

6 Conclusions

The merger situation

6.1. Under the reference dated 24 April 1989 (made under sections 64 and 69(2) of the Fair Trading Act 1973 (the Act), we are required to investigate and report whether a merger situation qualifying for investigation has been created in that enterprises carried on by, or under the control of, the William Hill Organisation Ltd (William Hill) have, within the six months preceding the date of the reference, ceased to be distinct from enterprises carried on by or under the control of Grand Metropolitan plc, incorporated in the United Kingdom (Grand Met). For this purpose, the terms of reference require us to consider the test specified in section 64(1)(b) of the Act, namely whether the value of the assets taken over exceeds £30 million, and to exclude from consideration paragraph 64(1)(a) of the Act (the 'market share test').

6.2. As was noted in paragraph 2.14, Grand Met completed the purchase of William Hill from Sears plc (Sears) on 16 December 1988. As explained in paragraph 2.23 and Appendix 2.5, the value of the assets taken over exceeded £30 million.

6.3. We accordingly conclude that a merger situation qualifying for investigation has been created. We have therefore to investigate and report whether the creation of that situation operates or may be expected to operate against the public interest.

6.4. Subsequent to the merger (and before this reference was made), Grand Met sold 119 betting offices to the Brent Walker Group plc (Brent Walker) including 34 that were formerly part of William Hill. We understand that this disposal has been completed, and is unconditional; and we have taken the consequences of this disposal into account in assessing the effects of the merger. A number of further disposals are planned.

The market for off-course betting in the United Kingdom

6.5. Grand Met is a major food, drinks and retailing company with interests in North America and elsewhere, as well as in the United Kingdom. Before the merger, its subsidiary, Mecca Bookmakers Ltd (Mecca), was the fourth largest off-course bookmaker in the United Kingdom, measured by turnover, with the majority of its betting offices in the Greater London area. William Hill's activities are confined to bookmaking; prior to the merger it was the second largest off-course bookmaker with betting offices more evenly distributed throughout the country. Unlike Mecca, William Hill also operates as an on-course bookmaker, and Mecca regards the acquisition of these on-course activities as a main benefit of the merger. In considering the effects on competition we have to consider the effect of the merger on the market for off-course bookmaking in the United Kingdom where the activities of the two companies overlap; but our interest in this market is only in the effects of the merger.

6.6. Off-course betting is a significant United Kingdom leisure industry, the total money staked exceeding £5 billion in 1988/89. The bulk of this turnover was from money staked in betting offices, the value of credit betting by telephone being estimated at only some £250 million per year.

6.7. As shown in Table 6.1, as a result of the merger but following the disposals to Brent Walker, the combined company accounts for somewhat over 15 per cent of the number of betting offices but in some local areas these numbers are a good deal higher and in others correspondingly lower. (The estimated share of betting offices is based on the total number of betting office licences: this may overstate the total number of betting offices in operation, as explained in paragraph 3.39, and hence understate the market shares of the major companies.)

TABLE 6.1 Estimated share of off-course betting offices*

	<i>Share of betting offices</i>
Mecca (before merger)	7.7
William Hill (before merger)	8.8
William Hill/Mecca (after merger and disposals)	15.3
Ladbrokes	17.6
Coral	8.8
Other	58.3

Source: MMC study.

*Based on the total number of betting office licences in Great Britain.

6.8. The share of turnover of the major companies is significantly greater than their share of the number of betting offices. Before the merger, Mecca is estimated to have accounted for some 10.8 per cent of the turnover of off-course bookmakers and William Hill for some 13.9 per cent (see Table 3.9). Following the merger, and the disposals to Brent Walker, the combined company is estimated to account for some 23.2 per cent of the turnover of off-course bookmakers, and the Big 3 (Mecca/William Hill, Ladbrokes Racing Ltd (Ladbrokes) and Coral Racing (Coral)) together for almost 60 per cent.

6.9. This merger represents a further stage in the concentration of the off-course betting industry. As shown in Table 3.6, over the period 1978 to 1988 the number of bookmakers' permits decreased from about 8,000 to about 6,000. Over the same period (as shown in Table 3.4) the number of betting office licences (which had peaked at over 15,000 in the late 1960s) decreased from about 12,800 to some 10,300. Although there are still many independent firms in the industry including a number of medium-sized chains, the combined market share of the leading companies has increased steadily. In 1977, for example, the four leading companies (Ladbrokes, William Hill, Corala subsidiary of Bass plc and Mecca) owned some 24 per cent of betting offices in operation (itself double that at the beginning of the 1970s). After the merger and despite the disposals to Brent Walker, the three major companies now account for over 40 per cent of betting offices and almost 60 per cent of turnover.

6.10. The increase in concentration results chiefly from a series of acquisitions of local firms by the major firms in the industry. Some of the premises acquired were closed, in order to concentrate business in larger, more economic outlets. Until 1985, several bookmakers, including the four major firms, entered into a number of agreements for the reciprocal closure of betting offices and for co-ordinating objections to the opening of the new betting offices. These agreements were referred by the Office of Fair Trading to the Restrictive Practices Court, and judged to be contrary to the public interest; they were therefore discontinued.

6.11. In order to assess the effect of the merger we have considered the legislative framework within which the industry operates, the nature of competition between bookmakers, and the implications of developments within the industry. As well as the effect on the United Kingdom market as a whole, it is also important to consider the effects in particular areas.

The legislative framework

6.12. Betting offices were first legalised by the Betting and Gaming Act 1960, and their provision continues to be subject to a regulatory structure which is aimed to prevent the undue proliferation of betting offices, or the stimulation of demand.

6.13. Operators of a betting shop require a bookmaker's permit or betting agency permit. A betting office licence is also required for individual premises. Licences are granted by a Committee of Licensing Magistrates in each local Petty Sessional Division (PSD) (licensing boards in the case of Scotland). Among the grounds on which applications for a betting office licence may be refused (see paragraph 3.3) is that the licence would be inexpedient having regard to the demand in the locality, and the number of offices available to meet that demand. There is no provision in the legislation for granting licences in order to stimulate competition.

6.14. Established bookmakers may therefore object to the opening of new licensed premises on the grounds, for example, that demand is already adequately satisfied. In 1987 and 1988 Mecca and William Hill made about 140 objections to licence applications; in about 40 per cent of these cases the applications were rejected by the magistrates. In Great Britain as a whole, there were 55 refusals in the year to May 1988, but it was suggested to us that the mere existence of the licensing system and the demand requirement could deter applications in particular areas if there was a record of refusals. New applications can succeed under the present licensing system but the effect of the system is, we believe, to reduce new entry into the industry. Expansion of existing firms and the emergence of new operators (such as Brent Walker) tends to be by acquisition, rather than by the opening of new premises in competition with existing firms. Larger operators may be better able to afford the cost of acquiring licensed premises, particularly in urban areas with high property values.

6.15. The legislation severely limits the advertising of off-course bookmakers: advertisements in newspapers, for example, can refer only to credit business, and no direct reference can be made to the location of licensed betting offices. It was suggested that these restrictions also favoured the larger national bookmakers, since their extensive network of betting offices would benefit from advertisements ostensibly confined to their credit activities. The legislation also restricts the hours of opening of betting shops. The restrictions on the facilities that can be provided, however, were relaxed in 1986, with television coverage of sporting events, and the serving of light refreshments permitted for the first time.

The extent of price competition

6.16. Bookmakers offer their customers (generally known as 'punters') the facility of betting on a wide range of sporting, and occasionally non-sporting, events. The bulk of bets, however, are on horseracing and greyhound racing. A wide range of bets is also available on particular events, including win bets, place bets (normally a bet that a horse or dog will be among the first three finishers), 'each way' bets (a combination of win and place bets) and many variations of forecast bets (which, for example, require the first two or three finishers to be nominated in the correct order of finish). In order to maintain their profitability, the odds offered must provide the bookmakers with a margin irrespective of who wins or is placed, although the size of this margin may vary between events (depending, for example, on the number of runners) and according to whether the winner is more or less favoured by the punters.

6.17. Individual bookmakers set their own odds on major events prior to the day of the event (known as 'ante-post' prices); and also on particular events from the morning of the event up to some 15 minutes before the start of racing ('morning prices'). From that point on, however, bets are taken at each racecourse or greyhound stadium by the large number of on-course bookmakers who adjust their own odds in the competitive on-course market according to the pattern of bets by the punters at each course. Bets on-course are settled according to the odds being quoted by the individual bookmaker at the time the bet is made; these odds may vary between the on-course bookmakers, and may change throughout the period of betting up to the start of the race. Representative odds are determined and transmitted by

Satellite Information Services (SIS) to the off-course bookmakers, and displayed in their betting shops giving punters off-course the opportunity to bet at these 'board prices' as they change at the course.

6.18. The great majority of off-course punters, however, prefer to bet at starting prices (SPs). The prices prevailing at the course immediately before the start of the race are assessed by one or more independent observers, normally representatives of the Press Association and Sporting Life. On the basis of this assessment, they then determine the effective prices at the start of the race: these are the SPs which are then announced during the race, or shortly after its completion. Punters betting at SPs do not therefore know the precise odds at which they have bet until these have been transmitted back from the course after the race has commenced. There is no competition between off-course bookmakers over the SP: they all accept the same price set by the independent observers. However, the weight of money placed in off-course betting may be out of proportion to that placed on-course where the odds are determined. If this is to the detriment of the off-course bookmaker he may place funds (known as 'office money') with bookmakers operating on-course in an attempt to make the SPs more representative of the money being staked, a practice known as 'laying off'.

6.19. We have been told that the percentage of off-course bets placed at SPs may be as high as 80 per cent. It was, however, suggested to us that, with the installation of television in betting offices and in particular the transmission of races to betting shops by SIS, there has been an increase in betting at board prices. A further form of betting is at 'Tote odds' determined by bets with the Horserace Totalisator Board (the Tote) at each course, where winnings reflect the total amount staked with the Tote on any race, and the number of winning bets.

6.20. While SPs, board prices, and Tote odds can be regarded as determined on-course, morning prices and ante-post prices and the odds on place and each-way bets are determined by off-course bookmakers, but the figures we have seen for Mecca and William Hill before the merger suggest that the difference in these off-course odds was only limited. It was suggested to us that smaller bookmakers would be better able to offer attractive odds to individual customers.

6.21. Bookmakers are also in a position to set the odds on forecast bets for example, the amount won by forecasting the first two or three finishers. In particular, most betting on greyhound racing is done on the basis of a forecast rather than only the winner. The majority of forecasts, however, are paid in accordance with computer formulae based on the SPs of the horses or dogs concerned. The formulae are determined by committees of bookmakers' representatives (we discuss this further in paragraph 6.44).

6.22. There are some differences in the range of bets bookmakers accept, for example in 'specialist bets' (see paragraph 3.21) and in acceptance of bets at Tote odds, and on the terms on which bets may be accepted. Mecca, for example, limits the minimum and maximum odds on Tote bets, since it believes that Tote odds may vary widely from SPs due to the thinness of Tote betting at some courses; and it has introduced these limits into the branches acquired from William Hill. There are significant differences in the maximum winnings which bookmakers are prepared to pay, with smaller bookmakers generally able to afford only a much lower limit on winnings than that offered by the larger bookmakers. There is also some competition on special offers.

6.23. Bookmakers also have discretion in how they charge for 'tax'. There is a general betting duty of 8 per cent of money staked on all off-course betting, payable by the bookmakers on the gross amounts of all bets placed, and in addition a levy on off-course betting on horseracing which varies with bookmakers' turnover and currently works out at just under 1 per cent of turnover for the major bookmakers. In practice, most bookmakers charge a standard 10 per cent on all bets (including bets on greyhound racing which is not subject to an additional levy), which is generally described to customers as tax. Punters are given the choice of paying this charge as part of their bets, or as a 10 per cent deduction from their winnings. We were told that since the vast majority of customers elect to pay tax with their stake, general betting duty is charged on the stake plus the tax charged so the effective rate of duty is 8.8 per cent. In addition, because betting is in the exempt category for VAT purposes, bookmakers cannot recover the cost of VAT on their own purchases, and they therefore regard the overall charge of 10 per cent as enabling them to recover all tax in effect payable by them on bets. Most off-course bookmakers make the same charge of 10 per cent for the total tax payable. It was suggested to us that the general lack of competition in charging for tax partly reflected the fact that bookmakers' net profits were about 3 per cent of turnover, and that it would not be feasible for any individual bookmaker to give punters the benefit of a lower charge, while having to incur tax at approximately 10 per cent. We have been told that some smaller bookmakers have occasionally used a lower tax charge as

a special promotion, but where this has happened the local betting offices of the major bookmakers have rapidly lowered their tax charge in response and the promotion has been withdrawn.

6.24. Generally, therefore, we would regard price competition between bookmakers as limited, partly reflecting the preference of punters to bet at SPs, and partly the tendency of bookmakers to adopt a similar approach, for example in the charging for tax, and in the calculation of the odds on forecast bets.

Other forms of competition

6.25. Despite the limited extent of price competition, most of the bookmakers to whom we spoke said that there was strong competition between bookmakers, but suggested that the main factor affecting competition was location, the majority of punters using their nearest or most convenient betting office. Standards of service and facilities were also regarded as necessary to retain customers' loyalty: a number of bookmakers have undertaken, or are planning, improvements in facilities in order also to widen the attraction of betting offices to the public. However, the major recent improvement in facilities—the installation of television screens, and the display of races and information transmitted by SIS—has become almost universally adopted.

6.26. In our view, off-course bookmaking is an unusual industry, and one not fully susceptible to the normal forces of competition. The legislative framework constrains competition. The need to apply for and obtain a betting office licence, possibly against the opposition of other bookmakers, appears to operate as an obstacle to entry. The legislation also restricts competition through advertising. There is relatively little price competition, partly reflecting the preference of punters to bid at SPs. Services and facilities do not tend to vary widely between bookmakers. Perhaps the most important limitation on competition is the fact that the main attraction of an individual office to its customers appears to be its location. Competition is therefore of a highly localised nature. There would therefore seem to be only limited competitive pressure on the performance, and the profitability of the industry. Where there is scope for competition, it would seem on balance to favour the larger bookmakers: smaller bookmakers may be able to offer a more personal service but the larger bookmakers have the financial resources to offer higher limits, to acquire more expensive sites, and, increasingly, to refurbish their betting offices, and, given the restrictions of the legislation, may be in a better position to advertise.

6.27. A considerable amount of the evidence we received related to two developments in which bookmakers had co-operated in order to enhance their business and improve facilities generally but which, in the opinion of some, involved risks to the competitive structure of the industry: the Bookmakers' Afternoon Greyhound Services (BAGS); and SIS.

Bookmakers' Afternoon Greyhound Services

6.28. BAGS was established a number of years ago by the leading bookmakers to provide afternoon greyhound racing on which punters could bet off-course at times when there was no other racing; before the establishment of BAGS, greyhound racing took place mainly in the evenings, at a time when betting offices were not allowed to open.

6.29. Prior to the merger, the four major bookmakers including Mecca and William Hill each had one representative on the 11-member Board of BAGS; following the merger the company has agreed to have only one representative. The rest of the Board is constituted by representatives of other bookmakers. The Board of BAGS is responsible for seeking tenders from greyhound tracks for the staging of BAGS races. Of the eight tracks currently offering BAGS races, five are owned by Ladbrokes and Bass (the owner of Coral); and a sixth by Brent Walker (which has now acquired some 119 betting offices from Mecca). The other two courses are independent of any bookmaker. The formula for the calculation of odds on forecast bets on BAGS races referred to as the 'BAGS forecasts' is the responsibility of a committee consisting of representatives of the National Association of Bookmakers, the National Sporting League, and the Betting Office Licensees Association (see Appendix 3.1, paragraph 1); the calculations are done by Ladbrokes, with cross-checking by SIS, which applies this formula to the SPs from the course.

6.30. BAGS therefore involves a significant degree of vertical integration. Three bookmakers own tracks (but are prohibited from providing betting facilities on those tracks), and hence are responsible for organising the races. The BAGS Board, constituted by a range of bookmakers, tenders for race programmes from greyhound tracks. The formula for the BAGS computer forecast is the responsibility of a committee consisting primarily of bookmakers; and individual bookmakers can also influence SPs by laying off on-course, where attendances are sparser and the betting market thinner than in the case of horseracing. Odds and results and some television coverage of BAGS races are transmitted to bookmakers by SIS in which the major bookmakers have a significant stake.

Satellite Information Services

6.31. The introduction of SIS was at the initiative of Ladbrokes, Grand Met, Bass and Sears (the former owner of William Hill) who wished to improve on the information facilities provided by Exchange Telegraph (Extel). Extel provided off-course bookmakers with information and commentaries on the afternoon's racing using sound only and not television coverage. This service has now been withdrawn and SIS is currently the only provider of comprehensive television coverage of races to bookmakers and of full information about odds and results.

6.32. As shown in Table 6.2, before the merger Grand Met and Sears each owned about 19 per cent of shares in SIS, and the four leading bookmakers together owned some 85 per cent of shares. The balance of the shares were held by the Racecourse Association (10 per cent) and the Tote (5 per cent). In the contract with the Racecourse Association, the four bookmaking shareholders agreed that they would ultimately reduce their combined shareholding to 45 per cent (of which Grand Met and Sears would each own 10 per cent see Table 6.2), and it was intended that some 40 per cent of shares were to be placed with institutional investors. Although Sears no longer has bookmaking interests, it has retained its stake in SIS and has been accepted as an independent investor. The current proposals are that the Big 3 major bookmakers will hold 45 per cent between them, with Grand Met reducing its holding to 15 per cent, within the 45 per cent (see Table 6.2). Sears will have a stake of 12.86 per cent, the Tote's share will increase to 6 per cent, while the Racecourse Association's share will remain unchanged. The result will be that 26.14 per cent of shares would be left for placing with institutional investors.

TABLE 6.2 Percentage shareholdings in SIS

	Current	After placing of shares	
		(a) As originally intended	(b) As currently intended
Ladbrokes	27.745	15.0	18.00
Grand Met	19.085	10.0	15.00
Bass	19.085	10.0	12.00
Sears	19.085	10.0	12.86
Racecourse Association	10.000	10.0	10.00
Tote	5.000	5.0	6.00
Other	<u>0.000</u>	<u>40.0</u>	<u>26.14</u>
Total	100.000	100.0	100.00

Source: MMC study.

6.33. The Board of SIS currently consists of a Chairman, Managing Director and Finance Director who are independent of the interests of particular shareholders, and one representative from each of Ladbrokes, Mecca, Coral, the Tote and Sears. These eight directors have one vote each. 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.

6.34. Almost all bookmakers now use SIS. SIS provides both television coverage of races including sound, and textual information on odds and results. Some major bookmakers overlay the SIS commentary with voice information on special offers; and also reformat the SIS text displays.

The effects of the merger

6.35. We received a number of criticisms of the present structure of the betting industry, and of the 'dominance' of the previous four major companies, which, it was suggested, would be exacerbated by the merger. We are, however, only required to report on the effects of the merger as such, and it would not therefore be appropriate for us to consider in depth any wider question of whether aspects of the industry taken as a whole at present might operate against the public interest. We have not therefore investigated the industry as a whole, save in so far as it was necessary for us to do so for the purposes of this merger reference. However, the Office of Fair Trading did recently consider a number of complaints about the industry, and decided not to refer the industry to us as a potential complex monopoly.

6.36. As noted in paragraph 6.8, as a result of the merger the combined company would account for some 23.2 per cent of the industry's turnover. Having regard also to the nature of the industry (which we discussed in paragraph 6.26) we do not believe that the company could be considered as able to exert undue market power. The combined company would have a similar share of off-course betting turnover to Ladbrokes, and there would remain many independent firms in the industry, including Coral and a number of companies strong in particular local areas, as well as smaller firms with only a few outlets.

6.37. The combined company has a larger share of the credit betting market; but, given the greater ease of entry and the large number of competitors in credit betting, we do not believe that this would be a cause for concern. Credit betting moreover represents a relatively small percentage of the off-course betting market, and punters can and do 'shop around' for improved odds. Grand Met indeed suggested that the merger could benefit competition in credit betting since Mecca's credit customers could use William Hill's on-course facilities.

6.38. The combined company, Ladbrokes and Coral would together, however, account for almost 60 per cent of the total turnover of off-course betting. We have considered whether this increase in concentration over the United Kingdom market as a whole could be regarded as adverse to the public interest. This is an industry in which there is little price competition and there has already been some record of restrictive practices (as mentioned in paragraph 6.10). There has also been constructive co-operation, for example on the establishment of BAGS and SIS. Grand Met argued that competition would be enhanced as a result of the merger, in that it would be in a stronger position to compete with Ladbrokes, for example through national advertising and increased expenditure on the facilities of betting offices and in credit betting. Ladbrokes also expected competition to increase and both Ladbrokes and Coral said that they intended to increase the number of their offices in areas at present dominated by Grand Met.

6.39. At a national level, we do not believe that the merger in itself will materially affect competition in the industry. Given the nature of this industry it is primarily at the local level that the merger may affect competition in a way which will be relevant to punters: this we consider in more detail in paragraphs 6.48 to 6.58. We have, however, also considered a number of more specific concerns which were put to us about ways in which, given the present structure of the industry, the merger as a whole could adversely affect competition between bookmakers, or the interests of punters.

6.40. A main area of concern related to the operation of SIS. The development of SIS has clearly brought significant benefits to the industry generally and to punters, but there would seem to be potential for abuse. After the intended placing of shares, the three major bookmakers will together hold some 45 per cent of the issued shares. It is difficult to regard the change in the intended structure of shareholdings as such as within our terms of reference, since it did not entail the acquisition by Grand Met of the Sears shareholding in SIS. It involved a redistribution of shares to Grand Met, Ladbrokes and Bass, to allow for the translation of Sears from the bookmakers' group to the class of independent investors. A combined shareholding by the Big 3 of 45 per cent would, however, clearly put these three companies together in a position of influence over SIS.

6.41. The availability of SIS to independent bookmakers is clearly crucial to the competitive structure of the industry. To date there is no evidence that the major bookmakers have abused their position to the detriment of independent bookmakers: on the contrary its introduction has been to the benefit of the industry generally. However, any distortion in the information transmitted by SIS, or in the provision of that information to the customer in the betting shop, could be detrimental to the punter. Some complaints have been made to us, for example, that SIS is in a position to delay the transmission of board prices from the course, and that the major bookmakers may themselves be in a position to delay or distort that information when reformatting it before transmission to the betting shops, thus depriving punters of information about the trend in betting activity and odds on-course. However, no evidence was provided in support of these general complaints. Grand Met argued strongly that no such abuse had occurred: SIS procedures required board prices to be transmitted as soon as it was feasible to do so, and reformatting of information involved negligible delay. We also understand that it has recently been agreed that the Jockey Club will monitor the board prices transmitted by SIS from racecourses.

6.42. Although the SIS Chairman, Managing Director and Finance Director are independent of the three large bookmakers, the 45 per cent combined shareholding and the dependence of SIS on the support and revenue of the three main bookmakers could be a source of concern. Were any abuse to the detriment of competitors or punters to occur, it may be necessary for the regulatory authorities to intervene. We, however, have to consider only the effects of the merger. It could be argued that agreement on action to the detriment of competition between bookmakers or to the punter would be easier between three major bookmakers than between four, but even before the merger there already seems to have been close identity of interests between William Hill and Mecca and indeed the other major bookmakers, despite which we have seen no evidence of abuse by the major bookmakers of their position in SIS. We find it difficult to accept that the reduction in the number of major bookmakers from four to three increases the opportunity, or the willingness, to do so. On the evidence we have received, therefore, we conclude that this particular merger does not create or increase the probability of collusion to distort the operation of SIS.

6.43. A number of general complaints have also been made to us about the operation of BAGS. One source of concern was the vertical integration between bookmakers, the BAGS Board itself, and the ownership of greyhound stadiums. It was, for example, suggested that this vertical integration resulted in inadequate payment to the independent owners of tracks used for BAGS races; that it enabled races to be arranged in a way most profitable to bookmakers; and that it was inconsistent with the spirit of the legislation which forbade owners of greyhound tracks to have an interest in on-course betting. These issues would similarly seem to go wider than the context of the current reference. Although it was argued to us that the disposal by Grand Met of a number of former Mecca and William Hill offices to Brent Walker increased vertical integration in the industry, we are not satisfied that this transaction (particularly the sale of the former Mecca offices) can clearly be regarded as part of the merger situation which we are required to investigate, or therefore as directly relevant to our consideration of the effects of the merger.

6.44. A further area of complaint related to the determination of the computer forecasts used mainly in BAGS races, but also to a lesser extent in forecasts of horseraces. In particular, it was claimed that the complicated computer formula on which the BAGS forecast was based produced excess margins for bookmakers, and that recent changes in the forecasts had been to the further benefit of bookmakers. This is a complex issue and some of the recent changes would seem to have had effects with both advantages and disadvantages to the punter (see Appendix 3.1); but we are unable to say that this matter is sufficiently closely related to the merger situation with which we are concerned for us to be able to consider it as part of our inquiry. The method by which the BAGS forecast is determined by representatives of a wide range of bookmakers, and widely adopted, would seem one that is not understood by punters and in which there is potential for abuse, albeit at the risk of strong adverse publicity and intervention by the regulatory authorities should such abuse occur. However, we find it difficult to accept that, as a result of the merger, either the combined company on its own, or the three major bookmakers as a group, would be more likely to influence the setting of the BAGS forecast. As with the operation of SIS, we do not, therefore, believe that the merger itself would increase the risk of such abuse, or in this respect be to the detriment of punters.

6.45. A further source of concern expressed to us was the practice of bookmakers of laying off money on-course to hedge the bets placed with them off-course and affect the SPs. This practice would seem a reasonable safeguard against the disparity that could otherwise occur between the weight of money bet off-course and on-course, where the odds are determined. However, it was suggested that, by laying off money only shortly before the start of a race, it was possible to shorten the odds on one horse, without the on-course bookmakers having the opportunity to lengthen the other odds, hence increasing the bookmakers' overall margin on a race. It was argued that, by co-ordinating their efforts, the merger would enhance the ability of the combined company to 'manipulate' the market in this way.

6.46. Before the merger, neither Mecca nor William Hill was as active as one of the other major bookmakers in laying off bets in this way; and the amounts staked by either company (of about £1 million per annum) would seem insignificant compared with the total size of the on-course betting market (some £550 million in 1986, possibly much greater in more recent years). There is little evidence that major bookmakers have acted other than defensively in laying off bets, in order that SPs should reflect the weight of money placed off-course. We do not therefore believe that the merger increases the risk of manipulation of SPs to the detriment of punters.

6.47. In summary, therefore, although there may be grounds for unease about various characteristics of the industry, and perhaps scope for abuse given its present structure, we do not believe that the risks of such abuse are materially increased by the merger. We therefore conclude that the increase in concentration of the United Kingdom betting industry as a whole as a result of this merger may be expected not to operate against the public interest. However, we also have to consider the effect of the merger on local concentration.

The effect on local markets

6.48. Betting offices serve primarily local markets. A number of bookmakers told us that they believed that about 80 per cent of punters used the betting office nearest their home, place of work or entertainment (particularly public houses). Most punters, we were told, walk to a betting office and those who do not stay to watch the racing may need to walk both to place a bet, and to collect their winnings. They are unlikely therefore to consider using a betting office beyond a fairly limited area (which Grand Met suggested would be no more than some 440 yards) and indeed, given the general preference to bet at SPs rather than on the basis of the odds offered by a particular bookmaker, have little incentive to do so.

6.49. As noted in paragraph 6.7, the combined company accounts for over 15 per cent of betting offices in the country as a whole (after the disposals to Brent Walker). In one area, Greater London, the combined company's share exceeds 30 per cent.¹ We have therefore considered the distribution of the Mecca and William Hill offices within that area in more detail. In doing so, we have taken into account the disposal of 119 offices (many in Greater London) to Brent Walker, which in a number of localities has restored competition to the level prevailing before the merger. Grand Met told us that it was intending to sell a further 21 offices in Greater London and elsewhere in the South-East which were as yet unidentified, and a number of other offices elsewhere.

6.50. Our attention was drawn to the particularly high shares of betting offices in certain PSDs the licensing districts for betting offices-within Greater London. In two of the 30 London PSDs in particular-the City of London and South Westminster-the merged company accounts for almost 60 per cent of licensed betting offices; in a further eight PSDs its share is between 40 and 50 per cent. The combined share of the three major bookmakers is also particularly high in these areas-over 90 per cent of betting offices in the City of London and South Westminster, for example, being operated by the three major bookmakers

6.51. PSDs, although the areas for which licence statistics are published, represent areas of widely varying size and can generally be regarded as too large to provide a meaningful measure of local markets. If, for example, there is little geographical overlap between the Mecca and William Hill offices within a PSD, the level of concentration in the PSD could have been increased without any effect on competition in smaller local market areas. Within the most concentrated PSDs in London, we have therefore examined statistics by postal districts since they represent smaller areas, generally of about two miles across. We have also looked at statistics by postal district in Glasgow and Birmingham. As shown in Appendix 3.2, there are many postal areas, on this basis, in which the merger has increased Mecca's share of the number of betting offices to over 33 per cent, and in some cases to over 50 per cent; although in virtually all cases alternative betting offices are available for the dissatisfied punter.

6.52. Grand Met argued that even disaggregation into postal districts produced excessively wide and arbitrary measures of local markets and also overlooked the possibility that offices in adjacent postal areas could provide competition. It suggested that the appropriate yardstick was the radius of 440 yards as used by some local licensing committees in assessing demand; but suggested that in practice some local markets could only be assessed on a case-by-case basis, taking into account the characteristics of local areas, for example busy roads which customers might prefer not to cross.

¹These figures (and subsequent figures in paragraphs 6.50 and 6.51) may understate the combined company's share of outlets in operation-see paragraph 3.39. Its share of turnover could also be greater than its share of the number of outlets-see paragraph 3.42.

6.53. Any approach to measuring local markets must to some extent be pragmatic. We have, however, thought it useful to examine areas based on a quarter of a mile radius around existing betting offices. In practice most punters may indeed not wish to walk even this far while others may be prepared to go further; but we believe that such a radius does provide some indication of the choice that would be available within walking distance to a dissatisfied punter, and of the competition faced by any particular betting office.

6.54. As shown in Appendix 3.3, we are aware of 33 Mecca or William Hill betting offices where the effect of the merger is to eliminate competition within a quarter of a mile. Betting offices not under Grand Met's ownership are, however, available in each case within a distance of one mile. In the seven PSD areas we have examined in detail, there are over 30 other Mecca or William Hill offices where, as a result of the merger, the number of competitors to Grand Met within a 440-yard radius has been reduced from two to one.

6.55. We have therefore to consider whether the effect of the merger in such narrowly defined local areas may be expected to operate against the public interest. As we mentioned in paragraphs 6.16 to 6.26, the extent of price competition between bookmakers is limited, but there is some competition in facilities and service. In some respects the merger has not had a noticeable adverse impact to date; for example, the range of bets has been increased as a result of the merger, although some customers have complained about the imposition of Mecca's limits on Tote bets. Grand Met also intends to refurbish some William Hill shops. However, the elimination of local competition reduces the choice available to punters, and in our view in the longer term may be expected to weaken the incentive provided by competition to maintain and improve standards of service and facilities. It is, for example, undesirable that the merger should have the effect that a punter disgruntled about conditions in a betting shop or dissatisfied about aspects of service finds that the only alternative betting office available within a reasonable distance is under the same ownership.

6.56. We are also concerned about those local areas where, as a result of the merger, only one company will remain in competition with the combined company. However, in these instances some choice and competition would remain and indeed there are many areas of London and elsewhere in the United Kingdom where choice is already confined to that between two operators.

6.57. We considered whether the prospect of new entry would provide a sufficient safeguard for the interest of punters in those areas where competition is eliminated. However, restrictions on entry are inherent in the legislative framework of the industry (see paragraph 6.13). Grand Met argued that magistrates may take into account the absence of competition in assessing licence applications. There is, however, no apparent provision in the legislation to do so, and the magistrates have discretion to refuse applications if they believe there is insufficient demand for new facilities. In our view, therefore, there must be a real risk that new entrants could not acquire licences to open new betting offices in the localities served by existing offices, albeit under single ownership, or provide new competition with the established bookmakers. It would seem to us desirable that the legislation be applied and if necessary amended to take competition into account in dealing with the demand criterion; such a move could benefit competition in a number of areas where concentration is already high as well as those areas affected by the merger. We have, however, to consider the operation of the legislation as it is now, and believe that its effect will be to inhibit entry by new competitors into those local areas in which competition has been eliminated as a result of the merger.

6.58. We conclude therefore that, by eliminating local competition in a limited number of local areas, the merger operates and may be expected to operate against the public interest. The particular effects adverse to the public interest are that the merger has removed competition, and the choice of betting shops available to punters, in a number of local areas, which we define as within a radius of a quarter of a mile of a particular betting shop. The removal of competition may be expected to have the further effects adverse to the public interest of reducing the incentive to maintain standards of service and to improve the quality of facilities in these areas (paragraph 6.55).

Conclusions

6.59. We have concluded that neither the increase in Grand Met's share of the United Kingdom betting industry as a whole, nor the increase in concentration of that industry as a whole which results from this merger, operates or may be expected to operate against the public interest (paragraphs 6.36 and 6.47). However, the merger eliminates competition in a limited number of local areas, and we have therefore concluded that the merger situation we have identified operates and may be expected to operate against the public interest with the adverse effects identified in paragraph 6.58. These adverse effects of the merger do not appear to be widespread we are aware of some 33 betting offices (listed in Appendix 3.3) where we believe that the merger has eliminated competition within a quarter of a mile of that betting office but in our view are a serious detriment to punters where they occur. Grand Met has already disposed of a number of betting offices which in some cases has had the effect of restoring competition to the level prevailing before the merger, and is intending to dispose of further offices in the London area and elsewhere. It said that it would be prepared to undertake to dispose of an office in those instances where competition had been removed by the merger. However, without formal undertakings to the Secretary of State it is under no requirement to do so.

6.60. In our view, therefore, the elimination of competition even in such a limited number of local areas in the absence of such formal undertakings requires us to find that the merger operates and is expected to operate against the public interest. Our recommendations below would, we believe, if carried into effect remove the detriments we have identified.

Recommendations

6.61. We have therefore to consider what actions should be taken for the purpose of remedying or preventing the adverse effects we have identified in paragraph 6.58. These are confined to a limited number of local areas, and it would therefore be inappropriate to require the merger as a whole to be reversed. We believe that divestment of offices in those local areas affected by the merger would provide a sufficient remedy.

6.62. We therefore recommend that, in any case where there are former Mecca and William Hill betting offices now under common ownership within a quarter of a mile radius of each other and there are no other competing betting offices within a quarter of a mile of at least one of these offices, Grand Met should be required to divest one of these offices to one or more other licensed bookmakers. The betting offices listed in Appendix 3.3 would, we believe, be included in such a requirement, and would involve some 20 disposals. We would further recommend that these divestments should not be such that they would create similar problems of local concentration. For example, a sale should not be made to another operator of betting offices if the effect would be to eliminate competition within a quarter of a mile of any of the purchaser's existing betting offices. We recommend that such disposals should be completed within six months of the date of publication of this report.

Further observations

6.63. In the course of our inquiry, a number of concerns have been expressed to us about certain characteristics of the industry as a whole, and about the growing degree of concentration at the national level. These concerns may well warrant further investigation in the future and should be kept under review; our examination of the industry has of necessity been confined to the investigation of the present merger and we have found that it does not operate against the public interest at the national level in these respects. In the context of the present merger, our findings have instead related to the adverse effects on competition at the local level. In our view, local competition could be stimulated by the licensing system. If guidelines for the granting of licences were adopted which encouraged licensing committees to take into account the promotion of competition, new entry would, we believe, be facilitated and local concentrations be reduced.

M S LIPWORTH (*Chairman*)

F E BONNER

K S CARMICHAEL

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H H LIESNER

L A MILLS

S N BURBRIDGE (*Secretary*)

24 July 1989