

**Ladbroke Group PLC
and
the Coral betting business**

A report on the merger situation

Members of the Monopolies and Mergers Commission as at 23 July 1998

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Note by the Department of Trade and Industry

In accordance with section 83(3) and (3A) of the Fair Trading Act 1973, the Secretary of State has excluded from the copies of the report, as laid before Parliament and as published, certain matters, publication of which appears to the Secretary of State to be against the public interest, or which he considers would not be in the public interest to disclose and which, in his opinion, would seriously and prejudicially affect certain interests.

The omissions are indicated by a note in the text or, where space does not permit, by the symbol ✂.

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Part I

Summary and Conclusions

1 Summary

1.1. The Secretary of State for Trade and Industry asked us to investigate the implications for the public interest of the acquisition by Ladbroke Group PLC (Ladbroke) on 31 December 1997 of the Coral betting business from Bass PLC (Bass) (see Appendix 1.1 for our terms of reference).

1.2. Ladbroke is the largest firm in the UK off-course betting industry with a chain of some 1,900 licensed betting offices (LBOs). Its total turnover from LBOs and from its telephone betting business in 1997 was some £1.75 billion. Coral was number three in the industry, with a UK chain of 833 LBOs and a total turnover in 1996/97 of nearly £900 million. The only other national chain of LBOs is that of the William Hill Organization Limited (William Hill).

1.3. There are a number of distinctive features to the off-course betting market. Regulation of the industry on public policy grounds plays an important role, and has taken a form which has restrained competition. Moreover most bets are placed at prices (odds) which are not set in the off-course market but are determined in the on-course market at horse and greyhound race meetings in the form of board prices and starting prices.

1.4. We received submissions from about 90 third parties and held a larger than usual number of hearings. Many (but not all) of the third party submissions were, to a greater or lesser degree, hostile to the merger in its entirety or to major aspects of it.

1.5. For its part, Ladbroke argued that its acquisition of Coral did not present problems for the public interest for the following reasons:

- in keeping with the main thrust of our predecessors' report in 1989 on the Mecca/William Hill merger, competition among LBO operators was essentially a local matter; in this fundamental respect, the market had not changed;
- since most racing betting was at prices determined by the operation of on-course markets, there was little scope for price variation in off-course LBOs;
- punters' choice of LBOs was determined primarily by convenience of location, but secondarily by the quality of outlet and the service provided;
- possession of a well-known brand name brought little competitive advantage; and
- independent firms were fully capable of providing effective competition to outlets of the national chains.

1.6. Ladbroke said that in order to address the situation where, in local markets defined in terms of a 400-metre radius as used in our predecessors' report, the merger would eliminate competition, it had entered into a conditional agreement to sell 134 LBOs to Tote Bookmakers Limited (Tote Bookmakers). During the course of the inquiry, Ladbroke also

proposed to dispose of two more tranches, of 98 and 69 LBOs respectively, the two Coral greyhound race tracks, and the Coral telephone betting business together with the Coral brand.

1.7. In our view there is an important national component to competition in the provision of off-course betting services through pricing and through branding and quality of outlet. We believe this could be enhanced in an appropriate competitive environment. In particular, there is scope for price competition in the provision of early prices for racing bets, in the odds offered on other sports and numbers betting and in the terms of betting offered by different firms and outlets. The steps taken since 1989 to deregulate some aspects of the industry and its relations with customers, together with the effect of the National Lottery on public attitudes to gambling, have led us to the view that the further development of competition is both practicable and to be encouraged.

1.8. The merger increases Ladbroke's share of LBOs from 21 to 30 per cent and its share of off-course betting turnover from 26 to 38 per cent (these figures do not take account of the—relatively small—effect of the conditional sale of LBOs to Tote Bookmakers). As a consequence, Ladbroke has markedly increased its lead in the national retail betting market and its size in that market relative to William Hill. The merger also has the effect of removing Coral, which we consider to have been an important third national competitive force in this market. The structural effects of the merger are therefore quite different from those addressed in the 1989 report. That report, moreover, warned of the future risks of growing concentration of the market at national level.

1.9. The effect of this merger would, in our view, be to lead to a weakening of price competition, actual and potential, at national level to the detriment of punters. We also believe the merger would have a dampening effect on innovation and reduce punters' choice of major LBO chains. Prices and standards of service in telephone betting may be expected to be less favourable to punters.

1.10. As in much of retailing, the preservation of consumer choice at the local level is important. As national chains become more influential and market concentration increases in the provision of LBO services, so competition for sites in individual localities becomes an important element of the search for market share. In our view this merger will have significant adverse effects in reducing local choice and these effects go beyond the 134 local markets where Ladbroke has entered into a conditional agreement to dispose of outlets to Tote Bookmakers.

1.11. There are a number of other aspects on which the merger has consequences which, to a greater or lesser extent, we regard as undesirable, although as a Group we have made no formal findings with respect to them. These concern Satellite Information Services (Holdings) Limited, which supplies a televised information service to LBOs; Bookmakers' Afternoon Greyhound Services Limited (BAGS), which arranges for greyhound meetings to be held at times suitable for LBO punters to bet on; the betting industry's relationship with horse racing; and employment. However, two of us believe that the strengthening of Ladbroke's position in BAGS and in the ownership of greyhound tracks would have adverse effects on the public interest, additional to those described in paragraphs 1.8 to 1.10.

1.12. The adverse effects of the merger described in paragraphs 1.8 to 1.10 are not, in our view, offset by benefits and we conclude that the merger is against the public interest. We consider that the adverse effects can only effectively be remedied by restoring an industry structure which is conducive to the development of competition. This would best be achieved by Ladbroke divesting, as a single business, the entirety of Coral's UK business which it acquired from Bass, including those Coral LBOs which are part of Ladbroke's conditional agreement with Tote Bookmakers. We would not, however, rule out the

possibility of its sale in more than one part if that seemed likely to lead to a more robust competitive environment. We therefore recommend that Ladbroke be required to divest the Coral business in a manner approved by the Director General of Fair Trading within six months of the publication of our report.