

# 4 The off-course betting market

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## Introduction

4.1. In this chapter we summarize the information we obtained about the markets affected by Ladbroke's acquisition of Coral. Prior to the acquisition, both companies supplied betting services, particularly off-course betting in LBOs on horse and greyhound races, other sports and numbers betting, telephone betting and on-course betting at fixed odds. Both also provided greyhound-racing facilities and, through BAGS, participated in the procurement and supply of greyhound races for off-course bookmakers. Bass, Coral's previous owner, and Ladbroke were both shareholders in SIS, a company that supplies off-course bookmakers with live coverage of horse and greyhound races in the form of television pictures, sound commentary and text information.

4.2. With a turnover (ie the total amount staked including duties and levies but before deducting winnings) of approaching £7,000 million in 1997, off-course betting in LBOs and by telephone is one of the main betting and gaming activities in the UK. It accounted for an estimated 16 per cent of all the money staked on gambling and commercial gaming in the UK in 1996 (see Appendix 4.1). As no precise breakdown is available for the value of off-course betting turnover by sector (horse racing, greyhound racing, etc), we sought turnover data from Ladbroke and William Hill and their estimates of the shares of off-course betting by sector. It is clear from these data that horse and greyhound racing are by far the leading sports for off-course betting purposes: including Tote Direct betting, they account for almost 90 per cent of the turnover of LBOs (see Table 4.1). Betting on miscellaneous sporting and other events accounts for almost 6 per cent of turnover. Association football is the most popular of the non-racing sports, though prices are also offered on a wide range of others, such as golf, rugby, cricket, snooker, darts, tennis, American football, bowls and motor racing. Demand for betting on sports and other events is usually linked to the extent of the television coverage they receive. The other main sources of revenue for LBOs are numbers games at approaching 4 per cent and AWP's at under 2 per cent of the total; these activities, which have only been available in LBOs in the last two or three years, grew quickly following their introduction to provide an important new source of revenue to off-course bookmakers (but see also paragraph 3.53 and Table 3.19).

TABLE 4.1 Estimated breakdown of LBO and telephone betting turnover by type of service provided, 1997

Service provided	LBOs		Telephone betting		Total	
	£m	%	£m	%	£m	%
Horse-race betting	4,455	69.2	437	81.7	4,892	70.2
Greyhound-race betting	1,255	19.5	11	2.1	1,266	18.2
Tote betting*	45	0.7	-	-	45	0.6
Subtotal	5,755	89.4	448	83.7	6,203	89.0
Football betting	276	4.3	45	8.4	321	4.6
Numbers games	245	3.8	2	0.4	247	3.5
AWP's†	111	1.7	-	-	111	1.6
Other betting	43	0.7	40	7.5	83	1.2
Other services‡	6	0.1	-	-	6	0.1
	6,436	100.0	535	100.0	6,971	100.0

Source: MMC, based on turnover data from Ladbroke (for both Ladbroke and Coral) and William Hill.

\*Including Tote Direct.

†After deducting VAT.

‡Mostly refreshments.

Note: Percentages may not add up exactly because of rounding.

### The MMC's 1989 inquiry

4.3. In April 1989 the MMC were asked to investigate and report on the acquisition of William Hill by Grand Met, which owned Mecca. Our assessment of the current off-course betting market took account of what was said in that report. Since 1989, however, whilst the structure of the industry has remained largely unchanged, there have been important changes in other respects. These changes flowed partly from the introduction of the National Lottery and partly from subsequent deregulation measures (some of which were brought in to alleviate the impact of the National Lottery on the off-course betting industry). Further, it was clear that the merger we are now investigating differs from the one that the MMC investigated in 1989, notably in that the current merger strengthens the position

of the leading bookmaker, Ladbroke, whereas the earlier merger had the effect of creating a stronger second force to compete with Ladbroke (see paragraphs 4.136 and 6.52).

4.4. In the 1989 report the MMC concluded that the merger was against the public interest, but recommended that it be allowed to stand if Grand Met disposed of a small number of LBOs (see paragraph 4.7). This recommendation was accepted by the Secretary of State.

4.5. The MMC noted in that report that a number of concerns had been expressed during their inquiry as to the growing degree of concentration at the national level, and in particular on the role of the three major bookmakers, Mecca/William Hill, Ladbroke and Coral, which between them then accounted for almost 60 per cent of the industry's turnover. These concerns, the MMC said, might well warrant further investigation in the future and should be kept under review.

4.6. The MMC also mentioned other concerns that had been expressed to them:

- (a) The role of the three major bookmakers in the development and operation of SIS and in particular, given that the availability of SIS's services to independent bookmakers was clearly crucial to the competitive structure of the industry, their ownership of 45 per cent of SIS's issued shares.
- (b) The role of bookmakers in greyhound racing. One source of concern was the vertical integration between bookmakers as the intended recipients of the BAGS betting products, bookmakers on the BAGS board and bookmakers in so far as they own greyhound racecourses (as do Ladbroke and Coral). A further area of concern was the complicated computer formulae on which winnings from BAGS forecast and tricast bets were based and the claim that the formulae incorporated an undue element of margin for the bookmaker.
- (c) The practice of bookmakers laying-off money on-course to hedge bets placed off-course and affecting SPs. Whilst this practice seemed to the MMC a reasonable safeguard against the disparity that could otherwise occur between the weight of money bet on- and off-course, it had been suggested to them that by laying-off money shortly before the start of a race bookmakers could shorten the odds on one horse without on-course bookmakers having the chance to lengthen the other odds (hence increasing the bookmakers' overall margin on a race).

4.7. The MMC noted, however, that they were required to investigate and report on the effects of the merger as such. Whilst they thought there might have been grounds for unease about these various characteristics of the industry, and perhaps scope for abuse given its structure even before the Mecca/William Hill merger, the MMC did not believe that the risks of abuse were materially increased by that merger. They therefore concluded that neither the increase in Grand Met's share of the betting industry as a whole, nor the increase in overall concentration of that industry which resulted from the merger, could be expected to operate against the public interest. However, the MMC also concluded that in a small number of local areas (these being defined as within a radius of 400 metres<sup>1</sup> of a particular betting office), where the only competitors before the merger were Mecca and William Hill, the merger had eliminated competition and thus the choice of LBO available to punters within a reasonable distance. In this respect, the MMC concluded that the merger was against the public interest and recommended that Grand Met should be required to divest one LBO in each of those localities to another bookmaker within a period of six months.

4.8. In coming to their conclusion about the effects of the Mecca/William Hill merger, the MMC took into account the legislative framework of the off-course betting industry which aimed, as a matter of public policy, to prevent the undue proliferation of LBOs in order to discourage any stimulation of demand for betting. The MMC took the view that if, within these constraints, local licensing committees were encouraged to take into account the desirability of promoting competition in granting betting office licences, this might ease entry into the many local markets which had a high level of concentration.

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<sup>1</sup>See the second footnote to paragraph 2.11.

## ***Summary of changes since 1989***

4.9. Since the 1989 report there have been a number of changes in both the off-course betting industry itself and in other betting and gaming activities.

4.10. Betting expenditure is related to the state of the economy; it tends to grow when gross domestic product (GDP) is growing and unemployment is at a low level, though as overall income grows, a smaller proportion of it is spent on off-course betting. The off-course betting industry has been less buoyant in the 1990s than it was in the mid and late 1980s. For example, during the mid and late 1980s off-course betting turnover was increasing by between 2.3 and 9.6 per cent a year in real terms, partly, we were told, as a result of the introduction of televised racing into LBOs; however, in five of the eight years since 1989/90 off-course betting turnover fell in real terms (see Table 4.8). While the number of betting office licences declined almost every year from 1973, the annual rate of decline was least during the period 1987 to 1991 (see Table 4.9).

4.11. Since 1989 the number of LBOs not operated by the Big 3 has declined by about 23 per cent (see Table 4.16), and the trend toward increasing concentration of ownership of LBOs has continued. As measured by the share of turnover held by the five largest bookmakers, the increase in concentration was from about 65 per cent in 1989 (following the Mecca/William Hill merger) to about 70 per cent by the end of 1997 (before the Ladbroke/Coral merger) (see Table 4.15). The increase in concentration, as measured by the share of LBOs held by the five largest bookmakers, was from about 46 per cent to about 56 per cent.

4.12. The launch of the National Lottery in November 1994 and National Lottery scratchcards in March 1995 introduced a new form of gaming that had an impact, in terms of reduced turnover, across the whole of the existing betting and gaming industries. As the Home Office noted in 1997, GDP had increased and unemployment fallen since the introduction of the National Lottery. In isolation, these trends would have been expected to cause a significant rise in off-course betting expenditure, whereas in fact expenditure fell in 1996 and was 11 per cent below what might have been expected that year. A statistical analysis had shown that nearly all that gap between actual and expected expenditure in 1996 was accounted for by the effect of the National Lottery.<sup>1</sup> A later Home Office report said that expenditure in 1997 was almost 13 per cent below what might have been expected that year.<sup>2</sup> The effect of the National Lottery can be seen in the decline in money as well as real terms in off-course betting turnover in 1995/96 (see Table 4.8).

4.13. On the other hand, the off-course betting industry has benefited from the relaxation in a number of the legislative restrictions that govern the way it operates. The impetus for some of the changes, which are listed in paragraph 4.17, was to offset, in part, the adverse effects on off-course betting of the introduction of the National Lottery. General betting duty, 8 per cent in 1989, has been reduced to 6.75 per cent. The industry itself has devised numbers-based betting products such as Lucky Choice and 49's to capitalize on the interest in this type of gambling stimulated by the National Lottery. The wider availability of racing information, particularly on domestic television sets (live pictures as well text services), and the widespread use of debit cards mean that some punters now find it easier to make price comparisons and to place their bets by telephone.

## **The regulation of off-course betting**

4.14. Since May 1961 when they were first permitted to operate, off-course betting offices have been closely controlled under legislation that was consolidated in the Betting, Gaming and Lotteries Act 1963 (the 1963 Act). The aim of the legislation was to enable those who wished to bet off-course to do so while minimizing illegal betting and avoiding the encouragement of people to take up the harder forms of gambling. The resultant licensing and other statutory requirements artificially restricted the conduct of LBOs and had a constraining effect on the development of competition in the off-course betting market. Whilst a number of the requirements concerning the conduct of off-course

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<sup>1</sup>See *The impact of the National Lottery on the horserace betting levy: second report*, Economics Unit, Research and Statistics Directorate, Home Office, 1997.

<sup>2</sup>See *The impact of the National Lottery on the horserace betting levy: third report*, Economics Unit, Research and Statistics Directorate, Home Office, 1998.

betting have been relaxed in recent years, the licensing structure has remained largely unchanged. A summary of the licensing requirements and the changes in the relevant regulations is in Appendix 4.2. In the remainder of this section we summarize briefly the main elements.

4.15. Broadly, under the 1963 Act anyone (other than the Tote) who accepts bets on his own account in the course of his business must hold a bookmaker's permit. In addition to the need for a permit, the individual premises to be used as LBOs must each be licensed for the purpose. Before granting a licence, the relevant body must ensure that the statutory requirements relating to the premises and access to them are satisfied, and that the applicant is the holder of an appropriate permit. However, under the 1963 Act a licence may be refused on three discretionary grounds. These are that:

- (a) the premises are not suitable for use as an LBO (having regard to the layout, character, condition or location of the premises);
- (b) the granting or renewal of a licence would be inexpedient, having regard to the demand in the locality for LBO facilities and the number of LBOs available to meet that demand; and
- (c) the premises have not been properly conducted under an existing betting office licence.

4.16. Under the 1963 Act, as originally enacted, LBOs could not be used for any purpose other than the effecting of betting transactions. This remains the general rule, but there are now exceptions. There are other restrictions on the conduct of LBOs and on the nature of the advertising that is permitted. For example, originally LBOs were not permitted to provide any refreshments and could not show televised racing. Any advertising visible from outside an LBO was effectively limited to the proprietor's name, the words 'licensed betting office' and its opening times. Permitted LBO opening hours were 7.00 am to 6.30 pm Monday to Saturday; LBOs were not allowed to open on Sundays.

4.17. Many of the earlier restrictions have since been relaxed:

- In 1986 live television coverage of races was allowed for the first time in LBOs; the sale of soft drinks and certain types of snack was also permitted.
- From 1 March 1993 LBO permitted opening hours were extended during the months April to August each year to become 6.30 am to 10.00 pm.
- From 3 January 1995 LBOs have also been allowed to open on Sundays, reflecting the introduction of Sunday racing.
- From 6 April 1995 the requirement that television screens in LBOs should not be visible from outside (which, until then, had caused LBOs to have obscured windows) was lifted. LBOs were also allowed to have moving text displays; display information in their windows about facilities, events, bets and odds; and provide a greater range of refreshments (sandwiches and snacks).
- From 20 June 1996 LBOs have been allowed:
  - ◆ to provide up to two cash-only gaming machines (variously referred to as 'slot machines', fruit machines and AWP's), each with a maximum prize of £10 (to be increased to £15 from 1 October 1998);
  - ◆ to sell racing periodicals and specialist betting publications; and
  - ◆ to sell a wider range of products (including tickets in 'society lotteries' and 'local lotteries', but not National Lottery tickets) and to collect entry forms for competitions involving an element of skill (such as football pools and spot the ball) and pay out winnings on such competitions.

- From 19 April 1997 LBOs have been allowed to advertise their addresses and facilities in a material form (for example, in newspapers, journals, circulars, letters or posters, but not in cinemas and on radio and television).
- From 1 September 1997 the duration of bookmakers' permits and betting office licences has increased from one to three years (all permits and licences issued since then remain valid until 31 May 2000 and thereafter for each successive period of three years).

4.18. Since 17 October 1972 the Tote has been allowed to accept fixed odds bets on 'any sporting event', and since 27 February 1997 it has been allowed to accept fixed odds bets on non-sporting events (see paragraph 3.41).

## ***Duties, levies and deductions***

### ***General betting duty***

4.19. A general betting duty (GBD) is levied by HM Customs and Excise on the money staked on all fixed odds bets made with off-course bookmakers (the duty on on-course betting was withdrawn on 29 March 1987). The current rate of GBD is 6.75 per cent (from 1 March 1996). GBD is also payable on off-course pool bets with the Tote. A separate duty, Amusement Machine Licence duty, is payable on each AWP in LBOs; the current rate (from 18 March 1998) is £645 per machine per year.

4.20. The total revenue from GBD in the 1997/98 financial year is estimated to have been about £462 million (see Table 4.2). In constant price terms, the annual revenue from off-course betting duty peaked in 1989/90; by 1997/98 it had fallen by about 25 per cent.

TABLE 4.2 Total revenue from off-course general betting duty, 1985/86 to 1997/98\*

Years (ended 31 March)	Total GBD revenue	
	In current prices £m	At constant prices† £m
1985/86	296.6	492.6
1986/87	324.2	521.3
1987/88	355.0	541.4
1988/89	417.1	593.6
1989/90	458.7	612.0
1990/91	479.1	601.7
1991/92	482.1	569.3
1992/93	473.7	536.8
1993/94	501.7	552.4
1994/95	508.6	551.9
1995/96	489.3	516.7
1996/97	453.5	465.2
1997/98‡	462.4	462.4

Source: MMC, based on data from HM Customs and Excise.

\*The GBD rate, which increased from 7.5 to 8 per cent on 12 July 1981, was reduced to 7.75 per cent on 1 April 1992 and to 6.75 per cent, the current rate, on 1 March 1996.

†Deflated using the implied GDP deflator (at market prices), with 1997/98 = 100.

‡Provisional data.

### ***Levies on horse and greyhound betting turnover***

4.21. The Horserace Betting Levy (HBL) is a statutory levy on horse-racing betting turnover; it is administered by the Levy Board. The HBL was introduced in 1961 as the primary means by which the horse-racing industry was to be compensated by the off-course betting industry for the legalization of off-course betting (which was expected to, and did, result in a decline in racecourse attendance). The HBL is now an important source of finance for the horse-racing industry, which regards off-course betting on horse races as a 'product' that depends on the horse-racing industry and is indebted to it for

that reason. In 1996/97 HBL income amounted to about £56 million, contributing about 19 per cent of the cost of staging horse racing in the UK.<sup>1</sup> The HBL provides finance for the improvement of breeds of horses, the advancement or encouragement of veterinary science or veterinary education and the improvement of horse racing.

4.22. The Bookmakers' Committee is a statutory committee constituted by regulations made by the Home Secretary under the 1963 Act. The regulations provide for the committee to consist of 12 members and for those members to be appointed by various bookmakers' trade associations (currently consisting of 6 from BOLA, 3 from the National Association of Bookmakers Ltd (NAB), 2 from the BBOA and 1 from the Scottish SP Bookmakers' Association; the Chairman is chosen by, and from, the members and by custom holds office for two years (the current Managing Director of Ladbroke Racing became Chairman on 1 April 1998)). The Bookmakers' Committee makes annual recommendations for a levy scheme, including estimates of its likely yield, which the Levy Board can either reject or approve (see also paragraph 5.4). If the Levy Board does not approve the original or any renewed recommendation, the Home Secretary decides the scheme to be adopted.

4.23. Under the 1997/98 levy scheme (the third year of an informal five-year levy arrangement covering the period 1995/96 to 1999/2000), the rate of the HBL paid by off-course bookmakers varied with turnover and on whether the bookmaker chose to pay on a company or on a shop scheme basis. Under the company scheme the levy rate was 1.52 per cent of all LBO horse-race betting turnover and 1.15 per cent of telephone betting turnover. Under the shop scheme the levy paid by bookmakers consisted of a fixed fee of £630 per LBO plus 2.4655 per cent of any horse-race betting turnover that exceeded £300,946; a levy of 1.15 per cent was also paid on telephone betting turnover on horse races. Each on-course bookmaker paid a fixed contribution of £116. The average HBL rate paid across all bookmakers is now about 1.29 per cent. In November 1997 the three leading bookmakers, Ladbroke, William Hill and Coral, confirmed their intention, in accordance with the provisions of the five-year levy arrangement agreed in October 1994, to switch on 1 April 1998 from the company scheme to the shop scheme. It is estimated that this switch to the shop scheme will save them a combined total of about £5 million a year, equivalent to about 9 per cent of total HBL income. The Levy Board told us that over the two years 1998/99 and 1999/2000 the reduced payments would broadly balance the additional levy contributions made by the three leading bookmakers during the first two years of the five-year arrangement.

4.24. There are 59 operative horse racecourses in the UK, each providing an average of 20 fixtures a year. The BHB, the sport's governing body, awards fixtures on an annual basis. The racecourses receive a basic daily rate contribution to prize money from the Levy Board for each meeting it classifies as a 'criterion' fixture (that is, arranged at suitable times for generating levy revenue from off-course betting). Sunday and evening criterion meetings receive 80 per cent of the basic daily rate and non-criterion meetings receive 50 per cent. Levy Board money also goes into fixture incentive payments for those fixtures aimed primarily at the off-course punter.

4.25. Bookmakers also make a voluntary contribution to the British Greyhound Racing Fund (BGRF); the BGRF seeks its contributions six months in arrears. In 1997 the BGRF's income was £3.8 million (compared with £2.3 million in 1996), which is equivalent to about 0.3 per cent of LBO greyhound racing turnover that year and to about 3 per cent of NGRC racecourse revenues. Up to February 1996 the nominal contribution rate was 0.25 per cent; on 1 March 1996 the nominal rate increased to 0.4 per cent. The BGRF's Report and Accounts 1997 notes that only an estimated 65 per cent of LBOs make the voluntary contributions. We were told that these included all those operated by the five leading bookmakers, but only about 19 per cent of the LBOs operated by other bookmakers (see also paragraph 5.18).

### *The bookmakers' deduction*

4.26. Whilst the origins of the HBL lay in the idea that off-course bookmakers should contribute to the costs of providing horse racing (see paragraph 4.21), it has become the practice to recover the levy from punters. Off-course bookmakers generally impose a standard percentage, currently 9 per cent, on

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<sup>1</sup>See the *Financial plan for British Racing*, BHB, January 1998.

all bets; this charge has in the past often been described to customers as 'tax', but it is now more generally referred to as 'the deduction'. It is, in fact, simply an adjustment made by bookmakers to reflect GBD, levy payments and other expenses (including VAT<sup>1</sup>).

4.27. On most types of bet punters have the option of paying either a 9 per cent addition to the stakes or a 9 per cent deduction from any winnings. We were told that around 70 per cent of bets were placed with the deduction added to the stakes.<sup>2</sup> For certain types of bet (for example, forecast and tricast bets, greyhound placer bets and 49's), the actual odds incorporate the bookmakers' deduction and it is not recovered separately. (See also paragraphs 3.58 and 3.59, which set out a breakdown of what happens to the punter's pound.)

4.28. As we note in paragraph 4.156, one of the ways in which LBOs compete is by offering temporary periods of 'tax-free' betting, whether across the board or for particular types of bet, or otherwise discounting their prices by adjusting the size of the deduction.

4.29. Unlike GBD, levies are payable only on horse- and greyhound-racing bets. The bookmakers' deduction on sports, numbers and other bets therefore overstates the amount that would need to be recovered just to cover GBD payments. Ladbroke told us that while its total GBD and levy payments marginally exceeded the amount reclaimed from punters in the year ended March 1998, it under-recovered on horse-race betting but over-recovered on greyhound racing and football bets (see paragraph 3.15).

## **The bookmaking industry**

4.30. The UK racing-related betting market has characteristics that are unusual from an international comparative perspective. Only the Irish Republic, South Africa and India have the same pattern as the UK in allowing pool betting (totalizators) to co-exist with betting at odds determined by on- and off-course bookmakers. Of the 30 leading horse-racing countries around the world, 22 have tote monopolies both on- and off-course. (These include the top three countries by betting turnover, namely Japan, the USA and Hong Kong, as well as France.) Four have tote and on-course bookmakers but only tote betting off-course (Australia, Italy, Germany and Belgium). Across all 30 countries, off-course betting turnover on horse racing is on average almost four times that on-course but the UK figure is just over nine times greater.

4.31. The three leading bookmaking firms in the UK are Ladbroke, William Hill and Coral; only two other firms, Stanley and Tote Bookmakers, have more than 2 per cent of the LBO total each (see Table 4.17). Our present inquiry is into the recent acquisition by Ladbroke, the leading firm (both in terms of off-course bookmakers' turnover and number of LBOs), of the third largest firm, Coral. In the supply of telephone betting services only, which accounts for about 8 per cent of off-course bookmakers' turnover, William Hill is the leading supplier, with Ladbroke and Coral coming second and fourth respectively and with Tote Credit in third place (see paragraph 4.132).

## ***The on-course betting market***

4.32. In the case of horse racing, the turf flat race season runs from March to early November, but all-weather flat racing and National Hunt racing (ie steeplechasing and hurdles) take place throughout the year. The BHB, as horse-racing's governing body, is responsible for fixture lists, race

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<sup>1</sup>Betting is exempt from VAT. Accordingly, bookmakers cannot recover their input tax by netting it off against their output tax.

<sup>2</sup>When punters pay the deduction with their stake GBD is charged on the stake plus the deduction. The effective GBD rate is therefore about 7.4 per cent on the stake money. If, for example, a punter placed a £1 bet and paid £1.09, the bookmaker's GBD liability would be  $0.0675 \times £1.09 = 7.36\text{p}$ , leaving the bookmaker with 1.64p to cover the HBL and other payments. Alternatively, if the punter paid only £1 for a £1 bet, the bookmaker's GBD liability would be  $0.0675 \times £1.00 = 6.75\text{p}$ ; with an average return of, say, 85.3 per cent,  $0.09 \times £0.853 = 7.68\text{p}$  would be deducted from the winnings leaving the bookmaker with 0.93p to cover the HBL and other payments. A slightly higher average gross profit rate on those bets on which the deduction is on the winnings partially offsets the difference in the bookmaker's recovery of GBD between the two methods of payment.

programmes and relations with the Government and the betting industry. The Jockey Club, as the regulatory body, is responsible for licensing, discipline and security.

4.33. Racecourse attendance, an important factor in determining on-course betting turnover, fell to an all-time low of about 3.6 million in 1983, rose to about 4.8 million in 1989, fell back a little over the next few years, but reached 5 million in 1997. There have been no verifiable data on the total amount of on-course betting turnover since it ceased to be liable to betting duty in 1987; the Centre for the Study of Gambling and Commercial Gaming at the University of Salford estimates that it was about £680 million in 1996 (see Appendix 4.1). The same source estimates that about 700 on-course bookmakers provide ring and/or rail betting services at horse and greyhound race courses in Great Britain (see paragraph 4.35), implying an average turnover of almost £1 million each in 1996.

4.34. The bulk (about 78 per cent) of on-course betting turnover at horse-race meetings is believed to be taken by bookmakers standing in the betting ring or on the rails dividing the ring from the members' enclosure. Pool betting with the Tote is estimated to account for a further 18 per cent of on-course betting, and betting offices located on-course account for the remaining 4 per cent. The Tote has a statutory monopoly of the supply of pool betting on horse racing in Great Britain (see paragraph 3.41).

4.35. The ring bookmakers are typically small independent businesses with lower overheads than the Tote and on-course betting offices. They accept mainly cash bets and operate by each marking up their own odds on their own display boards normally about 10 minutes, though it can be up to 15 minutes, before the start of the race. The odds displayed in this way by ring bookmakers are known as board prices. Ring bookmakers may adjust their odds several times in the pre-race period, depending on the weight of money taken on each horse in the race and the way the general market is going. Whilst rails bookmakers are not allowed to display prices for the race fixtures at which they are present, they may call out the odds at which they are prepared to accept bets. Rails bookmakers (some of which accept only credit bets) tend to take larger bets than do ring bookmakers, including bets taken from off-course bookmakers. The three leading off-course bookmakers, Ladbroke, William Hill and Coral, are represented on the rails at most horse racecourses.

4.36. On-course bookmakers pay an entrance fee to the racecourse. This, by law, must not exceed the equivalent of five times the public admission price. Typically, there will be 30 or so bookmakers in the ring for midweek horse-racing fixtures and 80 or more for major weekend or other fixtures. There are usually far fewer rails bookmakers.

4.37. As we note in paragraph 4.34, on-course betting shops, many of which are run by the Tote or the Big 3, take about 4 per cent of on-course turnover. Of the 59 racecourses in Great Britain, 10 have a Tote Bookmakers office and an office of one other bookmaker, 27 have only a Tote Bookmakers office and 22 have an office of a bookmaker other than Tote Bookmakers. Apart from Tote Bookmakers, only Ladbroke, Coral, William Hill, Stanley and, at Perth, the Fife BPA operate on-course betting offices.

4.38. In the case of greyhound racing, race meetings are held all year round. The on-course market at greyhound racecourses, particularly for the BAGS races on which most off-course betting takes place, is typically much weaker than at horse racecourses, with perhaps only the minimum required number of four bookmakers present. On-course tote pools, which are run by the racecourse owners on their own account, take a much greater share of total betting turnover at greyhound racecourses than does the Tote at horse racecourses. There are no rails bookmakers at greyhound racecourses but the ring bookmakers at the racetracks operate in exactly the same way as those at horse racecourses. However, we were told by BAGS that it was generally recognized that, because attendance was low and the on-course betting market weak at many greyhound race meetings, the basis for SPs on greyhound races was also weak (see also paragraph 5.42).

### ***The services provided in licensed betting offices***

4.39. LBOs provide off-course betting services on horses, greyhounds, football, other sports, numbers and a variety of other services. They are now also permitted to provide two cash AWP, vending services for hot and cold non-alcoholic drinks and pre-packaged snacks, and to sell society and local lottery tickets (see paragraph 4.17). The larger off-course bookmakers generally accept only

cash bets at LBOs, but Ladbroke told us that many independent bookmakers also accepted credit bets. Many also operate telephone betting businesses: this activity is described in paragraphs 4.61 to 4.63.

4.40. The types of racing bets offered by bookmakers fall into three categories: single bets dependent on the outcome of one race; multiple bets dependent on the outcome of two or more races; and speciality bets, where particular conditions apply to the bet (see also paragraphs 4.45 and 4.77).<sup>1</sup> Examples of single bets include win bets (which require the selected runner to win the race), 'each way' bets (which involve betting on the selected runner either to win or to be placed (normally in the first three)), forecast bets (which require the first and second in a race to be nominated in the correct order of finish) and tricast bets (similarly requiring the first three in a race to be nominated in the correct order). The payout on the great majority of forecast and tricast bets is determined in accordance with a nationally applied, computerized mathematical formula, one of whose components is the SPs of the horses or greyhounds concerned. In multiple bets, which involve a combination of single bets on more than one race, the winnings on the first race (if any) become the stake on the second race, and so on. The most popular horse-racing bets are all singles: win bets, followed by 'each way' and forecast bets.

4.41. Betting on sports other than on racing is at odds set by each bookmaker. Bookmakers are not allowed to accept single bets on the majority of football matches, and most football betting is on multiples covering the results of several matches (in effect, the fixed odds version of football pool betting).

4.42. Lucky Choice is a numbers bet that involves betting on the twice-weekly Irish Lottery; it was designed to help offset the adverse effects on LBO turnover of the UK's National Lottery. Betting on the Irish Lottery was introduced nationally by William Hill in November 1995, and taken up by Ladbroke, Coral and Tote Bookmakers from March 1996 (Lucky Choice products are currently being sold by these four leading bookmakers and four small bookmakers). The game is marketed by Lucky Choice Limited, a company that before the merger was owned in equal shares by Ladbroke, William Hill and Coral. Subscribers are awarded a licence that is available to all bookmakers on an equal and non-discriminatory basis. The size of the licence fee depends on whether the subscriber wishes to use the Lucky Choice logo, slips and point-of-sale promotional material; payment is made direct to Lucky Choice Limited (a number of independent bookmakers, while choosing not to subscribe to Lucky Choice for this purpose, still accept bets on the Irish Lottery). Ladbroke said that, as with other numbers bets such as 49's, co-ordination and co-operation between bookmakers over the introduction of Lucky Choice was in part the consequence of the difficulty in protecting the intellectual property embodied in any new betting and gaming products.

4.43. 49's Limited was set up in November 1996 by Ladbroke, William Hill and Coral to develop and market a new random numbers fixed odds bet and promote it as a product for sale in LBOs (again with the aim of offsetting the effects of the UK's National Lottery on LBO turnover). There is no contract between 49's Limited and off-course betting shops; instead, 49's Limited has contracted out to SIS to organize the service and to make it available to SIS subscribers and to collect the subscription money. SIS grants the LBO subscriber a licence to use the 49's slips and promotional material containing the 49's trade mark. As at the end of June 1998, about 86 per cent of SIS's LBO subscribers paid for 49's. The television transmission was made available to any LBO operator wishing to take the service at a standard monthly fee of £21.67 (plus VAT of £3.79). The monthly charge (equivalent to £5.00 a week net of VAT) was used to cover initial set-up costs, operating costs and all ongoing advertising costs. With effect from 1 July 1998, all LBOs that subscribe to the SIS service have been automatically licensed to use the 49's slips and promotional material with the fee being incorporated into SIS's main charging structure.

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<sup>1</sup>There are many different speciality bets. Whilst they differ to some extent between bookmakers, a speciality bet introduced by one bookmaker, if it proves to be popular with punters, will be copied by competitors. Examples of speciality bets include: 'Placepot' (a multiple bet that requires six horse selections to finish placed in each of six races); Quartet (which requires four horse selections to finish in the first four places); Super plus (which requires from four to eight horse or greyhound selections in separate races which are combined in Doubles, Trebles and Accumulators); and Forecast Patent Plus (which requires two horse or greyhound selections in each of three races combined in Forecast Singles, Forecast Doubles and a Forecast Treble).

4.44. As we note in paragraph 4.178, William Hill recently introduced into its LBOs a new numbers draw game called Magic Numbers that is drawn every 10 minutes throughout the day. William Hill has now made Magic Numbers available to the whole industry.

4.45. The Tote operates tote pools on all horse racecourses in Great Britain and offers a number of types of bet. Winners receive a 'dividend' which represents the total pool of money staked divided by the number of units placed on the winning selections, but less a deduction taken from the pool by the Tote as operator to cover operating expenses and surplus. Any bookmaker who pays an annual Tote Authority fee, which for most LBOs not taking Tote Direct amounts to £416 per LBO per year and for those with Tote Direct is £5 per LBO per year, can take bets at 'Tote odds' (ie the equivalent of the return on the Tote pool), but such bets are not paid into the Tote pool. Tote Direct, formed in February 1992 as a 50:50 joint venture by the Tote and Bass (see paragraph 3.42 (b)), provides a conduit by which horse-racing bets placed in an LBO can be credited to, and winnings paid out of, the relevant Tote pool. The Tote pays a commission averaging just over 18 per cent to the LBOs. The necessary computer terminals are distributed on equal terms to any LBO wanting to take the service.

4.46. Transaction values in LBOs are generally small. We were told by Ladbroke that the average stake per slip in its, and Coral's, LBOs was about £[§] (see Table 4.3). Whilst there may be more than one bet on each slip, the stake per slip figures give a picture of the average value per transaction in Ladbroke's and Coral's LBOs. The majority (almost [§] per cent) of betting slips are for stakes of less than £[§]; only about [§] per cent are for £[§] or more (see Table 4.4). Ladbroke told us that in its experience stakes on bets placed at early prices were about [§] per cent higher on average than the overall average for horse-race bets shown in Table 4.4.

TABLE 4.3 Average stakes per slip in Ladbroke's and Coral's LBOs\*

	£	
	Ladbroke (1997)	Coral (1996/97)
Horse racing	<div style="font-size: 3em; display: inline-block; vertical-align: middle;">{</div> <div style="display: inline-block; vertical-align: middle; text-align: center;"> <p><i>Figures omitted. See note on page iv.</i></p> </div> <div style="font-size: 3em; display: inline-block; vertical-align: middle;">}</div>	
Greyhound racing		
Football		
Other sports		
Numbers		
Total		

Source: Ladbroke.

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\*Based on data relating to each company's latest financial year.

TABLE 4.4 Distribution by value of stakes per slip and per bet in Ladbroke's LBOs

Stake per slip/bet	per cent		
	All slips	Horse-racing bets	Greyhound-racing bets
	<div style="font-size: 3em; display: inline-block; vertical-align: middle;">{</div> <div style="display: inline-block; vertical-align: middle; text-align: center;"> <p><i>Details omitted. See note on page iv.</i></p> </div> <div style="font-size: 3em; display: inline-block; vertical-align: middle;">}</div>		

Source: Ladbroke.

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4.47. The standard of comfort and facilities in LBOs varies widely. As a result of successive relaxations of the legislative constraints affecting LBOs, bookmakers generally now pay more attention to the range and quality of furnishing and fittings in their LBOs than they previously did. The

behaviour and attitude of LBO staff are also important in determining whether customers continue to use a particular betting office.

4.48. Almost all LBOs now have television, text and audio facilities providing the latest information on the betting markets, commentaries, results and general sporting news. Since 1989 the main provider of these services has been SIS. Racing Data, which is owned by independent bookmakers, has provided a text (but not audio and television picture) service to LBOs in competition with SIS since it was launched in 1993 (see paragraph 4.97).

### ***LBO customer profiles and patterns of behaviour***

4.49. Various aspects of the market research material provided to the MMC during this inquiry are summarized in Appendix 4.3; the main features are set out in paragraphs 4.50 to 4.60. We have taken account of the findings of these studies in our analysis of the markets affected by the merger. The following points should be borne in mind when considering these findings: (a) the answers to any particular question may vary depending on the precise way that question is put and on the preceding questions; (b) results may be affected by the make-up of the sample (in particular the representation of those placing the biggest bets or who bet most frequently); (c) survey respondents may not always recall or report accurately their behaviour in the LBO (for example, regarding the amount spent); and (d) care is needed in comparing results from the different studies that distinguish between the features of 'regular' and 'irregular' punters, because in some cases regular punters are classed as punters who place a bet at least once a week and in others they are punters who place a bet at least once a month. One consequence of these factors is that the results from the different surveys may not necessarily be directly comparable. In addition, it is worth noting that, as the research was aimed largely at providing marketing information to operators of LBOs, many of the questions were not worded to provide information for the purposes of an analysis of competition.

4.50. Ladbroke said that consumer research had shown that about 17 per cent of the UK population had placed a bet in an LBO during the previous 12 months (see also Appendix 4.3, paragraph 4). 6 per cent of the population were regular customers, ie placed a bet at least once a month (80 per cent of these placed a bet at least once a week), and 11 per cent were irregular customers, placing bets less frequently than once a month but at least once a year. About 35 per cent of LBO customers were regular users of LBOs; they accounted for about 97.5 per cent of LBO turnover. The non-betting category, 83 per cent of the population, included the 4 per cent who bet less often than once a year.

4.51. Consumer research for Ladbroke shows that, compared with the population as a whole, the great majority (81 per cent) of regular customers are male and, in socio-economic terms, concentrated in the C2DE groups (see Appendix 4.3, Table 1). Irregular customers include a greater proportion of females than the regular customer category, tend to be even younger than the regular ones and show a smaller proportion in the DE groups and larger proportion in the ABC1 groups.

4.52. Consumer research for Ladbroke also showed that betting on horse races was the most popular product sold in LBOs; 85 per cent of regular customers bet on horse races, as do 82 per cent of irregular customers (see Appendix 4.3, Tables 3 and 4). While regular customers also bet on other things in LBOs, the most popular being greyhound races and football matches, far fewer irregular customers do. The products bet on are broadly similar in both Ladbroke's and Coral's LBOs (see Appendix 4.3, Table 5).

4.53. A 1994 survey for Ladbroke found that most punters (70 per cent) started from home the journey that included their visit to an LBO. Some 60 per cent of these punters made the journey on foot, with an average journey time of 15 minutes for all LBOs but 9 to 10 minutes for the Big 3's LBOs (see Appendix 4.3, paragraph 14). Average journey times of 10 or more minutes suggest that typical punters walk more than 400 metres to get to their LBO. Recent customer surveys carried out at Ladbroke's LBOs found that 54 per cent of customers travelled to the LBO on foot (see Appendix 4.3, Table 6). Ladbroke told us that those most likely to walk to the LBO tended to be daily visitors, live locally, be in socio-economic groups DE and be retired or unemployed. About 28 per cent of customers travelled to the LBO by car; they were more likely to live further away and visit less frequently.

4.54. We found that the research findings about why customers visit individual LBOs gave a varied picture depending on who was asked what question and where. A survey for the Levy Board in 1997 put the question to serious punters (ie those who bet on horse races at least once a week) and phrased it in an open way (ie why did the punter visit the LBO on that day). The outcome was that convenience was named as by far the most important factor (see Appendix 4.3, Table 7). Other relevant factors included the quality of racing available on the day, habit and seeking betting information on form and changing odds. Factors such as prices/odds offered, quality of staff and meeting people were not named as being important in their decision about whether to visit the LBO on a given day. To judge from their responses, however, it appears that many of the punters saw the question as asking essentially about the use of their time and not about how they might choose between different LBOs. We therefore think that this piece of research throws relatively little light on that second issue.

4.55. A survey undertaken for Ladbroke in 1996 included a question about why punters visited a particular bookmaker's LBO most and no reasons were offered by way of prompts. The outcome was that convenience factors were named as the most important, being cited by about 71 per cent of respondents (see Appendix 4.3, Table 8). Factors such as habit, prices and staff service were much less important even for regular customers. Ladbroke's research also asked LBO customers what was important to them when visiting an LBO. Respondents reported that the most important things to them were that winnings were paid out promptly and accurately, that the LBO had a convenient location and that its staff were speedy, friendly and knowledgeable (see Appendix 4.3, Table 11). A survey for the Tote in 1998 found that 85 per cent of respondents, when asked why they had visited a particular LBO, said that it was because of its location, proximity or nearness (see Appendix 4.3, paragraph 22). The next most popular reasons were good and friendly staff at 19 per cent and service provided at 9 per cent. Only 2 per cent said that it had been because of better odds, ante-post or early prices.

4.56. Research for William Hill in 1997 found a somewhat different picture. In this research, respondents were offered a choice from five possible reasons for visiting a particular LBO. The survey found that convenient location was the single most important reason (out of the five offered), being cited by around half the customers at William Hill's and Ladbroke's LBOs (see Appendix 4.3, Table 9), but some 20 per cent said that the prices offered/best odds was the most important reason. Staff service was found to be more important for older (65+), female and Sunday LBO users; information and prices were most important for men and for those placing a lot of bets each week and those with larger average bets.

4.57. In order to assess the relative importance of factors other than location, a further piece of research for William Hill excluded location as one of the choices offered to respondents in a question about their choice of LBOs (see Appendix 4.3, Table 10). When the question was put in this way, the most important factors other than location were found to be prices, information and staff service (about 46 per cent of respondents mentioned competitive odds/prices offered as one of the three most important factors).

4.58. A comparison between the Ladbroke and Tote surveys mentioned in paragraph 4.55 and the William Hill surveys mentioned in paragraphs 4.56 and 4.57 has to focus on the reason why the former record such high figures for convenience and such small figures for price, service and ambience. The low figures for service and ambience (as well as price) do not accord with the general view of the major bookmakers (including Ladbroke) about the importance of these factors to the punter. It seems likely that, given the overall importance of the convenience criterion, asking an open-ended question rather than offering respondents a list or menu of possible responses to choose from may have led respondents to provide a picture that overstates the importance of convenience and understates that of price, service and ambience.

4.59. A 1997 survey for William Hill found that there was more customer loyalty to a particular LBO and brand than had been the case in 1994. In 1997 about 42 per cent of William Hill's and about 40 per cent of Ladbroke's customers were loyal to, ie they used only, the one LBO. A further 12 per cent appeared to show brand loyalty, in addition to any brand preferences which led them to be loyal to the one LBO, in that about 54 per cent of William Hill's and about 52 per cent of Ladbroke's

customers used only LBOs operated by the one firm. When respondents were questioned about why they varied the outlet used, the reasons included convenience factors (quoted by 71 per cent), prices (10 per cent) and liking a change (5 per cent). It also appears (from more than one survey) to be the case that those placing more, and larger, bets, and regular as opposed to irregular punters, were more likely to use more than one outlet (see Appendix 4.3, paragraph 25). A survey for Ladbroke showed a higher proportion (61 per cent) of punters who are loyal to one particular bookmaker (see Appendix 4.3, Table 12).

4.60. The data on the number of betting slips placed (Appendix 4.3, Tables 13 and 14), time spent in the LBO (Tables 15 and 16) and total amount staked per visit (Tables 18 and 19) suggest that most regular customers make three or fewer bets, stay for less than half an hour and spend less than £10 on each visit. A small proportion of customers make many more bets and spend more on each visit. The survey evidence suggests that the highest-spending 14 per cent or so of LBO customers account for between 40 and 55 per cent of LBO turnover depending on the bookmaker concerned.

### ***Bookmakers' telephone betting services***

4.61. In addition to cash betting in LBOs, the leading bookmakers and some others offer a national service using centrally-based telephone betting facilities. Telephone betting by consumers with credit accounts or against deposit accounts is a long-standing activity, pre-dating LBOs. Debit betting by telephone, introduced in 1991, became possible following the introduction in 1988 of debit cards (such as Switch and Delta); it now accounts for the bulk of telephone betting. Telephone betting turnover in 1997 amounted to an estimated £535 million (see Table 4.1), having risen by almost a third over the last three years or so. Ladbroke's telephone betting turnover in 1997 was almost three times what it was in 1991, but Coral's grew by only about 44 per cent over the same period. During the course of our inquiry we learned that The Littlewoods Organisation PLC had launched a pilot telephone betting service (known as Bet Direct) in Scotland; the aim, if the pilot was successful, was to launch the service nationally before the end of 1998. One feature of Bet Direct is that the minimum stake is £5 rather than the more usual £10 for telephone betting.

4.62. Compared with the relatively low average stakes per slip in LBOs (see paragraph 4.46), the average stake per telephone call is much greater; Ladbroke said that its average stake per call was about £[§<], and that Coral's was about £[§<].

4.63. The proportion of the total population who bet by telephone is very small (about 0.4 per cent). Telephone punters tend to be overwhelmingly male, working and concentrated in the ABC1 socio-economic group. As with those who visit LBOs, they can be broken down into regular (41 per cent), irregular (39 per cent) and occasional (20 per cent). When compared with telephone customers in general, regular users of telephone betting services show a stronger male representation and are much more strongly concentrated in the 35 to 54 age group; irregular telephone users tend to be younger than regulars (see Appendix 4.3, Table 20).

### ***The determination of odds***

4.64. In this section we summarize the stages by which the odds evolve for betting on horse and greyhound races; for a fuller account, see Appendix 4.4. The section begins with an outline of the selection of horses and greyhounds for particular races; it then describes the process by which the odds on each race evolve.

4.65. Horse-racing meetings usually include a variety of types of race, differing as to distances run, ages of contestants, entry qualifications, and so on. Broadly speaking horse races, which are categorized using a class system, fall into two main groups: handicap and non-handicap. The owner or trainer in advance of a specified deadline for entries makes the entry of horses into particular races. For handicap races, the BHB's official handicapper will decide the weights to be carried by each horse

entered; the aim is to give each horse an equal chance of winning by adding to the weight carried by faster horses. For non-handicap races, weights are determined by that race's eligibility conditions, as set for the particular race; these may allow for different weights to be carried (for example, by three-year-old colts according to whether they have or have not previously won a race), but they are not decided by the horse's individual performance record.

4.66. In greyhound racing too, there are two main types of race: graded and open. In the case of graded races the racetrack's Racing Manager selects up to eight (but usually six) runners from the greyhounds currently in the care of trainers with contracts with that track, according to the grades given by him to each greyhound based on its performance in trials or previous races at the track. With a stock of 300 or more greyhounds to choose from it is feasible to grade runners for very close finishes. This results in relatively high odds for the favourites and consequently greater punter interest in betting on the races. Some 10 per cent or less of greyhound races are open or organized on an inter-track basis, with the owner or trainer applying for entry. As with non-handicapped horse races, the runners in open greyhound races tend to be less well matched in terms of ability.

4.67. Bets generating over 95 per cent of off-course betting turnover on horse and greyhound racing are settled at odds created on-course, whether at a board prices or at SPs (see Appendix 4.4, paragraphs 11 and 12). Odds created by off-course bookmakers themselves fall into three categories, namely ante-post, advertised and morning prices. We refer to these three categories collectively as early prices.

4.68. Ante-post prices are odds offered by off-course bookmakers before the day of a race; they are used for major horse and a few greyhound races and for betting on other sporting and non-sporting events.

4.69. Advertised and morning prices refer to bookmakers' prices advertised, displayed in LBOs or otherwise publicized on the morning of the race. They are generally offered for those races for which sufficient information on the runners' previous form, fitness, weight to be carried, jockeys and the going conditions are known. The smaller bookmakers will, for the most part, not have the resources to make the necessary assessment of form, etc, on which to base their early prices. They may, however, buy in what are called 'tissue prices' from form experts or other bookmakers, or simply follow the prices offered by the major bookmakers that are published in the morning newspapers.

4.70. Ladbroke told us that about 68 per cent of its LBO turnover on horse-race betting was taken at SPs, 30 per cent at board prices and 2 per cent at early prices (see Table 4.5). William Hill also said that 68 per cent of its horse-race betting turnover in LBOs was at SPs, but with 26 per cent at board prices and 6 per cent at early prices. Apart from betting on the Greyhound Derby, Ladbroke said that there was little interest in betting at early prices on greyhound races; 86 per cent of its LBO turnover from betting on greyhound races was placed at SPs and virtually all the rest was at board prices.

TABLE 4.5 A breakdown of off-course betting turnover, 1997

per cent

Betting price	Ladbroke's estimates				William Hill's estimates				
	Number of bets in LBOs*	LBO betting turnover	Telephone betting turnover	Total off-course betting turnover†	LBO betting turnover	Telephone betting turnover	Total off-course betting turnover‡		
Horse races:									
Early prices‡	0.9	2.0	1.4	11.8	2.2	6.4	4.5	11.0	5.1
Board prices	14.5	30.0	21.3	35.3	22.3	25.9	18.3	27.3	19.1
SPs	84.6	68.0	48.3	38.0	47.5	67.8	47.9	40.6	47.2
Subtotal	100.0	100.0	71.0	85.1	72.0	100.0	70.7	78.9	71.4
Greyhound races			20.2	1.4	18.8		19.9	2.6	18.3
Sports betting			4.9	13.3	5.5		5.6	18.2	6.7
Numbers betting			3.9	0.2	3.6		3.8	0.4	3.5
Total			100.0	100.0	100.0		100.0	100.0	100.0

Source: MMC, based on data from Ladbroke and William Hill.

\*Horse races only, based on samples of betting slips placed in Ladbroke's LBOs during the period 1990 to 1995. Excludes Tote Direct bets.

†LBO and telephone betting turnover on horse and greyhound races and sports and numbers betting, but excluding Tote Authority and Tote Direct bets and spread betting.

‡Ante-post, advertised and morning prices. Almost all betting at these prices is on horse rather than greyhound races.

Notes:

1. Ladbroke's two main sources are an annual sample of 650,000 betting slips analysed for the period 1990 to 1995 by the University of Southampton, and Ladbroke's Trading Information System which has captured every bet from a representative sample of 75 of its LBOs since 1994. The data are held on a database that enables queries to be run on bet mix, prices and so on. Sports betting and numbers betting turnover as a percentage of Ladbroke's total business in 1997 is based upon automatic capture at point of sale in all Ladbroke's LBOs. Telephone betting information is based on sampling.

2. William Hill's estimate of the split of LBO turnover between horse racing, greyhound racing and others is derived from weekly surveys of a representative sample of its LBOs and periodic samples of all its LBOs. To provide a breakdown showing turnover at individual bookmakers' odds, William Hill analysed over 250,000 betting slips from a representative sample of 40 of its LBOs over four separate one-week periods (23 to 29 April 1997, 23 to 29 July 1997, 29 October to 4 November 1997 and 21 to 27 January 1998), each LBO being surveyed for two of the four weeks. William Hill told us that it had subsequently carried out similar surveys on 13 May 1998 and during the period 3 to 5 June 1998 with similar results. The telephone betting data are based on all transactions recorded by William Hill's computer system.

4.71. We asked about the relative significance of betting at early prices on the 20 per cent or so of all horse races for which early prices are quoted. Ladbroke said that a review of its records for such races in 1997 showed that 12 per cent of horse-race singles bets in its LBOs were at early prices and 88 per cent were at board prices and SPs. Ladbroke also told us that its telephone betting records showed that for such races about 36 per cent of horse-race telephone bets were at early prices, 33 per cent were at board prices and 30 per cent were at SPs. William Hill told us that it had carried out an assessment of betting at 40 of its LBOs during the Cheltenham Festival (17 to 19 March 1998): the results showed that 15 per cent of LBO horserace betting turnover was at individual William Hill odds, [§] per cent at board prices and [§] per cent at SPs (during this three-day period the proportion of LBO betting turnover accounted for by other sports (including greyhound racing) and by numbers betting fell to about [§] per cent).

4.72. From early on the day of a race until the time when the first shows of on-course prices are received in LBOs via SIS or Racing Data, punters may, for those races for which early prices are available, bet at the early prices offered by individual bookmakers by visiting one of their LBOs or by placing a telephone bet with one of their national call numbers.

4.73. As noted in paragraph 4.35, on-course bookmakers generally begin accepting bets about 10 minutes before the start of horse races, but generally no more than about 6 minutes in the case of greyhound races. From about 7 or 8 minutes before the start of a horse race frequent 'shows' of board prices in LBOs begin, transmitted to them by SIS or Racing Data.

§The MMC have advised that these figures are inaccurate and they have been excised in accordance with section 83(3) of the Fair Trading Act 1973. They should correctly have read '22', '63' and '8'.

4.74. If they wish to bet at a board price, off-course punters will need either to be present in an LBO or to telephone the bet during the 'show' period (if betting by telephone the punter would find out about the latest prices from the bookmaker or from on-screen text on a domestic television set). The percentage of bets placed at board prices has risen since the introduction of SIS and they now account for about 14 per cent of all horse-racing bets in LBOs and up to 30 per cent of the horse-racing betting turnover in LBOs (see Table 4.5). However, about 84 per cent of the bets placed in LBOs on horse races, representing about 68 per cent of horse-race betting turnover, are at SPs. SP bets can be placed at any time of the day up to the start of the race.

4.75. Observers known as SP returners, who are representatives of MGN Ltd (publisher of the *Racing Post* and *The Sporting Life* (which ceased publication in early May 1998)) and the Press Association, determine what they consider a fair and proper price at the 'off' for each runner (the SP). In so doing, they take into account the odds available from all ring bookmakers considered by the SP returners to have a proven record of accepting large bets (normally bets in excess of £400, but in weak on-course markets they may also take into account odds offered by bookmakers willing only to accept smaller bets). The SP returners also check with rails bookmakers for prices at which they accepted any large bets. SIS reimburses the cost of the SP returners in full (except that the two employers, MGN Ltd and the Press Association, meet pension costs and redundancy payments).

4.76. At the close of on-course betting on a race, the SP returners meet to compare notes and agree on the price for each runner that represents the best generally available price at the time the race starts. The SPs will be reported either during the race or immediately afterwards. The result of the race and the SPs for the winning and placed horses are provided to SIS, Racing Data and the other news agencies for transmission to LBOs and for general publication.

4.77. As noted in paragraph 4.45, punters in LBOs may also place bets off-course at 'Tote odds' where available. The Tote offers a number of different types of bet. The most popular is the Placepot (a multiple bet covering six races) followed by win, place and forecast bets. Tote Direct outlets in LBOs also accept bets and pass them on to the actual Tote pool in return for a commission. Since its launch in 1992, Tote Direct has become available in some 4,400 LBOs, including all those of Ladbroke and Coral (though none of William Hill's or Stanley's).

4.78. The larger bookmakers each offer higher maximum limits on winnings than do the smaller ones, though in all cases bookmakers' limits vary according to the type of bet and event concerned. Ladbroke's, William Hill's, Coral's and Tote Bookmakers' payout limits for horse racing covered by the SIS service and BAGS meetings are each £500,000 and Stanley's, Jack Brown Group's and Done Brothers' are each £250,000. Smaller bookmakers' overall limits are sometimes less than £25,000. Ladbroke told us that it had paid out £25,000 or more on only one in every 5 million bets taken during the first five months of 1998 (see paragraph 6.44). In its estimation, a typical LBO would on average pay out £10,000 or more on a bet only once every six years. However, some punters are attracted by the prospect, however remote, of making a big win from a small stake (see paragraph 4.92), and their perceptions of a bookmaker's ability to make a big payout may influence their choice of LBO in some cases.

## ***Laying-off***

### ***Horse racing***

4.79. In this section of the chapter we describe laying-off. A form of hedging, laying-off is the placing of bets by off-course bookmakers with on-course bookmakers. We summarize and assess this and the other information we received about laying-off in paragraphs 2.46 to 2.51 and 2.163 to 2.166.

4.80. Bookmakers have two basic objectives when laying-off: (a) to hedge their liabilities on the outcome of particular races by betting on a horse that is losing money in their book; and (b) to bring the on-course odds (which will determine the actual SPs) for particular runners in a race more into line with the pattern of off-course bets (most of which will have been placed, prospectively, on whatever the SP turns out to be). Off-course bookmakers tend to leave laying-off until fairly late in the run-up to the start of a race partly because LBO customers tend to place their bets close to the start of the race and partly so that any success they have in shortening a price is not lost by the market having time to absorb the hedging money and, possibly, adjusting the price again. In part because of the difficulties

they have in contacting on-course bookmakers from off-course in the immediate run-up to a race, many smaller off-course bookmakers (who cannot afford an on-course representative) hedge their bets, when they need to, with other off-course bookmakers (see, for example, paragraphs 5.28 and 5.54). In Ladbroke's view, however, most hedging by independent bookmakers was done with the on-course market (see paragraph 6.51).

4.81. As, on average, 10 per cent of stakes are placed on-course and 90 per cent off-course, the amount of money staked off-course on a particular runner in a race will normally far exceed the amount placed on-course. But it is the on-course market where board prices and SPs are determined. Bearing in mind that the on-course market often does not form until 7 minutes or so before the race, this is a very fast-moving process.

4.82. The issue of laying-off by the leading bookmakers was considered in the 1989 report, which found<sup>1</sup> that the Mecca/William Hill merger did not increase the risk of manipulation of SPs to the detriment of the punter. In the context of the present merger inquiry too, one issue is the likely consequences of the merger for the level and pattern of laying-off by the merged entity and the implications for off-course betting prices and for the on-course market itself. Whereas before the merger Ladbroke and Coral acted independently, after it, as a single entity, the enlarged Ladbroke would be able to take decisions that took account of pre-race information on form, betting patterns and turnover across the combined group.

4.83. With information pooled between Ladbroke and Coral, there might be a few more occasions when hedging was unlikely to be carried out, or involved less money, because of the offsetting of liabilities across the combined business. Moreover, when laying-off Ladbroke and Coral sometimes back different horses in the same race; Ladbroke told us that this had happened in 11 races, a quarter of the races on which both companies had laid-off, in the first four months of 1998 (Ladbroke emphasized that these 11 races were out of a total of 2,030 horse races in that period) (see paragraph 6.73). Thus, to some extent, they had offset each other's bets. For these reasons, on-course bookmakers might lose some of their hedging business from Ladbroke and Coral as a result of the merger. A number of those giving evidence to us in this inquiry thought that any such loss of income would be detrimental to the on-course market (see, for example, paragraph 5.93). Ladbroke, however, argued that the merger had virtually no consequences for the on-course market (see paragraph 6.51).

4.84. The relative influence of individual off-course bookmakers' interventions in the on-course market depends on the quality of their information as well as on the amount of money they lay. In terms of money spent, however, Ladbroke and William Hill are the two most significant off-course bookmakers laying-off into the on-course market. In 1997 Ladbroke's total laying-off activity amounted to about £[ ] million on [ ] races (ie about £[ ] per race on average), at a [ ] of £[ ]. Ladbroke's laying-off is equivalent to about 1 per cent of all ring and rails bookmakers' turnover in the on-course market, but it represents a larger proportion (5 per cent or more) of the on-course betting turnover on the races in which it occurred. Ladbroke told us that its hedging decisions tended to reflect what it perceived as imbalances between the weight of money staked on a horse on-course compared with off-course, which might in turn be influenced by an opinion from its in-house form experts on what the runner's price should be given its form, etc. The amount of hedging by Ladbroke had declined over the last ten years reflecting a difference in approach; Ladbroke did not expect any change as a result of its acquisition of Coral (see paragraphs 6.51 and 6.73).

4.85. In 1997 William Hill's total laying-off activity amounted to about £[ ] million on [ ] races (ie about £[ ] per race on average). William Hill said that it hedged in the on-course market in order to bring a downward adjustment in the price of particular runners. When making a hedging decision, William Hill took into account the type of race meeting and the amount of hedging it considered was needed to reduce its liability by affecting the on-course price.

4.86. Ladbroke said that Coral's laying-off activity had been much less than either Ladbroke's or William Hill's (see paragraph 6.72). This was because Coral's monitoring arrangements had not been sensitive enough to enable it to assess accurately its liabilities on individual races. Coral's laying-off turnover in 1996/97 was £[ ] on [ ] races (ie about £[ ] per race on average), with a [ ] of £[ ]. In terms of the total turnover in the on-course market (ring and rails bookmakers), Ladbroke

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<sup>1</sup>See paragraphs 3.29 to 3.32 and 6.45 to 6.46 of the 1989 report.

added that Coral's hedging represented just over 0.1 per cent. Coral had typically laid-off when it had taken large bets from apparently informed customers, rather than on the basis of its total off-course liability.

4.87. Ladbroke estimated that the total amount laid-off by bookmakers other than the Big 3 in 1997 was around £1 million.

### *Greyhound racing*

4.88. The NGRC rules allow up to eight greyhounds in a race, but the normal number is six. Over 92 per cent of races at NGRC tracks are graded races (see paragraph 4.66) to ensure the closest finish. The number of on-course bookmakers present at greyhound-racing meetings varies greatly, though it is usually in the range five to ten. The laying-off process happens in much the same way in greyhound racing as in horse racing. However, there are usually very few bookmakers in the ring for BAGS afternoon meetings (though BAGS does require at least four to be present), and the time lapse from the first show of prices in the ring to the start of the race is short, often little more than 4 or 5 minutes. Ladbroke estimates that the amount of money laid-off is much smaller than for horse racing, amounting to only about £0.5 million a year in total.

### *The bookmakers' margin*

4.89. With a relatively stable mix of business and the necessary skill and care in setting odds, bookmakers should, over the longer term, experience fairly constant average profit margins. On a day-to-day basis, however, profit margins can fluctuate significantly in response to unexpected results. We noted that over the period 1990 to 1997 Ladbroke's average gross margin, including betting duty, was relatively consistent, ranging from a low of [ ] to a high of [ ].

4.90. The bookmaker aims to compile a 'book' on a particular race or event so as to yield a built-in profit percentage called the 'over-round' (sometimes referred to as the betting percentage); this is usually in the range 110 to 115 per cent (see Appendix 4.4, paragraph 7). Bookmakers' margins tend to vary with the number of runners in a race and the number of contingencies covered in a particular bet. For example:

- (a) for single win bets on a race with only three or four runners the theoretical SP margin may be as low as 5 to 10 per cent (even lower where the on-course betting market is strong);
- (b) for single fixed odds bets on football matches which have three possible results (home win, away win or a draw) the theoretical margin averages about 12 per cent; and
- (c) for a 20-runner horse race the theoretical SP margin may be 40 per cent or more.

4.91. There is often keen competition among on-course bookmakers in the setting of the odds which 'price' favourites, resulting in the odds being closer to the true price than they would otherwise have been. Actual margins achieved by on-course bookmakers, therefore, tend to be rather lower than the theoretical margin.

4.92. Ladbroke said that punters were attracted by what they saw as 'the value of the betting opportunity'; for example, those who opted to bet with Tote products, particularly on outsiders, were attracted by the potential of a big dividend for a small stake (for example, through the Placepot and other multiple bets). It said that the majority of betting turnover on horse races came from single bets, on greyhound races from single and forecast bets, and on football bets from nominating five or more winning teams. Within this variety, some punters were attracted to football and numbers bets in the form of multiple bets (ie bets that cover the outcomes of several events with the odds calculated cumulatively) which are harder to forecast; bookmakers make a larger margin on them as a percentage of the amount staked (see paragraph 3.53).

4.93. Bookmakers' average margins differ for different types of betting; see, for example, the different margins on horse and greyhound racing, football and numbers set out in paragraph 3.53. The

size of margin is affected not only by theoretical margins for the individual events, but also by the mix of bet types used by punters and their success or otherwise in 'beating' the theoretical margin. The bookmaker's theoretical margin tends to be larger for events in which it is more difficult to find the winner, such as handicap races with a large number of runners, and the more complicated bets such as forecasts or multiple win bets (for example, doubles, trebles and accumulators).

## **Related markets and services**

### ***Satellite Information Services***

4.94. SIS provides racing information services to its subscribers; these services include television pictures, commentaries and betting information. SIS has been granted the necessary rights of access to racecourses for this purpose by the RCA on behalf of its members. SIS currently pays £12 million a year to the RCA for these rights and associated facilities. The contract can be terminated by either party giving the other at least two years' notice expiring at any time after April 2002.

4.95. The SIS service was launched in May 1987 by Ladbroke, Grand Met (which owned Mecca), Bass (which owned Coral) and Sears plc (which owned William Hill) (see paragraph 5.72). They had been dissatisfied with the performance of Exchange Telegraph Ltd, which had long provided an audio reporting service (known as the 'blower') to LBOs. SIS's shareholders before and after the present merger are shown in Table 3.24. The Racing Channel, a satellite and cable television channel launched by SIS in November 1995, now provides similar services (though with less emphasis on betting information) direct to subscribers' homes.

4.96. Under the 1963 Act it is unlawful for pictures of sporting events to be shown on television in an LBO by means of a television service that is not available to the general public or to other licensees generally. In fact, not only SIS's racing pictures but also its text services and its audio commentary are made available to all off-course bookmakers who wish to become subscribers. The fees for each LBO are the same for any given combination of services. SIS's single-screen picture and audio service, known as FACTS (Full Audio and Captions Televised Service), costs £5,860<sup>1</sup> (plus VAT) per LBO per year with effect from 1 July 1998. An audio-only service is also available at £2,058 a year (plus VAT). SIS also offers two grades of text service, SISTEM and NEXSIS, both of which are available for six, eight or twelve screens and include hardware leasing, maintenance and text betting information. The annual fee ranges from £1,788 (plus VAT) to £4,600 (plus VAT) depending on the length of the contract, the number of screens rented and whether the higher-quality NEXSIS services are taken.

4.97. Bookmakers have the option to subscribe to the SISTEM or NEXSIS services, or to obtain their own hardware and seek an alternative text and odds provider. Various independent bookmakers set up Racing Data in 1993 as just such an alternative (all Racing Data subscribers also subscribe to SIS's FACTS picture service). The basic annual fee for Racing Data's text feed and odds service is £1,303 (including VAT). Currently about 260 LBOs subscribe to the Racing Data service.

4.98. Seven bookmakers (Ladbroke, William Hill, Coral, Stanley, Tote Bookmakers, Done Brothers and Peter Smith Racing) each have their own studios to provide an in-house text service as an 'overlay' to SIS's service; they have purchased or leased their own hardware to do this. The smallest of them, Peter Smith Racing, operates 38 LBOs, mostly in the Yorkshire area. Whilst this option is open to all SIS subscribers, it would only be economic for those having a sufficient number of LBOs to bring the average cost per LBO of the necessary satellite space (or other data distribution capacity) and studio facilities down to a commercially viable level. Ladbroke provided a comparison of the cost per LBO to it and to a typical independent bookmaker of a picture and text service (see Table 4.6). In preparing this comparison, Ladbroke estimated that the cost of the Racing Data service would be £2,338 per LBO per year, made up of the annual fee plus a £5,846 initial outlay for the necessary equipment, the depreciation on which would be £835 a year over seven years, and £200 a year for a maintenance contract after the second year.

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<sup>1</sup>There is a discount of £53 (plus VAT) when payment is made by direct debit, and there is a further £75 (plus VAT) reduction if the single monitor screen used in the LBO is not leased from SIS.

TABLE 4.6 A comparison of the costs of racing pictures, audio and text services

Service	Ladbroke	Independent using SIS	£ per LBO
			Independent using Racing Data
<i>Pictures and audio service</i>			
SIS FACTS*	7,278	7,278	7,278
<i>Text services</i>			
SIS†	-	2,101–5,405	-
Racing Data‡	-	-	1,869–2,338
Ladbroke's in-house§	2,517	-	-
Total: pictures, audio and text	9,795	9,379–12,683	9,147–9,616

Source: MMC, based on information from Ladbroke and Racing Data.

\*The cost of SIS's FACTS service is calculated as £5,860 less £56 for payment by direct debit, plus VAT, plus £353 for an evening service and £106 for a Sunday service.

†SIS's full leasing and maintenance service charges from 1 July 1998, including VAT. The lower figure is for the cheapest service, namely SISTEM 6, and the higher figure is for the most expensive service, namely NEXSIS 12. The figure for SISTEM 12, the nearest comparable to Ladbroke's in-house service, is £3,007.

‡The figure of £2,338 is made up of the service fee (£1,303), maintenance charge (free for the first two years then £200 a year thereafter) and the depreciation cost (estimated to be £835 a year over seven years on equipment costs of £5,846) for a 12-screen system. The lower figure of £1,869 is for a six-screen refurbished system.

§Made up of studio expenses, additional SIS charges amounting to £508,000 (for cabling, data and text feed and a relay system), hardware and software costs (including annual depreciation of almost £2 million and maintenance costs of £1.3 million a year).

4.99. During the period from SIS's launch in 1987 to 1992 the pictures for its television coverage of races, other than those provided by the BBC and Channel 4 television, were provided by Racecourse Technical Services Limited, then a subsidiary of the Levy Board. Since 1992 Chrysalis Television Mobiles (the relevant assets and operations of which SIS bought in October 1996) has provided most of SIS's pictures. Racecourse Technical Services Limited, since renamed RaceTech, continues to provide full television coverage for the racecourse stewards, with the pictures being used from time to time by SIS and Channel 4 television. RaceTech was sold for a nominal sum to the BHB in 1994. In March 1998 RaceTech was onsold to the RCA, again for a nominal sum.

### ***Greyhound tracks***

4.100. A list of all 33 NGRC greyhound racetracks together with their owners is at Appendix 4.5. Ladbroke, through Ladbroke Stadia Ltd (a separately-managed Ladbroke company), owns two of them, Monmore Green (Wolverhampton) and Crayford. Coral, through Coral Stadia Ltd (a separately-managed Coral company), also operates two, Brighton & Hove and Romford. None of the others is owned by companies which are also bookmakers. Almost two-thirds of greyhound racetrack revenue comes from on-course catering and tote retention (about 36 per cent and 27 per cent respectively). The remainder is accounted for by admission charges and on-course bookmakers' contributions (17 per cent), BAGS revenue (10 per cent), BGRF contributions (4 per cent) and miscellaneous other activities (6 per cent).

4.101. Ladbroke's greyhound racetracks accounted for 7.9 per cent of all NGRC race meetings in 1997 and Coral's for 9.4 per cent (for percentages of BAGS meetings see paragraph 4.108). In turnover terms (as measured by tote turnover at the NGRC racetracks), Romford is the third largest NGRC greyhound racetrack (after Walthamstow and Wimbledon), Brighton & Hove is fourth, Crayford is tenth and Monmore Green is fifteenth. The share of turnover at NGRC racetracks accounted for by Ladbroke's racetracks in 1997 was 5.6 per cent and by Coral's was 15.1 per cent.

4.102. Ladbroke operates only one on-course betting office at a greyhound track, at Walthamstow Stadium. Betting at this office is only on 'away' meetings. Coral operates on-course betting offices at the Romford and Hove greyhound tracks. Again, bets are accepted for 'away' meetings only.

## ***Bookmakers' Afternoon Greyhound Services Limited***

4.103. BAGS was originally set up in 1967 by the then leading bookmakers as a non-profit-making company to provide an afternoon greyhound racing service to LBOs on a fee-paying basis when other racing was not taking place. Such a service was especially important to LBOs in the winter when horse racing could be badly affected by the weather. Since the extension of LBO opening hours (see paragraph 4.17), BAGS has also provided greyhound races in the intervals between horse races on summer evenings and on those Sundays when there is horse racing.

4.104. Although daytime greyhound-racing meetings commissioned by BAGS are held especially for the off-course betting industry, they are normal meetings open to the public (normally without admission charge), albeit with attendances that average 220 (see paragraph 5.41) and occasionally fall below 100 people. The BAGS races are staged under the control of the track managements to the same standards as other NGRC greyhound meetings. Virtually all BAGS races are graded ones.

4.105. Form for the daytime meetings is displayed in most LBOs on a spreadsheet comparable in scope to the information provided on track racecards. Pool betting on greyhound races is not available in LBOs. Most greyhound betting is on win singles and on forecast and tricast bets that are settled using the BAGS computer forecast and tricast formulae (see Appendix 4.6). A leading bookmaker estimated that about 97 per cent of off-course betting turnover on greyhound races was taken on races at BAGS meetings.

4.106. BAGS contracts require each greyhound racetrack owner to grant it the sole and exclusive right to transmit, and to license any other person(s) to transmit, text information and sounds or visual images in respect of greyhound races at BAGS meetings. In return, BAGS pays a fee to the track (currently £1,100 per meeting plus VAT). BAGS, in turn, has granted SIS the non-exclusive right to televise the race meetings it commissions. The fee paid by LBOs for the BAGS service is now included within the FACTS fee charged by SIS to LBOs: there is no contract between BAGS and individual LBO operators. The money BAGS receives from SIS is enough to fund the BAGS fixtures in line with the agreed annual fixture list and BAGS' overheads. BAGS' fee income in the year ended 31 October 1997 was £5.5 million (see paragraph 3.75), which broadly matched its costs.

4.107. BAGS contracts are awarded on an annual basis to those greyhound tracks that are successful in a competitive tendering process. The tendering process commences in May and formal contracts are signed prior to the start of the BAGS season in November each year. Any greyhound racetrack may respond to BAGS' advertisements in the sporting press inviting tenders for BAGS' contracts.

4.108. Eighteen greyhound racetracks tendered for BAGS contracts in the 1997/98 racing season and 13 were successful. Of these, four are owned and operated by two companies which are also bookmakers (Ladbroke's Crayford and Monmore Green racetracks and Coral's Romford and Brighton & Hove racetracks). Ladbroke's two racetracks accounted for 26.1 per cent of all BAGS races in 1997/98 and for [ ] per cent of BAGS payments to racetracks, and Coral's for 16.8 per cent of BAGS races and for [ ] per cent of BAGS payments. Between them, therefore, these four greyhound tracks accounted for 42.9 per cent of all BAGS races in 1997/98 and for [ ] per cent of BAGS payments to racetracks, despite their much lower share of total NGRC racetrack revenue (see paragraph 4.101).

4.109. The number of races at the Ladbroke and Coral racetracks and the income received from them (based on BAGS' 1997/98 season's programme of planned races) are shown in Table 4.7. The average cost to BAGS of the 1997/98 racing season is estimated to be just over £449 per race. The average cost per race to BAGS is £[ ] at Ladbroke's Crayford track; this is [ ] than the average of all BAGS races and [ ] than the average of BAGS races at tracks other than those owned by Ladbroke and Coral. (Ladbroke told us that this was primarily because Crayford, as well as Romford, had races every Saturday morning, when transport and other costs were higher. Also, like most tracks, Crayford and Romford had races on Saturday evenings and therefore had the additional costs of establishing sufficient kennel strength to support racing twice in one day.) We were assured that there is no significance in the fact that, as Table 4.7 shows, in the 1997/98 racing season the average cost to BAGS of races at Ladbroke's two racetracks ([ ]) is [ ] the average cost at Coral's two tracks. The figure of £[ ] is [ ] than the BAGS average and [ ] than the average of the tracks other than Ladbroke's and Coral's.

TABLE 4.7 BAGS race meetings at Ladbroke's and Coral's racetracks, 1997/98 racing season

Racetrack	Number of meetings	Number of races	Cost to BAGS £	Average cost per race £	Picture coverage* £			
Crayford	104	1,148	<div style="border: 1px solid black; padding: 10px; display: inline-block;"> <i>Figures omitted. See note on page iv.</i> </div>					
Monmore Green	115	1,366						
Subtotal: Ladbroke	219	2,514						
Romford	89	962						
Hove	57	660						
Subtotal: Coral	146	1,622						
Subtotal: Ladbroke and Coral	365	4,136						
Others	512	5,499						
Total: all BAGS tracks	877	9,635				4,329,035	449.30	964,700
Ladbroke and Coral as a percentage of total	42	43				[	∞	]

Source: MMC, based on data from Ladbroke.

\*See paragraph 4.106.

Note: The number of races in any particular meeting (typically 8, 10 or 12) has an effect on the cost per race; the cost per race data shown in this table are, therefore, averages across the 1997/98 BAGS programme before any additional meetings or other ad hoc programme changes.

## Market definition

4.110. The bookmaking industry, described in paragraphs 4.30 to 4.93, comprises on-course and telephone betting as well as the much more substantial off-course betting through LBOs. In considering the actual or likely effects of a merger, it is necessary to identify the relevant market within which the impact of the merger is likely to be most significant, and to assess the extent to which competitive influences from within that industry or from other industries and activities may constrain the ability of a dominant firm to take advantage of its market position.

4.111. The test is normally construed in terms of the ability of a dominant supplier to raise prices (or reduce quality) to a material degree, in the long term, without suffering a reduction in profitability as a consequence of a loss of custom. Such an assessment will normally involve consideration of the structure of supply in the industry, competitive relationships between the key firms, the availability of substitute products and evidence as to the nature of consumer purchasing behaviour. Thus a product or group of products will be classed as a separate market where there are no close substitutes (actual or perceived), while market dominance is strengthened the more narrowly the market is defined and the less competition there is between suppliers.

4.112. In the case of products and services supplied to the final consumer, it is often necessary, as in this case, to examine both national and local aspects of competition bearing upon the identification of the relevant market. We have not, however, received any suggestions that betting should be seen as part of a wider consumer market, such as all entertainment or leisure expenditure, nor do we believe this to be an appropriate approach to defining the relevant market in this case. We do, however, need to consider the extent to which off-course betting, particularly that through LBOs, and the enhanced position of Ladbroke in this market, may be subject to competitive restraints from other modes of betting, particularly on-course betting, pool betting and telephone betting. In this chapter we consider what division applies and why. The conclusions we reach on market definition are set out in paragraphs 2.63 to 2.68 and 2.113 to 2.120.

## Assessing the market

### Forms of betting

4.113. In this section we consider which factors are relevant in deciding whether on- and off-course betting constitute one market; second, whether pool betting should be seen as separate; and

third, whether telephone betting is a different market from betting in LBOs. On the first issue, we noted that on-course betting turnover is equivalent to about 11 per cent of off-course betting turnover on horse and greyhound racing. Despite this much smaller turnover, it is clear that prices determined by the on-course ring and rails bookmakers are used for the great majority of the business conducted by off-course bookmakers. Laying-off and hedging activity by off-course bookmakers in the on-course market creates an integral link between the two, but on-course betting is only possible for those punters who are in a position to visit a racetrack for this purpose.

4.114. As regards pool betting, it might be supposed at first sight that betting at Tote odds would operate as a constraint on the fixed odds prices available for horse races from off-course bookmakers. Whilst punters are generally aware of both types of betting, however, they tend to have a strong preference for one or the other and restrict themselves accordingly.

4.115. The third issue is whether betting in LBOs and telephone betting constitute one market or two. Telephone betting turnover is only about 9 per cent of betting turnover in LBOs. According to Ladbroke, about 2 per cent of all LBO users (and 4 to 5 per cent of regular users) also placed telephone bets; on the other hand about 80 per cent of those who bet by telephone were also regular users of LBOs.

4.116. Telephone betting prices are readily available nationally in the sporting press, through text services on domestic television sets or by telephone. This means not only that telephone punters do not need to visit LBOs to find out the available prices but also that they can readily compare prices between the different bookmakers offering telephone betting facilities. However, the availability of prices in the press and on television also means that many of those who bet in LBOs now have access to information on bookmakers' prices, whether directly or indirectly. Both this and a number of practical reasons are likely to limit the extent to which a bookmaker offers different prices to its telephone customers compared with its cash betting customers in its LBOs.

4.117. There are, on the other hand, differences in the characteristics of telephone betting and the use of LBOs. The great majority (about 78 per cent) of telephone betting is on horse races, though football betting by telephone is also important (see Table 4.5). The average size of telephone bets is much greater than the average LBO bet (see paragraph 4.62); this in part reflects the minimum size of debit card telephone bet, which is (as required by the banks) £10, and the fact that LBOs normally only accept cash bets. Unlike LBOs, whose opening hours are regulated (see paragraph 4.17), there are no restrictions on the trading hours of telephone betting facilities; these are usually available whenever there are sporting events in the UK, or abroad, on which UK punters want to place bets. Telephone betting therefore has the convenience of being possible at almost any time and at any place where the punter has access to a telephone.

### *Geographic areas*

4.118. The process of identifying relevant geographic markets is, in principle, the same as for product markets. Thus, drawing on what is said in paragraph 4.111, we take the relevant test for defining a geographic market to be that area that a sole supplier could impose successfully a small but significant and non-transitory increase in the total price paid by its customers or an equivalent small but significant and non-transitory reduction in quality. However, as the MMC noted in their 1989 report, any approach to measuring local markets must be to some extent pragmatic. At that time, whilst the Mecca and William Hill chains between them accounted for about 15 per cent of LBOs in Great Britain as a whole, in the Greater London area their combined share exceeded 30 per cent. In 10 of the 30 London petty sessions areas or divisions (PSDs<sup>1</sup>) their combined share ranged from 42 to 59 per cent. The MMC therefore considered the distribution of Mecca's and William Hill's LBOs in that area in more detail. For this purpose, after examining the data broken down into PSDs and postal districts, the MMC found it useful to examine narrowly defined geographic areas based on a radius of

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<sup>1</sup>We use the abbreviation PSD to refer collectively to petty sessions areas and to petty sessions divisions (see glossary).

about 400 metres<sup>1</sup> around existing LBOs. This area, the MMC said then, provided some indication of both the choice that would be available to a dissatisfied punter within walking distance and the competition faced by any particular LBO.

4.119. Evidence on the size of the geographic market in the case of LBOs is available both for the demand side (from consumer surveys) and for the supply side (in the form of marketing behaviour). The relevant information from consumer surveys is set out in paragraphs 4.53 to 4.58 and in Appendix 4.3, paragraphs 14 to 22. As for the supply side, Ladbroke told us, for example, in evidence submitted on its behalf by National Economic Research Associates (NERA), a firm of economic consultants, that both Ladbroke and Coral monitored centrally any departures from the standard national products and prices they offered that had been initiated by their local LBO managers. Although, we were told, the extent of such local initiatives was limited in absolute terms, they could be used for testing the geographic scope of the local markets in which Ladbroke's and Coral's LBOs operated. An analysis by NERA of price discounting by Ladbroke's local LBO managers showed that as at 31 March 1997 there were 195 cases (affecting 10.2 per cent of Ladbroke's LBOs) and as at 31 March 1998 there were 143 (affecting 7.5 per cent). An analysis of these responses according to the distance between the Ladbroke LBO and the competing LBO showed that 80 to 89 per cent of Ladbroke's local special offers were in response to initiatives taken by a competitor within 400 metres of its LBO. The Coral data showed much the same pattern. NERA was also able to test whether there were material differences between the scope of local markets in the London postcode areas and those elsewhere. The data suggested that LBOs in London might operate in somewhat smaller local markets than those relevant more generally, but with a small London sample size this difference was probably not significant.

4.120. In Ladbroke's view, competition in the off-course betting market had remained essentially local and the 400 metre measure used by the MMC in the 1989 report continued to represent the best available basis on which to assess local competition. Ladbroke presented us with a considerable volume of evidence in support of this view (see paragraphs 6.2, 6.13, 6.14, 6.60, 6.61, 6.66 and 6.77).

4.121. A number of third parties commented on whether the 400 metre measure was still an appropriate one. Some, including the Tote and several bookmakers, agreed that it was. Several others, including William Hill, the NAB, the BBOA and the Scottish SP Bookmakers' Association, thought that it was not. In the view of these parties, the 400 metre measure was arbitrary in that it failed to take account of the particular local circumstances in which each LBO traded.

4.122. More generally, the off-course market had changed in significant respects since 1989 with the relaxation of many of the restrictions on the advertising of LBOs and betting products and the easier access at a national level to comparative information (through, for example, television racing programmes and text services) on bookmakers' prices. Arguments of that kind tend to suggest that the LBO market is not local at all, but national.

4.123. The MMC have had to assess the extent of geographic markets in a number of other inquiries. For example, in a number of inquiries into the supply of beer, the MMC assessed the extent of concentration of brewer-owned public houses at the national, regional and PSD levels.<sup>2</sup> In the Elders/Grand Met merger case, one of the MMC's recommendations was that the parties should reduce to 25 per cent the proportion in any PSD in England and Wales of full on-licensed premises they owned and which were tied to the supply of their beer. The Secretary of State subsequently accepted the parties' offer to reduce the figure to 20 per cent. In the SCI/Plantsbrook merger case,<sup>3</sup> the MMC considered detailed arguments about how local geographic markets for funeral directors' offices should be determined. In this case the MMC relied on a local catchment area approach (ie the local areas within which most customers currently looked for the services). In the Kingfisher/Dixons inquiry

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<sup>1</sup>See the second footnote to paragraph 2.11.

<sup>2</sup>See, for example, paragraphs 3.38 to 3.45 and 8.59 to 8.62 in *Elders IXL Ltd and Grand Metropolitan PLC: a report on the merger situations*, HMSO, Cm 1227, October 1990; and paragraphs 2.126 to 2.131, 12.31 to 12.33 and 12.58 in *The Supply of Beer: a report on the supply of beer for retail sale in the UK*, HMSO, Cm 651, March 1989.

<sup>3</sup>See paragraphs 2.19 to 2.25, 2.44 to 2.51 and 4.53 to 4.59 in *Service Corporation International and Plantsbrook Group Plc: a report on the merger situation*, HMSO, Cm 2880, May 1995.

into the proposed merger of two leading retailers of electrical appliances in the UK, however, the MMC found that, while for the great majority of shoppers buying electrical goods was a local activity, the prices and conditions which such shoppers faced were decisively influenced, if not determined, by forces operating at the national level (including the combined existence of national chains, national price structures and national advertising).<sup>1</sup> In the particular circumstances of that inquiry, the MMC did not consider it necessary to assess measures of local competition, notwithstanding its significance to retailers.

## Size of the off-course market and market shares

### *Sales of off-course betting services*

4.124. In the year to 31 March 1998, the amount staked with off-course bookmakers for all types of betting was £6,850 million (see Table 4.8). While this is 31 per cent greater than at the time of the MMC's 1989 inquiry, in real terms the amount staked actually fell by 8 per cent during this period. The peak year in real terms during the period 1979/80 to 1997/98 was 1989/90, when the amount staked reached about £7,650 million (in 1997/98 prices).

TABLE 4.8 Money staked with off-course bookmakers in the UK, 1979/80 to 1997/98\*

	Off-course turnover subject to GBD				Off-course turnover (at constant prices) subject to GBD	
	In current prices £m	Percentage change %	At constant prices £m†	Percentage change %	Per bookmakers' permit‡ £'000†	Per betting office licence‡ £'000†
1979/80	2,820	+24.4	7,560	+6.8	972	617
1980/81	3,094	+9.7	6,994	-7.5	923	583
1981/82	3,045	-1.6	6,272	-10.3	830	533
1982/83	3,185	+4.6	6,131	-2.2	841	546
1983/84	3,184	-0.0	5,859	-4.4	811	540
1984/85	3,432	+7.8	6,015	+2.7	851	566
1985/86	3,706	+8.0	6,155	+2.3	898	591
1986/87	4,053	+9.4	6,517	+5.9	1,030	628
1987/88	4,438	+9.5	6,768	+3.9	1,141	657
1988/89	5,213	+17.5	7,419	+9.6	1,305	726
1989/90	5,734	+10.0	7,650	+3.1	1,407	749
1990/91	5,988	-4.4	7,521	-1.7	1,433	734
1991/92	6,026	+0.6	7,116	-5.4	1,409	708
1992/93	6,112	+1.4	6,926	-2.7	1,436	703
1993/94	6,386	+4.5	7,031	+1.5	1,509	727
1994/95	6,563	+2.8	7,122	+1.3	1,520	737
1995/96	6,313	-3.8	6,666	-6.4	1,504	716
1996/97	6,718	+6.4	6,891	+3.4	1,670	767
1997/98§	6,850	+2.0	6,850	-0.5	1,698	780

Source: MMC, based on data from HM Customs and Excise and the Home Office.

\*The figures represent taxed stakes relating to the GBD received by HM Customs and Excise during financial years ending on 31 March.

†Deflated using the implied GDP deflator (at market prices) with 1997/98 = 100.

‡As the bookmakers' permit and betting office licence data exclude Northern Ireland, the data shown in these two columns slightly overstates the actual amounts staked each year in the UK as a whole. Although the number of bookmakers' permits held by any individual firm is in some cases a relatively arbitrary factor, turnover per permit is a useful indicator of changes over time.

§Provisional data.

4.125. Average off-course turnover per bookmaker's permit has almost doubled in real terms over the last 20 years, reaching £1,698,000 in 1997/98 (see Table 4.8); much of this increase occurred during the last ten years. While average off-course turnover per betting office licence has also increased in real terms since 1979/80, the increase was much less than the increase in turnover per bookmaker's permit. Moreover, the increase in this ratio since 1989/90 has been slight.

<sup>1</sup>See paragraphs 6.24 and 6.31 in *Kingfisher plc and Dixons Group plc: a report on the proposed merger*, HMSO, Cm 1079, May 1990.

## ***Number of bookmakers***

4.126. Home Office data show that on 31 May 1997 there were 4,124 bookmakers' permits (see paragraph 4.15) in force in Great Britain (see Table 4.9); there were a further 212 in Northern Ireland. Apart from 1995, the number of bookmakers' permits declined each year over the period 1966 to 1997 (see Figure 4.1), with the annual rate of decline tending to be greater during the period 1987 to 1997 than during earlier years. Over the last 20 years the number of bookmakers' permits has declined by more than has the number of betting office licences; as a result, the number of licences per permit rose by almost 40 per cent, from about 1.6 to about 2.2, during that period.

TABLE 4.9 **Number of bookmakers' permits and betting office licences in force in Great Britain, 1978 to 1997\***

	<i>Number of book- makers' permits</i>	<i>Percentage change %</i>	<i>Number of betting office licences</i>	<i>Percentage change %</i>	<i>Number of betting office licences per bookmakers' permit†</i>
1978	7,960	-1.5	12,812	-3.3	1.61
1979	7,881	-1.0	12,475	-2.6	1.58
1980	7,781	-1.3	12,248	-1.8	1.57
1981	7,576	-2.6	11,993	-2.1	1.58
1982	7,555	-0.3	11,774	-1.8	1.56
1983	7,291	-3.5	11,237	-4.6	1.54
1984	7,226	-0.9	10,856	-3.4	1.50
1985	7,065	-2.2	10,633	-2.1	1.51
1986	6,853	-3.0	10,407	-2.1	1.52
1987	6,328	-7.7	10,384	-0.2	1.64
1988	5,933	-6.2	10,307	-0.7	1.74
1989	5,685	-4.2	10,213	-0.9	1.80
1990	5,437	-4.4	10,219	+0.1	1.89
1991	5,249	-3.5	10,246	+0.3	1.95
1992	5,049	-3.8	10,057	-1.8	1.99
1993	4,823	-4.5	9,858	-2.0	2.04
1994	4,658	-3.4	9,670	-1.9	2.08
1995	4,686	+0.6	9,665	-0.1	2.06
1996	4,431	-5.4	9,315	-3.6	2.10
1997	4,124	-6.9	8,983	-3.6	2.18
<i>Change:</i>					
1978-1997	3,836	-48.2	3,829	-29.9	
1989-1997	1,561	-27.5	1,230	-12.0	

*Source:* MMC, based on data from the Home Office's Research and Statistics Directorate.

\*At 31 May each year.

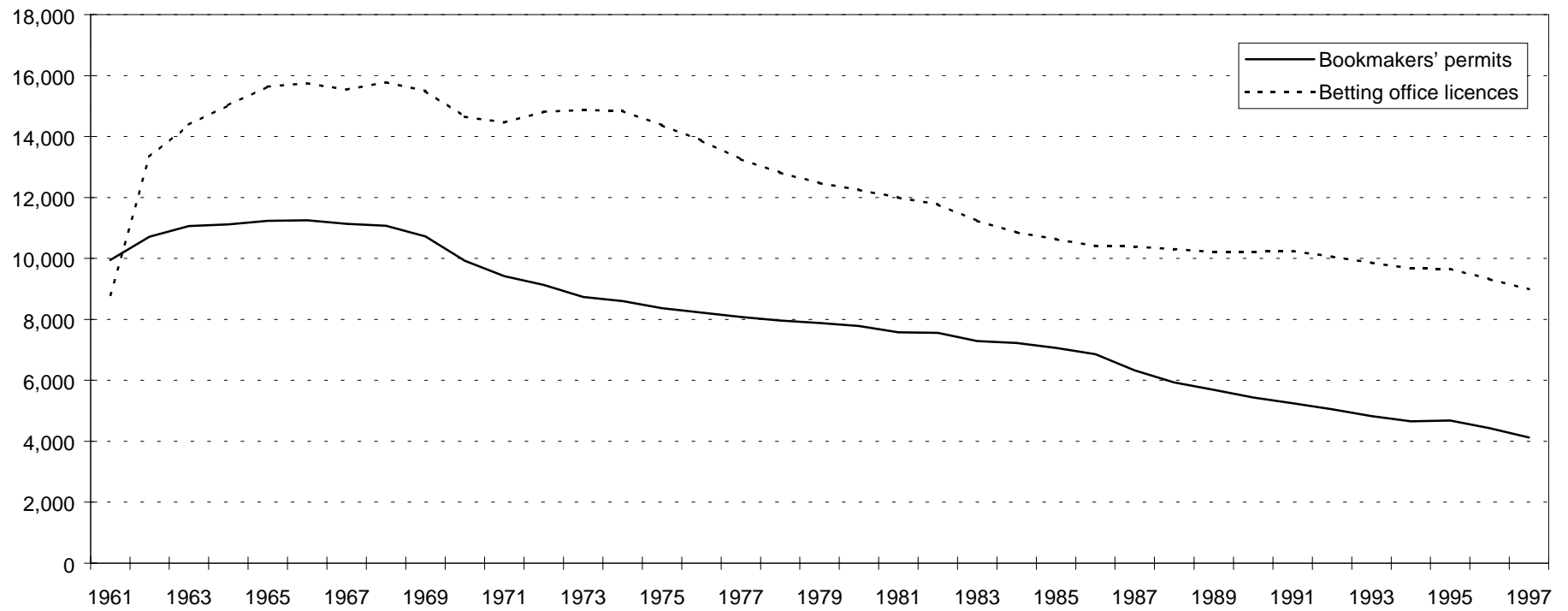
†Based on the number of permits and licences only. Given that the actual number of active bookmakers and operating LBOs is not known and that individual bookmaking company groups may have any number of permits each depending on their own internal organization, the data in this column should be taken to be broadly indicative of longer-term trends only.

## ***Number of betting offices***

4.127. Home Office statistics show that there were 8,983 betting office licences (see paragraph 4.15) in Great Britain on 31 May 1997 (see Table 4.9); there were a further 334 in Northern Ireland. The number of licences has declined almost every year since 1968 (see Figure 4.1), the decline being 13 per cent since 1988, 30 per cent since 1978 and 43 per cent since 1968.

FIGURE 4.1

**Trends in the numbers of bookmakers' permits and betting office licences in force  
in Great Britain, 1961 to 1997\***



Source: MMC, based on data from the Home Office.

\*As at 31 May each year.

4.128. It should be noted, however, that the number of betting office licences exceeds the number of LBOs trading as such at any one time. This is mainly because some licences are for new premises to which a betting office business is to be transferred while the licence for the current premises is still valid. The figures are also inflated to some extent because a number of licences relate to extensions to existing LBOs rather than to separate premises. In their 1989 report, the MMC noted that an estimated 9,500 LBOs were trading in June/July 1989; this was 713 (7 per cent) fewer than the published Home Office figure for May 1989 of 10,213.

4.129. We considered what evidence there was about the actual number of trading LBOs at the time Ladbroke acquired Coral's LBOs. Ladbroke told us that, in preparing the market information we had requested, at the beginning of April 1998 it had examined local records of betting office licences throughout Great Britain and found that there were 8,723 separately identifiable operating LBOs. The Levy Board said that it estimated that the number of LBOs in operation in 1997/98 was 8,600. SIS told us that in its estimation there were 8,569 LBOs trading in Great Britain on 29 May 1998. We estimate, based on this figure and the other data SIS gave us on its subscriber numbers during the period 1991 to 1998, that the number of operating LBOs at the end of December 1997 was about 8,620, 4 per cent below the number of licences in issue in May 1997.

4.130. Of the 8,983 betting office licences in Great Britain shown in Table 4.9 for 31 May 1997, 1,866 (21 per cent) were for premises in the Greater London area (see Table 4.10). Other areas with large numbers of betting office licences were Strathclyde with 516, Greater Manchester with 444 and the West Midlands with 435. The 14 areas (each with more than 150 betting office licences) listed in Table 4.10 accounted for about 47 per cent of the population and for about 59 per cent of all betting office licences in Great Britain in 1997.

TABLE 4.10 Areas in Great Britain with 150 or more betting office licences, 1988 and 1997

Area	Number of betting office licences at 31 May		Percentage change %	Licences per million people 1997	Share held in 1997 by		
	1988	1997			Ladbroke %	Coral %	Combined %
Outer London	999	980	-1.9	214	29.2	5.7	34.9
Inner London	1,080	886	-18.0	356	24.9	9.2	34.1
Strathclyde region	532	516	-3.0	227	27.7	9.0	36.7
Greater Manchester	516	444	-14.0	172	16.9	5.0	21.9
West Midlands	525	435	-17.1	165	18.9	8.8	27.7
Merseyside	446	383	-14.1	270	14.8	2.1	16.9
West Yorkshire	341	297	-12.9	141	10.8	6.3	17.1
Tyne and Wear	326	239	-26.7	212	26.5	5.2	31.7
Lancashire	234	206	-12.0	145	15.1	5.0	20.1
South Yorkshire	290	201	-30.7	154	18.8	5.7	24.5
Essex	186	192	+3.2	121	12.2	18.0	30.2
Lothian region	196	167	-14.8	218	31.4	4.6	36.0
Kent	167	156	-6.6	100	9.9	15.8	25.7
Hampshire	185	155	-16.2	95	36.7	26.6	63.3
Subtotal	6,023	5,257	-12.7	194	22.5	8.2	30.8
All other areas	4,284	3,726	-13.0	124	19.4	10.7	30.1
Total	10,307	8,983	-12.8	157	21.2	9.3	30.5
Scotland*	1,047	908	-13.3	193	28.4	6.1	34.5
Wales	663	469	-29.3	165	6.2	10.7	16.8

Source: MMC, based on data from the Home Office's Research and Statistics Directorate and Ladbroke.

\*Including the Strathclyde and Lothian regions listed earlier in the table.

## ***Bookmakers' shares of off-course betting turnover and LBO numbers***

### ***Shares of off-course betting turnover***

4.131. The share of LBO betting turnover held by Ladbroke in 1996/97 was [†] per cent and Coral's was [†] per cent; their combined share was thus 38 per cent (see Table 4.11). By this measure, the next largest bookmakers were William Hill with a share of 22 per cent, Stanley with about 6 per

†The MMC have advised that these figures are inaccurate and they have been excised in accordance with section 83(3) of the Fair Trading Act 1973. They should correctly have read '26' and '12'.

cent and Tote Bookmakers with about 2 per cent. All other bookmakers between them accounted for about 32 per cent. It should be noted that the breakdown of off-course betting turnover between LBO and telephone betting turnover is an estimate. If, for example, the figure of £6,190 million in 1997 overestimates the LBO share, and the corresponding figure of £528 million in Table 4.12 therefore underestimates the telephone betting share, the bookmakers' market share data given in this paragraph and in Table 4.11 will underestimate their actual shares of LBO betting. Given the data that were available to us, however, we are satisfied that any such underestimation (or overestimation) of market shares is not material in the context of our analysis of the market.

TABLE 4.11 Money staked in LBOs in the UK: estimated shares of LBO betting turnover, 1990/91 to 1996/97

Year	LBO betting turnover*						Total† £m
	Ladbroke		Coral		Ladbroke and Coral		
	£m	%	£m	%	£m	%	
1990/91	1,409.7	N/A	668.5	N/A	2,078.2	N/A	N/A
1991/92	1,427.1	N/A	631.3	N/A	2,058.4	N/A	N/A
1992/93	1,484.4	N/A	658.7	N/A	2,143.1	N/A	N/A
1993/94	1,565.4	N/A	668.7	N/A	2,234.1	N/A	N/A
1994/95	1,467.8	23.8	648.4	10.5	2,116.2	34.3	6,172
1995/96	1,521.4	26.0	722.5	12.4	2,243.9	38.4	5,842
1996/97	1,577.4	25.5	764.8	12.4	2,342.2	37.8	6,190

Source: MMC, based on data from Ladbroke and (for the total) William Hill.

\*Excludes Tote Direct and AWP turnover.

†Estimated total for all off-course bookmakers' LBOs.

Notes:

1. The Ladbroke data relate to its financial years ending 31 December and the Coral data relate to its financial years ending 30 September each year. Thus, for 1996/97 Ladbroke's figures relate to the calendar year 1997 and Coral's to the year ended September 1997.

2. The Ladbroke LBO data for the years 1989/90 to 1991/92 include turnover at its on-course betting offices amounting to less than about £[<] million a year.

4.132. The share of telephone betting turnover held by Ladbroke in 1996/97 was about 26 per cent and Coral's was 10 per cent, and the sum of their shares was about 36 per cent (see Table 4.12). (However, in Ladbroke's view the merger would lead to a [ < ] dissipation of their combined turnover to other bookmakers offering telephone betting services (see paragraph 6.70).) By this measure, their combined share is still less than William Hill whose share was about 42 per cent. Tote Credit's share was about 13 per cent and Stanley's was less than 1 per cent. All other bookmakers between them accounted for only about 9 per cent. We were told by Ladbroke that these included at least 18 that also had their own LBOs and a further seven which operated telephone betting only (though three of these offered only spread betting services).

TABLE 4.12 Telephone betting in the UK: estimated shares of turnover, 1990/91 to 1996/97

Year	Telephone betting turnover*						Total† £m
	Ladbroke		Coral		Ladbroke and Coral		
	£m	%	£m	%	£m	%	
1990/91	47.4	N/A	38.1	N/A	85.5	N/A	N/A
1991/92	58.0	N/A	38.2	N/A	96.2	N/A	N/A
1992/93	63.0	N/A	33.9	N/A	96.9	N/A	N/A
1993/94	74.0	N/A	40.7	N/A	114.6	N/A	N/A
1994/95	87.8	22.4	43.8	11.2	131.5	33.6	391
1995/96	106.9	22.7	47.2	10.0	154.1	32.7	471
1996/97	137.0	25.9	54.9	10.4	191.9	36.3	528

Source: MMC, based on data from Ladbroke and William Hill.

\*Excludes any Tote Direct turnover.

†Estimated total for all off-course bookmakers' telephone betting turnover.

Note: See the notes to Table 4.11. The telephone betting data relate to all telephone betting (including credit, deposit and debit card).

4.133. Ladbroke's share of off-course betting turnover in 1996/97, taking betting in LBOs and telephone betting together, was 25.5 per cent; Coral's was 12.2 per cent. Their combined share was

38 per cent (see Table 4.13). The next largest bookmakers were William Hill with a share of turnover of about 24 per cent, Stanley with about 5 per cent and Tote Bookmakers with about 3 per cent (see Table 4.14). All other bookmakers between them accounted for about 30 per cent of all off-course betting turnover (excluding Tote Direct and AWP turnover). (Because of the different financial year ends used by the companies and by HM Customs and Excise (the source of the industry total) Tables 4.13 and 4.14 do not give a precise picture of market shares. However, information provided to us by HM Customs and Excise for the calendar year 1997, based on GBD returns, showed market shares that were very similar to those shown in Tables 4.13 and 4.14).

TABLE 4.13 Money staked with off-course bookmakers in the UK: shares of turnover, 1990/91 to 1996/97

Year	Ladbroke		Coral		Ladbroke and Coral		Total† £m
	£m	%	£m	%	£m	%	
1990/91	1,457.1	24.3	706.6	11.8	2,163.7	36.1	5,988
1991/92	1,485.0	24.6	669.5	11.1	2,154.5	35.8	6,026
1992/93	1,547.4	25.3	692.6	11.3	2,240.0	36.6	6,112
1993/94	1,639.3	25.7	709.4	11.1	2,348.7	36.8	6,386
1994/95	1,555.5	23.7	692.2	10.5	2,247.7	34.2	6,563
1995/96	1,628.3	25.8	769.7	12.2	2,398.0	38.0	6,313
1996/97	1,714.4	25.5	819.7	12.2	2,534.1	37.7	6,718

Source: MMC, based on data from HM Customs and Excise and Ladbroke.

\*Excludes Tote Direct and AWP turnover.

†The figures represent taxed stakes relating to the GBD received by HM Customs and Excise from all bookmakers during financial years ending on 31 March.

Note: See the notes to Table 4.11.

4.134. Summary market share data for 1996/97, based on off-course betting turnover, are shown in Table 4.14. As can be seen, the Big 3's share of LBO and telephone betting turnover combined is estimated to have been about 62 per cent. The share held by the fourth largest bookmaker, Stanley, is less than half that of Coral, the third largest.

TABLE 4.14 Money staked with off-course bookmakers in the UK: estimated shares of turnover, 1996/97

Bookmaker	Off-course betting turnover*		
	LBO betting	Telephone betting	LBO and telephone betting
Ladbroke + Coral†	38	36	38
Ladbroke	26	26	26
William Hill	22	42	24
Coral	<u>12</u>	<u>10</u>	<u>12</u>
Subtotal	60	78	62
Stanley	6	1	5
Tote Bookmakers/Credit	2	13‡	3
All others	<u>32</u>	<u>9</u>	<u>30</u>
Total	100	100	100

Source: MMC, based on data from HM Customs and Excise and Ladbroke.

\*Excluding Tote Direct and AWP turnover. The combined LBO and telephone betting data are based on the taxed stakes that gave rise to the GBD received by HM Customs and Excise from all bookmakers during the financial year ended on 31 March 1997. The split of the total between LBO and telephone betting turnover is uncertain (see paragraph 4.131).

†This is the simple addition of the two companies' estimated market shares; it does not allow for the effects of any disposal of LBOs following the merger nor for any other gains or losses of turnover following the merger.

‡Mostly betting at fixed odds.

4.135. In assessing the effects of the acquisition of Coral by Ladbroke on concentration in off-course betting, we also looked at its effects on the number of LBOs accounted for by the leading

bookmakers (more detailed information about numbers of LBOs can be found in paragraphs 4.138 to 4.142).

4.136. The effect of Ladbroke's acquisition of Coral on concentration in off-course betting is summarized in Table 4.15. As can be seen, it raised the share of off-course betting turnover held by the largest three bookmakers from about 62 to about 67 per cent. (By way of contrast, the immediate effect (ie before taking into account subsequent disposals) of the Mecca/William Hill merger was to increase the three-firm share of turnover from about 49 to 60 per cent.) Ladbroke's acquisition of Coral raised the share of LBOs held by the three largest bookmakers from about 48 to about 54 per cent. (The immediate effect of the Mecca/William Hill merger was to increase the three-firm share of LBOs from about 35 to about 43 per cent.)

TABLE 4.15 The effect of two mergers, 1988 and 1997

**Mecca/William Hill, December 1988**

	Off-course betting turnover		LBOs	
	Before	After	Before	After
Percentage share of the largest:				
Bookmaker	23	23	18	18
2 bookmakers	37	48	26	34
3 bookmakers	49	60	35	43
5 bookmakers	63	65	45	46
HHI	995	1,295	530	666

**Ladbroke/Coral, December 1997**

	Off-course betting turnover			LBOs		
	Before	After*	After†	Before	After*	After†
Percentage share of the largest:						
Bookmaker	26	38	36	22	31	29
2 bookmakers	49	62	60	39	48	46
3 bookmakers	62	67	65	48	54	52
5 bookmakers	70	72	72	56	58	58
HHI	1,418	2,040	1,946	900	1,312	1,222

Source: MMC.

\*Before taking account of the sale of 134 LBOs to Tote Bookmakers.

†After taking account of the sale of 134 LBOs to the Tote Bookmakers.

4.137. Ladbroke's acquisition of Coral raised the value of the HHI,<sup>1</sup> as measured by industry turnover, from about 1,418 to about 2,040, an increase of 622 points (see Table 4.15). (The immediate effect of the Mecca/William Hill merger was to increase the HHI from about 995 to about 1,295, an increase of 300 points from a significantly lower level.) The effect of the sale of 134 LBOs to Tote Bookmakers would be to reduce the value of the HHI from about 2,040 to about 1,946. As measured by number of LBOs, Ladbroke's acquisition of Coral raised the value of the HHI from about 900 to about 1,312, an increase of 412 points. After taking account of the sale to Tote Bookmakers the increase would be 322 (from about 900 to about 1,222). (The immediate effect of the Mecca/William Hill merger was to increase the HHI from about 530 to about 666, an increase of 136 points.)

<sup>1</sup>The HHI is calculated by summing the squares of the individual market shares of each of the companies in the market (a lack of information about the shares held by individual small firms is not crucial as such firms have an insignificant effect on the value of the HHI). As a rough guide, the anti-trust authorities in the USA consider markets with HHI values of less than 1,000 as unconcentrated, markets with HHIs of between 1,000 and 1,800 as moderately concentrated and markets with HHIs of over 1,800 as highly concentrated. The anti-trust authorities in the USA consider that mergers in moderately concentrated markets producing an increase of more than 100 points in the HHI potentially raise significant concerns about the effects on competition.

## Shares of LBOs<sup>1</sup>

4.138. Ladbroke has the largest number of LBOs of any bookmaker; its 1,906 LBOs in Great Britain (before its acquisition of Coral) represent about 22 per cent of the estimated number of betting office licences as at 31 May 1998 (see Tables 4.16 and 4.17). The next largest are William Hill with about 17 per cent, Coral with about 10 per cent, Stanley with about 5 per cent and Tote Bookmakers with about 3 per cent. No other bookmaker accounts for more than 1.5 per cent of the total. Ladbroke and Coral together have 2,738 LBOs, or about 31 per cent of the total.

TABLE 4.16 The number of LBOs and betting office licences in Great Britain, 1989 to 1998

Year	Ladbroke	William Hill	Coral	Stanley	Tote Book-makers	All others*	Total number of licences
1989	1,815	1,671	831	182	129	5,585	10,213
1990	1,911	1,679	904	232	142	5,351	10,219
1991	1,935	1,672	862	262	157	5,358	10,246
1992	1,934	1,651	779	265	159	5,269	10,057
1993	1,918	1,632	755	315	160	5,078	9,858
1994	1,894	1,590	740	337	163	4,946	9,670
1995	1,876	1,569	738	361	162	4,959	9,665
1996	1,830	1,531	851	439	207	4,457	9,315
1997	1,904	1,515	833	475	214	4,042	8,983
1998†	1,906	1,515	832	468	222	3,847	8,790‡
1998§ A	2,738	1,515	0	468	222	3,847	8,790‡
1998§ B	2,604	1,515	0	468	356	3,847	8,790‡

Source: MMC.

\*The next two largest chains are Done Brothers with about 120 LBOs and Jack Brown Group with about 116.

†With Coral separate.

‡As at 31 May each year. The 1998 figure is not available; the figure of 8,790 is an estimate based on changes in the number of SIS subscribers between 1997 and 1998.

§Without Coral separate. Line A shows all the Coral LBOs in Ladbroke's figure, and line B shows 134 of Ladbroke's and Coral's LBOs allocated to Tote Bookmakers.

TABLE 4.17 LBOs in Great Britain: the leading bookmakers' percentage shares, 1989 to 1998

Year*	Ladbroke	William Hill	Coral	Stanley	Tote Book-makers	All others*	All licences†
1989	17.8	16.4	8.1	1.8	1.3	54.7	100
1990	18.7	16.4	8.8	2.3	1.4	52.4	100
1991	18.9	16.3	8.4	2.6	1.5	52.3	100
1992	19.2	16.4	7.7	2.6	1.6	52.4	100
1993	19.5	16.6	7.7	3.2	1.6	51.5	100
1994	19.6	16.4	7.7	3.5	1.7	51.1	100
1995	19.4	16.2	7.6	3.7	1.7	51.3	100
1996	19.6	16.4	9.1	4.7	2.2	47.8	100
1997	21.2	16.9	9.3	5.3	2.4	45.0	100
1998‡	21.7	17.2	9.5	5.3	2.5	43.8	100
1998§ A	31.1	17.2	-	5.3	2.5	43.8	100
1998§ B	29.6	17.2	-	5.3	4.0	43.8	100

Source: MMC, based on the data in Table 4.16.

\*The next two largest LBO chains are Done Brothers with about 1.4 per cent and Jack Brown Group with about 1.3 per cent.

†As at 31 May each year. The 1998 figure is not available; the figure of 8,790 is an estimate based on changes in the number of SIS subscribers between 1997 and 1998.

‡With Coral separate.

§Without Coral separate. Line A shows all the Coral LBOs in Ladbroke's figure, and line B shows 134 of Ladbroke's and Coral's LBOs allocated to Tote Bookmakers.

Note: The percentage shares of the five leading firms are understated in Table 4.17 to the extent that the total number of active LBOs is less than the number of licences shown in the last column of Table 4.16.

<sup>1</sup>In this section of the chapter we take the total number of betting office licences to be equal to the number of betting offices, unless stated otherwise.

4.139. The number of licences not held by firms other than the leading five bookmakers declined from almost 5,600 in 1989 to some 3,850 in 1998, a decline of 31.5 per cent over the ten years (see Table 4.18). Of the leading bookmakers, only William Hill saw a net reduction during the ten-year period in the number of LBOs it operates.

TABLE 4.18 The number of LBOs in Great Britain, 1989 compared with 1998

	1989	1998*	Change	Percentage change %	Share of overall decline %
Ladbroke	1,814	1,906	+92	+5.1	-6.5
William Hill	1,671	1,515	-156	-9.3	+11.0
Coral	831	832	+1	+0.1	-0.1
Stanley	182	468	+286	+157.1	-20.1
Tote Bookmakers	129	222	+93	+72.1	-6.5
All others	<u>5,585</u>	<u>3,847</u>	<u>-1,738</u>	<u>-31.1</u>	<u>+122.1</u>
Total	10,213	8,790	-1,423	-13.9	100.0

Source: MMC.

\*With Coral separate.

4.140. Longer-term trends in concentration are shown in Table 4.19. As can be seen, the leading four bookmakers accounted for only about 12 or 13 per cent of LBOs in 1971. Even by 1977, their share was still less than 25 per cent. By the late 1980s it had risen to over 40 per cent.

TABLE 4.19 LBOs operated by the leading four or three bookmakers, 1962 to 1997

	1962	1968	1971	1974	1977	1988	1993	1997
Ladbroke	-	218	660	1,131	956	1,814	1,918	1,904
William Hill	-	90	294	929	969	908	1,632	1,515
Coral	23	234	404	634	589	906	755	833
Mecca	-	-	448	778	651	793	-	-
Subtotal	<u>23</u>	<u>542</u>	<u>1,806</u>	<u>3,472</u>	<u>3,165</u>	<u>4,421</u>	<u>4,305</u>	<u>4,252</u>
All others	13,317	15,240	12,656	11,365	10,089	5,886	5,553	4,731
Total*	13,340	15,782	14,462	14,837	13,254	10,307	9,858	8,983

The named book-makers as a percentage of the total

	0.2	3.4	12.5	23.4	23.9	42.9	43.7	47.3
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Source: MMC.

\*That is, the total number of betting office licences.

4.141. Individual bookmakers operate larger numbers of LBOs in some areas of the country than others. Licensing areas do not reflect the geographical areas in which individual LBOs compete with each other, which are likely to be considerably smaller. However, the information on market shares by PSD does provide an indication of the overall level of concentration within particular areas. Thus in the Greater London area, where there is a particularly high incidence of LBOs, Ladbroke's share of LBOs is about 27 per cent and Coral's 8 per cent; their combined share is about 35 per cent (see Table 4.10).

4.142. Ladbroke said that its acquisition of Coral with its 833 LBOs had taken it into 578 new local markets (ie local areas where there was no Ladbroke LBO within a radius of 400 metres of a Coral LBO). Ladbroke told us that when it acquired Coral it had already identified 128 LBOs (together with a net extra six LBOs) from the joint Ladbroke/Coral estate (82 of Coral's LBOs and 52 of Ladbroke's) as being in local markets (defined by the 400 metre measure) where the merger would otherwise have eliminated choice/competition (see paragraph 6.2). Since then it had identified a further 98 LBOs as being in local markets (again, defined by the 400 metre measure) where the merger had reduced the choice between competing bookmakers but where there was still at least one other LBO owned by another bookmaker within a radius of 400 metres of either the Coral or

Ladbroke LBO concerned. A further 69 of its LBOs, it said, were in broader areas or in rural towns where choice/ competition might have been lessened by the merger. These consisted of 43 LBOs across the 18 PSDs where its share of LBOs was more than 50 per cent, and 26 LBOs in rural towns where applying an 800 metre measure showed that the choice of LBOs was restricted to Ladbroke and Coral. Ladbroke considered that the effects of the merger in terms of eliminating local competition had been fully met by the 134 disposals to the Tote. Any other concerns which we might have about the merger's effects on local competition could be met by disposals of LBOs in the 167 local markets described in this paragraph.

## **The nature of competition between bookmakers**

4.143. The concept of competition is often difficult to define and identify effectively. At one level competition may simply imply the maintenance of a degree of choice between alternatives which enables the consumer to create competitive situations between suppliers as a result of his own actions. In other cases, competition may be of a more active nature, though this again may be either continuous and pro-active, or sporadic and reactive. Competition may occur in price or non-price forms and both of these may also have a number of variants. In retail businesses that serve the final consumer in local situations, there is also the possibility of a distinction between national manifestations and local actions. Major national chains are likely to develop national promotional and competitive strategies but the need to respond to local conditions, especially initiatives from smaller retailers, may give rise to a requirement for some flexibility on the part of local management, subject to authorization from head office. Assessment of the nature and extent of competition in bookmaking needs to be considered in the light of these complexities.

### ***Price competition***

4.144. Price competition in bookmaking takes a number of different forms. Bookmakers advertise or otherwise publicize some of their early prices in the sporting and regular press and on teletext. Such actions occur at the national market level and are likely to be more effectively promoted by the national chains because of the resources available to them and their well-known names. Promotion of new betting products is also likely to be of the nature of a national initiative. At the local level, actions by smaller bookmakers to offer favourable odds, or more attractive terms of betting, may stimulate local competitive responses, including from the outlets of the national chains.

4.145. In the remainder of this section we set out the basic framework within which price competition may occur in off-course betting. We assess this, together with related evidence on bookmakers' margins, in paragraphs 2.83 to 2.99.

4.146. Given the punter's preference, when betting on racing, for betting at SPs and board prices (both of which are determined on-course), the scope for price competition through the setting of odds is limited to that proportion of horse- and greyhound-racing turnover which is accounted for by betting at early prices and to other betting products such as sports and numbers betting (that is, betting at bookmakers' prices). Data showing the proportion of total off-course betting turnover that consists of betting at early prices and by other betting products is not available industry-wide, only on an individual bookmaker basis. The 1989 report did not contain an estimate of the proportion of racing bets taken at early prices. It did, however, put the then share of LBO turnover on products other than horse racing and greyhound racing at between zero and 5 per cent; now, with the introduction of numbers betting, it is about 9 per cent. Ladbroke told us that an analysis of its own LBO betting turnover data in 1997 showed that betting at bookmakers' prices accounted for 10.2 per cent of its turnover (1.4 per cent was from betting at early prices on horse racing, 4.9 per cent was on sports betting and 3.9 per cent on numbers betting) (see Table 4.5). William Hill said that estimates based on samples of its own LBO betting turnover showed that the overall figure was 13.9 per cent (4.5 per cent from early prices, 5.6 per cent from sports and 3.8 per cent from numbers). Both bookmakers considered that the breakdown of their turnover would be typical of the industry as a whole. With total LBO betting turnover of about £6.2 billion, Ladbroke's estimate of 10.2 per cent amounts to about £630 million, and William Hill's estimate of 13.9 per cent to about £860 million of turnover for all LBOs. (The Levy Board, which we consulted about the horse-racing element in these figures from Ladbroke and William Hill, said that it accepted the accuracy of both companies' figures. Accordingly, the Levy

Board thought the industry average for early price betting on horse racing might lie between these two estimates.)

4.147. Betting at early prices and sports betting are much more important for telephone betting than for betting in LBOs. Ladbroke said that such betting accounted for about 25 per cent of its telephone betting turnover (11.8 per cent was from betting at early prices on horse racing and 13.3 per cent was on sports betting) (see Table 4.5). William Hill said that its overall figure was almost 30 per cent (11.0 per cent from early prices and 18.2 per cent from sports betting) (see Table 4.5).

4.148. As noted in paragraph 4.71, we asked about the relative significance of betting at early prices on those horse races for which early prices are quoted. Ladbroke said that for those races, the figures were 12 per cent at early prices and 88 per cent at board prices and SPs for betting in its LBOs, and about 36 per cent at early prices, 33 per cent at board prices and 30 per cent at SPs for its telephone betting service. William Hill said that about 15 per cent of the betting in its LBOs on such races was at individual William Hill odds, [\*] per cent at board prices and [\*] per cent at SPs.

4.149. We noted that the leading bookmakers advertise some of their prices, mainly early prices on horse racing but also odds offered on football events, in the national and sporting press and on teletext before they appear in the LBOs. The leading bookmakers, and some others, said that they guarantee their advertised prices on horse races for 15 minutes after their LBOs open to allow punters an opportunity to bet at the advertised price if they so wish, though they may only be available for smaller bets. After that 15 minute grace period any substantial differences in the odds quoted by different bookmakers can be eliminated fairly quickly by market forces, although smaller differences can persist as prices fluctuate throughout the day, in response to money staked, until the start of the race.

4.150. We were told that the sequence of events for horse-race betting with Ladbroke on a typical Saturday was as follows:

- Ladbroke's advertised prices for each runner in certain races are determined on Friday afternoon and early evening and published overnight in the press and on teletext.
- The advertised prices for particular runners are available to users of Ladbroke's telephone betting service from 9 am on Saturday (9.30 am Monday to Friday and 11 am on Sunday) (often earlier for big races and other sporting events), but only for as long as Ladbroke decides to hold them (this may be only a few minutes if there is a flood of bets on particular runners).
- Ladbroke's LBOs open at 10 am on Saturday (10.15 am Monday to Friday and 12 noon on those 12 Sundays when they are open) and offer the advertised prices for the first 15 minutes. However, even within this first 15 minutes each Ladbroke LBO will, if so directed by central management, apply a limit to the stakes accepted on particular bets at advertised prices.
- For the rest of the day, after the first 15 minutes its LBOs have been open, the prices on all runners in all races that day are the same (except for the effect of any local special offers or discounts available at certain LBOs only) in Ladbroke's LBOs as the prices quoted to the users of its telephone betting service.

4.151. Ladbroke said that, except for the possible effects of the 15 minute price guarantee that applied in its LBOs but not in telephone betting, its telephone betting facilities did not offer odds that were different from those which prevailed in its LBOs. It added that Coral's telephone betting service, however, had operated separately from its LBOs; in particular, it had operated its own field book and monitored its own liabilities race by race. Consequently, its telephone and LBO betting prices were occasionally different until the first shows came from the racecourse. William Hill told us that its telephone betting service did not normally offer odds that were different from those which prevailed in its LBOs; however, during the 15 minute period when its advertised prices were guaranteed in its LBOs its telephone prices might change.

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\*The MMC have advised that these figures are inaccurate and they have been excised in accordance with section 83(3) of the Fair Trading Act 1973. They should correctly have read '22' and '63'.

4.152. A number of parties expressed their concern during our inquiry about the possible loss of value for money for those punters who bet at early prices if Coral ceased to be available as an independent source for such prices. In so doing they drew our attention, by way of example, to the 'Pricewise' columns in the *Racing Post*; these usually set out comparisons of the odds for particular races offered by several different bookmakers, including Coral and Ladbroke.

4.153. We carried out a limited study of early prices on horse races, focusing primarily on the prices offered by the Big 3 because they would be widely available throughout the country to punters using LBOs. We examined the odds offered on all races in which all three offered early prices and which were covered in the 'Pricewise' columns for a matching sequence of Saturdays (namely, the seven Saturdays between mid-March and end-April in 1997 and 1998). We found that in each of the ten races covered in 1997, Coral had at least one horse priced more attractively than the corresponding odds offered by William Hill or Ladbroke. The average improvement in the theoretical over-round across all runners in a particular race for LBO punters who selected from the best of the Big 3's prices, compared with selecting from just William Hill and Ladbroke, was just over four percentage points (117.2 per cent compared with 121.4 per cent). This analysis assumes that these prices were all actually available when the LBOs opened, and ignores any better prices being offered on the same races by bookmakers other than the Big 3. Over a similar period in 1998, there were 20 such races (ie where early prices were shown for each of the Big 3). In 17 of these 20 races, the presence of Coral improved the best-price theoretical over-round as compared with what would have been available had only William Hill and Ladbroke been quoting early prices. Across all 20 races, the average improvement brought about by including Coral was just under three percentage points. As for bookmakers other than the Big 3, the number whose prices were featured in the races covered by this analysis varied between four and seven in 1997 and between two and seven in 1998. Comparing the best prices for each runner across all the quoted bookmakers showed that the average theoretical improvement brought about by including Coral was just over one percentage point (110.6 per cent compared with 111.9 per cent).

4.154. It should be noted that in both periods there were instances of each of the Big 3 offering the longest odds both for favourites and for other runners. This means that the removal of any one of the Big 3 as the source of odds would have had similar effects in improving best-price margins for the remaining bookmakers and correspondingly providing poorer value for those betting on early prices. Moreover, a number of other bookmakers advertise their prices on teletext and in the racing press, even if most are not included in the direct comparisons given in the 'Pricewise' columns. The particular significance of the Big 3 is the national coverage of their LBO estates.

4.155. Besides competition in the selecting of odds, price competition may also occur in the terms of betting offered. Each of the three leading bookmakers set their own standard terms, prices and associated risk management procedures centrally. The managers of their LBOs have only a limited discretion to depart from such central policy, and even then the local manager's decision (for example, in response to a local competitor) is likely to be reviewed by head office or a regional office before it is extended in time. Pricing initiatives taken spontaneously are generally determined centrally, even though LBO managers may be allowed discretion in the precise way in which they are implemented. The smaller bookmakers also have strong central control over their LBOs' pricing policies and risk management, but the influence of each of the smaller bookmakers' policies extends over smaller geographic areas.

4.156. We saw many examples of marketing promotions that incorporated special offers. Some of these were very temporary (for example, to publicize the opening or reopening of a particular LBO) and others appeared to be for longer periods. Examples included:

- percentage additions to winnings on certain categories of bet;
- paying out on a 'first past the post' basis, even if the race result is changed following a Stewards' Inquiry;
- paying out on the SP if a punter takes an early price but the SP turns out to be better; and
- various forms of 'tax-free' and 'tax-reduced' betting terms.

Ladbroke said that a check in March 1998 had shown that 143 of its LBOs (ie almost 8 per cent of the total) were offering 'semi-permanent changes to Ladbroke's standard betting terms' during February in response to offers by competitors in the localities of its own LBOs. However, Ladbroke told us that, whilst such offers were a common feature of competition in the market, they did not work (in terms achieving real competitive advantage). Its five-year strategy document, *UK Cash Betting Strategy 1998-2002*, dated June 1997, after noting that the National Lottery had led to reduced off-course turnover and increased co-operation between the major bookmakers, said that Ladbroke had 'led the way with the removal of an array of uneconomic [ ] customer offers' (see Appendix 6.1, 'Page 23: Competitive rivalry', and also paragraph 2.126). Its LBO managers did not have any authority to allow improved terms, offer tax or deduction concessions or different odds to individual customers; requests by an LBO manager for semi-permanent changes in the general terms offered in the LBO in response to concessions made in a competing LBO needed the approval of Ladbroke's regional director for that area. LBO managers were, however, empowered to take initiatives within the framework of Ladbroke's *Neighbourhood Marketing Manual*, which included price-related offers. The objectives were to improve product and customer mix, including by the attraction of new customers (see paragraph 6.43).

4.157. The other categories of betting where price competition can occur are sports and numbers betting. This is partly because the range of possible bets and events is much greater than for racing, and there is no externally administered price comparable with board prices and SPs. The football World Cup in 1998, for example, gave rise to many examples of bookmakers offering competing odds and betting opportunities. As regards numbers betting, Ladbroke told us that, whilst the introduction and marketing of Lucky Choice and 49's had been examples of co-operation among the leading bookmakers, there was ample scope for price competition in that each firm could make its own price-related offers for these products. William Hill provided us with examples of the different ways in which bookmakers competed on numbers betting by way of price promotions.

### ***Quality of service provided in LBOs***

4.158. The quality of LBOs, including location and size, standard of fittings, range of facilities (for example, the number of different television screens) and the quality of service provided in them, are important elements in the competition between bookmakers.

4.159. Competition through investment in modern facilities and services has been particularly noticeable in the area of information displays in LBOs. This technology is now readily available through SIS and Racing Data for all LBOs who wish to use it and consider that it will repay the costs involved. Ladbroke told us of its five-year programme of shop refurbishment and that it was planning substantial capital investment in an EPOS system (see paragraphs 6.35 and 6.49). Coral spent heavily on upgrading many of its outlets to a new 'blue shop' format (see paragraph 3.25). William Hill has budgeted for capital expenditure of £[ ] million in 1998, of which £[ ] million has been allocated to its LBO estate. We have also seen that a number of the smaller, independent bookmakers have invested in modern, attractive LBOs.

4.160. Ladbroke appeared to recognize the importance of the association between LBO quality and the leading bookmakers' brand names in the following comments in its strategy document about the characteristic features of the leading bookmakers' LBOs (see Appendix 6.1, 'Page 22: Competitors'):

- 'improvements in [ ... ]'s customer service levels and the quality of the shop environment have delivered [market] share improvements in recent years';
- [ ... ] was 'an acquisitive low cost operator of traditional betting shops';
- [ ... ] had a 'quality chain of shops with high levels of development investment in recent years'; and
- [ ... ]'s shop estate, 'whilst in good condition, now looks increasingly dated relative to [ ... ]'s and [ ... ]'s.

4.161. While some independent bookmakers' LBOs have facilities that easily match the quality of those of the Big 3, it is not clear how capable the majority of smaller independent bookmakers are of competing with the Big 3 on quality of outlet. Ladbroke said that the cost of refurbishing its LBOs ranged from a minimum of £[ ] for a basic refit to some £[ ] for a complete change to its highest-quality format that had a five-year life. In this context, we noted that the average turnover per LBO for the Big 3, in the range £840,000 to £910,000, is well above the equivalent figure for other bookmakers of around £500,000 (see paragraphs 3.54 to 3.57). As the net profit contribution of an LBO with annual turnover in the region of £468,000, for example, is estimated to be around £12,000 (see Table 3.22), smaller bookmakers are unlikely to be able to justify expenditure in excess of this level for improvements to, or the refitting of, their LBOs.

### ***Advertising and marketing***

4.162. Under the 1963 Act, bookmakers were not permitted to give details of individual LBOs in national and local newspaper advertising, poster advertising, etc, but could include a credit betting telephone number in such advertising. Smaller bookmakers regarded these restrictions as bearing much more harshly upon them than on their larger competitors, since the latter had many more LBOs spread throughout the country. In a recent Research Paper published by the Office of Fair Trading (OFT)<sup>1</sup> the point is made that:

larger bookmakers ... will find it easier to promote their activities and establish a brand name through general advertising (ie without putting in the addresses of their individual betting shops) or sponsorship of races. The sunk cost of taking out advertising space in the national racing press, for example, can be recovered across a large number of betting shops. Therefore the incentive to operate chains of betting shops that can benefit from advertising is considerable and, in our view, is a determining factor of the structure of the betting industry ....

4.163. The changes in the legislation in April 1995 (see paragraph 4.17) allowed LBOs to carry information in their windows about facilities, events, bets and odds. This change has caused advertising expenditure to be redirected into window advertising and promotional expenditure in local LBOs. The advertising of LBO location, facilities and prices, where the advertisements are in a material form (for example, in a newspaper, journal, circular, letter or poster printed on paper and in teletext-type displays), has been permitted since April 1997.

4.164. In Ladbroke's view, the main reason for national advertising by bookmakers has been to publicize their telephone betting services and prices; generally, such advertising was not relevant to the off-course betting offices (see paragraph 6.29). The commoditized nature of the core betting product, Ladbroke said, meant that investment in brand building was costly and futile. For this reason, Ladbroke's annual expenditure was very low and had been declining, as had Coral's, in recent years.

4.165. Maintaining the strength of a long-established brand with a strong presence on most high streets in the country need not, however, require much paid advertising. Furthermore, for the customers that matter, the leading bookmakers receive a considerable amount of free publicity through their names being mentioned during coverage of racing and other betting subjects on the television and in the national and specialist sporting press.

4.166. Ladbroke's promotional and advertising expenditure in 1997 amounted to about £5 million (see paragraph 3.18). In 1997 Ladbroke's promotional expenditure at the LBO level, including teletext-type advertising, accounted for about 57 per cent of the total, advertising expenditure for about 26 per cent and horse-racing sponsorship for about 6 per cent. Coral's marketing expenditure in 1997 amounted to £3.6 million. Ladbroke told us that its expenditure on sponsorship of horse racing had been around £230,000 in 1996 and £300,000 in 1997 (see Table 3.8). Its programme for 1998 amounted to £540,000, including support for the Showcase race initiative. Coral's expenditure on sponsorship, which was linked to its racecourse betting shop operations, had been £240,000 in 1997.

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<sup>1</sup> *Competition in Retailing*, prepared for the OFT by London Economics, Research Paper 13, OFT, September 1997, page 89.

4.167. William Hill said that its budgeted advertising and promotional expenditure for 1998, at £4.5 million, was about 2.3 times the equivalent figure for 1990. In contrast to Ladbroke, about 63 per cent of William Hill's 1998 advertising and promotional expenditure is on advertising and only 12 per cent is on shop promotions, with a further 12 per cent on horse-racing sponsorship. William Hill told us that its price-led advertising campaigns were aimed at increasing demand in its LBOs as well as for its telephone business, and this was borne out by the wording of advertisements that it drew to our attention (see paragraph 5.61(a)). (We noted that some Ladbroke advertisements on big-race days also mentioned its LBOs, although they appeared primarily directed at telephone customers.)

4.168. Advertising expenditure by Ladbroke and Coral over the period 1993 to 1997 is shown in more detail in Table 4.20. The two companies' advertising expenditure during this five-year period amounted to just over £12 million; about 70 per cent of this was by Ladbroke. A greater proportion, [§] per cent, of Ladbroke's press advertising was in the national press compared with Coral's, at [§] per cent. Ladbroke told us that both its and Coral's advertisements in the national press always showed prices on a betting event as well as a telephone number for credit or debit betting. The unusually large amount spent by Ladbroke on 'other media' in 1994 is accounted for by an outdoor poster campaign; its expenditure on other media advertising during the five-year period included football ground perimeter advertising and television and radio sponsorship.

TABLE 4.20 Annual advertising expenditure by Ladbroke and Coral, 1993 to 1997

	Specialist trade press*		National press		Other media		Total expenditure				
	Coral	Ladbroke	Coral	Ladbroke	Coral	Ladbroke	Coral	Ladbroke			
1993							557	1,661			
1994	( <table border="0"> <tr> <td style="text-align: center;"> <i>Figures omitted. See note on page iv.</i> </td> <td style="text-align: center;">           †         </td> </tr> </table> )		<i>Figures omitted. See note on page iv.</i>	†	( <table border="0"> <tr> <td style="text-align: center;"> <i>Figures omitted. See note on page iv.</i> </td> </tr> </table> )		<i>Figures omitted. See note on page iv.</i>			763	2,518
<i>Figures omitted. See note on page iv.</i>			†								
<i>Figures omitted. See note on page iv.</i>											
1995			862	1,483							
1996			784	1,448							
1997	608	1,355									
Total	3,574	8,465									

Source: MMC, based on data from Ladbroke.

\*The specialist trade papers are the *Racing Post* and *The Sporting Life* (the latter ceased publication in May 1998).

†This includes expenditure of £[ § ] on the launch of Ladbroke's Sporting Spreads.

4.169. We were told that an important factor in establishing Lucky Choice and 49's numbers betting was that they provided advertising opportunities for the benefit of the whole bookmaking industry (for example, national advertising campaigns for both Lucky Choice and 49's took place in 1997 and a further £500,000 was spent on advertising 49's during the period March to May 1998).

4.170. The leading bookmakers' advertising can be found in a range of newspapers, including the sporting press, most national newspapers and, to a lesser extent, in the local press. Their advertisements show the prices they are offering for various events and any special concessions that they may be offering at a particular time, for example on numbers betting. The leading bookmakers also make extensive use of teletext to advertise their prices to punters in their own homes or offices. Consumer surveys have shown that punters are most likely to look for betting information in national newspapers. About 9 per cent of punters purchased either the *Racing Post* or *The Sporting Life*, while a higher proportion (more than 20 per cent) read them, particularly in an LBO (see Appendix 4.3, paragraph 10); the survey results seemed to suggest that these two racing newspapers were used particularly as form guides and as sources of racecard information, and much less for 'Pricewise' and advertised price information. Other important sources of information for punters were reported to be television commentary and teletext-type services and SIS betting information.

4.171. The sponsorship of sporting events is a source of publicity for bookmakers and the events' organizers, who also benefit from the sponsorship money. Sponsorship by off-course bookmakers usually takes the form of financial contributions for specific horse and greyhound races.

4.172. Market research commissioned by Ladbroke shows that customers' awareness of the names of the leading bookmakers, whether spontaneous or prompted, is high (see Table 4.21). However,

Ladbroke told us that it did not have an inherent advantage just because its name was widely recognized (see paragraph 6.31).

TABLE 4.21 Customers' awareness of bookmakers' brand names, 1996\*

	<i>per cent</i>			
	<i>Spontaneous awareness</i>		<i>Prompted awareness</i>	
	<i>Regular customers</i>	<i>Irregular customers</i>	<i>Regular customers</i>	<i>Irregular customers</i>
(Base: 847)	(453)	(394)	(453)	(394)
Ladbroke	78	70	98	98
William Hill	64	49	96	89
Coral	53	34	92	78
Tote Bookmakers	10	6	61	39
Stanley	8	6	33	17
Gus Carter	6	4	18	9
Dones Brothers	4	3	11	5
A R Dennis	1	1	31	7
Surrey Racing	1	1	28	7
Coomes	-	-	15	5
Jennings	-	-	15	7
Jack Brown Group	-	-	10	3

Source: Ladbroke.

\*Based on the findings of the Icon Usage and Attitude Study, June 1996.

4.173. We noted a statement in Ladbroke's strategy document that for both new and for irregular customers, 'the brand delivers reassurance and the improving quality of the shop estate means that Ladbroke is now first choice for no less than [§] per cent of irregular customers' (see Appendix 6.1, 'Page 19: Significant forces shaping the industry'). Ladbroke told us that market research in 1996 had shown the correct figure to have been [§] per cent, but that irregular customers anyway accounted for less than 2.5 per cent of LBO turnover. Ladbroke told us that it was its intention, should the merger be allowed to stand, to rebrand all the Coral LBOs that it retained as Ladbroke outlets as it was easier and more convenient to operate under one trading name rather than two (largely because of savings in printing costs and its benefits in terms of a certain *esprit de corps* for its employees) (see paragraph 6.33).

4.174. William Hill said that branding was important to occasional or new customers, who valued the strong brands of the national players as an assurance of reputation, reliability and quality of service. Tote Bookmakers said that branding was important to occasional or new customers when looking for an LBO in which to place a bet, in that a well-known name readily identified a particular premises as an LBO. The Tote had recently conducted customer research to find out the best way to brand Tote products.

4.175. Ladbroke's strategy document also noted that regular customers 'are loyal to the shop rather than the brand and location is therefore the key determinant in shop choice, followed by the quality of the shop environment and the staff/customer interface' (see Appendix 6.1, 'Page 19: Significant forces shaping the industry'). Even so, consumer research conducted in early 1996 for Ladbroke by Icon Research and Consulting (UK) Ltd (Icon) had shown that 32 per cent of the regular and 20 per cent of the irregular punters who were interviewed (see Appendix 4.3, paragraph 2(e)) agreed either completely or a little that Ladbroke was different from other bookmakers. The main reasons for Ladbroke being different were stated to be its larger size and greater number of LBOs and its better, modern and friendlier facilities.

4.176. Branding appears not to be insignificant. It has some influence on regular customers, as shown by the evidence of brand loyalty (see Appendix 4.3, paragraphs 23 to 25). High levels of brand awareness suggest, too, that branding has some influence on new or irregular customers in their choice of LBO. This is important to the extent that bookmakers must attract a proportion of new customers into their LBOs each year not only to maintain the existing level of turnover, but also to achieve growth, for example through the promotion of new products such as numbers games.

## ***Product and service innovation***

4.177. LBOs usually offer broadly the same range of betting services. Such differences as there are, for example in the range of speciality and multiple bets offered by different bookmakers, relate to a relatively small proportion of LBO turnover. Nevertheless, the relaxation of the regulations in recent years and continued technological progress (with computerized AWP, the Internet and advanced EPOS systems) means that innovation in products and services will continue in this industry.

4.178. One of the major product innovations in recent years, numbers betting, was introduced on an industry-wide basis (partly to offset the impact on the industry of the National Lottery) and had no competitive aspect in terms of product differentiation. We were told by the BBOA that numbers betting on the Irish Lottery had been first introduced by an independent bookmaker in his LBO in Kilburn (north-west London) where he had a number of Irish nationals as customers. About five months after William Hill brought in betting on the Irish Lottery in its own LBOs in late 1995 (see paragraph 4.42), it was joined by Ladbroke and Coral in promoting Lucky Choice. In 1996 William Hill was joined by Ladbroke and Coral in jointly setting up 49's as a daily, then twice-daily, numbers draw shown on SIS. Early in 1998 William Hill introduced into its LBOs a new computer-generated random number bet called Magic Numbers with a draw every 10 minutes throughout the day. William Hill told us that it had since decided to make Magic Numbers available (via 49's and SIS) to the whole industry from 1 June 1998.

4.179. We heard from several sources that Coral had been an innovative company. In particular, Coral had encouraged evening horse-racing meetings (which began in 1993) and Sunday meetings (which began in 1995 at the initiative of the owners of racecourses), the launch of Tote Direct (see paragraph 4.45) and the 'Blue Shop' design format for its LBOs which Coral developed and introduced in 1994.

4.180. For its part, Ladbroke said that it had orchestrated the lobbying in favour of evening opening for LBOs. It also told us that it had led the industry in innovations in shop design. About 1,000 of Ladbroke's LBOs had been refurbished to its current LBO specification, developed in 1994/95, during the period 1995 to 1997. More recently, for example, Ladbroke had developed 'quick bet' facilities for the front area of its LBOs for customers who wished to make a brief visit, place their bet and then leave. Ladbroke said that it was implementing its 'Betting Shop 2000' concept in its LBOs; this involved the introduction of EPOS technology to capture the details of every bet, provide the customer with a photographic receipt of the bet so that they had a guarantee that the bet had been struck and provide for automatic settling of the bet as soon as the official result was known. Ladbroke said that it intended to introduce this new technology in several of its LBOs from late 1998.

4.181. Ladbroke said that it had developed a number of new bets for customers over recent years, including 'Win & Show', Dual Forecast and Trio, 'Dash for Cash' and others. It had also been the first bookmaker to introduce an early price guarantee for its advertised prices (which meant that its advertised prices were guaranteed not to change for at least 15 minutes after its LBOs had opened). Ladbroke said that, while advertised prices represented an insignificant proportion of horse-race betting turnover, this guarantee was of benefit to those punters who had spotted value in an advertised price and wished to take advantage of it and, more importantly, it helped to ensure that bookmakers advertised only those prices that they were prepared to lay to their customers.

## ***Conditions of entry and growth***

4.182. New entry into the industry, or expansion by existing bookmakers into new localities, is often by acquiring an existing LBO, or LBOs, and then either continuing to operate it as such, or by applying for a licence for a nearby site with a view to transferring the business to it. We understand that, in practice, the issue of a replacement betting office licence for existing licensed premises, or for new premises a short distance (fewer than 400 metres) away within the same licensing area to a new applicant holding a bookmaker's permit, is normally a formality (provided the conditions set out in paragraph 4.15 are met).

4.183. The provisions of the 1963 Act relating to the supply of off-course bookmaking and LBO services deliberately restricted certain aspects of competition between bookmakers; the intention was to discourage any significant growth in betting and new individuals from being attracted to start

betting. The restrictions on advertising were relaxed in 1997; this allowed LBOs to advertise in the printed media (but not the broadcast media or the cinema) (see paragraph 4.17). However, the formal licensing arrangements described in paragraphs 4.14 and 4.15 have not changed; they continue to affect the number of individuals entering bookmaking and setting up new LBOs.

4.184. Although applicants are not required to employ legal representation in preparing or presenting their case, the process of applying for the grant or renewal of a licence sometimes involves significant legal costs. This may be necessary where an application is opposed, for example by competing bookmakers (who themselves may employ legal, surveying and other experts to present their case).

4.185. Unlike certain other licensing decisions, for example those concerning the sale of alcohol, where the licensing justices have complete discretion to grant or refuse licences, a betting office licence can only be refused on grounds of suitability, demand in the locality and previous conduct. We understand that in practice licences are normally granted unless someone enters an objection. As part of its evidence to us, Ladbroke provided a memorandum written by a specialist partner in a firm of solicitors that advised and acted for Ladbroke on licensing matters. The partner, the memorandum said, had been involved on behalf of both Ladbroke and other bookmakers in a large number of betting office licence applications (sometimes as applicant and sometimes as objector). The memorandum stated that the majority of applications were granted. This was usually the case when there was evidence of lack of competition, poor facilities, congestion or high turnover levels in the existing LBO(s) in the locality. When licences were refused, the evidence had generally shown that none of these factors applied.

4.186. We were told that in 1997 Ladbroke objected to 24 licence applications and that eight were in fact refused. In the same year, Coral objected to eight applications and three were refused. In about half of the objections made by Ladbroke over the period 1995 to 1998 there were one or more co-objectors. In about 80 per cent of those cases in which Ladbroke was the sole objector, the licence was granted. The percentage fell to about 40 per cent in those cases in which Ladbroke was joined by another objector(s).

4.187. Recent Home Office data show that in Great Britain, during the year ended 31 May 1997, 566 licences (90 per cent of those applied for) were granted out of 627 applications (see Table 4.22).

TABLE 4.22 **Bookmakers' permit and betting office licence applications in Great Britain, year ended 31 May 1997**

	<i>Number of applications for:</i>			
	<i>Bookmakers' permits</i>		<i>Betting office licences</i>	
	<i>No</i>	<i>%</i>	<i>No</i>	<i>%</i>
<i>Grants of permits/licences</i>				
Applications withdrawn	8	3.3	23	3.7
Grants allowed	226	93.0	566	90.3
Adjourned	3	1.2	9	1.4
Grants refused	4	1.6	22	3.5
Otherwise not dealt with	<u>2</u>	<u>0.8</u>	<u>7</u>	<u>1.1</u>
All applications	243	100.0	627	100.0
<i>Renewals of permits/licences</i>				
Applications withdrawn	12	0.3	32	0.4
Renewal allowed	3,963	98.0	8,763	99.3
Renewal refused	5	0.1	8	0.1
Otherwise not dealt with	<u>65</u>	<u>1.6</u>	<u>21</u>	<u>0.2</u>
All applications	4,045	100.0	8,824	100.0
<i>Permit/licence cessations</i>				
Renewals not applied for	513	79.8	604	74.4
Cancelled	6	0.9	32	3.9
Ceased for other reasons	<u>124</u>	<u>19.3</u>	<u>176</u>	<u>21.7</u>
All cessations	643	100.0	812	100.0

Source: MMC, based on data from the Home Office's Research and Statistics Directorate.

Only 22 (3.5 per cent of applications) were refused. Very few (\*) applications for the renewal of a betting office licence were refused. As the Home Office data do not separately show those applications for licences that are for entirely new offices, the figure of 566 includes a significant number of new licences relating to existing LBOs changing ownership. The number of successful grant applications was about 30 per cent less than the number of cessations.

4.188. In the same year there were 243 new applications in Great Britain for bookmakers' permits of which 226 (93 per cent) were granted (see Table 4.22). There were four refusals, and withdrawn applications, adjourned proceedings etc account for the remainder. The number of cessations was almost three times the number of successful grant applications. It is not known, however, how many of those granted permits went on to establish or acquire betting offices. Permits are also needed to operate as an on-course bookmaker or as a credit bookmaker.

4.189. In addition to the licensing controls on new betting offices, entry also depends on finding suitable premises for a betting office that offers the prospect of sufficient business. As existing bookmakers may also be in competition to secure the best available sites for new LBOs, or to acquire existing LBOs, the prices they command can be buoyant.

4.190. Although in absolute terms the cost involved in setting up a new LBO is not great, in relation to the prospective turnover it is possible that the size of the investment needed could be sufficient to discourage entry by a new or small bookmaking firm. Furthermore, the recent relaxation of LBO regulations has allowed bookmakers to invest in improved facilities. To the extent that this has raised the size of investment needed to enter the market, and raised the minimum efficient scale of operation of the typical LBO, these changes in the regulations may have raised barriers to entry.

4.191. Even so, examples of new LBOs are not uncommon. For example, in 1993 Demmy Bookmakers sold its chain of 47 LBOs to Stanley, but has since re-entered the market and grown to 37 LBOs, 17 of which were through the grant of new licences. The expansion of some smaller LBO chains through acquisitions and opening new sites has continued despite the overall decline in numbers of LBOs.

4.192. Whilst bookmakers wishing to offer telephone betting services do not need to operate LBOs (examples include Victor Chandler, Sunderlands and others), it is clear that the great majority of telephone betting turnover is earned by bookmakers that do so (see paragraph 4.132). However, those wishing to offer telephone betting services in isolation need only a bookmaker's permit; they do not need a betting office licence as well. At its simplest, therefore, entry into telephone credit and deposit bookmaking is relatively easy and inexpensive, though for entry into telephone debit card bookmaking, the bookmaker will also need the approval of the banks (which will require reassurance about the bookmaker's ability to handle debit transactions and check on the integrity of potential customers). In practice, the new entrant telephone bookmaker's main obstacle is the need to attract clients. This may well require considerable amounts of advertising and promotional expenditure, much of which will be irrecoverable sunk costs. Given the degree of trust involved in conducting business by telephone, the need to establish a reputation for honesty and reliability is likely to be a barrier to entry, except for firms that already enjoy such a reputation as a result of their existing business activities.

### ***Economies of scale and scope***

4.193. The larger off-course bookmakers may benefit from economies of scale and scope in several areas. These include advertising, the employment of specialists and other experts both in the determination of racing form and early prices and in devising new betting products, the ability to offer higher maximum payouts, and the resources to refurbish their LBOs to high standards of comfort and facilities, to identify and acquire prime retail sights for new or relocated LBOs and to customize the betting information relayed to and displayed in their LBOs.

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\*The MMC have advised that this figure is inaccurate and it has been excised in accordance with section 83(3) of the Fair Trading Act 1973. It should correctly have read '8'.

4.194. It appears to be the case, however, that advantages of size in this industry derive largely from the ability to spread central overheads over larger numbers of LBOs and from any opportunity to attract large numbers of customers. The annual costs of operating individual LBOs do not vary much with their size. The data in paragraph 3.56 suggest that an independent LBO is unlikely to be profitable if its annual turnover is less than £260,000 to £360,000; above about £470,000 a year an LBO is more likely than not to be profitable. The average annual turnover of the LBOs operated by the three leading bookmakers is much larger than this, being in the range £840,000 to £910,000 (see paragraph 3.54). About [≈] per cent of Ladbroke's LBOs produce an average contribution of £[ ≈ ] a year each from an average turnover of about £860,000 (see paragraph 3.9).

4.195. Ladbroke said that, by virtue of its size only, it had few if any inherent cost advantages at the individual LBO level over its smaller rivals. It said that its core strength as a leading bookmaker was in operating and managing LBOs cost effectively, and its continuing emphasis on tighter security systems and procedures and improving the mix of betting products.