

Industry background

The UK gambling industry

1. UK consumers spend in excess of £50 billion a year on gambling, double what they spent in 2000.¹ Gambling may take many forms and may be categorized as 'hard' or 'soft' depending on its propensity to give rise to problem gambling. The former includes games in which stakes are potentially high and which are capable of being played frequently, for example poker and roulette. The latter includes low-stake games, offering long odds but sometimes with large jackpots, which cannot be played frequently and so are less likely to give rise to problem gambling in the sense that gamblers are not able to chase losses. Lotteries, bingo and football pools are generally considered to fall into this category.
2. Of the different forms of 'soft' gambling, the UK National Lottery is the most popular with some 70 per cent of the adult population participating over a year, staking around £100 million a week.² The next most popular form of soft gambling is bingo, with stakes of £10 million a week. Consumer expenditure on football pools is less than £2 million a week.³

Football pools

Brief history of the pools

3. Football pool betting, in which bettors seek to forecast the outcome of forthcoming matches, began in the 1920s, typically involving small bets and paying out small prizes. The original game involved forecasting the score in a limited number of matches. Prior to the Second World War there were over 200 pools operators. The most popular current game, the treble chance,⁴ began in 1946. This game had fewer winners than the previous game, because of its longer odds, but paid higher prizes.
4. Following the success of the treble chance game, in terms of the number of participants and the total funds staked, the Government introduced a pools betting tax of 10 per cent of the amount staked in 1948, which ultimately rose to 42.5 per cent in 1982. Immediately prior to the launch of the National Lottery the tax was 36 per cent. In February 1995, three months after the launch of the National Lottery, it was reduced by 5 per cent and in December 1995 it was reduced by a further 5 per cent. In 1999 it was reduced again, to 17.5 per cent of the total staked. In April 2002 this tax was replaced with betting duty of 15 per cent of the operators' gross win.⁵
5. Partly because of the duty and partly because of what have been described as the 'peculiar economics of the game',⁶ consolidation took place in the industry with three principal pools operators emerging with, between them, a 99 per cent supply to pools

¹Gambling Commission, *Basic Facts About the British Gambling Industry*, 2006.

²*Taking Part, 2005–06*, Department of Culture, Media and Sport (DCMS). Camelot.

³*Family Spending*, ONS. The parties.

⁴So called because participants had three chances of winning, ie first, second and third dividends.

⁵The amount of the stake retained by the operator after paying out prizes.

⁶Particularly the positive and negative network effects of growing and decreasing pools and prize funds. See 'The Past and Future of the British Football Pools', David Forrest, *Journal of Gambling Studies*, Vol 15(2), Summer 1999.

participants: Littlewoods, Vernons and Zettters.⁷ Zettters was acquired by Sportech in 2002.

How football pools work

Prizes

6. Football ‘pools’ are so called because the size of the payout is dependent upon the amount staked, the pool, which is shared among the players after the costs of organizing the competition, betting duty and the operators’ profits have been deducted. Littlewoods currently pays out [20 to 25] per cent of the amount staked and Vernons [20 to 25] per cent. This is known as the ‘payout ratio’. The Budd report,⁸ in 2001, produced for the DCMS, listed payout ratios for various forms of gambling. These are shown in Table 1. Since this time, football pools payout ratios have fallen by around [8 to 13] percentage points.

TABLE 1 Payout ratios

<i>Form of gambling</i>	<i>Payout ratio</i> %
Table gambling	97.5
Licensed cash bingo	68
On-course betting—horses	89
On-course betting—dogs (bookmakers)	80
On-course betting—dogs (tote)	77
Off-course betting	78
Spread betting—financial	83
Spread betting—sports	88
Gambling machines—single sites	78–82
Gambling machines—other	85–95
National lottery	46.8 ⁹
Football pools	33
Societies lotteries	27

Source: Gambling Review Report, DCMS, 2001.

Playing the game

7. The current competition offers participants the opportunity to forecast the results of 8 out of 49 games.¹⁰ Points are awarded on the basis of match results: a score draw earns three points, a no-score draw or void two points, and a win, home or away, one point. The maximum score that may be achieved is thus 24 points (ie from eight score draws). If more than one participant scores 24 points, the first prize or ‘dividend’ is shared. If no participants score 24 points, the first prize is awarded to the next highest-scoring participants.
8. Players generally select 10, 11 or 12 games¹¹ out of the 49 listed on the coupon each week and their entry will be judged on the best performing eight forecasts.¹² The number of possible combinations of eight matches increases appreciably with

⁷Brittens also operates a national football pool.

⁸*Gambling Review Report*, p83, DCMS, 2001.

⁹New games, besides Lotto, have now been introduced with slightly higher payout ratios bringing the overall payout ratio to 50 per cent.

¹⁰Previously 58 games were listed on the coupon. In 1995 the pools operators reduced the number to 49—the same number of balls from which the Lotto is drawn.

¹¹Larger selections are possible.

¹²Other ‘plans’, proportional line stakes, are available. Littlewoods told us that these may be favoured by skill-based players. Only [3x] per cent of its bets, by value, are plans.

the total number of selections actually made. An 8-from-10 selection yields 45 possible combinations, an 8-from-11 yields 165 and an 8-from-12 yields 495 possible combinations.¹³ Altogether the 49 fixtures on the coupon generate 450 million possible combinations of eight selections—so the odds of any bet winning are long. Bets are charged for on the basis of these possible combinations, sometimes referred to as ‘lines’. The operators’ price per line differs quite markedly: Vernons’ price per line is 0.454p, Zetters’ 0.125p and Littlewoods’ 1.666p.¹⁴ The minimum bet is 21p with Zetters, 40p with Vernons and 75p with Littlewoods. The average Vernons bet is £[redacted] and Littlewoods £[redacted]. Vernons’ most popular bet is 8-from-11, priced at 75p.¹⁵ Littlewoods’ best-selling bet is 8-from-10, also priced at 75p. Apart from a single Littlewoods rise in 1999, the price per line has remained unchanged between 1994 and the entry price increase Littlewoods introduced for the 2007/08 football season (see Appendix E). Neither Zetters nor Vernons have increased their entry prices over this period.

TABLE 2 Distribution of entry types

Entry type	Entry prices £	Current sales £	%		
Littlewoods					
Booster 8 from 10	1.00	[redacted]	[redacted]		
8 from 10	0.75				
8 from 11	2.35				
8 from 12	6.75				
8 from 13	17.31				
8 from 14	40.04				
8 from 15	85.80				
Plans	Various				
Total				[redacted]	100.00
Vernons					
8 from 10	0.40	[redacted]	[redacted]		
8 from 11	0.75				
8 from 12	2.25				
8 from 13	5.85				
8 from 14	13.65				
8 from 15	29.25				
Plans	Various				
Total		[redacted]	100.00		

Source: Parties. Littlewoods data for the week of 24 February 2007 and Vernons for the week of 28 April 2007.

9. Broadly, the pools offers of the operators may be differentiated in terms of entry costs and first dividend payouts: Zetters offers low entry costs but smaller first dividends, Littlewoods higher entry costs and higher first dividends, with Vernons in between the two. Littlewoods’ first dividend is currently around £[redacted] and Vernons’ £[redacted]. Zetters’ first dividend is currently around £[redacted].
10. Littlewoods awards prizes on the basis of the full-time score, the half-time score or the number of goals scored.¹⁶ In addition to prizes awarded from the prize pool, both Littlewoods and Vernons offer a £2 million prize payable if a participant selects eight

¹³These combinations are described as permutations or ‘perms’ by the pools companies.

¹⁴These prices per line—and other Sportech price information in this paragraph—do not reflect the recent Sportech price increase (see paragraph 5.6).

¹⁵In the Internet version of its competition this is priced at £1, attracting the ‘booster’ payment described above to winning entries.

¹⁶Littlewoods’ ‘Goal Rush’ pays out if the participant selects the eight highest-scoring games of the competition. Vernons offers players points on the basis of the half-time score.

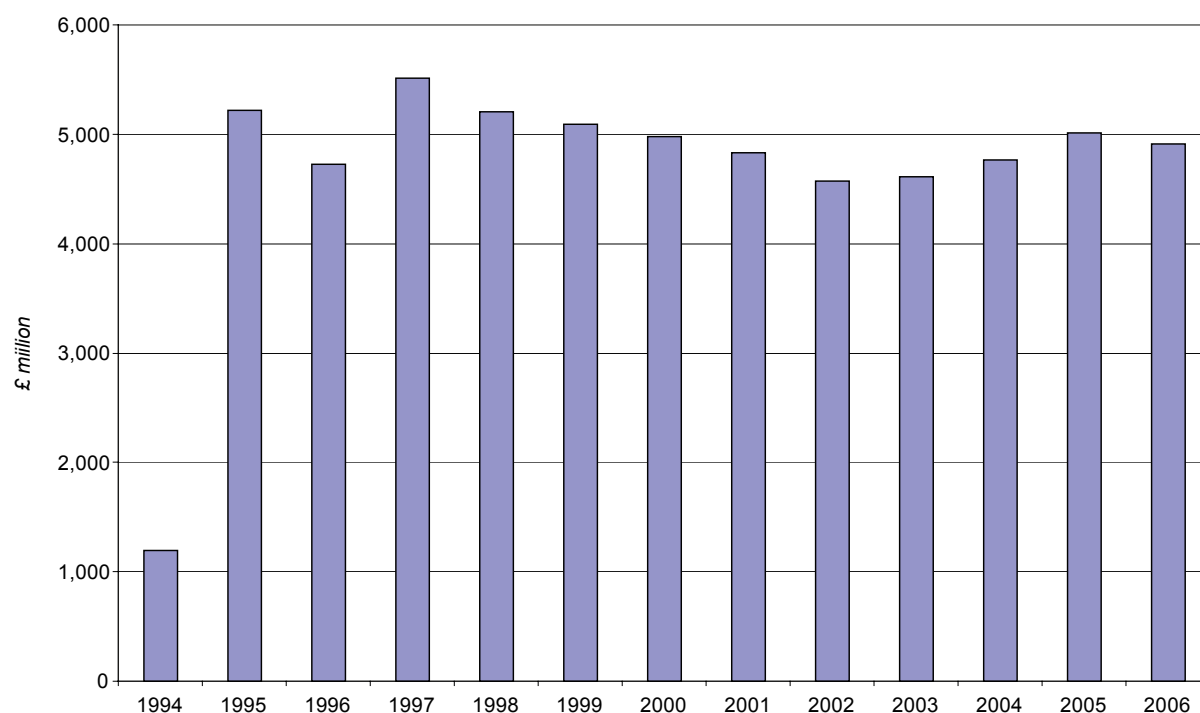
score draws in which the score is 2–2 or more.¹⁷ This outcome has occurred only three times since the prize was offered and no one has ever won it.

Participation and the growth of the National Lottery

11. The first National Lottery prize draw was held in November 1994. The ease of playing Lotto, its low minimum stake of £1, the widespread availability of tickets from the network of participating retailers, coupled with the exposure of the Saturday draws on peak-time weekend television and the size of the jackpots of several million pounds awarded, contributed to the immediate success of the National Lottery in terms of participation. Since launch, new types of games and a mid-week draw have been offered. Participants in the National Lottery are broadly representative of the UK population in terms of age, sex and social class. As can be seen from Figure 1, annual expenditure on the National Lottery has remained at around £5 billion since the first full year of its operation.

FIGURE 1

Expenditure on the National Lottery



Source: Camelot.

12. Pools participation, which had been rising during the first half of the 1990s, fell sharply after the launch of the National Lottery: between 1994 and 2000 the number of pools players fell from 10 million to fewer than 2 million. Subsequently the rate of participation has exhibited a steady year-on-year decline.¹⁸ The number of participants is currently (2007) fewer than 1 million. Since the launch of the National Lottery, the annual amount staked on football pools has fallen from around £800 million to £80 million. It should be noted, however, that even at its peak, pools

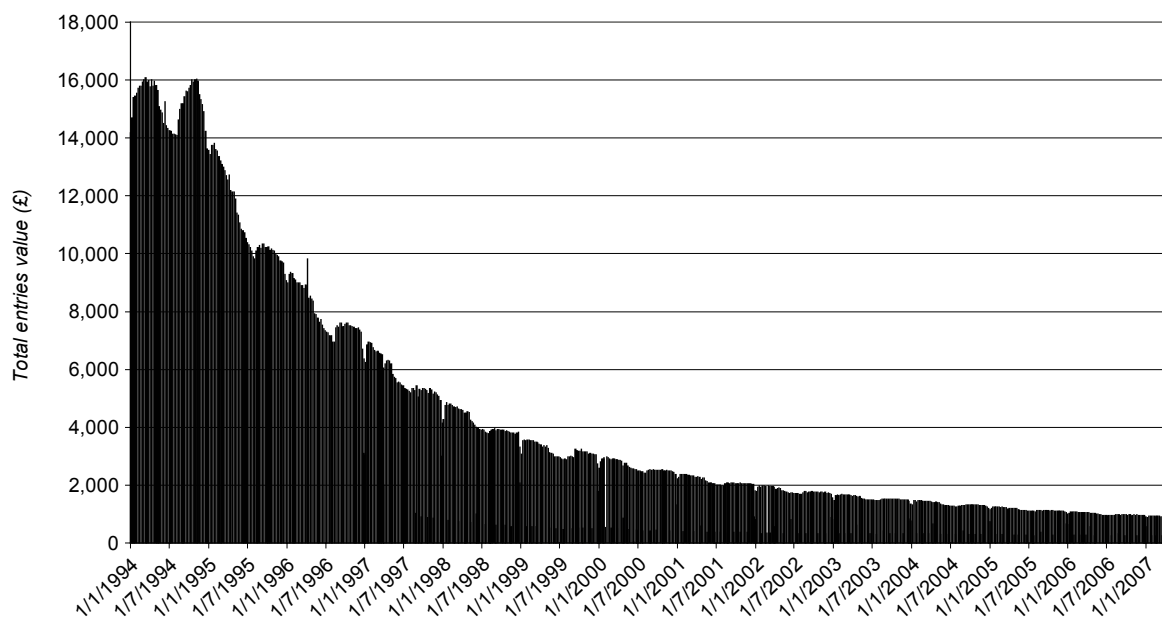
¹⁷With effect from the start of the 2007/08 football season Littlewoods has increased this prize to £2.5 million.

¹⁸Vernons stakes are forecast to fall 10 per cent in 2007 compared with 2006 and Littlewoods slightly faster, at 12 per cent.

expenditure was only one-fifth of that spent on the National Lottery currently. Figure 2 shows the decline in the weekly amount staked on Littlewoods pools.

FIGURE 2

Weekly expenditure on Littlewoods football pools



Source: Sportech.

- As the total amount staked has fallen, so has the prize fund. Partly as a result of the reduction in the size of the pool, though also as a result of the operators reducing the payout ratio, the size of first dividends has fallen. This may have further reduced the attractiveness of the game relative to the National Lottery, which offers multi-million-pound jackpots, to those seeking a life-changing experience.

Pools players profile

- Currently, around 3 per cent of the adult population enter football pools competitions. Pools players tend to be older than the population at large and are more likely to be male than female. [X] per cent of Vernons players whose gender is known are male and [X] per cent are aged 65 or older. The player profile of Littlewoods and Vernons customers is similar in terms of social grade though Littlewoods direct customers are slightly more skewed towards the AB category than Vernons customers.

Customer retention

- The pools business model is dependent upon the proportion of current players that can be retained and the cost of acquiring new players to replace those that have ceased participating. Vernons internal documents indicate that, in aggregate, about [X] of its pools players fail to renew at their renewal point. The level of churn, however, varies appreciably between different segments of its customer base. The renewal rate of Vernons first-time renewals is [X] per cent but for subsequent renewals it is [X] per cent. Sportech told us that the renewal rate of established Littlewoods customers was much higher than the renewal rate for recently acquired customers: [X] per cent compared with [X] per cent. This would tend to confirm that there is a degree of habit in pools playing, once the habit is established. In a survey

conducted for Sportech, 26 per cent of respondents gave 'habit' as a reason for playing.

16. Both Sportech and Vernons have introduced purchasing plans and payment methods aimed at improving retention rates by reducing the number of occasions at which the player may decide to stop playing. These include a one-off payment in advance (season tickets) for a number of weeks and subscriptions using continuous payment methods such as direct debit.
17. Such subscription purchasing methods facilitate the use of the same numbers each week: players indicate their number selection at the beginning of the subscription period and these are entered for the duration of the subscription, which is typically in the range of 5 to 52 weeks. Subscription and pay-in-advance schemes, where the player maintains the same numbers each week,¹⁹ imply that they are relying on luck rather than knowledge of football in making their selection of the games which will be score draws.²⁰
18. Roughly half of Littlewoods pools participants pay and play through its collector network.²¹ These customers are able to play either by hand-held terminals or on paper coupons. Customers playing by hand-held terminals are able to enter the weekly competition by swiping their Littlewoods pools card through the hand-held device carried by the collector. We were told that, in order to change their numbers, customers must request the issue of a new card from Littlewoods. Players betting via the collector network using a paper coupon to enter weekly (roughly one-third of its collector customers) may also select the same numbers weekly: Sportech told us that, of the Littlewoods collector customers who play weekly using paper coupons, it estimated that around 30 per cent used the same numbers each week. All Littlewoods direct customers use the same weekly selection, although they could change these if they wished.
19. Sportech told us that in 2007, nearly 80 per cent of Littlewoods customers played by methods where the numbers chosen may not be changed easily from week to week. In 1997, the equivalent proportion of participants was 20 per cent. In addition, as noted above, Sportech told us that some players who could easily change their weekly numbers did not. Overall, it estimated that about 85 per cent of its players used static numbers.
20. Ladbrokes told us that approximately [X] per cent of Vernons' customers, all of whom are direct, play through multi-week schemes, using the same numbers each week. Vernons estimated that around [X] per cent of its weekly players returned all four weeks' coupons at once and played the same numbers.
21. For players using static numbers, unlike those selecting matches each week on the basis of the teams' form, the characteristics of the game have become more similar to a lottery, though with a much lower jackpot prize than the National Lottery, for example. Further, the results from the survey GfK carried out for us (see paragraph 5.35) indicate that 57 per cent of pools players never check their coupon and that

¹⁹Players can change their numbers on a weekly basis, eg by telephoning the pools operator, though the parties suggested to us that few in fact do so.

²⁰In many cases pools players are in effect selecting the numbers on which they will bet before the football fixtures to which they relate have been allocated.

²¹Collectors are agents who call door to door to confirm a player's participation and collect the entry fee. Littlewoods has 12,000 collectors who are paid on a commission basis. Vernons closed its collector network in 1998.

92 per cent of them say that the link with football makes no difference to their enjoyment of the game.²²

22. In addition to pay-in-advance and subscription systems, Littlewoods and Vernons encourage customer retention through loyalty schemes whereby participation in competitions earns points which may be redeemed as free entries in subsequent competitions. Vernons' 'Players' Points' was introduced in 1995. Players are awarded points on the basis of amount staked and the number of years they have been playing. In 2006, [X] per cent of Vernons players redeemed their points by entering a free bet. Littlewoods has a similar scheme, *Freeplay*.
23. Both Littlewoods and Vernons invest heavily in customer retention activity, in particular offering payment schemes which facilitate the use of betting using static numbers. Retention rates for new customers are much lower than those for established customers, which may indicate that habit is a significant driver of behaviour.

Customer acquisition

24. Vernons produces its direct-mail packages in-house, manages its own lists internally and sources lists from third parties through a direct marketing agency. In 2006 it mailed [X] million pieces to its active customers and [X] million pieces to past (lapsed) customers and third-party lists which it considers may respond profitably, de-duplicated against its customer list. Third-party lists would include people who have purchased goods and services by direct mail, catalogue sales for example, as well as more tailored lists. The last category would include lists of consumers who have indicated via 'lifestyle' surveys²³ that they participate in certain activities that may suggest they may be responsive to an offer from pools promoters, say gambling in some form or other, including the pools. We have been told that Vernons uses lifestyle lists, which include Littlewoods current and past customers, to acquire new players. We were told about Vernons' June 2007 campaign, which was a mailing to around [X] prospects for its Season Ticket offer, to a list that included Littlewoods current and past customers. However, we were also told that the response to this promotion was relatively poor, generating fewer than [X] customers [X].
25. Littlewoods also undertakes direct marketing activities on a large scale though much of the creative and list selection work is outsourced. These direct marketing activities are aimed at the retention of existing customers, the reactivation of lapsed customers and the recruitment of new customers. Sportech's strategy has focused on reactivation and retention; it told us, in particular, that it did not target Vernons' customers in its marketing activities.
26. Both companies use door-to-door (leaflet/unaddressed mail) distribution. Neither company makes heavy use of television or national newspaper advertising though they do operate promotions designed to recruit players in the national (particularly Sunday) press and in regional newspapers.
27. Vernons uses two main messages to encourage participation. It makes heavy use of the claim to be better value for money than Littlewoods, for example 'Play the pools with a Vernons 8 from 11 entry and you get the same 165 chances to hit the top jackpot as you would with Littlewoods but at only 1/3 of the cost! Why pay more?' and 'A Vernons Season Ticket gives you 7 times more chances to win £2 million than

²²The link may be even more tenuous in the summer close season when Australian fixtures are used as the basis for the games.

²³These are surveys, often inserted in consumer magazines, that capture spending and behaviour patterns of respondents.

playing with Littlewoods!'. Its second message, which appears widely in its promotional material, is that its pools are '7 times easier to win than the National Lottery'.

28. Littlewoods messages make less use of comparisons with other gambling activities in general or with Vernons in particular, stressing instead the size of the prizes available and the ease of playing, along with illustrations of how winners might choose to spend their prize money. Littlewoods does not routinely compare the chances of winning prizes in its pools competitions with those of the National Lottery nor the size of its dividends compared with Vernons. Littlewoods also makes use of a variety of incentives, including free entries and discounts off holiday and leisure purchases and players' points, to encourage pay-in-advance and standing order payment schemes.

Other games

29. In addition to their pools competitions, Littlewoods and Vernons operate fixed-odds betting games. These are described in Table 3.

TABLE 3 Other games offered by pools promoters

<i>Operator</i>	<i>Game</i>	<i>Basis</i>	<i>Frequency</i>	<i>Bets</i>	<i>Prizes</i>
Vernons	Lucky Clover	Irish Lottery	Twice a week	3, 4 or 5 numbers	3 £501
					4 £4,001
					5 £50,001
	49s	Bookmakers draw	Twice a week	2–5 numbers	2 £41
					3 £501
					4 £7,001
5 £100,001					
Littlewoods	Irish Lotto	Irish Lottery	Twice a week	3 or 4 numbers	3 £625
					4 £7,500
	El Lotto	Spanish Lottery	Daily	2, 3 or 4 numbers	2 £60
					3 £600
					4 £6,000

Source: CC analysis based on data provided by the parties.

30. Sportech also manages a small number of society lotteries and scratchcards on behalf of charities and a 'Spot the Ball' competition.