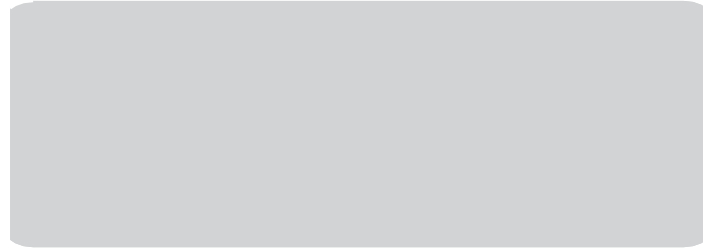




National Gambling Board  
South Africa  
a member of **the dtic** group



# Market concentration in the gambling industry

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**16 March 2023**

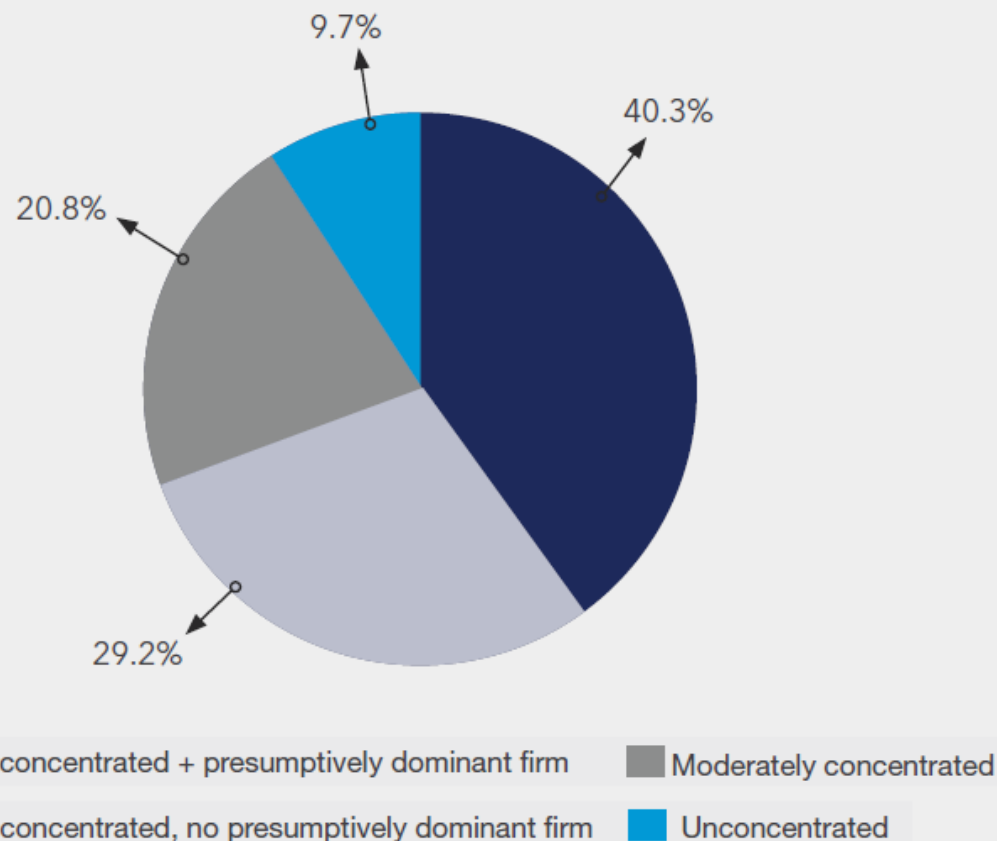
# Market Concentration

- **International – investigations into digital markets**
  - Conduct of Amazon, Apple, Facebook and Google
  - Concern – dominance in digital markets
  - Firms engaged in anti-competitive conduct
  - *Investors avoided investing in companies that competed with the dominant firms in online markets*
- **South Africa – National Treasury report on economic transformation, inclusive growth and competitiveness**
  - Concentrated nature of the South African economy – an impediment to inclusive growth
  - Policies to encourage new firm entry were lowering barriers to entry and promoting small business growth

# Market Concentration

- **Market Concentration** – Measures extent to which market shares are concentrated between a small number of firms (OECD)
- **Competition Commission** - *‘a growing, deconcentrated and inclusive economy’*
  - 2021 Concentration Study: patterns of concentration and participation in the South African economy – 144 sectors
- Section 7 of Competition Act : A firm is **dominant** in a market if-
  - *(a) it has at least 45% of that market;*
  - *(b) it has at least 35%, but less than 45%, of that market, unless it can show that it does not have market power;*
  - *or (c) it has less than 35% of that market, but has market power*

# Summary of concentration across SA economy



## Highly concentrated + dominant firm

- “Sin” industries (alcohol, **gambling** and cigarettes)
- Farming inputs ( various seeds and seed treatment, fertilisers)
- Agro-processing (grain processing for human consumption, fisheries)
- Healthcare (medical schemes and administration, pathology)
- Communications (mobile, FTTH, publishing and broadcasting)
- Upstream steel value chain (iron and ferrochrome mining, crude steel production) and chemicals (plastics, ethanol)



# Changes in concentration over time

- Highly concentrated markets becoming more concentrated
- Increasing consolidation in licensed sectors – fisheries, retail pharmacy, renewable energy and **gambling**

	Industries with increasing concentration	Industries with declining concentration	Relatively consistent ( $\leq 2$ percentage points)	Total
Highly concentrated with a presumptively dominant market participant	59.5%	19.0%	21.4%	42
Highly concentrated without a presumptively dominant market participant	35.9%	35.9%	28.2%	39
Moderately concentrated	31.8%	45.5%	22.7%	22
Less concentrated	25.0%	41.7%	33.3%	12
Total	42.6%	32.2%	25.2%	115

Source: Competition Commission – Concentration tracker

# Participation

- Low levels of participation in concentrated markets

	0-20 participants	21-100 participants	101-1000 participants	>1000 participants
Highly concentrated with a presumptively dominant market participant	32.7%	8.7%	1.0%	0.0%
Highly concentrated without a presumptively dominant market participant	20.2%	7.7%	1.9%	0.0%
Moderately concentrated	1.9%	11.5%	2.9%	1.0%
Unconcentrated	0.0%	5.8%	3.8%	1.0%

Source: Competition Commission – Concentration tracker

# Distribution of firm income

- Top 10% of firms have 86% of total turnover; 1.6% for the bottom 50%
- Gini coefficient for firm distribution is 0.84

Industry Classification	Turnover share of top 10%		Turnover share of bottom 50%	
	2011	2016	2011	2016
Agriculture	78.7%	80.7%	1.9%	1.3%
Catering, Accommodation and other Trade	64.1%	55.7%	5.4%	5.7%
Community, Social and Personal Services	65.5%	62.2%	6.4%	7.1%
Construction	72.4%	72.1%	3.4%	3.0%
Electricity, Gas and Water	93.0%	93.3%	0.8%	0.6%
Finance	75.5%	77.2%	4.9%	4.4%
Manufacturing	92.1%	92.6%	0.6%	0.5%
Mining and Quarrying	97.9%	97.0%	0.1%	0.2%
Retail, motor trade and repair services	85.0%	84.1%	1.3%	1.2%
Transport, Storage and Communication	92.1%	90.1%	0.9%	1.1%
Wholesale	86.1%	88.1%	1.0%	0.8%
All Firms	86.4%	85.8%	1.6%	1.6%

# Concerns with concentrated markets

- Literature
  - US – *Increased concentration associated with falling labor share of income, declining private investment, and rising corporate profit rates and markups*
- Effect on consumers
  - Higher prices
  - Fewer choices
  - Quality of product of service
- Effect on new entry – transformation
  - Increased barriers to entry
  - Strategic barriers
    - *intentionally created or enhanced by incumbent firms in the market, possibly for the purpose of deterring entry (OECD)*





# Gambling Industry Concentration



# Dominance across the gambling modes

- Casino – two largest operators control over 80% of national market (GGR)
- Bingo – two largest bingo operators – 92% share of bingo outlets
- Major casino operators also prominent in other gambling modes
  - Via merger transactions
- Two largest casino operators are also the two largest LPM operators, holding almost 80% market share
- Two of the three largest LPM operators – also the largest bingo operators
- Major casino operator – large market shares in the betting market

Merging Parties	Approval Date	Horizontal Overlap	Notes
Sun International/SunWest International and Worcester Casino	6-Sep-11	Casinos	Conditional approval. No geographic overlap. No change in control - previously joint.
Global Pact 225/Clairwood Race Course, currently owned by Natal Racing Properties	5-Mar-12	None	Unconditional approval.
Capital Property Fund/Natal Racing Properties (Pty) Ltd, in respect of the immovable property and letting enterprise trading as Clairwood Racecourse	13-Jul-12	None	Conditional approval.
Tsogo Investments Holding Company/Tsogo Sun Holdings	9/12/2014 (Tribunal 22-Oct-2014)	Casinos	Unconditional approval. Unlikely part of same geographic market.
Sun International/GPI Slots	3-Oct-14	None	Conditional approval. Gained negative control. LPMs and casinos in different relevant markets.
Sun International/GPI Slots	9/15/2015 (Tribunal 6-Nov-2014)	None	Unconditional approval. Gained sole control. LPMs and casinos in different relevant markets.
Zico Capital Two/Goldrush Group	8/12/2016 Tribunal (24-Aug-16)	None	Unconditional approval.
RAC Investment Holding/Goldrush Group	24-Jun-16	None	Unconditional approval. Increase in shareholding from 31.4% to 52.2%.
Goldrush Group/Crazy Slots	29-Jul-16	LPMs	Unconditional approval. Accretion 5-35% in various geographic markets. 10-70% post-merger share depending on the geographic market.

Merging Parties	Approval Date	Horizontal Overlap	Notes
Phumelela Gambling and Leisure/Supabets SA Holdings	19-Aug-16	OTC fixed-odds betting on sports, non-OTC fixed odds betting	Conditional approval. Post-merger shares of 30-50%
Goldrush Group/Boss Gaming and Entertainment	15-Jun-17	Bingo	Conditional approval. 60-70% accretion to 65-75% post-merger share in broad Eastern Cape although no geographical overlap there. No market share information for KwaZulu-Natal.
GoldenTree Asset Management LP and MIC Leisure/Peermont Holdings	13-Oct-17 (Tribunal 25-Oct-17)	None	Unconditional approval.
Peermont Holdings/LCI	15-Aug-19 (Tribunal 4-Sep-19)	Casinos	Unconditional approval. <5% accretion to 25-30% post-merger share in Gauteng.
HCI/Zamani Marketing and Management Consultants	27 March 2020	None (potential competitor as lottery bidder)	Conditional approval.

# Casino market consolidations

- **Recent merger activity:** New venture (Tsogo Sun main shareholder) acquired Emerald Casino in Gauteng
- Gauteng has 7 available licences for casino market
  - Tsogo Sun – increase to 4 of 7 post-merger
- Tsogo Sun had the highest market shares in Gauteng
  - Merger entrenches Tsogo Sun's dominance
- Merger reduced the number of competitors in Gauteng from 4 to 3



# Betting market consolidations

- Betfred SA (Betting World, Sepels Sportsbet, Sepels Best Bets) acquisition of LottoStar
- LottoStar – dominant firm in Mpumalanga
  - Market share accretion low – Betfred SA had small market shares.

## **Increased market entry – signal low barriers to entry**

- The number of operational bookmakers increased by 40% between FY2020/21 and FY2021/22 (186 to 261 bookmakers)

# Betting market acquisition

- 4Racing acquired Phumelela Gaming and Leisure Limited
- 4Racing is a newly established firm
  - Gained sole control of Phumelela – no change to the market structure
- Horse racing sector is not transformed
  - Commitment – the merged entity will dispose of at least 25% of its shareholding to historically disadvantaged persons (“HDPs”)

# Conclusion

- SA economy - trend towards more concentration in highly concentrated markets
- SA economy and market structure - not been conducive to small and medium enterprise growth
- Gambling industry
  - Highly concentrated, increasing concentration
  - Dominance across different modes
  - Undermines transformation objectives
- Competition Commission recommends more deliberate action to change this trajectory