



op/ed

by rob whiteley

KEEPING BREEDERS AFLOAT: ANOTHER MODEST PROPOSAL

There's not much more I can say about the silliness of "humane" whips and counting the number of times those whips are used to hit a horse in front of fans, would-be fans, and out-raged critics, when the real folly is not the whip, but *the act of whipping*. Somewhat modifying the use of the whip is a bit like trying to put band-aids on a deep, three-inch gash. As I have no more to say on that important matter, however, I will speak out in this essay about an even more pressing and fundamental crisis facing our industry, the perilous plight of the breeder.

We are in the midst of a far-reaching economic crisis. No, not the cataclysmic implosion facing some of our major financial institutions and the bailouts and steadily declining stock market, although those events affect all of us and bear on the problem at hand. I refer, instead, to our recently concluded September yearling sale and its implications for the survival of our breeding industry as we know it.

The context. If we picture our industry as a large pyramid, breeders form the supporting base. If we picture our industry as a chain of dominoes, breeders are the first domino in the sequence, and none of the others will be activated if that first one is not able to move forward. No matter how we picture it, breeders produce the horses and are the cornerstone, or the foundation, for every subsequent Thoroughbred activity.

It should be alarming to the entire industry, therefore, that Keeneland's recent September sale has fully exposed the vulnerability of the breeding community. The supporting base of our industry pyramid is critically weakened and in danger of crumbling. Breeders are facing an unprecedented and dangerous level of unprofitability, and, unless significant short-term changes occur, many breeders will be forced to close up and find another endeavor.

In particular, the least capitalized operations (in other words the little guys who make up the backbone of the industry), are being especially hammered, and many will disappear.

Obviously, our supply-and-demand curve is out of kilter, and we need some degree of short term shake-out and reduction in mares bred. We will not have to wait for this. Things are so bad now that a shake-out is currently in progress and will continue for the foreseeable future as demand will continue to shrink. Declining purses, poor marketing, rising costs, and a softening economy will extend this downward spiral as few new racing owners will be inspired to jump in, and many current owners will be cutting back or heading toward the door.

Free market factors are clearly in place and need to be allowed to operate, which means that some breeders will either go under or drop out. This is as natural as it is painful. That said, however, many participants at the upper end are able to operate without a strong profit motive. These relatively wealthy participants benefit from tax advantages or substantial assets beyond their equine holdings and don't depend on profitability to stay in business. They can, and will, weather the storm.

But what about the little guy, the small breeder who tries to make his way from year to year with bank loans and the sale of his horses? Do we want him to disappear? Do we want this to only be a niche game for a small group of rich guys who pretty much trade horses with each other? Do we only want to produce horses bred on big stud fees? I don't think so. We need horses for every stratum. We need horses for Belmont, Churchill, and Santa Anita, but, we also need horses for Turfway, Hawthorne and Golden Gate, River Downs and Remington. We need participants at every level, and it is a given fact of the Turf that no one knows where the next big horse will come from, so everyone deserves a shot. Horsemen who read the stakes results every day and check out all of the pedigrees know that the gene pool is very deep, and that Grade I winners and many damn good horses also come from the ranks of the so-called "lesser" matings. The main point, therefore, is that, at this very difficult time, breeders at every level have a place and a purpose, and *we need to find a way for most of our breeders* (those who breed for books one through four as well as those who breed for five through eight), *to stay in business.*

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Op Ed..Rob Whiteley cont.

Those of us who have persisted at this venture over several years know that, historically, breeding racehorses, just like owning racehorses, is generally unprofitable (except for those who control the 100 or so commercial stallions). Yet, many breeders persevere by subsidizing their efforts through income from other sources, and by finding improvisational ways to cut corners and scratch their way through in order to keep doing what they love to do. But, these are exceptional times and only so many corners can be cut.

While demand for breeders' yearlings declines amid a deteriorating general economy and a poorly run and poorly marketed broader industry, the costs of goods, supplies, and services (general production costs) are steadily rising. Over the last year, basic items used to produce yearlings have had very worrisome price increases: Mixed hay (+20%), Alfalfa (+30%), straw (+25%), feed (+25%), 50" Diamond Mesh fencing (+50%). Breeders are drowning in a perfect storm.

THE PROPOSAL. *For the calendar year 2009 (and for this one year only), the three major service groups, whose profitability is not much impacted by overproduction or the current economic hardship faced by breeders, will roll-back their fees. Stallion owners will reduce their stud fees by 50%. Sales companies will reduce their fees and commissions by 50%. Veterinarians will reduce their fees for services and procedures by 50% and their mark-up on medications by 50%.*

Consignors are not included in this proposal because most of them already negotiate their fees with breeders, do not have relative control over the production cycle or sales scene, and work with a much lower profit margin than the Big Three. Nonetheless, they should also participate in a roll-back of fees to the fullest extent possible.

	Catalogued	Break-even/ Profitable	Percentage
Session 1	244	93	38.1%
Session 2	251	92	36.5%
Session 3	401	154	38.4%
Session 4	401	144	35.9%
Session 5	410	143	34.9%
Session 6	410	110	26.5%
Session 7	399	86	21.6%
Session 8	399	84	21.0%
Session 9	399	54	13.5%
Session 10	399	32	8.0%
Session 11	398	21	5.3%
Session 12	396	10	2.5%
Session 13	391	7	1.8%
Session 14	339	4	1.2%
Session 15	318	1	0.3%
All catalogued	5555	1035	18.6%
All sold in ring	3605	1035	28.7%

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THE RATIONALE. The rationale is simple. This is a practical proposal in the interest of everyone involved. The three dominant service groups control the sales scene and the production cycle, and it is in their long-term best interest to make huge cuts now. Significantly fewer breeders and fewer horses will generally mean less revenue for each provider over time. Unless these service groups work together to lower their fees dramatically for 2009, there will be much less for them to control and profit from as events go forward year to year. If this proposal is implemented, the stallion owners, sales companies, and vets will still be just fine at the end of 2009, and breeders will have a fighting chance to stay in place. Now is the time to act before the bulk of the breeders are beyond resuscitation.

THE PROFITABILITY DATA. You might want to have a drink before you read this next part that details September yearling profitability using 2006 advertised stud fees, session by session and book by book.

The table below gives a sobering overview of results. *It is even more sobering to note that many of the yearlings marked as "profitable" were really "break-even" or negligibly profitable.* This sale was not only ugly for the low-end breeder. It was ugly across the board. As Bill Oppenheim pointed out in his TDN auction review of September 25, even breeders at the top end were "scorched by some of the numbers for the top stallions."



Rob Whiteley..Profitability Data cont.

(Percentages are based on the number of yearlings catalogued in each session because, in most cases, yearlings that are withdrawn or RNA are unprofitable, with the meter still running. The few that are withdrawn and sold privately or sold at the barn for a profit are probably off-set by the "false-solds" who were not actually sold, but signed for by an owner's agent).

FORMULA FOR PROFITABILITY. It takes 2 1/2 years of expense and effort to get a horse to the September sale, and it sometimes amazes me that most sales participants do not know the true cost of producing sales yearlings. New participants sit in the seats and see yearlings appear from behind the podium almost like magic, and do not have a clue. Although many competent and responsible veterinarians work the sale and understand what is at stake, a small handful of them do not seem to comprehend the cost and effort to get a yearling to the sales ring, or the financial damage that they do to breeders. When members of this small sub-group casually perform an exam or report, or use inexperienced interns, or don't read or employ their peers' research related to racing performance, or fail to take the time to communicate fully and in ordinary language with their clients, or approach yearling evaluations by looking for problems instead of helping clients find athletes who can overcome minor flaws or irregularities, they do a disservice to all parties and add to the cost of doing business. Even a lot of veteran breeders are not aware of the exact costs involved. They simply do not want to know the harsh detail of a final tally. As long as they can borrow or dip into cash reserves, they prefer to just "keep on keeping on" and doing what they live to do, rather than "keep on counting up."

As a prominent horseman and good friend once quipped to me, "If people really knew, they probably wouldn't want to do it." But, that's not really so. It's in our blood. Many of us have no choice; we have too much love and passion for the horses and for our way of life. It is what we do, and we will go down with the ship if we have to. I'm hoping we don't have to.

Therefore, for reference and in order to further discussion, I am providing the often ignored detail. While building and directing Foxfield, I had to answer to Carl Icahn's accountants for every penny. Using that experience, the following is a close approximation of *the actual cost and break-even point for a September auction yearling bred in central Kentucky on a \$20,000 stud fee:*

Stud fee.....	\$20,000
Kentucky Sales Tax.....	\$1,200
Cost of breeding mare and maintenance through pregnancy.....	\$14,000
Cost of use of mare (depreciation or 1/5 of value, assuming use of a \$30,000 mare).....	\$6,000
Cost of foaling and maintaining foal to yearling year.....	\$4,000
Cost of maintaining yearling and sales prep to mid-September.....	\$10,000+
Late winter screening X-rays and sales repository X-rays and scoping.....	\$1,100
Sales entry fees not counting any penalty fees.....	\$1,000
Cost of the money (bank interest, variable over 2 1/2 years).....	\$6,000
Auction house and consignor commissions on \$70,000, and miscellaneous sales expenses (stall cards, halters, sales board, & advertising, etc.).....	\$6,000+
Optional insurance or pro-rated expense across the herd for foal or yearling deaths and otherwise unsalable individuals.....	\$2,000
TOTAL EXPENSE (break-even point):.....	\$71,300

This illustration uses a stud fee of \$20,000. You can plug in other stud fees and adjust the supporting items accordingly, particularly value of mare, cost of money, and sales commissions.

CONCLUSION. Faced with weakness in the broader economy, rising costs, declining purses, fewer buyers, insufficient leadership at a national level, lack of effective marketing and cooperation throughout our entire industry, breeders need to see across the board, dramatic cost reductions to remain viable.

I, therefore, submit this research and opinion to a jury of my peers. What do you make of the situation? What do you think needs to be done? What percentage of profitability do you think is fair and reasonable for breeders, stallion owners, sales companies, and vets? What do you think of the proposal? Speak up now, or we won't have a lot to speak up about in the near future.

Rob Whiteley, Liberation Farm www.liberationfarm.com



27 Monmouth St.
2nd Floor
Red Bank, NJ 07701
Fax (732) 747-8955
Phone (732) 747-8060
mediavista@aol.com

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