

THE VOID IN RACING'S STRUCTURE



op/ed
by fred pope

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Tomorrow starts the Masters golf tournament. Millions of people will watch this great show and then go out and increase their participation in golf.

The Masters is the premier event in the structure of golf. When it started, there was no PGA Tour, just a bunch of golfers being jerked from one event to the next, kind of like racehorse owners today.

When the major league PGA Tour was established, they decided the Masters, The PGA and the U.S. Open should remain separate, distinct events. In the Masters, the players' strategy on the course and greens at Augusta is just about as important as their ball-striking ability.

Satish Sanan is the major player working on a strategic plan for the Breeders' Cup.

At question is whether the Breeders' Cup should continue as the "Masters" of Thoroughbred racing, or should it try to expand and take on the role of the major league "PGA Tour" in our sport?

Last Monday, *TDN* delivered an insightful interview with the Breeders' Cup's Sanan and management consultant William Field (*TDN* March 30, 2009; [click here](#)). Bill Finley asked good questions and received candid answers, but missing was the question and answer about the most basic issue for our sport--structure.

As a board member, Sanan has a responsibility to Breeders' Cup, Ltd. But, as someone with a major investment in racing and breeding, I think he also has a burning desire to make Thoroughbred racing successful, regardless of the vehicle.

Watching the TV drama "Law and Order," my ears go up when the judge says "I'm afraid you opened the door on that issue, counselor." That's the signal the direction of the show is about to change. I think the interview was an attempt to reach out and "open the door" for all of us to provide some input.

Development of this strategic plan has the potential to not only determine what is best for the Breeders' Cup, but to seek out and reveal what is best for Thoroughbred racing.

We should not limit this exercise by the restrictions of how racing is structured today.



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Structure Matters...

John Gaines was a smart man. He recognized a void in the structure of racing. There was no season-ending event. No Super Bowl for racing. He created the Breeders' Cup to fill that void.

The Breeders' Cup wasn't a slam-dunk. In August 1982, I came downstairs in Mr. Gaines's home in Saratoga to find he had not slept that night. He told me the chairman of NYRA was trying to kill the Breeders' Cup because he thought it would hurt the status of Belmont's fall racing program.

Every new idea has problems. Some people may have valid reasons to oppose it, such as NYRA. Others may not understand it; some just hate change, and then others have a differing opinion.

The truth is, the Breeders' Cup was going to hurt the status of NYRA's fall race program. The decision to continue on with the Breeders' Cup was made under extreme pressure, but the stallion managers and breeders stood up and made the right call.

For those in the industry who feel unity is the answer, the Breeders' Cup would not have started if unity were a pre-requisite. Recognizing a great idea and supporting it with leadership is, and always has been, the right answer.

The Breeders' Cup was the breeding side's gift to the sport. They funded it with their stallion and foal nominations so that their customers--racehorse owners--only needed to keep their horses eligible to enjoy the benefits of the new, rich Super Bowl for racing.

I worked with Mr. Gaines in the early days of the Breeders' Cup. We had a plan to aggressively promote and establish both an image of early success and high television ratings for the big day; however, a new board soon stripped all promotional funds from the budget. The victory Mr. Gaines had won over NYRA had consequences and he was forced to step down from management of the organization he created for the industry.

How the Breeders' Cup Is Unique...

The Breeders' Cup introduced modern sport's practices into racing. These practices have never been duplicated or built upon by mainstream racing, which explains why the sport continues to fall.

First, it changed the racing product by packaging and presenting only the highest-level races on a single race card. That's the major league model. You don't see YMCA basketball presented on the same day with the NBA.

Secondly, the Breeders' Cup contracted with the host tracks and instead of splitting revenue with them, acquired their commercial rights and took all the risks by paying the track for use of its facility. Once again, they used the major league model.

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Thirdly, the Breeders' Cup demanded 50 percent of the takeout from off-track bets. That meant instead of the customary 3 percent, the receiving tracks would have to pay 8-10 percent. The bet-taking tracks didn't like it, but their off-track customers wanted the Breeders' Cup races, so they agreed to the 50/50 split at a time when off-track was a minor part of total revenue. Today off-track is 90 percent of all handle and it provides major funding for the Breeders' Cup.

Recently, I have written about the Upside Down off-track wagering model (*TDN* July 17, 2008) and (*TDN* March 10, 2009) (<http://www.thoroughbreddailynews.com/members/oped/>) that is killing the rest of the sport. We need to correct the Interstate Horseracing Act (IHA) so that host events, not bet takers, start getting the lion's share of wagering on their racing product.

Regardless of what direction racing takes for the future, repairing the business model on off-track wagering is the first step before anything good can happen in racing. Our organizations, particularly the Breeders' Cup, must call for correcting the IHA.

The Breeders' Cup could fund its Special Stakes Program from the increase it would see from being able to accept wagering direct from the customer. Without correcting the IHA, I doubt the off-track bet takers would allow the Breeders' Cup to expand its 50/50 split beyond the one weekend of Championship Days.

The Special Stakes provided increased opportunity for nominated horses, but the series also provided the glue to secure the 50/50 off-track split with the receiving tracks.

While the Breeders' Cup follows a major league model with only high-level races on its race card, the Special Stakes races it provides to the tracks the rest of the year do not. The power of the Breeders' Cup brand does not transfer to a single race in a mixed-quality race card. In fact, the association with inferior races damages the brand.

Once the IHA is corrected and host events start having an economic incentive to put on a good show, there is great opportunity for the Breeders' Cup Special Stakes to lead the way in how the race card is packaged and presented.

Since the Breeders' Cup...

The Breeders' Cup filled one void in the structure of racing, but the other void still has not been filled.

Thoroughbred racing is the only sport without a major league structure.

Since the creation of the Breeders' Cup, there has been one plan for a major league structure within racing.

A # will distinguish first-time stakes-winners, a @ will indicate first-time graded stakes-winners, a ▲ will denote a first-time Grade/Group 1 winner, a + will first-time starters, an (S) will be used for state-bred races, a (C) will be used for maiden-claiming races and an (R) will be used for other restricted races. Purses for Canadian races are in Canadian dollars.

We are all products of our education and lived experiences. My experience in sport's marketing, commercial rights and the Breeders' Cup, along with studying the success of the Japan Racing Association (JRA) and the PGA Tour, led me to create a major league for racing called the National Thoroughbred Association (NTA).

The NTA was going to bring dramatic changes to racing. It would have used the commercial rights of racehorse owners to the same effect as the PGA Tour in golf. It would have packaged and presented racing in a modern sport's model similar to the JRA, where only high-level races are presented on the weekends when the public is most available to attend. It would have borrowed the Breeders' Cup model for a 50/50 share of off-track wagering to fund its operations and grow the sport.

My opportunity to work with Mr. Gaines produced many great career experiences that I would not trade, however, the association also resulted in problems with the same folks who ushered him out of the Breeders' Cup. They found a way to stop the NTA, although it was supported by the world's leading owners.

I apologize to the individuals who believed in and put up money to start the NTA. It is the first time in America that the owners of the talent failed after starting a major league in their sport. The members of the NTA board caved to weak pressure and betrayed the racehorse owners. Those individuals will have to live with what they did to the sport.

It is inevitable a major league in racing will be operated in America. It is just a question of when and what will be the structure. That is the opportunity Sannan can explore now.

The Role of the Breeders' Cup...

Several years ago, I wrote a piece recommending the Breeders' Cup expand its role and start a major league-style Tour. I advocated this because, at that time, there seemed no other way to overcome the stranglehold off-track bet takers had over host events in America.

My recommendation ignored the structural problem of the Breeders' Cup being a breeders' organization. In every sport with a major league, it is the owners of the talent who have the rights and control the league. In racing, that is the racehorse owners.

Since writing that piece I have figured out a way to correct the IHA so that host events will start getting the lion's share of off-track revenue. Ultimately, the host event could start taking wagers direct from customers, providing a virtual on-track model.

So today, I recommend the Breeders' Cup continue in its premier role as the "Masters" in the structure of Thoroughbred racing. And, for the Breeders' Cup to advocate correcting the IHA for their own benefit, the benefit of all live racing, and the benefit of starting up a racehorse owners' major league in America.

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When the management consultant, Mr. Field, meets with the Breeders' Cup board, he certainly has a responsibility to those who hired him, but he also has a responsibility to educate and advise them about sports marketing.

Sports marketing begins with the commercial rights to the talent.

It appears to me the Breeders' Cup is much like the Masters in golf...they don't own the rights to the talent. They would have to get racehorse owners to assign their rights over to them.

The Masters does not have the commercial rights to Tiger Woods and the other players. It acquires their rights before they walk onto Augusta.

Could the Masters, a.k.a. Augusta National, expand to take on the role of the PGA Tour? No. Tiger and his fellow members on the Tour would say, "Thanks, but we don't see any reason to sign our rights over to you and have all the money go back to Augusta National. We are the highest level of talent and, like other major leagues, we are going to use our rights to the direct benefit of our members and the sport."

Racehorse owners own the commercial rights to their property, the horses. In the world of sports marketing, it is established that the owners of racecars acquire the commercial rights of the driver of their car while he is performing his duties in auto racing. The same would hold for the jockeys performing their duties in major league races. The major league, like the Breeders' Cup, can then contract with the tracks and aggregate all rights.

Breeders have nothing to gain individually by expanding the Breeders' Cup into a major league. Think about it.

The Breeders' Cup revenue flows through to purses, which are won by racehorse owners. So, instead of creating an artificial solution, we need to set it up right the first time, with a direct, natural solution.

If racehorse owners have success, that success flows to the breeders in the form of pedigree connections, stallion prospects, bloodstock and racing prospects. This is how breeders gain from the growth and development of racing.

New people used to come into our industry through racing. Lately, the new people coming in are choosing the breeding side. Why? Because they can compete with their peers in the sales ring and have less financial risks than currently exist in racing.

We need new racehorse owners, not new competitors for our breeders.

A major league racehorse owners association will increase purses and make the sport of Thoroughbred racing attractive, exciting and--profitable.

TELL IT TO THE TDN...

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Governance of the Breeders' Cup...

With a little institutional memory, I offer these suggestions on governance.

The Breeders' Cup is the story of stallion managers. They started it and their contribution to the only successful structure in racing today should not be overshadowed or eroded.

The two stakeholders in the Breeders' Cup are the nominating stallion and mare owners. Their role needs to be solidified and strengthened. This is their event and their gift to the sport, which they have funded from day one.

Racing fans and bettors are not stakeholders in the Breeders' Cup--they are customers. The customer is king and that is the relationship they should have with the governing board. The racehorse owners who enjoy the benefits of the Breeders' Cup are also customers. Many of these owners are also breeders and thus have opportunity there to serve as board members.

Tracks are leveraged by the Breeders Cup, and thus to avoid conflict of interests, their owners and employees should not be members of the board; but perhaps members of an advisory board/committee along with fans, bettors, racehorse owners, jockeys, trainers, vets, tote companies, racing commissioners, etc.

If independent expertise is needed on the Breeders' Cup board, those individuals should be free of conflict of interests in the industry and not invested in bloodstock or racing.

The Breeders' Cup is linked with the direction of the sport. The success or failure of racing will have more influence on the future of the organization and its events than the incremental advantages of management expertise and planning, although they are certainly important.

Thus, the best strategy for those governing the Breeders' Cup is a strategic plan to fill the void in racing by partnering with, and assisting, racehorse owners in the establishment and nurturing of a new major league.

Until breeders admit and agree that racehorse owners, the owners of the talent, should take control of the highest level of the sport, we will continue the insanity of doing the same thing over and over again, while expecting a different result.

Our industry is falling fast and the chance to get this right is fleeting. You need someone of vision to spell out in writing exactly where racing needs to land. That's what you want to know. Then a plan to get there will be a piece of cake.

The learning curve on the business of American racing is incredibly steep. Accomplished competitors in my business have come in and fallen flat on their faces. It doesn't make sense to them. It isn't just the off-track business model that is upside down. But, as crazy and dysfunctional as racing has been, a new structure can change everything to normal. Then we can bring in professionals who know how normal works.

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This industry has the resources to do whatever needs to be done. We are the only country in the world with the freedom to structure racing just the way we want it. In all other countries, government or a Jockey Club determines the structure of racing.

Are we going to continue to escape from freedom? Once we structure racing correctly, the sport will grow faster than you can imagine, because it doesn't have any limits. While government does not structure our sport, it favors it with a monopoly on gambling and it allows it on-track, off-track, in the home, or from the golf course.

The Breeders' Cup can become the catalyst for this change. By my associations, I have been in exile from the Breeders' Cup for 26 years, however, I would like to help. I hope these suggestions are useful and find their mark.

Enjoy the Masters and think about what can be done when we properly structure our sport.

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