



# op/ed

by dean towers

## CHARGING TO ENTER THE TRACK, EVEN IN SLOTSVILLE? YOU BET

Back in the 1990's when slots started to enter the landscape of North American horse racing, one of the first things racetracks did was spring open the gates, making it free for everyone to enter.

On the surface it made some sense, especially to an industry that relied on gut feel rather than metrics to make decisions for generations. It was a way to give customers something back, yes, but there was a selfish motive as well. A lot of people thought that if admission was free, people pulling a lever might pop over to the tarmac and get hooked on horse racing.

Unfortunately, that turned out to be foolish. Not only did people not leave the slots to play the races, the opposite happened. According to the only study of note about this phenomenon, with the introduction of slot machines, pari-mutuel handle fell on average 21%, while the presence of live racing added a 13% boost to the slot parlor.

Since the industry turned racing into a "free entertainment" venue, and it did not work, I think it's time to turn back the clock and charge admission everywhere again. Not \$2 or \$4, but \$6 or \$8, or \$10 or \$15.

I remember sitting in economics class at the University of Toronto back in the late 80's or early 90's. It must have been a second- or third-year course, because my first-year economics course was held on Mondays and that's when I went to the track. Anyhow, the professor was looking at the concept of "free" and told a neat story.

Back in the 1960's, a fellow who owned a supermarket in the southern U.S. had to hire shopping cart valets, because no matter what he did, he could not get people to bring back their shopping carts; they'd be strewn all over his parking lot. After trying just about everything, he created a depository (which I am sure everyone is now familiar with), where someone who would pick up a shopping cart would have to put in 5 cents to release it from the one it was attached to. When he or she returned the cart to its rightful place, he or she would get their nickel back.

The grocer's name was not David Copperfield, but what happened was magic. Shopping carts--not half or three-quarters but all of them--began to be returned to their rightful place. The problem was solved by attaching a monetary value to something. When one does that, people act differently.

We see this each day in our travels. It's always fun to see a bad call by an umpire on "free seat-cushion day" at the ball park, because these free cushions will soon litter the field. If they charged \$2 for them instead, we wouldn't see it. Value is in the eye of the beholder, and a lot of it has to do with what we charge.

Currently in horse racing, there is a revenue problem. There are small tracks that give away \$200,000 in purses, but generate only tens of thousands of dollars in handle, and at 10% or lower through takeout, that represents only a pittance towards running a solvent enterprise. Some tracks give away millions on a stakes card and can barely generate more handle than the total purses. Racing's response to this has been to jack signal fees, or scream bloody murder about the bet-takers' (other racetracks, OTB's or advance deposit wagering companies) share of revenue. This accomplishes nothing. In fact, as Rosabeth Ross Canter put it in *Harvard Business Review* recently, demanding more of a shrinking pie is a "top five self-defeating behavior that ruins companies."

You may ask, how can the sport grow when it is shunning away on-track customers with a high admission fee? Well, there is some rational thought behind it.

"In academic literature the lack of price sensitivity of on-track patrons regarding takeout is spoken about. They already pay with travel time, gas, parking and admission," said Caroline Betts, a professor of economics at the University of Southern California.

If you enjoy the track, you want to be at the track and you suffer through traffic and time to get there, it is highly likely that you as an existing patron will not be turned off by a fee to enter. These customers are not as price-sensitive as one might think.

In addition, we have examples we all see from night clubs or restaurants on a daily basis.

"Queues and signaling: You can charge a high admission to a night club, and then line people up to get in, signaling pent-up demand," Ms. Betts noted.

That makes some sense too, and it goes again to attaching value to something. If you set the price high, it has to be good, doesn't it? If people are there, it has to be something I want to check out, doesn't it?

It's not hard to understand that if you get in free somewhere, you can turn around right away if you don't like the experience. If you pay \$10 to get in somewhere, you are going to give it a chance, because "I paid \$10, dammit." Clearly, we need people to stay at the racetrack and not turn around and head into the slots; if we are concerned about the racing end, of course.

The big benefit from charging admission that I see is from a few main marketing and customer service avenues.

First, are comps. Casinos are notorious for them, racetracks are not. If one charges a stout admission, it can comp that admission with free cards to horse owners to get in, and free cards to regulars. That makes both feel like respected on-track patrons, and creates good will. In the old days, before free admission in slotville, this was a really good benefit that is now gone.

Second are betting coupons. Although in some states (what else is new?) this is problematic, but what's stopping a track from charging \$10, but giving away \$5 in free bets? That ups handle on its own, and for newbies especially it's a neat promotional tool. People will bet their free money and get a good feeling when they cash, and even if they don't cash, they feel appreciated.

Third is the admission revenue itself. We constantly complain that casino tracks don't care about horse racing. That may be true, but the reason they may not care is that it's a drag on return on ad spend. If \$10 admission is charged, and you get 3,000 people out, that's \$30,000 of revenue. The track is encouraged to spend more on marketing the live product, because it does get something back in return. It should not be a surprise that Keeneland or Santa Anita, or the Meadowlands, spend money to get people at the track, while many tracks in slotsville don't.

What tracks do to add value to the admission price is what's most important. In racing, we hear complaints there is too much time between races.

That's disingenuous and too simple. For regular players and for the 90% of handle that comes from off-track, 20 to 30 minutes between events is just fine, because there are 10 or 12 or 20 other tracks racing. For on-track patrons, this is an issue, and for them, racetracks need to fill that time between races with added value.

Racing has few revenue streams; in fact, in North America it is probably safe to say that betting revenue is the only one that matters. But elsewhere, or for unique events, admission is a real revenue driver. People pay \$40 to attend the Royal Ascot meet with no problem at all. In little Charlottetown, PEI, patrons pay \$20 to get into the fair, which houses the unique Gold Cup and Saucer meet, and the track is packed to the rafters.

Racetracks, especially slots racetracks, have to look at charging admission and adding value as an entertainment and gambling destination, and building off that. If they do, small tracks, as well as horse racing as a sport can benefit.

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