

ANTICIPATED ACQUISITION BY SPORTECH PLC OF THE VERNONS FOOTBALL POOLS BUSINESS FROM LADBROKES PLC

Issues Statement

1. On 3 May 2007, the Office of Fair Trading (OFT) referred the anticipated acquisition by Sportech plc (Sportech) of the Vernons Football Pools (Vernons) business from Ladbrokes plc to the Competition Commission (CC) for investigation.
2. As noted in the [OFT's decision document](#), the proposed merger would result in Sportech supplying virtually 100 per cent of UK demand for football pools, with Vernons adding around 24 per cent to Sportech's share. (Sportech operates two pools: Littlewoods, with around 70 per cent of the market, and Zetters, with around 5 per cent.) Last year, more than 800,000 people played the football pools in the UK, together spending almost £80 million.
3. The CC is required, within a period ending on 17 October 2007, to determine the following in accordance with section 35 of the Enterprise Act 2002:
 - (a) whether arrangements are in progress or in contemplation which, if carried into effect will result in the creation of a relevant merger situation; and
 - (b) if so, whether the creation of that situation may be expected to result in a substantial lessening of competition within any market or markets in the UK for goods or services; and
 - (c) if the CC decides that the merger will have an anti-competitive outcome:
 - (i) whether action should be taken by the CC for the purpose of remedying, mitigating or preventing the substantial lessening of competition concerned or any adverse effect which may be expected to result from the substantial lessening of competition;
 - (ii) whether the CC should recommend the taking of action by others for such a purpose; and
 - (iii) in either case, what action if any should be taken, and what is to be remedied, mitigated or prevented.
4. The issues which we intend to consider are set out in the following paragraphs.

Definition of the relevant economic markets affected by the merger¹

5. We will consider the appropriate definitions of the markets affected by the merger (the relevant markets), and, in particular, whether:
 - (a) each of the football pools operated by Sportech and Vernons is a distinct market in itself; or
 - (b) a single market exists for the operation of football pools competitions in the UK; or

¹Market definition, and other concepts of relevance to this statement, are discussed in the CC's [Merger Guidelines](#).

- (c) football pools compete in a wider market with other gambling products, such as other sports betting and/or the UK National Lottery; and whether
 - (d) the parties overlap in the supply of other goods or services, in particular fixed-odds lottery games; if so we will consider the appropriate market definition for those goods or services.
- 6. In answering these questions we will have regard to both demand-side substitution—ie whether customers will switch to alternative products in response to a price increase—and supply-side substitution—ie whether suppliers of alternative products will start to supply the relevant product (at short notice) in response to a price increase.
- 7. Football pools sales have fallen by around 90 per cent since the launch of the UK National Lottery in 1994. However, in assessing whether there is ongoing scope for demand-side substitution we will need to consider:
 - (a) the extent of, and reasons for, recent switching from football pools to the UK National Lottery; and
 - (b) whether, among those who continue to play the football pools, the UK National Lottery is a close substitute for the pools.
- 8. In assessing whether football pools and the UK National Lottery are demand-side substitutes we will need to establish whether, and how, customers compare the value of football pools and the UK National Lottery—ie whether there is a meaningful ‘price’ comparison.
- 9. The prize funds of football pools have decreased in recent years because they depend in part on the total amount of money in the pools, which has fallen since 1994. However, the payout ratio—the proportion of the pools paid out in prizes—is also not constant and is determined by the pool operator. Football pools operators can, in principle, reduce the value of their offer either by decreasing the prize fund (faster than any decrease in the pool), or by increasing the price of betting (eg the price of an “8 from 10” bet) without increasing the prize fund to the same degree. Both of these actions would have the effect of reducing the payout ratio. From a customer perspective, the result is either that the cost of placing a bet is higher, or the expected win is smaller. We will need to consider:
 - (a) whether, if football pools providers were to reduce the value of their product offering (either by decreasing the prize fund, or by increasing the price of making a bet without increasing the prize fund), a sufficient number of customers would stop betting on the pools, or reduce their bets, to make such an action unprofitable; and
 - (b) if so, to which alternative gambling products (if any) customers would switch.
- 10. We will adopt a similar approach to assessing the product market definition for fixed-odds lottery games, and any other products supplied by both Sportech and Vernons.
- 11. We will also consider the relevant geographic markets for football pools, fixed-odds lottery games, and any other products supplied by both Sportech and Vernons. In this context we will consider, for example, the relevance of evidence that a proportion of people who bet on UK football pools are located outside the UK.

The counterfactual

12. We need to consider what would be expected to happen in the absence of the merger, and in particular whether both Vernons and Sportech would continue to exist as football pools operators in a similar manner, and at a similar scale, as they do at present.

Assessment of the competitive effects of the merger

13. We need to consider the effects of the merger on what we conclude to be the relevant economic market compared with the counterfactual.
14. If we conclude that the Littlewoods and Vernons pools are each separate markets in themselves, this would imply that the merger would not lead to an increase in market share and in particular a reduction in competition. In other words, if the two firms do not compete at present, we may not expect a merger between them to reduce competition. In this respect we will also consider the potential for future competition between the two firms (for example, following innovation).
15. Customer spending on the UK National Lottery is around 60 times as great as spending on UK football pools. As such, if we conclude that football pools are part of a larger market which includes the national lottery, it is likely that the merged group's market share will be too low for any expectation that the merger will lead to a substantial lessening of competition.
16. If we conclude that the relevant market is football pools, or a broader market but one which excludes the UK National Lottery and in which the merged group will have a large market share, we will need to consider whether conditions exist such that the merger will lead to a substantial lessening of competition. In particular, we will consider:
 - (a) whether any attempt by the merged group to exercise market power would lead to market entry in a short period; and, in this context
 - (b) whether market entry is generally easy and inexpensive; or (if not)
 - (c) whether particular firms (eg suppliers of other gambling products, or other football-related products) could enter the market easily and at low cost.
17. We will then consider the extent of the merged group's likely market power post-merger, having regard both to the ease of entry and to the expected market share of the merged group.
18. In considering the competitive effects of the merger on the supply of football pools, we will focus on horizontal unilateral effects. Unilateral effects occur when a merger enhances the ability of the merged firm to exercise market power in its own right, ie, independently from other suppliers in the market. At this stage there is no indication that the merger may give rise to any vertical effects, or to any coordinated effects (firms acting together to exercise market power).
19. Specifically, we will consider whether the removal of Vernons as a competitive constraint would give the merged group the ability and the incentive to:
 - (a) raise the price of playing the football pools, whether by:

- (i) increasing the minimum cost of a bet without increasing the prize fund in proportion; or by
- (ii) increasing other prices (such as the price for an “8 from 10” or an “8 from 11”) without increasing the prize fund in proportion;
- (b) ‘harmonize’ Vernons’ prices up to, or closer to, those of Littlewoods;
- (c) reduce the value of the product offerings to customers by reducing:
 - (i) the chances to win (for example, by altering the game rules and removing ‘half-time’ prizes);
 - (ii) the pay-out ratio; or
 - (iii) the quality of customer services;
- (d) reduce the choice of product offerings available to customers by removing options from the Vernons pools which are not currently available from Littlewoods; or
- (e) reduce the rate of innovation in relation to product offerings, with fewer new product offerings.

Customer benefits

- 20. If we conclude that the merger will lead to a substantial lessening of competition, we will consider whether any customer benefits arising from the merger are sufficient to outweigh the harm to customers from the reduction in competition.
- 21. In particular, we will consider:
 - (a) whether the merger will lead to any cost savings (for example, through achieving greater economies of scale or other improvements in efficiency in distribution or other aspects of the operation) which could *not* be achieved without the merger;
 - (b) the likely scale of these cost savings;
 - (c) whether these cost savings will be passed on to customers; and
 - (d) which customers will benefit.

Possible remedies

- 22. Should we conclude that the merger may be expected to result in a substantial lessening of competition, we shall consider what remedies (if any) might be appropriate, and issue a further statement.
- 23. If we conclude that the merger will give rise to a substantial lessening of competition, we will consider the effect of any proposed remedies on any relevant customer benefits expected to arise from the merger.