

3 The off-course betting market

The regulation of betting offices

3.1. Betting offices were first legalised by the Betting and Gaming Act 1960 following the recommendations of a Royal Commission on Betting, Lotteries and Gaming which reported in 1951. While the change in the law permitted betting offices to be opened these were from the outset closely controlled under the legislation, which was consolidated in the Betting, Gaming and Lotteries Act 1963 (the Act). The licensing and other requirements relating to the conduct of betting offices under the legislation have had an important effect on how the off-course betting market has developed in the years since legalisation of betting offices. Throughout most of the period the requirements relating to the conduct of betting offices have remained largely unchanged and it was only in 1986 that certain relaxations were made.

3.2. Under the Act anyone who is a bookmaker on his own account must hold a bookmaker's permit. Application for a permit in England and Wales must be made to a committee of licensing magistrates in each of the Petty Sessional Divisions (PSDs), the administrative areas for licensing purposes. In Scotland application is to a licensing board. Applicants for a permit must be at least 21 years of age, resident in Great Britain or in the case of a corporate application be incorporated in Great Britain, and the applicant must not be considered of unsuitable character to hold a bookmaker's permit. A person holding a bookmaker's permit can accredit another as his agent to act as a bookmaker and this person must hold a betting agency permit. The Totalisator Board is also permitted to act as a bookmaker.

3.3. In addition to the licensing of persons operating as bookmakers by means of the bookmaker's permit, individual premises being used as betting offices must be licensed. However, once an individual holds a bookmaker's permit he may make applications for any number of betting office licences. The granting of betting office licences is also the responsibility of the licensing magistrates in each PSD in England and Wales, and the licensing board in Scotland. Application for a licence is made to the court in the PSD where the betting office is located. The licensing committee must ensure that the statutory requirements relating to the premises and access to them are satisfied and that the applicant is the holder of a bookmaker's permit or betting agency permit. There are, however, three discretionary grounds under the Act on which it may refuse a licence. These are that:

- (a) having regard to the layout, character, condition, or location of the premises, they are not suitable for use as a licensed betting office;
- (b) the grant or renewal would be inexpedient having regard to the demand for the time being in the locality for the facilities afforded by licensed betting offices and to the number of such offices for the time being available to meet that demand; and
- (c) the premises have not been properly conducted under the licence.

In addition to the requirements for the licensing of betting offices the Act also stipulates rules for the conduct of betting offices and the nature of the advertising which is permitted.

3.4. The rules for licensed betting offices cover a number of aspects of the operation of betting offices designed to control their conduct, and to prevent persons who would not otherwise be there

being attracted into the premises. Under these rules as originally adopted betting offices were not permitted to provide any refreshments and could not show televised racing. This strict regime was, however, relaxed to some extent in 1986 by an Order amending Schedule 4 of the Betting, Gaming and Lotteries Act 1963. Sound and television coverage of sporting events and the broadcasting of information on sporting events upon which transactions are taking place are now permitted. This has led directly to the televising of races by SIS which are shown in individual betting offices taking the SIS service (see paragraph 3.10 for further details). Furthermore, soft drinks and certain types of snack may now be sold in betting offices.

3.5. Under the restrictions on advertising imposed by 1963 Act, whilst advertisements placed inside a betting office (and not visible from outside) are not restricted as to their content, advertising visible outside a betting office, which is allowed only in the immediate vicinity of the betting office,¹ is limited in content effectively to wordless visual displays which contain no moving display or image.

3.6. The opening hours of betting offices are also restricted under the Act to 7.00 am to 6.30 pm Monday to Saturday, with no opening permitted on Sundays. The bookmakers have been seeking an extension of the permitted opening hours in the evening and a change in the law to permit Sunday opening of betting offices.

Bookmakers' services

3.7. The service provided by bookmakers to customers is to accept bets on various different sporting and occasional non-sporting events, subject to public demand and suitability. Horse racing and greyhound racing are by far the most significant sports for betting purposes and soccer the most popular of the non-racing sports. Prices are also offered on a wide range of other sporting events such as golf, rugby, cricket, snooker, darts, tennis, American football, bowls, motor racing etc. Demand for betting on these sports is generally related to the extent to which they receive television coverage. Off-course bookmakers take cash bets at betting offices and many also operate a credit betting and deposit-based business for account-holding customers. The latter business is described in more detail in paragraph 3.18.

3.8. In addition to their betting products (the bets on offer to punters) bookmakers apparently regard the facilities and services available inside their betting offices as an important aspect of what they have to offer customers. Since the liberalisation brought about in 1986 by the Order mentioned in paragraph 3.4, the range of services that bookmakers are allowed to offer has become a source for competition between bookmakers. The standard of comfort and facilities in betting offices varies but we have been advised that in general more attention is now paid by bookmakers to the quality of furnishing of their betting offices than a few years ago. This has led to improved standards of customers' comfort as they become more discriminating about the environment in which they place their bets and are thus encouraged to stay longer in the shops. The staff are also important in determining whether customers continue to use a particular betting shop. By improving betting offices bookmakers also hope to attract a wider class of customer, and encourage him to stay longer. Traditionally betting offices have been used on a regular basis by only a small percentage of the population. A survey undertaken for Mintel by the British Market Research Bureau in March 1988 showed that in the previous month only 5 per cent of respondents had bet on a horserace, other than the Grand National or the Derby, and only 2 per cent had bet on a greyhound race.

¹Specifically, either:

- (a) inside the premises but visible from outside (eg displayed in a window);
- (b) in premises giving access to a licensed betting office; or
- (c) attached to the outside of the betting office or of premises in which the office is situated.

3.9. Of all the facilities provided in betting offices, bookmakers consider television coverage of races accompanied by specialist race information the most important. Virtually all betting offices have an information facility provided until recently by one or other of the two specialist news services, Exchange Telegraph (Extel) and SIS. These services provide audio information on the betting markets, commentaries, results and general sporting news. Extel, which operated for some years, provided sound commentaries on races and information on the betting markets, results and general sporting news. Extel announced in January 1989 that it would be discontinuing the service on 30 June 1989. One other company has recently expressed interest in offering a competing satellite service.

SIS

3.10. In addition to the above-mentioned services SIS broadcasts live television pictures and commentaries covering each day's racing. A significant percentage of bookmakers now take the SIS service and in addition some provide their own private broadcast service as an 'overlay' to the SIS audio.

3.11. SIS also offers electronic text screen displays as an additional service to bookmakers. These provide customers with details of bets on offer, show prices (see paragraph 3.25) and other information relating to forthcoming racing events etc. The maximum number of text screens available under the SIS service is 12 but betting shops can have a smaller number. The major bookmakers do not take the SIS text service since they had already developed their own text systems prior to the introduction of the SIS service. They therefore use their own text in conjunction with their supporting audio service and the SIS service.

3.12. The introduction of the SIS service was the initiative of Ladbrokes, Grand Met (Mecca), Bass (Coral) and Sears (William Hill) who were unhappy with Extel's service and looked for a more sophisticated and integrated service than Extel was providing. These four companies, the Racecourse Association Ltd and the Horserace Totalisator Board (Tote) are the shareholders in SIS, the founding bookmakers at present holding the majority shareholding. The current shareholdings are as follows:

	%
Ladbrokes	27.745
Grand Met	19.085
Bass	19.085
Sears	19.085
Racecourse Association	10.000
Tote	<u>5.000</u>
	<u>100.000</u>

In the contract with the Racecourse Association, the four founding shareholders with bookmaking interests agreed to reduce their combined holding to 45 per cent. It is intended that Sears is no longer such a shareholder and has been accepted as an independent investor. The remaining three founder shareholders with bookmaking interests will, after the placing of shares on the market, retain a combined holding of 45 per cent broken down as follows:

	%
Ladbrokes	18.0
Grand Met	15.0
Bass	<u>12.0</u>
	<u>45.0</u>

The Racecourse Association's holding will remain unchanged; Sears has agreed to reduce its original holding to 12.86 per cent and the Tote will increase its original holding to 6 per cent, thus leaving 26.14 per cent to be placed with institutional investors.

3.13. The Chairman, Managing Director and Finance Director of SIS are independent members of the SIS Board in the sense that they are independent of the interests of particular shareholders. The Board also comprises a representative from each of the parent companies of Ladbrokes, Mecca and Coral and from the Tote and Sears. Until the placing of shares is complete, the Racecourse Association is entitled to appoint up to two representatives to the Board, who between them carry five votes (except in certain chiefly financial matters) on behalf of the Racecourse Association, the eight directors mentioned above having one vote each.

3.14. We have been told that the televising of races in betting offices has provided a significant stimulus to this form of betting. However, the cost of the SIS service has to be set against this higher turnover. The cost of the SIS audio, caption and live television service is £3,650 (plus VAT) per betting shop per annum. The cost of the audio, caption and television services with the maximum 12 text screen system is £6,950 (plus VAT) per shop per annum.

3.15. We understand that the impact of SIS in encouraging a larger volume of betting has been particularly significant for greyhound racing which had not previously been regularly televised by the BBC and ITV and did not therefore benefit from the stimulus to off-course betting which had resulted from televised horse racing. Although the latter could not previously be watched in the betting office customers could place a bet and then watch the race on television at home or in a pub or club.

Bookmakers' Afternoon Greyhound Services Ltd (BAGS)

3.16. Throughout the year the daytime National Greyhound Racing Club Ltd (NGRC) greyhound racing meetings are held especially for betting shops. These meetings are supplied by the track promoters under contract to BAGS. The meetings are normal meetings attended by the public and staged under the control of the track managements to the same standards as other greyhound meetings. Form for the daytime meetings is displayed in most betting offices on a spreadsheet comparable in scope to the information provided on track racecards. The original purpose of BAGS was to secure afternoon greyhound races on a fee-paying basis from the tracks when other racing was not taking place and thus enable betting in betting offices to continue. This was especially important in the winter when horseracing could be badly affected by the weather. Even before BAGS was introduced bookmakers would send representatives to afternoon greyhound meetings on those occasions when horseracing was cancelled due to the weather, and transmit the results back to the betting shops by walkie-talkie to enable betting to take place. But the off-course competition forced the tracks to close. BAGS has, however, become so popular that there are now regular BAGS meetings throughout the year. These are televised by SIS and shown in betting offices. Of the eight greyhound tracks with BAGS contracts five are owned and operated by companies which also own bookmakers: Ladbrokes with tracks at Crayford and Monmore; Bass (Coral) at Hove and Romford; and Brent Walker at Hackney. A sixth track at Newcastle's Brough Park is owned by Ladbrokes but leased to an independent operator.

3.17. BAGS is controlled by a Board of 12 directors, which prior to the William Hill merger with Grand Met included one director each from Mecca and William Hill. Following the merger the existing director from Mecca resigned so that the merged group would continue to have only one director on the Board. The BAGS Board also includes directors from Ladbrokes, Coral and a number of other smaller bookmakers. Most betting offices in the country take the BAGS service for which they are charged a fee by BAGS. The BAGS Board negotiates a fee with each of the participating racetracks for their provision of BAGS races and decides on the fee that it will charge betting offices for the service. BAGS is, however, a non-profit-making organisation. Much of the betting on BAGS races is on the BAGS computer forecast, of which details are given in Appendix 3.1. The NGRC put it to us that in some instances the forecast was operated unfairly, and that successive refinements of it had been to the punters' disadvantage. On this see paragraph 5.25.

Credit betting

3.18. In addition to cash betting through licensed betting offices all the major bookmakers and some others offer credit betting facilities to customers who hold accounts with them. Credit betting is not permitted in betting offices but credit account clients telephone their bets to the bookmaker's credit betting department. Bookmakers which also operate on-course will in addition take credit bets on-course from clients holding accounts with them. An on-course bookmaking presence is therefore important if a full service is to be offered to credit customers.

Types of bets

3.19. The types of bets offered by bookmakers on racing fall into three categories as follows:

- (a) single bets dependent on the outcome of one race;
- (b) multiple bets dependent on the outcome of two or more races; and
- (c) speciality bets where the bookmaker specifies the winning conditions relating to the particular named bet on offer.

3.20. Grand Met estimates that single bets account for 55 per cent of the value of bets taken, multiple bets for 39 per cent and speciality bets for 6 per cent. Specific types of single and multiple bets include:

- (a) Win betswwhich require the selection(s) to win the races.
- (b) Each way betswwhich involve betting both on the winner of the race and on the selected runner being placed (normally in the first three).
- (c) Forecast betswwhich require the first and second in a race to be nominated in the correct order of finish. Tricasts similarly require the first three in a race to be nominated in the correct order. The great majority of forecasts and tricasts are paid in accordance with a nationally accepted computer formula based on the starting prices (SPs) of the horses or dogs concerned. This formula was arrived at by a committee of bookmakers' representatives formed from members of various trade associations and is applied by all bookmakers. Details of the BAGS computer forecast are given in Appendix 3.1.
- (d) Jockeys' mounts and trainers' selected betswwhich are bets placed on the horses ridden by a particular jockey or the horses trained by a particular trainer.

3.21. There are many different speciality bets. These differ to some extent between bookmakers but they tend to be similar since a popular speciality bet introduced by one bookmaker will be copied by competitors. Specific speciality bets include:

- (a) Placepotwwhich requires six horse selections to finish placed in each of the six Placepot raceswinning bets are settled in accordance with the official Tote Placepot Dividend declared from the course.
- (b) Quartetwwhich requires four horse selections to finish first, second, third and fourth in any order. The return is calculated by multiplying the SPs of the successful selections and dividing by 24.
- (c) Super pluswwhich requires from four to eight horse or greyhound selections in separate races which are combined in Doubles, Trebles and Accumulators. A consolation single is paid on bets where the only successful selection is the first of the nominated selections.
- (d) Forecast Patent Pluswwhich requires two horse or greyhound selections in each of three races combined in Forecast Singles, Forecast Doubles and a Forecast Treble.

3.22. The most popular bets are single bets to win an event, followed by 'each way' bets and forecasts.

Betting odds

3.23. Ante-post prices are those offered by bookmakers prior to the day of a race and are used in particular for major horse and greyhound races and for betting on other sporting and non-sporting events. These prices are frequently advertised by bookmakers seeking to compete with prices offered by others. Grand Met estimates, however, that ante-post betting only accounts for 2 per cent of the total. Ante-post bets, especially those for well-known and publicised races (eg the Grand National and Derby), are frequently placed by customers who do not otherwise bet. One disincentive to ante-post bets is loss of the punter's stake should the selection on which the bet is placed be withdrawn from the race.

3.24. From the beginning of the day of a horse or greyhound race until about 1.30 pm or the first shows from the racecourse punters may also, at least for some races, bet at 'morning prices' offered by individual bookmakers. These are generally offered for the most closely contested races of the day where sufficient information on the form of the runners is known. The odds are determined by form experts employed by individual bookmakers who study the chances of the competing horses. When the overnight runner list becomes available the form experts take into account factors such as previous form, weight to be carried, jockeys, going conditions, possible fitness etc. They then convert their assessment of the chances to odds. Morning prices are offered by the major bookmakers and some smaller ones. Many small bookmakers cannot make the necessary assessment of form etc on which to set morning prices; some, however, can obtain a service from other bookmakers. In addition prices published by the major bookmakers in the morning newspapers assist small bookmakers in setting odds.

3.25. From the commencement of the on-course betting at the horse or greyhound racetrack before a race is due to start there are frequent shows in betting shops of prices reflecting the current on-course betting odds for that race. These are determined and transmitted by SIS. They are known in betting offices as board prices and at any point a punter may place a bet at the current board price. Bets placed at board prices, however, represent a small percentage of the total betting in most betting offices although we were told by both the Punters' Association and a major bookmaker that the number of bets taken at board prices had risen since the introduction of SIS.

3.26. Bets can also be placed in betting offices on horse and greyhound races at SPs. SP odds are determined at the racecourse when on-course betting has closed at the start of a race. One or more independent observers, normally representatives of the Sporting Life and the Press Association, present on-course, record the movements in prices offered in different parts of the principal bookmakers' ring throughout the period of betting prior to the race, lasting about 15 minutes. On the close of betting the two SP reporters meet to compare notes and agree on those prices that represent a consensus of the odds available for each horse at the time the race starts. The SPs will be reported either before the result of the race is known or immediately after. The result of the race and the SP for the winning and placed horses are then returned to SIS and the news agencies for transmission to the off-course industry and for general publication. About 75 to 80 per cent of off-course bets are made at SPs.

3.27. A further option for betting office customers is to place bets at Tote odds when these are available. The Horserace Totalisator Board operates Tote pools on all racecourses in Great Britain and offers a number of types of bet. Tote dividends to winners are returned by taking the total pool of money wagered and dividing by the number of units placed on the winning selections, after a deduction has been taken from the pool to cover the operating expenses and surplus. Tote bets are generally taken in betting offices but many off-course bookmakers impose limitations on the Tote betting that they will accept. Following the merger Mecca has extended the full Tote service to the William Hill betting shops which previously only offered a partial service. At the same time Mecca has applied limits for minimum and maximum winnings on Tote bets in William Hill offices which Mecca previously had in its own offices but which William Hill did not have.

3.28. In accepting bets bookmakers have a maximum limit on winnings which forms a condition of taking the bet. The three leading bookmakers have higher maximum limits on winnings than their smaller competitors. The Mecca/William Hill maximum is £250,000. Two smaller bookmakers who gave evidence indicated their maximum winnings as £50,000 and £100,000 respectively.

The bookmaker's margin and laying-off of bets

3.29. In taking bets on a particular race and over the longer term bookmakers seek to make a set margin as their trading profit. They will therefore endeavour to operate a balanced book for each race with their receipts exceeding liabilities and their profit margin guaranteed regardless of the outcome of the race. To achieve this bookmakers need to be aware of their potential liabilities. Grand Met advised us that Mecca and William Hill did this by means of a comprehensive monitoring process, whereby a picture is built up of money staked with the company off-course on the various runners in any race.

3.30. The weight of money placed in off-course betting on the various runners can be out of proportion to that which is placed on-course where the odds are determined. It may therefore be necessary for an off-course bookmaker to have the ability in the interests of balancing his book to influence the on-course market with a view to making the SPs more representative of the money being staked. To this end when the monitoring of the total betting on a race through their betting offices indicates that the amounts of money being staked on a race are significantly disproportionate to the odds being offered at the racecourse, the larger bookmakers may decide to enter the on-course betting market, a process commonly described as 'laying off' or placing 'office money'. The bookmaker's representative at the track will place such bets as are necessary to shorten the odds by the required amount. At larger meetings these hedging bets will frequently be split between different bookmakers to achieve the maximum impact on the on-course odds.

3.31. However, the extent to which a bookmaker can adjust the on-course odds by placing bets himself, and the size of the necessary bet to do so, will depend on the total amount of on-course betting on that race. Grand Met advised us that during the two years to September 1987 and September 1988 Mecca laid off bets in only 4.54 per cent of races covered by Extel and SIS and William Hill in 3.67 per cent of those races. In 1986/87 Mecca spent £620,338 laying off bets and William Hill £1,094,336. In 1987/88 the figures were £1,034,064 and £945,385 respectively.

3.32. Small bookmakers may hold accounts with larger bookmakers for the purpose of laying off bets when necessary. However, where only part of a bet is laid off with another bookmaker betting duty must be paid again on the bet, making this practice unattractive in normal circumstances.

The value of off-course betting

3.33. In the year 1 April 1988 to 31 March 1989 the amount staked with off-course bookmakers both at betting offices and credit bets on all types of bet was £5.2 billion. In 1986/87, the last year for which figures are available, the value of on-course betting was £0.5 billion, representing 10.4 per cent of the figure for off-course betting. Table 3.1 gives figures for the amount staked with off-course bookmakers for the United Kingdom as a whole for the years 1978/79 to 1988/89.

TABLE 3.1 Money staked with off-course bookmakers in the United Kingdom, 1978/79* to 1988/89*

	£ billion
1978/79	2.2
1979/80	2.8
1980/81	3.1
1981/82	3.0
1982/83	3.2
1983/84	3.2
1984/85	3.4
1985/86	3.7
1986/87	4.1
1987/88	4.4
1988/89	5.2

Source: HM Customs and Excise.

*1 April to 31 March.

The above figures include the value of credit bets which Grand Met estimates to have been roughly £250 million in total in 1988.

3.34. No precise breakdown is available for the value of off-course betting by sector (eg horseracing, greyhound racing etc). Grand Met did, however, provide the Commission with estimates of the share of betting taken by horseracing, greyhound racing and other sectors of betting. These are shown in Table 3.2.

TABLE 3.2 Estimates of the sectoral shares of off-course betting

	%
Horseracing	70-80
Greyhound racing	20-25
Others	0-5

Source: Grand Met.

3.35. A recent Mintel report¹ estimated that betting on horseracing accounted for 78 per cent of total betting shop turnover, greyhound racing for 15 per cent, fixed odds football 3 per cent and other betting for 4 per cent. Grand Met indicated that greyhound betting is more popular in Greater London than elsewhere and has, since the advent of SIS, enjoyed expansion at the expense of betting on other sectors during the last two years nationally.

Betting duty and levy

3.36. There is a general betting duty levied by HM Customs and Excise of 8 per cent of money staked on all off-course betting.² In addition there is a variable rate levy on betting on horseracing applied by the Horserace Betting Levy Board. This levy provides finance for the improvement of breeds of horses; the advancement or encouragement of veterinary science or veterinary education; and the improvement of horseracing.

3.37. The rate of levy varies with turnover and for the major bookmakers is approximately 1 per cent. The rates of levy are agreed each year by the Horserace Betting Levy Board and the Bookmakers' Committee, or in the absence of such agreement are determined by the Home Secretary. The Bookmakers' Committee is a statutory committee of bookmakers' representatives formed specifically to represent bookmakers in the determination of the amount of the levy. The committee is constituted by the Home Secretary but its members are appointed by the various bookmakers' trade associations. In practice bookmakers generally charge a standard 10 per cent on all bets which is described to customers as 'tax'. We were told that the higher rate of tax charged than the apparent amount of the general betting duty and the horserace betting levy is due to two factors. First, customers placing a bet have the option

¹Mintel Leisure Intelligence Report The Gambler 1988.

²General betting duty is charged and administered under the Betting and Gaming Duties Act, 1981 and the General Betting Duty Regulations 1987.

of paying the tax with their stake money or having a 10 per cent deduction from returns. The vast majority elect to pay the tax with their stake. As a result general betting duty is charged on the stake plus the tax charged. The effective rate of general betting duty is therefore 8.8 per cent on the stake money. Secondly, because betting is in the exempt category for VAT purposes bookmakers cannot recover the cost of VAT on their purchases by passing this on directly in VAT charged on bets. They seek therefore to recover these VAT costs in the overall tax charged on bets.

3.38. Table 3.3 shows the total revenue from duty on off-course betting for the financial years 1985/86 to 1988/89.

TABLE 3.3 Total revenue from duty on off-course betting for the financial years 1985/86 to 1988/89

	<i>£ million</i>
1985/86	296.6
1986/87	324.2
1987/88	355.0
1988/89	417.1 (P)

Source: HM Customs and Excise.

Note: P = Provisional.

Numbers of betting offices

3.39. According to Home Office betting licensing statistics there were a total of 10,307 betting office licences in Great Britain at 31 May 1988. This compared with a figure of 11,237 in 1983 and 12,812 in 1978. We understand, however, that the number of betting office licences exceeds the number of betting offices trading as such at any one time. This is due primarily to licences being granted on new premises to which a betting office business is to be transferred whilst there is still a licence in existence for the current premises. The licensing figures are also inflated to some extent by a number of licences relating to extensions to betting shops which are not in fact separate outlets. One estimate put the number of betting offices currently trading at 9,800. This should be borne in mind in looking at the Home Office figures. Table 3.4 shows the number of betting office licences in Great Britain for the years 1978 to 1988.

TABLE 3.4 Betting office licences in Great Britain, 1978 to 1988 (at 31 May each year)

	<i>Number of betting office licences</i>
1978	12,812
1979	12,475
1980	12,248
1981	11,993
1982	11,774
1983	11,237
1984	10,856
1985	10,633
1986	10,407
1987	10,384
1988	10,307

Source: Home Office betting licensing statistics.

Of the total of 10,307 betting office licences in Great Britain shown in the official licensing figures at 31 May 1988, 2,079 (20 per cent) were in Greater London. Other areas of particular concentration were the Strathclyde region of Scotland with 532, the West Midlands with 525 and Greater Manchester with 516. Nine licensing areas in Great Britain accounted for 50 per cent of all betting office licences. The numbers of betting office licences in these areas are given in Table 3.5.

TABLE 3.5 Licensing areas in Great Britain with the largest number of betting office licences

<i>Licensing area</i>	<i>Number of betting office licences at 31 May 1988</i>
Greater London	2,079
Strathclyde region	532
West Midlands	525
Greater Manchester	516
Merseyside	446
West Yorkshire	341
South Yorkshire	290
Lancashire	234
Lothian	196

Source: Home Office betting licensing statistics.

Bookmakers in the market

3.40. Home Office figures indicate that at 31 May 1988 there were just under 6,000 bookmakers' permits in force in Great Britain. Table 3.6 gives the numbers of permits for each of the years 1978 to 1988. The steady decline over this period has been due largely to acquisition of smaller firms of bookmakers by the larger bookmakers, with the result that fewer bookmakers own the betting offices in Great Britain.

TABLE 3.6 Numbers of bookmakers' permits in force in Great Britain in the years 1978 to 1988 (at 31 May each year)

	<i>Number</i>
1978	7,960
1979	7,881
1980	7,781
1981	7,576
1982	7,555
1983	7,291
1984	7,226
1985	7,065
1986	6,853
1987	6,328
1988	5,933

Source: Home Office betting licensing statistics.

Bookmakers' market shares

3.41. Ladbrokes is the largest bookmaker by number of outlets with a total of 1,814 betting offices in Great Britain, representing approximately 17.6 per cent of the total number of offices for which there are licences. William Hill and Mecca have a combined total of 1,582 (following disposal of 119 betting offices to Brent Walker in January 1989) representing 15.3 per cent of total figure for licences. Coral has a total of 906 betting offices representing nearly 9 per cent of licences. As indicated in paragraph 3.39, the number of betting office licences exceeds the number of betting offices trading at any one time. It has, however, been necessary to use the licensing figures in calculating the shares of outlets, which could mean that the market shares of individual bookmakers are slightly under- or overstated.

TABLE 3.7 Market shares of the major bookmakers, and other bookmakers as a group (by number of outlets) for Greater London as a whole and each of the PSDs in Greater London

PSD	Mecca		William Hill		Mecca/Hill		Ladbrokes		Coral		Others		Total number
	Betting offices	% of total	Betting offices	% of total	Betting offices	% of total	Betting offices	% of total	Betting offices	% of total	Betting offices	% of total	
<i>Inner London</i>													
City of London	10	42	4	17	14	58	4	17	4	17	2	8	24
East Central	51	35	15	10	66	46	16	11	3	2	59	41	144
North Westminster	14	24	11	19	25	42	13	22	5	8	16	27	59
South Central	50	35	12	9	62	44	18	13	16	11	45	32	141
South-Eastern	11	9	5	4	16	13	19	16	3	3	82	68	120
South-Western	22	19	18	16	40	34	34	29	9	8	33	28	116
South Westminster	22	33	17	26	39	59	17	26	8	12	2	3	66
Thames	35	25	8	6	43	30	27	19	18	13	53	38	141
West Central	22	23	23	24	45	48	17	18	7	7	25	27	94
West London	<u>14</u>	<u>13</u>	<u>32</u>	<u>29</u>	<u>46</u>	<u>42</u>	<u>22</u>	<u>20</u>	<u>9</u>	<u>8</u>	<u>32</u>	<u>29</u>	<u>109</u>
Total Inner London	251	25	145	14	396	39	187	18	82	8	349	34	1,014
<i>Outer London</i>													
Barnet	16	26	10	16	26	43	12	20	5	8	18	30	61
Brent	21	29	12	17	33	45	16	22	3	4	21	29	73
Ealing	7	10	11	15	18	25	10	14	3	4	40	56	71
Enfield	5	9	1	2	6	11	20	37	0	0	28	52	54
Haringey	17	26	2	3	19	29	25	38	1	2	21	32	66
Harrow	12	36	2	6	14	42	2	6	0	0	17	52	33
Hounslow	4	7	2	4	6	11	17	31	2	4	30	55	55
Hillingdon	7	17	1	2	8	20	7	17	0	0	26	63	41
Barking	4	11	0	0	4	11	2	6	17	47	13	36	36
Havering	1	2	0	0	1	2	9	21	7	17	25	60	42
Newham	18	23	0	0	18	23	17	22	4	5	39	50	78
Redbridge	2	4	1	2	3	6	8	16	4	8	35	70	50
Waltham Forest	6	9	1	1	7	10	9	13	3	4	49	72	68
Bexley	3	9	2	6	5	15	5	15	3	9	20	61	33
Bromley	7	16	8	18	15	33	3	7	0	0	27	60	45
Croydon	11	17	8	12	19	29	8	12	3	5	36	55	66
Kingston-upon-Thames	4	15	5	19	9	35	8	31	0	0	9	35	26
Richmond-upon-Thames	5	20	2	8	7	28	5	20	0	0	13	52	25
Merton	4	11	2	5	6	16	8	21	2	5	22	58	38
Sutton	<u>3</u>	<u>9</u>	<u>5</u>	<u>16</u>	<u>8</u>	<u>25</u>	<u>5</u>	<u>16</u>	<u>2</u>	<u>6</u>	<u>17</u>	<u>53</u>	<u>32</u>
Total Outer London	<u>157</u>	<u>16</u>	<u>75</u>	<u>8</u>	<u>232</u>	<u>23</u>	<u>196</u>	<u>20</u>	<u>59</u>	<u>6</u>	<u>506</u>	<u>51</u>	<u>993</u>
Total Greater London	408	20	220	11	628	31	383	19	141	7	855	43	2,007

Source: MMC from the betting licensing registers and information provided by individual bookmakers.

TABLE 3.8 Market shares of the major bookmakers, and other bookmakers as a group (by number of outlets) for the Glasgow Licensing District and Birmingham and Coventry PSDs

<i>PSD/licensing district</i>	<i>Mecca</i>		<i>William Hill</i>		<i>Mecca/Hill</i>		<i>Ladbrokes</i>		<i>Coral</i>		<i>Others</i>		<i>Total number</i>
	<i>Betting offices</i>	<i>% of total</i>	<i>Betting offices</i>	<i>% of total</i>	<i>Betting offices</i>	<i>% of total</i>	<i>Betting offices</i>	<i>% of total</i>	<i>Betting offices</i>	<i>% of total</i>	<i>Betting offices</i>	<i>% of total</i>	
Glasgow	37	18	25	12	62	30	50	24	23	11	74	35	209
Birmingham	25	12	14	6	39	18	44	20	29	13	104	48	216
Coventry	2	4	7	15	9	20	8	17	0	0	29	63	46

Source: MMC from the betting licensing registers and information provided by individual bookmakers.

Note: Ladbrokes was unable, in the time available, to check the figures for its company extracted from the licensing registers.

3.42. Individual bookmakers own a larger share of outlets in some areas of the country. As indicated in paragraph 3.39, there is a particular concentration of betting offices in Greater London. For Greater London as a whole Grand Met has the largest number of betting offices, 631 for Mecca and William Hill combined, representing 31 per cent of the total, followed by Ladbrokes with 383 betting offices, representing 19 per cent of the total. On the basis of the figures we have seen for a number of bookmakers in London the Mecca/William Hill share of turnover is likely to exceed its share of the number of betting offices by as much as 10 per cent. Table 3.7¹ gives details of the market shares (by number of outlets) of the major bookmakers, and other bookmakers as a group for Greater London as a whole and by each PSD within Greater London. Table 3.8¹ gives similar information for Glasgow, Birmingham and Coventry. A further analysis by postal district for certain of the Greater London PSDs and for Birmingham and Glasgow is contained in Appendix 3.2.¹

3.43. PSDs for the purposes of betting licensing in England and Wales and licensing districts in Scotland are the jurisdictional areas of individual licensing magistrates and may cover a larger area than that of a single magistrates' court for other purposes. The responsible authority in Scotland is the licensing board. There is variation in the size of PSDs and licensing districts and their boundaries do not necessarily reflect the basis on which betting offices compete. Therefore betting offices within different PSDs, and close to the boundary of each, will in practice be competitors although this is not indicated by the figures. However, the information on market shares by PSD does provide an indication of the overall level of concentration within a particular area.

3.44. Grand Met stressed to us the local nature of competition between bookmakers which is obscured by market share figures covering as wide an area as a PSD. It is Grand Met's view that competition between betting offices should be considered on the basis of a 440-yard radius from any betting office. This distance, we were told, is often taken by licensing magistrates in considering whether demand is being satisfied in a particular locality. We have identified a number of instances where the merger has eliminated competition within 440 yards of Mecca/ William Hill offices and this information is set out in Appendix 3.3.

3.45. By share of turnover of the off-course betting market William Hill had a national share of 13.9 per cent (at 31 January 1988) and Mecca 10.8 per cent (at 30 September 1988). Following disposal of the 119 betting offices to Brent Walker Mecca/William Hill had a combined share of industry turnover in the eight months to 31 May 1989 of 23.2 per cent. Table 3.9 gives the market shares of the major bookmakers by turnover in 1988/89; together they account for almost 60 per cent of the industry's turnover.

TABLE 3.9 Market shares of the major bookmakers by turnover in 1988/89

	%	
Mecca (at 30 September 1988)	10.8	} 23.2**
William Hill (at 31 January 1988)	13.9	
Ladbrokes* (at 4 April 1989)	[§]	
Coral* (at 6 April 1989)	[§]	

Source: Individual bookmakers/HM Customs and Excise betting duty figures.

*MMC calculations from individual bookmakers' turnover figures and HM Customs and Excise figure for money staked.
 **Combined Mecca/William Hill market share based on eight months' turnover (excluding 119 betting shops sold to Brent Walker) to 31 May 1989.

¹ These tables have been compiled from information contained in the Betting Licensing Registers for individual PSDs and the Glasgow Licensing District which has been checked for accuracy with Mecca/William Hill, Ladbrokes and Coral. It has not, however, been possible to check the accuracy of the information contained in the licensing registers with other bookmakers who are included in the 'others' category.

§ Figures omitted. See note on page iv.

The nature of competition between bookmakers

Price competition

3.46. Since betting at SPs dominates betting in betting offices, and SPs are the same for all betting offices, the extent of price competition between different betting offices is significantly reduced.

3.47. There is, however, competition between bookmakers on ante-post betting, morning prices and speciality bets. The competition consists of offering original and attractive speciality bets not available from other bookmakers and special offers such as a percentage addition to winnings on certain types of bet or paying winnings on bets on particular races placed at morning price odds at SP should this in the event prove more favourable. Another form of price competition about which we were told is the occasional practice of some smaller bookmakers of reducing the rate of tax charged for a specific period of betting before a particular race in order to attract punters to their offices. However, we were also told that the larger bookmakers will often respond to such offers by offering even larger incentives which discourage the small bookmaker from offering such promotions.

3.48. Marketing promotions and newspaper advertising incorporating the offer of free bets, sometimes linked to sales of other products, such as beer and spirits, or as prizes in competitions run by a newspaper, have also been used by bookmakers including Mecca. Free bet promotions are also operated inside betting offices. The Home Office has expressed concern to the bookmakers about some of the advertisements and promotions involving free bets which may encourage the non-betting public to start betting. Particular concern relates to free bets provided with other goods or services, or placed in or advertised in newspapers, which the Department considers contravene the spirit of the Betting, Gaming and Lotteries Act 1963 which is intended to prevent the demand for betting being stimulated by advertising. A proposal for a voluntary code to refrain from certain advertising practices has not been pursued, as that was found possibly to infringe the restrictive trade practices legislation. The Government remains firmly of the view, we were told, that the demand for betting should not be stimulated by advertising, and the betting industry has been informed that further complaints about particular advertisements received by the Home Office will be referred to the Crown Prosecution Service.

3.49. In addition to competition between bookmakers on prices at a national level there may also be special offers at individual betting offices. Such offers are used in particular to match or better local competitors' similar offers. Free bets may also be used in individual betting offices and in particular will often be employed to attract punters to newly-opened offices.

Facilities and services

3.50. Since the price competition between betting offices is so limited because of the dominance of bets placed at SPs, the majority of customers, about 80 per cent, according to Grand Met and others, use the betting office which is most conveniently situated to where they live, work, shop or socialise. Bookmakers also, however, compete for business through offering improved facilities and services in their betting offices. The changes in the betting legislation in 1986 have encouraged bookmakers to improve the standards and comfort of betting offices, and awareness of the need to do so in order to compete with other betting offices would appear to have grown. Competition on facilities has developed conspicuously in the field of customer information technology. Grand Met told us that for a time Mecca was alone in this area but has been copied by every other major company and the technology is available through SIS even to independents with only one office. Further research and development of systems is being undertaken by Mecca/William Hill.

3.51. Customer service is also an important element of competition for credit business. Over the last two years both Mecca and William Hill, we were told, have offered their customers telephone calls at the local rate, wherever they are phoning from, with the company paying the excess. Credit customers can also receive commentaries if they wish to remain on the telephone after they have placed their bets. Advertising is directed at credit customers particularly through the Oracle teletext service.

Advertising

3.52. As indicated in paragraph 3.5, advertising by bookmakers is strictly regulated under the Betting, Gaming and Lotteries Act 1963. The main effect of these restrictions on national and local newspaper advertising and poster advertising etc by bookmakers is that details cannot be given of individual betting offices. It is the common and permitted practice with such advertising to include the credit betting telephone number. The smaller bookmakers regard the restriction on giving details of individual betting shops as bearing much harder on themselves than on their larger competitors, who have many more betting offices spread throughout the country. A potential customer reading an advertisement will have much less difficulty in identifying the nearest branch of the bookmaker concerned when this is one of the well-known firms of bookmakers with a large number of betting offices.

3.53. Most advertising by bookmakers is in the sporting press, mainly giving details of the prices they offer for various events and any special concessions that they may be offering at a particular time. Some will also venture into local newspapers and possibly take advertising space on local football ground hoardings. The remainder of their advertising will be directly to customers internally within the branch betting office.

3.54. Grand Met told us that Mecca and William Hill advertise daily in the Sporting Life and the Racing Post, as do other large bookmakers. These advertisements contain their latest market offers for ante-post prices on forthcoming races and the important events taking place on the day. They also advertise at certain times in the national daily newspapers particularly when there is a major event taking place, such as the Grand National, the Derby or the FA Cup Final. The other major bookmakers undertake similar advertising.

3.55. Both Mecca and William Hill make extensive use of teletext services to advertise their prices and offers, including the Mecca Teletext Guide which appears daily for at least one race meeting and allows prospective clients to see the pattern of betting which is taking place at the racecourse on their own home or office television.

3.56. Mecca, like other large bookmakers, has also in recent years advertised its name actively by way of posters on the roadside, on buses, in the underground and on racecourse advertising hoardings. Hoardings are occasionally used for special matches at first division football grounds. None of these, however, may by law contain details of betting offices and their facilities and they are intended to enhance 'name awareness'.

3.57. Mecca and William Hill occasionally promote special competitions in local and national newspapers. These are again intended to increase name awareness and offer prizes for winning contestants such as days out at the races.

3.58. Internally, within betting offices the main method of advertising is through information displayed on text screens although manual boards are also used to cover events for which there may be no space available on the screen or events of a local betting nature. Other internal advertising occurs through special notices and posters which are from time to time printed and distributed for display in betting offices. These are particularly used at the time of the introduction of new special bets. The

Mecca and William Hill advertisements which appear in the two sporting daily papers are displayed in all their offices.

3.59. In addition to advertising, sponsorship of sporting events is important for bookmakers. Mecca and William Hill together are now the largest sponsors of horseracing in the United Kingdom. They also have an extensive sponsorship commitment to greyhound racing. This sponsorship takes the form of financial contributions for specific horse and greyhound races. Another form of sponsorship has been of television programmes relating to horseracing, soccer and American football in conjunction with the fledgling cable services.

Restrictions on competition

3.60. The provisions of the Betting, Gaming and Lotteries Act 1963 relating to bookmaking and betting offices deliberately restrict certain aspects of competition between bookmakers with the intention of discouraging any significant growth in betting and new individuals from being attracted to start betting.

3.61. The licensing arrangements described in paragraphs 3.1 to 3.4 may form some restriction on individuals entering bookmaking and on the setting up of new betting offices. This can be so particularly if the magistrates' licensing committee, in deciding whether to grant a new licence to establish a betting office, exercises its discretion to consider whether or not there appears to be sufficient demand within the potential catchment area of the new betting office to justify granting a licence. The extent to which this discretion is exercised is not known but where it is exercised it is necessary for someone wanting to establish a new betting office to demonstrate the existence of unfulfilled demand in the locality of the proposed office. The legislation also defines how betting offices may be conducted and advertised.

3.62. As noted in paragraph 3.44, Grand Met told us that in judging demand for a new office, the Licensing Committees tended, at least in the most populated areas, to use as a rough yardstick a radius of a quarter of a mile.

3.63. A further restriction on competition that existed in the early to mid-1970s but which was found to be illegal and has since ceased consisted of agreements between individual bookmakers on the reciprocal closure of betting offices. The purpose of these agreements was to close marginal betting offices at a time when there was considered to be overcapacity in the sector. These were, however, found by the Restrictive Practices Court in October 1986 to be against the public interest and by an order of the Court the bookmakers concerned were required to provide undertakings that no such agreements would be entered into again. These undertakings were given.

New entry to bookmaking

3.64. In the year 1 June 1987 to 31 May 1988 there were a total of 483 new applications in Great Britain for bookmakers' permits. Of these applications 451 resulted in the granting of permits. There were only eight refusals, the remainder being accounted for by withdrawal of applications and similar situations. In Greater London there were 44 new applications for bookmakers' permits, of which 38 resulted in the granting of permits. There were only two refusals. It is not known, however, how many of those granted permits went on to establish or acquire betting offices.

3.65. New applications for betting office licences for Great Britain as a whole totalled 1,411 for the same year but this figure includes a significant number of new licences relating to existing betting offices changing ownership. Applications for licences for new offices are not separately identified and therefore we do not know the number of licences granted relating to new betting offices. Of the total new licence applications there were only 55 refusals, although a rather larger number of applications were withdrawn. For Greater London there were 221 new applications for betting office licences which in the case of 169 led to the grant of licences. There were 14 applications refused.

3.66. The biggest hurdle for an applicant seeking to open a new betting office can be the need, where the licensing committee requires it, to demonstrate unsatisfied demand in the locality where he wishes to site the betting office. Since in many areas there are a number of existing betting offices this is often difficult to demonstrate. It is therefore more usual for entry to the sector to be by acquisition of an existing betting office, or offices, rather than by establishing new premises since it will be much easier to obtain a betting licence by taking over an existing betting shop. However, no comprehensive information is available as to the extent to which, or manner in which, licensing authorities apply the unsatisfied demand criterion.

3.67. The process of applying for a licence can involve significant legal costs. Applicants may require legal representation to present their case. This may be especially necessary where there is considerable opposition to an application from competing bookmakers who themselves employ legal, surveying and other experts to present their case. We were, however, told that a bookmaker presenting his own case can achieve a successful outcome to a licence application and without incurring any significant legal or other costs.

3.68. In addition to the licensing controls on new betting offices entry to the sector depends on either finding suitable new premises for a betting office which offer the opportunity of sufficient business, or acquiring an existing betting office or offices. In areas where property prices are high the potential turnover from a betting office must be sufficient to justify the cost of purchasing or leasing premises. Furthermore, the existing major bookmakers and other bookmakers are in competition to obtain the best available sites for betting offices and to acquire existing betting offices and bookmaking firms. This tends to increase the price of the best sites, and in particular existing betting office premises, where there is not the same uncertainty regarding obtaining a licence. It is therefore generally the case that the best offices that come on to the market will be acquired by one of the leading bookmakers. Although it is necessary, when a betting office changes ownership, for the new owner to apply for a licence we understand that in practice this is a formality since Licensing Committees will always approve licences for existing premises to a new applicant holding a bookmaker's permit.