

5 The views of Grand Metropolitan

Purposes and expected consequences of the merger

5.1. Grand Met told us that there were four principal reasons for its acquisition of William Hill. First, the two firms were complementary, its own subsidiary Mecca being strong in the South-East, with advanced technical expertise and an experienced management team, and William Hill having a strong provincial base, with an established credit and on-course business and a marketable name. Secondly, their respective strengths would benefit the customer across the range of services provided. Thirdly, through wider geographical coverage, the merged company could compete better to counteract the dominance of Ladbrokes. Fourthly, there would be economies of scale, giving increased overall profitability; Grand Met estimated this very broadly as £6 to £7 million the City had said £10 million. The benefits of synergy would include better services and facilities and more capital expenditure, which was necessary particularly for the improvement of the William Hill estate. Benefits in day-to-day betting operations would be modest but the company intended to redraft the rules to try to get the best from both companies' sets of rules.

5.2. The company intended to take advantage of the more open and competitive services market now developing in Europe, though there was historically a different attitude to gambling there. It would also expand into North America, where it would be better equipped following the merger to compete with Ladbrokes, which already had a strong footing there. Grand Met had already started a pilot operation in Malaysia.

Effects of the merger on competition in off-course betting

5.3. Grand Met took the view that the merger would encourage competition, rather than restricting it, for two reasons. It would be much better fitted to challenge Ladbrokes' hitherto uncontested position of dominance throughout the country; and by competing on nearly equal terms, it would be able to push the entire industry in the direction of better services and facilities, and thus move it up-market in the eyes of the public. It was misleading, in Grand Met's view, to see the merged company's large share of betting offices in the London area as indicative of a loss of competition: the relevant market was much more limited than that (see paragraphs 5.12 to 5.14).

5.4. Grand Met believed that competition with Ladbrokes throughout the United Kingdom would become more important in the next decade or two. There would be a stronger movement towards credit betting, which was intensely competitive, and for which Mecca's customer base was still relatively small. William Hill's on-course representation would be essential, in this context, because credit customers like to be able to place bets there. On the off-course betting side, there were already signs that Ladbrokes was responding to the merger, by stepping up its search for betting office sites.

5.5. It was wrong to suppose that Coral (Bass' betting subsidiary) was likely to be left behind as a poor third by the merger. It had no such intention, and was steadily increasing its estate. Some of the medium-sized chains were also a force to be reckoned with, such as A R Dennis, E Coomes around London and Stanley Leisure in the North. There might have been more small and medium-sized companies in the business five years ago, but those which remained were stronger and more effective.

5.6. Grand Met pointed out that outside London there were few places in which the merger had produced a significant concentration of Mecca's and William Hill's off-course betting business. Generally speaking, the position was that there were two separate estates, and they overlapped relatively little. In most towns one of the Big 3 was prominent, or perhaps an independent, and the remainder were absent or not significantly represented. In this respect, the merger brought no change.

5.7. We put it to Grand Met that there had been some evidence of collusion within the industry some years ago, over the closure of betting offices, and that intensive competition between two dominant market leaders today might lead to collusive behaviour again. Grand Met could not see what advantage there could be in such a course of conduct. As already stated, the independent bookmaker was much stronger and more able to offer effective competition today, through the benefits of technological development, in particular the advent of SIS. Besides Grand Met asserted that the big companies stood further apart from each other than was characteristic of British business generally; they were not intrinsically friendly.

5.8. Grand Met accepted that there might be cases where the merger would reduce the choice of betting shops available to the public, but claimed that generally speaking if the customer did not like a Mecca/William Hill shop, there was still an alternative available (see paragraph 5.15). It hoped that the net effect would be that the customer got the benefit of William Hill plus, or Mecca plus, as the case might be.

Effect of the merger on credit betting

5.9. Grand Met estimated that the merged company would have less than a quarter of the credit betting market. The merger would have little effect: barriers to entry into this market were low, since only a bookmaker's permit, an office and a telephone were needed, and the competition for customers was intense. There were several benefits, notably the services of the merged company's newly developed centre in Leeds which of course would be to the advantage of the merged company over the whole range of its activities, through centralisation and nationalisation.

Dominance of the bookmaking industry by the majors

5.10. Grand Met accepted that a lot of concentration had taken place over the years, and that the dominance of the big bookmakers was likely to increase in future. Essentially this was due to independent bookmakers capitalising on their businesses, in a climate of fierce competition amongst all bookmakers to acquire good sites. The big companies would continue to take advantage of this, but the independents would not die away. There was a different type of competition, since they had much more autonomy and flexibility, to beat the opposition by making special offers etc, than the managers of the Big 3's shops could have.

5.11. For the big companies, competition was a matter of the facilities provided and the attitude and quality of staff. Overall, the important factors in attracting the public to a given betting office were, in order, its location, the presence of SIS, staff attitudes and training, and the facilities generally. Mecca had led the way in the latter connection, including shop design and technology, where William Hill had in recent years spent a good deal less.

The definition of the market

5.12. While Grand Met stressed the importance of the merger in enabling it to compete at the national level, it considered that the off-course betting market as such was entirely local in nature. This was because the great majority of customers (some 80 per cent, according to Grand Met) used the betting office most conveniently situated for them at the time they wished to bet, and because the statutory restrictions on advertising prevented customers from knowing what services and facilities there were until they were inside the office. Moreover, the statutory rules for betting office licensing dictated an individual approach based upon the demand for offices in any single locality (and not on broader considerations of competition). The Licensing Committees generally adopted as a yardstick a radius of a quarter of a mile in their determination of demand.

5.13. Grand Met explained that there were plenty of cases where new premises had been allowed within a quarter of a mile radius; it was only a rough and ready test. In practice, if there were no other betting offices within the radius, there would be no problem over a new applicant's getting a licence. But when there were competing bookmakers within it, a new applicant would have to work harder at his case to convince the Licensing Committee that the demand existed. Grand Met said that, in such circumstances, it would tend itself to object formally to the granting of a new licence within the radius and it had to do so quite often. But it would look carefully at each case and if it did not expect a detrimental effect on its business, it would not oppose the application.

5.14. Arguing from these considerations, Grand Met claimed that it was only realistic to look at apparent concentrations of betting offices following the merger from the same standpoint of individual localities, and not from some more arbitrary standpoint such as the percentages of betting offices owned by one company in a given PSD. Those areas were much too large so that in practice they were no more use than the much larger regional areas used in the Home Office statistics (eg Greater London, Avon or Strathclyde) and they could lump together districts which were far apart and had no relation to each other, and which therefore were of no relevance in considering the consequences for competition.

5.15. Grand Met noted that in disposing of 119 betting offices in Greater London and the South-East to Brent Walker, it had taken specific account of individual instances in which Mecca and William Hill premises were in direct competition with each other and whether there was adequate competition in the area. It pointed out that following those disposals, there were a few instances where there were Mecca and William Hill shops in the same locality (ie within a quarter of a mile of each other) and where there was no other competition in that locality.

5.16. Grand Met accepted that there were special considerations in the City of London and the West End where property prices were extremely high and property owners were often only interested in public company tenants, so that individual bookmakers did not get much chance to compete. But that was a feature of the property market, not the betting market. Moreover, competition still subsisted between the major companies in these areas. In other areas, Grand Met pointed to situations in which its offices were extremely small, and it was justifiable for them to be bunched together.

New entry to the market

5.17. Grand Met pointed out that several small chains had started advertising in the sporting press recently. It conceded that the stronger the company the easier it would be to secure prime sites, but stressed that this consideration was only material in major city centres. While it might be difficult for a company starting from scratch to build up to nation-wide representation, there were several examples of groups expanding, so demonstrating the possibility of achieving regional strength.

5.18. While a few specific areas posed difficulties for the individual independent operator, there were very good betting areas, like Wandsworth Bridge Road, Seven Sisters Road, Islington and Highbury, where he could acquire main road sites and obtain licences for them.

Starting prices

5.19. We questioned Grand Met about the laying off of bets taken off-course with 'office money' staked on-course, in case an effect of the merger might be to enable it significantly to affect the market in this way. Grand Met explained that the object was not to recover enough (by a win) to meet one's liabilities in the betting shops, but to bring the odds on-course into line with those which appeared from the betting in the off-course betting shops to be the true odds. By those means, the SP would reflect the odds on- and off-course most truly. It was evident that the reduction of liability on one horse could increase the liability on others in the race; but Grand Met denied that that consequence could be avoided by putting the office money on at the last possible moment. In any event, there were few occasions on which it was worth doing, the test being a clearly defined unbalanced book with unacceptably large business risks. In the last couple of years Mecca and William Hill had each hedged in fewer than 5 per cent of races covered by Extel or SIS, and their average stakes were around £2,000.

5.20. We asked Grand Met whether it would not be possible, given the advanced state of communications technology today, to replace the present artificial SP system with a system under which the major bookmakers made their own markets on the basis of the money they were taking on- and off-course, credit and cash. Grand Met replied that the SP was accepted universally and without question, and historically became the price at which the horse had run. No single bookmaker's price could carry that authority. There had been a move towards that position some time ago, but it had failed comprehensively. In sum, Grand Met did not consider that the merger gave it any advantage in relation to the operation of the SP system.

Satellite Information Services

5.21. Grand Met said that the merger had not had and would not have any effect at all on the operation of SIS. When it acquired William Hill from Sears it did not acquire the latter's shareholding in SIS.

5.22. Grand Met explained that the inspiration for SIS had come from Mecca, and the major bookmakers had been instrumental in its development. This had been inevitable, in view of the expense involved and the attitude of the racecourses in insisting that negotiations for the establishment of the service should be on a wholly arm's length basis. However, when the company was eventually floated on the market in a few years' time, there would be an opportunity for small bookmakers to become involved. Meanwhile, Grand Met assured us that Sears' shareholding should be regarded as a portfolio investment, not carrying any bookmaker's interest. Moreover, SIS's management and operations were wholly independent of its major shareholders and only one of the eight-man executive team (the Racing Director) had previous experience of bookmaking. It had been agreed with the Racecourse Association that the bookmakers' representatives would always be in a minority on the Board.

5.23. Grand Met told us that SIS had set up a consultative committee including all the trade associations in the industry. It could make requests about the content of programmes, and its wishes had invariably been granted.

Bookmakers' Afternoon Greyhound Services

5.24. We questioned Grand Met about the prevalent belief that the big bookmakers gained an unfair advantage from a situation in which they might be at the same time owners of racetracks, providers of races at those tracks through BAGS and bookmakers taking bets on the races in their off-course betting offices. Grand Met pointed out in the first place that neither Mecca nor William Hill owned any racetrack at which BAGS races were run, and that in any event the merger would not change the actual position. Grand Met did not see that there was any opportunity for gaining an advantage in the situation. It mentioned that while previously Mecca and William Hill had each had a representative on the 12-man Board of BAGS, now there was only one. The nine independent bookmakers on the Board were not influenced or intimidated by the views of the big companies.

5.25. Commenting on assertions that returns from the BAGS computer forecast (paragraphs 3.17 and 4.11) had been reduced over the years by changes in the formula, Grand Met told us that over the 18 months to 20 May 1989 the forecast gave a gross retention of 21.4 per cent from the total amount staked, against 22.7 per cent on horseracing forecasts; the comparable gross retention on BAGS greyhound win and each way bets was 20.7 per cent. If one added a notional 8 per cent to the Tote's on-course forecasts to allow for tax not being payable on the latter, it would be the equivalent of a retention of 25.5 per cent. Grand Met said that the actual percentage retained on BAGS forecasts was less than the gross percentage aimed for when the forecast was first devised, which had been a theoretical 24.2 per cent.

Possible remedies

5.26. Grand Met pointed out that the effect of divestment of all the William Hill offices that remained in its ownership, on grounds of excessive concentration of the industry in the country as a whole, would be to enshrine Ladbrokes as double the size or more of all its principal competitors. No company could in future hope to compete, whether in off-course betting or in the credit betting market. Grand Met denied in any event that the adverse consequences of concentration, if any could be shown, could have arisen or be expected to arise from the merger.

5.27. We discussed with Grand Met a possible approach based upon local concentrations of betting shops within the areas of PSDs and postal districts, focusing chiefly on the London area. Grand Met provided us with maps of the Inner London PSDs, showing the location of Mecca, William Hill, Ladbrokes, Coral and independent bookmakers. While regarding an approach based on PSDs or postal districts as a step in the right direction, Grand Met argued that it was unrealistic to claim that a high concentration of one group's betting offices in a PSD, or even a postal district, was evidence of a lack of competition. It was inappropriate because different areas within a district (eg Wandsworth Bridge Road and Wormwood Scrubs) were not areas remotely in competition with each other.

5.28. Even on a more local scale, Grand Met pointed out that a major trunk road, railway or canal might cut in two what otherwise might seem an area confined enough within itself to be treated as distinct in the determination of the potential competition.

5.29. Grand Met believed that if a case were to be made for any disposals on grounds of lack of competition, it would be necessary to look at each instance where a previous William Hill office was within, say, 440 yards of a Mecca office, and the location of any neighbouring offices under different ownership. From one point of view, Grand Met argued that this situation should not be taken as a reduction in the competition locally, because in actuality the result would be that both shops now under Grand Met's control would be offering all the facilities and services previously offered by both William Hill and Mecca; choice had been widened. However, Grand Met also recognised that since the merger it was being less successful in opposing applications for new betting office licences. It concluded from this that the licensing committees were very likely to grant an application in any case where two neighbouring Mecca and William Hill offices faced no immediate competition or competition from only one other neighbouring office. Although the argument had to be made to the Licensing Committees in terms of unsatisfied demand, they certainly took account of the nature of the competition.

5.30. Grand Met had said, at the time of the announcement of the purchase, that it proposed to divest a number of licensed betting offices. It had already disposed of 119 offices, and had in mind a further 21 in London alone. Grand Met said that it would be prepared to dispose of any offices where competition had been removed. Taking account of the disposals in London and others planned elsewhere, Grand Met said that its total holding of licensed betting offices might fall to between 1,400 and 1,500, against the 1,582 held at the present moment.