

Ladbroke's five-year strategy document
UK Cash Betting Strategy 1998-2002

Extracts from section 5: 'Market and Competitive Environment'

Page 17: Summary of major structural characteristics and trends within the industry

1. [*Details omitted. See note on page iv.*]
2. Substitution threats exist in National Lottery product development and interactive betting and gaming via digital television and other new media channels.
3. [*Details omitted. See note on page iv.*]
4. The market decline (accelerated in recent years by the impact of the National Lottery) has seen intense competition replaced by co-operation which has helped raise product margins and led to the introduction of structures such as 49's Ltd and Lucky Choice Ltd. These organisations and BOLA are essential to maintaining this co-operation. However, the increase in industry profitability has attracted a sharp increase in new licence applications which threatens market share at the local level. [*Details omitted. See note on page iv.*]

Page 19: Significant forces shaping the industry

Customer Power

1. There is an extreme pareto effect with 29.8 per cent of people who visit a betting shop accounting for 98 per cent of turnover. This regular customer group is male, older, C2DE and has declined as a proportion of the total population. 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. This affords limited brand leverage and means that the fight for market share takes place at a micro level on each individual high street or shop parade.
2. Numbers and, to a lesser extent, sports betting and slots, deliver new customers and Lucky Choice in particular has brought female customers into shops. For these new customers and for the irregular customers, the brand delivers reassurance and the improving quality of the shop estate means that Ladbrokes is now first choice for no less than [§<] per cent of irregular customers. (*Source: Ladbrokes U&A*).

Supplier Power

3. Horse Racing accounts for 71 per cent of turnover and here the supplier is multifaceted. [
Details omitted. See note on page iv.]

[
Details omitted. See note on page iv.
]

Page 20: Significant forces shaping the industry

Threat of new entrants

1. [
Details omitted. See note on page iv.
]

Threats of substitutes

2. The lottery is the most significant substitute, particularly the threat of unconstrained product development in future years. [
Details omitted. See note on page iv.]

Legislation

3. After several years of relatively rapid deregulation permitting slots, open shop fronts, a broader range of snacks, evening and Sunday opening and limited advertising, [
Details omitted. See note on page iv.]. The betting industry will continue to lobby for changes in regulation which protect and reinforce its position of providing tightly managed, controlled and licensed premises for adults who wish to bet, eg jackpot slots and side-betting on the UK National Lottery.

Competition between existing firms

4. Turnover within the industry is consolidated with 4 major players representing *circa* 68 per cent of the total market. Since the introduction of the National lottery competition has been reasonably well restrained in terms of discounts, bonuses and betting percentages which impact gross margins. On the high street the improving profitability in the industry, delivered by numbers betting and slots, has led to a sharp increase in development activity, particularly new licence applications from independent bookmakers. [
Details omitted. See note on page iv.]

Page 22: Competitors

Ladbrokes

1. Has the dominant market share with 22 per cent of shops and 26.9 per cent of industry turnover. Benefits from high awareness and perceived credentials by regular and irregular customers. Improvements in customer service levels and the quality of the shop environment have delivered share improvements in recent years.

[✂]

2. [*Details omitted. See note on page iv.*] shop estate, whilst in good condition, now looks increasingly dated relative to [✂] and [✂]. [*Details omitted. See note on page iv.*]

Coral

3. A quality chain of shops with high levels of development investment in recent years [*Details omitted. See note on page iv.*].

[✂]

4. [*Details omitted. See note on page iv.*] an acquisitive low cost operator of traditional betting shops [*Details omitted. See note on page iv.*].

Tote

5. The Home Secretary will very soon appoint a new Chairman to replace the retiring Lord Wyatt. [*Details omitted. See note on page iv.*]

Page 23: Competitive rivalry

1. After the Lottery hit the industry in 1995 intense competition was replaced to a considerable extent by increased co-operation between the major companies. Ladbrokes have led the way with the removal of an array of uneconomic [✂] customer offers. Improvements to betting margins have also been achieved through long overdue adjustments to the BAGS forecast formula and the horse forecast and tricast formulae.
2. The development of Lucky Choice Ltd and 49's Ltd have co-ordinated the development of numbers betting, [*Details omitted. See note on page iv.*]. These structures have also supported industry-wide national advertising and promotional programmes [*Details omitted. See note on page iv.*].

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3. At local level, however, competitive rivalry is at its highest level for several years with shops threatened by licence applications from both the major companies and, particularly, independent bookmakers. It is becoming increasingly difficult to protect licences in magistrates courts and the level of applications will continue to grow as industry profitability improves.

Page 24: New entrants and substitutes

The National Lottery

1. In 1997 the number of Lottery outlets has grown to 35,000 and the midweek draw and low odds scratchcard games have been introduced. [*Details omitted. See note on page iv.*]

Details omitted. See note on page iv.

Technology

2. Digital television could deliver interactive betting services which significantly impact the existing off-course channels of distribution—the shops and the telephone. [*Details omitted. See note on page iv.*]