

6 April 2017

By email

The Australian Competition Tribunal
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the Hon. Justice John Eric Middleton
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Application by Tabcorp Holdings Limited for authorisation by the Australian Competition Tribunal to acquire issued shares of Tatts Group Limited by scheme of arrangement

The Queensland Hotels Association (QHA) welcomes this opportunity to provide a short submission in support of the application by Tabcorp Holdings Limited (Tabcorp) for authorisation to acquire Tatts Group Limited (Tatts) (the Proposed Transaction).

The QHA is the peak Queensland industry body for the hotel and hospitality industries. It has a membership of approximately 830 hotels across Queensland. Our membership continues to expand and is a diverse one, ranging from large hotel chains to small, owner-operated pubs and hotels.

While the QHA is a stand-alone industry association in Queensland, it also operates as the state branch of the Australian Hotels Association (AHA). Consequently, the QHA works closely with the national office of the AHA together with its branches in other Australian states and territories.

In working with those bodies, the QHA aims to develop a consistent and coherent national policy on a wide range of issues impacting the hotel and hospitality industry, including industry training, regulation, accommodation and tourism policy.

The QHA's position

The QHA strongly supports the Proposed Transaction.

Our members expect that the Proposed Transaction will drive revitalised wagering and gaming products in Queensland, which will be an extremely positive development for our members, our patrons and the Queensland racing industry.

Indeed, in many respects, we see Queensland pubs and hotels and their customers as being amongst those that have the most to gain from the Proposed Transaction, given we are likely to see the most immediate impact from Tabcorp taking control of the Queensland retail wagering licence.

The reasons for our support are set out below.

Tabcorp has better “in venue” technology

The QHA regularly discusses the state of the market with our counterparts at the National AHA (i.e. the national body for hoteliers) as well as our counterparts in other states on issues impacting the industry. Through those discussions, we are generally familiar with the approach taken by Tabcorp in relation to Pub TAB in NSW, ACT and Victoria and how this compares to Queensland.

QHA members have been disappointed at the lack of investment and slow pace of innovation in Queensland pubs and hotels in recent years. This contrasts with our understanding of the position in states where Tabcorp operates the retail licence, such as NSW and Victoria, where Tabcorp has invested more and more quickly in rolling out product and technology improvements.

While Tatts has made various promises over the years about investing in technology and a ‘renewal’ of wagering in Queensland pubs and hotels, our members have consistently regarded Tabcorp offerings in other states as superior.

A good recent example of this is the approach taken to electronic “self-service terminals” which enable patrons to place bets using an electronic terminal in the pub, without needing to deal directly with a staff member. These are combined with electronic form guides, which are a terminal with information on race events, odds etc. Both platforms improve the quality of the betting experience in a venue and help to reduce the hotelier’s staff costs.

Tabcorp rolled out EasyBet Terminals (**EBTs**) and Computer Information Terminals (**CITs**) in its PubTAB sites a number of years ago. The EBTs that are used by Tabcorp offer a richer experience and allow customers to bet with cash (i.e. they don’t require the customer to have an account with Tabcorp), which is one of the main reasons why some patrons bet in a pub or hotel and not online.

By contrast, to the frustration of our members, Tatts is only now rolling out its ‘self-service terminals’ and still has not completed its rollout. The terminal technology (Galaxy) that is being used by Tatts is also regarded by members as inferior to the EBTs used by Tabcorp. The Galaxy terminals are considered slower to handle bets, do not accept cash bets, and remains a largely manual process. Slow terminals that require a customer account simply drives many patrons to online alternatives, defeating the point of deploying this technology in venues. Another good example of Tabcorp’s greater ability to innovate and develop its products was the revitalisation of Keno through a combination of marketing and product development. This has been extremely successful at repositioning Keno for a younger market.

Tabcorp has partnered with hotels through digital commissions

Tabcorp has shown a willingness to partner directly with hotels to try to revitalise retail wagering, including to more effectively compete with online competition from corporate bookmakers. Our members are also aware that, in November last year, Tabcorp introduced digital commissions for their PubTAB and ClubTAB venues. In effect, this enabled venues to obtain a commission on bets placed online with Tabcorp and where the customer opens a TAB account in-venue using their device. In the latter case, the venue receives a commission wherever the customer then places bets using their account, except where this is another Tabcorp venue (in which case the commission is paid to that venue).

We understand that this program is intended to help direct customers to Tabcorp’s digital offering. Increasingly, our members are concerned about patrons placing bets with corporate bookmakers online while enjoying the hospitality and environment provided by our members. Where this occurs, our members do not receive any commission from the patron but they bear the cost of providing the environment and racing vision. We understand that the Tabcorp digital commissions program is

designed to better align the incentives of our members with the revenues generated through online wagering. The introduction of similar digital commissions would be an immediate and significant benefit to hotels and pubs in Queensland.

We are hopeful that this kind of initiative may be extended into Queensland, if the Proposed Transaction proceeds.

An 'omni-channel' strategy across venues and online

The lack of effective technology in Tatts venues also means that, in many cases, the wagering product that is available online from Tatts is *better* than the product that can be acquired in person when at a hotel or pub. This is because there are some bet types which cannot be monitored manually (e.g. in some cases a particular customer is not able to combine certain types of bets on the same event and this can only be monitored by Tatts when the bets are made using an online account and not one of their self-service terminals).

The QHA understands that the EBTs operated by Tabcorp allow a customer to place all of the same bet types as the customer would be able to place online. This is referred to as the omni-channel strategy – where the product quality and other features of the online channel are consistent and reinforce and support the wagering available in pubs and clubs, and vice versa.

Tabcorp's various technology and product initiatives such as high quality EBTs and digital commissions are consistent with this kind of strategy.

Reinvigoration of the tote

One of the main trends in the wagering market over recent years has been the weakening of pari-mutuel betting (the 'tote'), because of customers moving to online fixed odds products.

We understand from statements made by Tabcorp that it expects that the Proposed Transaction will increase the likelihood of a national pool being developed over coming years. A larger, national pool would improve the tote product – helping it to compete more effectively with fixed odds alternatives. For example, a larger pool will make the tote more attractive for smaller events, by lessening the variability of the payout from those events, and will increase liquidity to enable Tabcorp to develop more innovative exotic bet types to more compete with the kind of exotics that are promoted by corporate bookmakers.

Commitment to smaller regional venues

Queensland has the most geographically dispersed population of any state or territory in Australia (in terms of the proportion of our population that lives outside main cities). This also means that our member pubs and hotels are widely geographically dispersed, and many are small regional pubs, taverns and hotels.

At present, we find that the availability of products received by our members from Tatts varies between regional and metropolitan venues. However, our pubs and their customers expect – and should expect – a consistent experience irrespective of whether they are in a pub in Townsville or Brisbane.

The current issue in regional towns where one licensed premises has been granted a Tatts wagering product and no other pub can offer the product in the town. This system is much like an out-dated "newsagents territory" model. Tabcorp offerings that include smaller kiosk or EBT's would enable multiple venues to participate and allow greater competition in the market.

We are confident that Tabcorp's better technology, stronger brand and sophisticated national operations will mean that our members in more remote areas will have access to a better quality

product that is more consistent with the product offered in metropolitan areas. This will benefit our members, but also regional communities for whom the local pub or hotel can be an important part of the community.

Conclusion

We expect that the introduction of Tabcorp as the retail licence holder in Queensland will enable us to access a number of the technological and product innovations and benefits that are already available to pubs and hotels in NSW and Victoria.

For all of these reasons, the QHA is excited about the benefits that are likely to flow to our members and their customers from the Proposed Transaction.

Yours faithfully

A handwritten signature in black ink, appearing to read "Bernie Hogan", with a long horizontal flourish extending to the right.

Bernie Hogan
Chief Executive Officer
Queensland Hotels Association