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by bill finley

STRUGGLING BUSINESS? JUST RAISE YOUR PRICES

I own a restaurant, and business is not good. From what I hear, my food is too expensive and that seems to be my problem. There are 10 other restaurants within a mile of mine and all charge less for food that is every bit as good. My entrees are in the \$30 range. The competition sells virtually the same entrees for \$25 or less. I have to do something--my revenue goes down every month and I am going broke.

But I have an idea. I am going to increase my prices. I now make \$15 on a \$30 entree. If I sell the same dish for \$33, I'll make an extra \$3. Take that extra \$3 and multiply it by the number of diners I have each year and I think I will be fine. That extra revenue is going to get me out of the red and get my restaurant back on solid ground.

I hope by now you are thinking, "This guy is a complete idiot." If the story were true (I don't own a restaurant), I would indeed be guilty of not having a clue when it comes to running a business. The problem with my mythical restaurant is that I charge too much and that's why I have lost my customers to my competitors. To raise my prices will just drive away the remaining customers I have and inevitably put my restaurant out of business. My only hope of salvaging my business is to drop my prices so that they are in line with my competitors.

Anyone can understand that.

Here we go again: the people at Los Alamitos have decided that the best way to turn their struggling business around is to raise takeout. Starting with the Jan. 21 card, a two-percent takeout increase went into effect. The take on straight wagers went from 15.63 percent to 17.63 percent. The takeout on exotic wagers went up to 22.88 percent.

Because Los Alamitos is an out-of-the-way Quarter Horse track, this may not seem like such a big deal. Who cares if Los Alamitos does well or not? The problem is that Los Alamitos has set a dangerous precedent. It got the California Horse Racing Board to approve a takeout increase, which paves the way for it to do the same if the state's Thoroughbred tracks come calling for a bigger slice of the pie.

Don't think they won't, or at least give it strong consideration. Since the '40s and '50s, when takeouts, in most places, were less than half what they are today, the industry has asked for more and still more from its customers, incrementally increasing its cut to the point where betting on horses has become a suckers' game.

That's the fundamental problem with horseracing today, and the No. 1 reason why the industry is having such a hard time: with takeout structures the way they are, racing is a really bad betting game. The customer is not stupid and the customer is never wrong. It's not that people aren't betting anymore, it's that they are betting on games where the odds are far more in their favor. All Los Alamitos has done is give the handful of people who still bet on its product one more reason to gamble elsewhere.

We all wish people fell for horseracing because it's a beautiful sport, it's exciting and nothing beats a day at the track. Unfortunately, that's not what this game is about, especially in an era where grandstands are empty and lifeless, simulcasting has made it so that there's never a minute's break between the next opportunity to gamble, and so many of our racetracks exists solely as an excuse to have slot machines. Horseracing is two-percent sport and 98-percent gambling.

The game might have gotten away with these outrageous takeouts in a different era when there was virtually no competition for the gaming dollar. But not now, not with so many other options available to gamblers.

The irony is that this could be the greatest betting game there is. Horseracing is unique in that it is based on the pari-mutuel system and that the smarter handicappers will always outperform the less skilled ones. With a reasonable takeout structure in place, a sharp gambler could actually make money playing the horses. Make the takeout 4 or 5 percent, just like it is with wildly successful Betfair, and racing would become very popular among gamblers.

That's probably never going to happen, but it is the path that this industry should at least be trying to head down. Sadly, racing, at least as we know it today, is going to have a very hard time surviving as long as it insists on breaking its customers with outrageous takeouts.

The best thing that can happen is for Los Alamitos to fail miserably. The California Horse Racing Board has only allowed the takeout increase on a temporary basis and will reexamine the situation Sept 8. Declining handle at Los Al will discourage takeout increases at the other California tracks.

So far, so good...or so bad, depending upon your point of view. According to the Horseplayers Association of North America, handle on Thursday, opening night of the takeout hike, was off 25 percent and the total handle of \$577,000 was the lowest in recent memory.

That may just be a coincidence. Horseplayers rarely adjust to takeout increases or decreases in the short term. It is the damage done over time that is crippling this sport, busting the players and sending those with a few dollars left in their pocket to other types of wagering.

Raising the takeout anywhere is the last thing any racetrack should be doing. It's simple, basic logic. Let racing keep making these same mistakes into the future and it will have no future.