op/ed
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RACING'S UPSIDE-DOWN DISTRIBUTION MODEL

Favoring "where the bet is made" over "where the show is produced."

In 1978, the Interstate Horseracing Act (IHA) became law. It legalized wagering across state lines. This gift of distribution could have taken Thoroughbred racing to a level unimaginable today; however, there was a catch.

Racing would get nationwide expansion of its monopoly on legal wagering, BUT the law would take away control of its product and distribution by empowering the weakest segment of racing with "approval." It was a curse.

"Approval" was added at both ends of the simulcast for fear the big tracks in our largest markets would become so successful they would relegate the small tracks in our smaller markets to minor league status. You know, the way the New York Yankees and Los Angeles Dodgers have relegated smaller markets to minor league status and destroyed the sport of baseball. Well, maybe that's not a good example, or maybe it is.

Racing, an established sport, would suddenly have no limits on revenue based on the number of seats in its facilities. Just implementing a basic distribution model would make Thoroughbred racing the most successful enterprise in the entertainment industry.

You may have an opinion on how racing screwed this up, but I think the learning curve on understanding what happened is pretty steep. It goes back to 1978.

The IHA granted simulcast approval to "horsemen" and defined horsemen as "owners and trainers." The trainers' organization helped write the law.

After the IHA became law, a war exploded between the big tracks and little tracks. It was an uneven fight, because the small tracks' resident horsemen were armed with the IHA hammer of "approval" of the big tracks' simulcast signal.

The price offered to the big host tracks for their races was ridiculous--3%. That 3% was to be split between the host track and the host track purse account. The receiving tracks would keep the rest from a takeout of 18%-21%. Screw NYRA and the California tracks, this is a "buyers' market."

At that time, the big tracks were doing fairly well with on-track attendance and handle. So, without concern for the national sport, NYRA and the other big tracks took the short-term view and caved--3% would be the price for the next 30 years.

An "upside down" distribution model was going to give the lion's share of off-track wagering to "where the bet is made," not "where the show is produced." The small tracks had won. Sociology majors in Iowa cheered. Hooray, hooray, we are going to kill the sport in our major markets.

Thoroughbred racing broke a basic marketing law...you must control your product and its distribution.

But, who is Thoroughbred racing? Is it the track facilities? No, the facilities do not control any sport. Is it the paper tigers in The Jockey Club? No, they were put on the shelf by anti-trust laws. How about the trainers who control the horsemen's associations? Well, to some degree they are, but don't they work for.... oh yeah, the racehorse owners.

What's up with the racehorse owners? Are they not aware it's their game?

The Upside-Down Decision

In 1978, two legal gambling entities were expanding distribution about the same time: Lotteries and Horse Racing.

The lotteries chose a basic distribution-pricing model. Lotteries get the lion's share and pay a small 5% commission to the convenience stores and gas stations that punch in the numbers and take the lottery bet. This model gives the lotteries the incentive to plan and promote their game and has seen lottery sales grow to over $50 billion a year. The 5% commission the lotteries pay to the "bet takers" amounts to more than $700 million each year, so it is good for them as well.

The lotteries were starting out from scratch. Conversely, racing was an established multi-billion dollar enterprise ready to explode with revenue from the government's gift of national distribution. How could it possibly be screwed up?

Turning the distribution pricing model upside-down will screw it up and that is exactly what the small tracks and horsemen did in 1978. They used the IHA approval hammer to force a model on off-track wagers that favors "where the bet is made," instead of a real world model that favors "where the show is produced."

So, instead of national handle of $50 billion like the lotteries, we have a declining handle of $15 billion. Why? Because, giving all the money to the off-track bet takers robs the host track of any incentive to produce the show. Oh.

There are a lot of excuses and rationales for why this was done. But, it really happened because the off-track "bet takers" felt they owned their customers and if their customers were going to bet on races from other tracks, they we going to get the lion's share of the wagers. What started as a welfare program for small tracks has turned into the nightmare it is today.

The Internet has shown us no one owns and controls the customer. Customers today are free and mobile. As with Internet sales, the host track will need to continue paying taxes to the states "where the bet is made," while we convert to a model that favors the host track "where the show is produced."

How do you get rid of this secret cancer on the sport? You cut it out. You change to a distribution model like the lotteries. Who loses? Only those not involved in live racing. This will eliminate the leakage of $540 million in purses, rebates, kickbacks called source market fees, etc., all of which are the result of gaming the distribution model that gives the lion's share to "where the bet is made."

Giving It Away - Taking It Back

The current off-track model is giving our product away for 3% to companies that make 15-18% and have nothing to do with live racing and it is forcing our track partners to start businesses that game the current model. The world has changed and it is long past time to take back control of racing's product and its distribution.

We can say we started off with a pricing strategy of giving the product away to gain acceptance and now we are instituting a new pricing model to bring real value to our sport. While this is a lie, it must become the truth.

The people who put this buyers' market in place will not change it. Fighting with them would take longer than the sport can afford. The best way is to correct the mistake made in the Interstate Horseracing Act (IHA). The law grants off-track approval to "horsemen," which it defines as owners and trainers.

In 1978, approval by "horsemen" was pretty simple. It was between racetracks. Today, the issues of distribution are very complex and hold the future of the sport. There is not one reason for trainers to be making these IHA decisions for racehorse owners. Not one.

We need to amend the IHA from "horsemen" to "racehorse owners," which will mandate racehorse owners in each state organize similar to Thoroughbred Owners of California (TOC). TOC has racehorse owners more engaged in racing issues than any other state. Under their model, funding is provided for the HBPA to continue their good work on backstretch issues. The state organizations will result in a national Racehorse Owners Association to provide expertise and leadership. People with real world business experience will put a proper distribution model in place.

A lot of us are stakeholders in the industry, however there are only two private stakeholders in the racing segment: track owners and racehorse owners. I like the full term "racehorse owners," because commercial breeders are Thoroughbred "owners," but not all are stakeholders in racing.

Here's the nut of the problem. Under the current off-track model, the host track cannot control its own destiny. Thus track management cannot plan for a future of live racing. So, the smart thing for them to do under the current model is to convert the track facility to encourage wagers on other tracks' races, reduce live racing expenses and seating and start alternative gaming. The result looks a lot like the new Gulfstream Park.

We still have great facilities in our major markets. We can fill them up when we reestablish an incentive to package, present and market the live racing show. Attendance at the live event is the barometer for the health of every sport and it can be restored to Thoroughbred racing.

The new Thoroughbred Horsemens' Group (THG) is well meaning and I personally like the people involved, but the solution THG is offering regarding ADW's is a band-aid on a cut jugular. It will do little to slow the flow of $540 million bleeding out of live racing because THG's members support the model favoring "where the bet is made."

One of the ADW's has said they can operate at a profit on 5% of handle. I believe them. If ADW's account for $2 billion this year, a 5% commission paid to them as bet takers would amount to $100 million. That is a

reasonable fee in a business that will grow quickly.

What is the downside of changing from a model that favors "where the bet is made" to one that favors "where the show is produced"? There will be some bet taking outlets that cannot, or choose not, to continue. The good news is that technology and ADW's will allow their customers to continue to wager on Thoroughbred racing.

Gross handle means nothing to the sport of Thoroughbred racing if there is not enough going to the host tracks and racehorse owners putting on the live show.

Once this problem is fixed, we will have a foundation for host tracks and racehorse owners to turn the sport around quickly. The consumer research I have seen and conducted for racing shows a clear path to grow the sport. However, I can assure you, there is no way to turn the sport around without changing the off-track model away from "where the bet is made." Its failure is painfully proven.

The day Thoroughbred racing changes to a distribution model favoring "where the show is produced," is the day our sport has more future than past.

Congress is desperate to have our sport clean itself up. There's a lot of money, jobs and a sport we love on the line. The tracks cannot do it. Racehorse owners must engage and if Congress will correct the IHA, our sport will soon be on the right track.