

## Summary

1. Sportech plc (Sportech) is the largest football pools operator in the UK, with a share of around 75 per cent, split between its Littlewoods (70 per cent) and Zetters (5 per cent) brands. Vernons, part of Ladbrokes plc (Ladbrokes) accounts for almost all the remaining share of UK football pools sales. Brittens Pools Ltd (Brittens) is the only other UK pools operator apart from Sportech and Ladbrokes (the parties), and has less than 1 per cent share of supply by turnover. In 2006, more than 800,000 people played the football pools in the UK, together spending almost £80 million.
2. Sportech proposes to acquire, from Ladbrokes, Vernons Pools Limited and the assets constituting its football pools business, together with the entire issued capital of Vernons Games Limited, Vernons Trustee Company Limited and Vernons Financial Services Limited. In addition, Ladbrokes and Sportech will enter into arrangements for the distribution of football pools products through Ladbrokes' licensed betting offices. The proposed acquisition is a relevant merger situation over which we have jurisdiction.
3. The main product offered by Littlewoods, Zetters and Vernons is a weekly 'treble chance' football pool, in which players choose eight or more numbers from a set of 49, each of which corresponds to a football match to be played that week. Players are awarded three points for every match they select which results in a score draw (eg a 1–1 draw), two points for matches which result in a 0–0 draw, and one point for a home or away win. Players can increase their chances of winning by choosing more than eight numbers (the best eight count). Variations on this basic model are also offered. Demand for football pools fell sharply with the introduction of the UK National Lottery in 1994, and has been on a declining trend since then. The UK pools business is now at around 10 per cent of its size in 1994. Effectively it has gone from being a product with a broad customer base and widespread recognition, to one

which is largely confined to a niche of longstanding players (typically males aged over 50).

4. We considered a wide range of evidence as to whether UK football pools operators were in the same relevant market. We noted a range of evidence suggesting that they might be, including: similarities in the services supplied by the parties; demographic similarities in their customer bases; attempts by Vernons to target some of its marketing materials to Littlewoods customers; a number of customers playing both Littlewoods and Vernons pools; some documentary evidence that the parties regarded each other as competitors; and some survey evidence that customers would consider switching between the parties. However, we also noted that the weight of survey evidence, along with historical data on customer movements in response to a number of events, and a detailed analysis of customers who played the pools with both parties, all indicated that past switching between the parties (eg in response to price changes) had been limited, and that customers were unlikely to switch in large numbers in response to a price increase.
  
5. At this stage of our analysis, we left open the question of whether the football pools games of Sportech and Vernons were in the same market, and went on to consider whether either, or both, parties competed in a wider market. We first considered whether the National Lottery was a price constraint on the parties. Survey evidence indicated that the National Lottery was more likely to be seen as a substitute for football pools than any other gambling product or products. We noted that the parties' sales had declined rapidly when the National Lottery was introduced in 1994, and that almost 13 years later they were still in decline. However, we saw little evidence that the parties had responded to this by improving the value of their games to customers. On the contrary, the proportion of the Littlewoods pools paid out in prizes (the payout ratio) in early 2007, at between 20 and 25 per cent was substantially

lower than that in late 1994 (in comparison, Camelot is required to pay out 50 per cent of revenue from the National Lottery). Vernons' payout ratio is also between 20 and 25 per cent and fell substantially between 1998 and 2007.

6. We provisionally conclude that the parties were not constrained by the National Lottery or other specific non-pools gambling products. We took the view that, post-merger, Sportech's pricing decisions would be based on a desire to maximize profits without accelerating the rate of customer loss. Survey evidence shows that customers who stop playing the pools either save the money or spend it in a wide range of other ways. However, we considered that expanding the market definition to include all alternative uses of disposable income would not be appropriate. We therefore provisionally conclude, at this stage, that the market is no wider than the football pools.
  
7. We then considered the competitive effects of the merger. In particular, we considered whether the merger would remove a competitive constraint, so allowing Sportech to raise entry prices, reduce payout ratios, or reduce service quality or choice. In doing so, we considered the evidence mentioned in paragraph 4. In particular we noted that:
  - Two surveys of customers who had stopped playing with a football pools operator showed that very few had switched to playing with another operator; a further survey of current customers indicated that few customers would switch to an alternative operator in response to a small but significant price increase. A fourth survey indicated a degree of switching but, having regard to the respective merits and limitations of all four surveys, we considered that the balance of evidence did not support a view that customers saw alternative pools games as close substitutes.

- Analysis of historical data indicated that: at most, a small number of Vernons customers had switched to Littlewoods when Vernons closed its collector network in 1998; at most, a small number of Littlewoods customers switched to Vernons when Littlewoods increased its prices in 1999; and there is no evidence that marketing initiatives by either party have led to a substantial number of customers switching between the parties. This last point was also confirmed by our own detailed analysis of the parties' customer lists.
8. We provisionally conclude that customers do not view the pools products of Littlewoods and Vernons as close substitutes, and that therefore the merger would not remove a substantial competitive constraint. Given our view that the market is no wider than the football pools, this implies that the Littlewoods and Vernons pools are either operating in two separate markets, or that they are in the same market but not exercising substantial competitive constraint on each other.
  9. We therefore provisionally conclude that the proposed merger will not give rise to a substantial lessening of competition in any market for goods or services in the UK.