

LADBROKES/CORAL MERGER INQUIRY

Summary of hearing with Paddy Power Betfair on 25 February 2016

Background

1. Paddy Power Betfair (PPB) said that it was a multichannel betting and gaming business and that it operated 331 licensed betting offices (LBOs) in the UK, [REDACTED].

Local and national parameters of competition

2. PPB stated that:
 - (a) its policy was [REDACTED] and [REDACTED];
 - (b) for [the majority] of its business, it offered the same odds in the retail and online channels.
3. PPB explained that the reason for its policy was to ensure a consistent experience to customers across channels.
4. PPB submitted that:
 - (a) its promotions and offers were [REDACTED];
 - (b) its competitors in the retail channel tended to offer different odds, both in the retail and online channels and across their estates; and
 - (c) its competitors tended to vary their investments in each of their LBOs, depending on local market conditions.

The online and retail channels

5. PPB identified three different customer segments:
 - (a) retail-only customers, which included the largest part of the overall market for betting and gaming (around [40–50]%);
 - (b) multichannel customers, which represented around [25–35]% of the overall market for betting and gaming; and

- (c) the online-only segment, which represented around [25–35]% of the overall market for betting and gaming.
6. PPB explained that retail and online customers were characterised by persisting structural differences. In particular:
 - (a) customers would tend to prefer gambling in the retail channel if they liked the social experience, the atmosphere, the excitement of betting in cash and the immediacy of payout; and
 - (b) customers who valued the ability to research, convenience and range of markets on offer would typically tend to prefer gambling online.
 7. PPB noted that it was possible that the same customer, at different stages of his or her life, would value those different experiences to differing degrees.
 8. PPB mentioned the following differences in the behaviour of customers using the online and retail channels:
 - (a) football betting accounted for a smaller proportion of PPB's UK revenue generated in the retail channel than its UK revenue in the online channel;
 - (b) in-play betting and pre-match betting also accounted for a significantly lower proportion of PPB's business in the retail channel than in the online channel; and
 - (c) whilst the marketing of its online football betting offer was focused on TV advertising during football matches, the marketing of its football betting offer at LBOs was mainly based on advertising screens and posters.
 9. PPB also explained that:
 - (a) with regard to [X] specifically, it would sometimes offer [X]; and
 - (b) its promotional offers regarding in-play football betting were more targeted at [X], because the demand for this product was higher in this channel.
 10. PPB stated that it considered the online and retail channels to be complementary: both channels were growing in parallel, with the online channel growing at a faster pace.
 11. PPB explained that the value of multichannel customers overall was higher than the sum of its value in the retail and online channels, [X].

Constraints from other gaming venues

12. PPB submitted that historically its ability to win customers from other gaming venues centres had become harder than winning customers from a competing bookmaker, in particular because of the slightly different demographics.
13. PPB also stated that the type of betting machines available and the applicable regulations differed between LBOs and other gaming venues.

Local competition between bookmakers

14. PPB said that it monitored competitors in each of the local areas it operated in and explained that the identity of competitors it monitored in each local area were [REDACTED].
15. PPB stated that the constraint of a competing LBO on one of PPB's LBOs would be greater the closer it was geographically located. PPB submitted that location was the most important factor in determining who their main competitors were.
16. PPB submitted that Coral and Ladbrokes had been aggressive on their investment in multichannel initiatives and had used their retail channel as a way to acquire customers online. PPB further stated that William Hill had been much less aggressive about driving its retail customers to also use its online offering, citing the number of self-service betting terminals as an example.
17. PPB stated that:
 - (a) its business strategy was to [REDACTED];
 - (b) it had an [REDACTED];
 - (c) its competitors would vary their margins in local areas, offering different prices and promotions in some local areas; and
 - (d) all of its main competitors would make decisions on the refurbishment of their LBOs taking into account changes of the level of competition in each local area (eg, at least one of its competitors had the policy of refurbishing its LBO in the area where PPB had recently entered).

Entry and expansion

18. PPB submitted that barriers to entry in the online channel were relatively low, but considered barriers to entry in the retail channel to be considerably higher.

19. PPB estimated that the total cost of opening a new LBO (CAPEX) would be around £[X] and that PPB would have to risk up to £[X] in addition to this to go through the planning process.
20. PPB stated that the planning regulation changes that came into effect this year, introducing a *sui generis* planning permission requirement,¹ increased the cost, complexity, uncertainty, risk and duration of the planning permission process.
21. PPB submitted that it had faced significant challenges when trying to grow by opening new LBOs in different local areas. PPB stated that the number of LBOs it opened per year over the last two years had significantly decreased: it opened [X] LBOs in 2013, [X] LBOs in 2014 and [X] LBOs in 2015.
22. PPB considered that this decrease showed a significant reduction in its ability to enter new areas, because of the additional work associated with the planning permission process which, in most cases, failed at the first attempt.
23. PPB further stated that growth through acquisition was also challenging, because only a limited number of independent operators existed from whom LBOs might potentially be acquired.

Innovation

24. PPB stated that the emergence of the online channel had resulted in PPB offering more products or innovating in the retail channel. PPB gave the example of:
 - (a) the introduction of the cash-card product, which allowed customers both to deposit funds at an LBO and then use those funds online and withdraw funds from their online account at an LBO;
 - (b) its investment in having self service betting terminals in all its LBOs across the UK, which allowed customers to replicate their online experience within a retail environment; and
 - (c) the introduction of the 'Track-my-bet' product which allowed customers to place a bet at an LBO, and then track it online.

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.

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25. [✂]

26. [✂]

27. [✂]

28. [✂]

Impact of the merger

- 29. PPB submitted that the merger would result in a lessening of competition between the incumbent bookmakers at the local level, with a negative effect on price and on customer experience.
- 30. PPB noted that the impact on competition of the loss of a national competitor at the local level was greater than the loss of an independent bookmaker at the local level.
- 31. PPB also queried to what extent the merger would enhance coordination with regard to the process for obtaining planning permission to open new LBOs, by facilitating the use of planning laws in a more coordinated fashion – potentially hindering PPB's ability to grow organically.