power as very competitive in football betting. Jennings considered that Ladbrokes and Coral did not have to be as competitive on price as they were well-known brands and their LBOs were in well-established locations.

8. Jennings also stated that generally only mid/large independent bookmakers could constrain the main national bookmakers (Ladbrokes, Coral, William Hill, Betfred and Paddy Power) as smaller/one shop independent bookmakers would not generally benefit from the economies of scale the main bookmakers have.

9. While Jennings considered itself to be well established in the South, it had taken longer to establish confidence and brand awareness further afield. However, Jennings stated that it succeeded in establishing a good brand in the Midlands and North East by developing a major city network including Manchester, Sheffield and Birmingham. Jennings is regarded as a national operator.

10. Jennings stated that in some locations it may have similar or higher market shares than the main national bookmakers, even if it needed time to establish itself in new regions.

The online and retail channels

11. With regard to the impact of the growth of the online channel on its business, Jennings submitted that:

    (a) the increase in the offer of betting and gaming products online pushed its gross margins down, with consumers benefiting from better odds in the retail channel;

    (b) it had considered customers' requests to match prices of other retail bookmakers, but not requests to match prices of online bookmakers; and

    (c) it had not taken any particular action to directly prevent customers from migrating from the retail to the online channel, although it reacted to changes in the main bookmakers' offers (eg better odds) in response to the growth of the online channel.

12. Jennings stated that its retail offer did not change directly in response to competition from the online channel. Rather, it changed its offering with a view to preventing customers from migrating to other retail bookmakers that had improved their offer in response to the growth of the online channel. As such, it considered its retail business to be subject to at least an indirect constraint from the online channel.

13. Jennings submitted that:

    (a) the margins in the retail channel were currently stable mainly because the customers that had not migrated to the online channel were loyal to the retail channel;

    (b) in the online channel, a high proportion of customers was purely price orientated in the choice of the online bookmaker they used;

    (c) customers could easily compare the odds offered online and many customers had multiple accounts to benefit from better prices; and

    (d) in the retail channel, there were some price sensitive customers that shopped around and leisure customers that were less price sensitive.

14. Overall, Jennings noted that it did not respond directly to online competitors, although online bookmakers indirectly influenced its offer to the extent that other retail bookmakers responded to online competitors.

Constraints from other gaming venues

15. With regards to the impact that other gaming venues have on Jennings' business, it submitted that:

    (a) Adult Gaming Centres, bingo and other arcade venues did not constrain Jennings, as they could only offer B3 machines; and

    (b) casinos, on the other hand, could offer B1 and B2 gaming machines and would affect Jennings' business.

16. Jennings considered:

    (a) the content of all B2 and B3 gaming machines to be very similar;

    (b) the return to players in B2 and B3 gaming machines to be the same in all machines and between the retail and online channels; and

    (c) bookmakers to have limited scope to differentiate their offer in this regard.

Local competition between bookmakers

17. Jennings explained that the number of bookmakers in each area would depend on the demand in each area.

18. Jennings submitted that:

    (a) only a reduction in the number of fascia from three to two or from two to one would significantly reduce competition in that particular area;

    (b) the extent to which Jennings' business would be affected by a reduction in the number of fascia would depend on which fascia would remain in that area;

    (c) it competed more [✄]; aggressively against some operators than it does others and

    (d) it would expect its margins to increase in areas where it faced one competitor rather than two or more competitors, but that would depend on the fascia it would be competing with.

19. Jennings submitted, therefore, that if the fascia that more closely competed with Jennings continued to operate in a particular area (eg Paddy Power), the merger between Ladbrokes and Coral would not significantly affect Jennings' business in that area.

Entry and expansion

20. Jennings noted that:

(a) it became more difficult to open new LBOs as a result of the *sui generis* permission requirement recently introduced in the UK;[1]

(b) after this change in the regulation, there was a reduction on the number of licence applications in the areas where Jennings operated;

(c) with this regulatory change, local councils might be reviewing their policies so that they could block the opening of new LBOs in ‘clustered’ retail areas (eg London high street);

(d) it might take up to 12 months to obtain a licence and planning permission, especially if the initial planning application was refused and there was an appeal to the planning inspectorate;

(e) after the licence and planning permission had been granted, it would normally take around six weeks to open that LBO, although these timeframes would vary from unit to unit; and

(f) it had not become significantly more difficult to find a suitable site to open a new store than it was previously, although the improvement in the economy had reduced the number of suitable sites available and it might take longer to find one.

21. Jennings further explained that:

(a) it had adopted an ongoing organic development system, but it would always be looking to acquire new LBOs;

(b) the management of its portfolio of LBOs to be part of the normal course of its business, with Jennings often opening, relocating or closing its LBOs;

(c) in 2004 and in 2006, Jennings sold some of its LBOs to Ladbrokes and Coral, respectively; and

(d) the threat of entry of a new competitor in a particular area had not been a factor affecting the way Jennings set its odds for that particular area.

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[1] Before this change, no planning permission was required if the retail site where the LBO was located was within classes A5, A3 or A2.

Innovation

22. Jennings submitted that:

    (a) it was proactive in trialling new products but was not itself an innovator of any new products;

    (b) no particular bookmaker had stood out by leading the innovation process in the gambling industry, as innovations were quickly followed by other bookmakers; and

    (c) Paddy Power had 'woken up' the other bookmakers to be better in the future.

23. Jennings further noted that one significant innovation in the gambling industry that it quickly adopted was the introduction of Self-Service Betting Terminals. It considered Fixed Odds Betting Terminals and in-play betting to be relevant innovations as well.

24. Jennings stated that the bookmakers that innovated would normally trial the new product in around 10 to 15% of their estate. It noted, however, that even if an innovation might be trialled initially in particular locations, innovation would occur at a national level.

25. Jennings noted that it was easier for bookmakers with a significant number of LBOs to innovate as they could absorb any losses of the innovation process. However, it also stated that there were no significant obstacles to the adoption of a new product by the competitors of the bookmaker that introduced that product.