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by dean towers

IT'S THE HANDLE. IT'S ALWAYS THE HANDLE.

In September of 2010, a round of applause broke out at a meeting of the California Horse Racing Board. A call from the Governor's office came in, informing the California racing braintrust that the takeout increase they asked for earlier that summer had been approved. Everyone seemed happy.

Starting Jan. 1, 2011, customers would be paid less when they hit both two- and three-horse exotic bets. This was supposed to result in a boost to purses, and help the sport grow. In effect, as the customer grew poorer, they were banking on getting richer. In March of 2012, over a year later, that applause was met with a hard dose of reality.

In the CHRB annual report, the following metrics were noticed in 2011, post takeout increase:

- Handles were down 15.6%, or over a half a billion dollars
- Purses were down 5.1%
- Revenue to racetracks was down 13.0%
- Breeding Fund revenue was down 18.4%
- Internet Wagering--one of the sports' only growth areas--was down 8%
- Revenue for promotions, the stable vaning program and other side initiatives was down 11.4%

That wasn't exactly the way it was drawn up.

Excuses for the results are sure to, and have already, popped up. Some of them can and do have some merit and it's very true that horse racing revenues are ever-changing and nebulous. However, time and time again the old axiom of business--higher prices equals lower demand--continues to show it works, no matter what the business.

In horse racing, this is exacerbated because of the nature of the game. Decreasing payouts to customers puts fewer dollars in their pockets and when they have less money to put back into the pools, handle suffers and their enjoyment in the game suffers. In California in 2011, this appears to have happened.

Meanwhile, all the way across the country, New York through the New York Racing Association (NYRA), recently found themselves in a different pickle. An internal audit conducted by the New York State Wagering Board in December found that a 1% takeout increase in 2010 was supposed to expire, but someone, somewhere forgot to throw the switch.

Customers were underpaid about \$8 million throughout some of 2010 and most of 2011, and NYRA had to find some way to give that back. Late last year they reduced their exotic take by about 8% (a 2% reduction) as a form of restitution. They also planned on getting some of that money sent back to bettors.

So far this year, despite any negligible increase in field size or other factors, this seems to have helped. Total handle in 2012 at NYRA is up about 7%, and average handle is up about 1.2%. In February things got even better with average on-track handles up a whopping 7.6%. Things seem to be moving in the right direction, and the association has some positive momentum.

In addition, as money is repaid back to customers one may expect handles in New York to continue to trend higher.

For example, a relatively small (but dedicated) player named Dana, calculated her rebate for playing at the higher rate recently and shared it on twitter.

She tweeted: "I just calculated that I hit \$4585.95 of exotic tickets at NYRA during the time period, so I will get \$46 back."

\$46 doesn't sound like much, but when we look at churn, it does mean something. After the \$46 is repaid to her in her betting account, statistics show she should be able to churn that \$46 about 5 times. That means that she will increase her handle by \$230. On a pure customer satisfaction angle, that's \$230 of free bets (bets she would never had at the increased takeout rates).

Who doesn't

like free play? Casinos do it all the time to keep their customers happy.

If NYRA finds a way to deposit over \$8 million in money that's owed to players, that's theoretically over \$40 million in new handle for this season. It could be an excellent year for NYRA tracks in terms of handle. So, that's good news for racing.

Horse racing is a tough business and we're all having a rough time of late. There are also a hundred or more determinants of betting handle and customer satisfaction. However, on one coast there is not very much momentum, or good feeling, or optimism. On the other, we see the opposite.

When handle trends upwards it makes this sport a little bit more fun, and lucrative, for everyone. Good things can happen when we focus on handle and on our customers.

Dean Towers is a horse owner, fan, and bettor. He's a Director of a Toronto-based Internet Marketing Agency and been a featured speaker at Wagering Conferences across North America. He wrote his University thesis on Off-Track Betting, and has also authored a white paper on exchange wagering.

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