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by dean towers

INVESTMENT IN THE ECOSYSTEM--NOT SPLITS--WILL HELP HORSE RACING GROW

I don't think anyone has missed it. On an almost monthly basis there seems to be some sort of fight about signal fees. A signal fee--the amount a home track charges others for showing their races--is negotiated between entities. Currently the Monarch group of companies are fighting with the mid-Atlantic tracks about these fees, and some customers are having a tough time betting, for example, the Gulfstream signal.

Just this past week in the *Bloodhorse*, Mike Rogers from the Stronach Group said:

“Rogers noted the early simulcast model--still largely in place in the industry--that rewards the receiver of a racing signal more revenue than the sending track is problematic and should be reworked. "The days of the buyer importing the signal cheap and keeping most of the revenue (from wagering) are probably coming to an end. “The Stronach Group will do everything possible to deliver a maximum return on the product.”

In the racing press, and from a lot of casual observers, that narrative resonates. “The home track deserves to get three quarters or more of the takeout. They’re putting on the show!” is something we hear. In my view, this is much too simplistic. In today's world, changing systems and downstream investment fosters growth, not something like splits. In fact, squeezing the distribution lemon may be the exact opposite strategy of one that’s really needed.

The movie business has been affected by disruptions for many years now. Pirated movies on the Internet, home theaters, DVD, Blue Ray, 3D home viewing, watching films on iPads and smartphones rule the day in some form. I have not even mentioned streaming services like Netflix and its 36 million customers. The movie house should, by all evidence, be suffering, badly. But so far, that has not happened.

From 1995 to 2014, the number of screens at theaters grew by 37% across the U.S. Ticket prices grew at the rate of inflation, and total box office gross in 2000 was $7.47B, compared to $10.33B in 2014. Although total moviegoers have decreased, revenues have been solid. What disruption?

Although there are many reasons for this growth (or holding their own), the most often cited is the fact that movie theaters as a distribution point to the public began investing and offering a better user experience.

Sure you could watch a DVD at home with full theater sound, six speakers on an 80 inch screen, but look what you might be missing at an IMAX theater: Stadium seating, wall-to-wall screens, 3D movies.

They are all a part of the lexicon for the modern movie customer. Currently, new D-Box chairs--seating that moves and shakes with the film--are being looked at. Super-color technology, increasing the vibrancy on screens has already been developed, and should be showing up soon.

These millions upon millions of investment by theater chains (some coming out of bankruptcy) was done completely outside the creator of the product, the studio. Why did it occur?

Although it might surprise some, theaters as a reseller of the movie product receive about 50% of revenue from a ticket. They get half, the studio gets half. What this allows for is investment in the end user; to increase sales. If they are making 50% of a ticket sale, it incentivizes them. Without this (some might call generous) split, it is likely none of that would ever occur. It's likely the movie business would be much worse off than horse racing, or other businesses which have had their end users disrupted. Maybe you believe, and I believe, that the studio, the actors and writers and everyone else who put $100M into making this film should make 80% or 90% of the ticket revenue, but that's clearly not optimal.

In horse racing, resellers are a very important part of the supply and demand ecosystem, too. When Gulfstream sells their signal to Woodbine, Woodbine receives revenue back for each dollar they send--more than 50% currently.

With that revenue, 50% of that goes into purses for their horsemen. A similar percentage is sent back to Woodbine from Gulfstream patrons betting on their product. If a split is increased to Woodbine from a Gulfstream, its horsemen are hurt.

For OTB’s, these too have a revenue split, and act just like a movie theater does. Some OTB’s work hard at marketing, invest good money in their businesses, and allow racing to be distributed to demographics that do not want to use the internet, reside in some states where there are no tracks, or in some cases, in states where Internet wagering is not allowed.

ADW's, a whipping boy for many in the industry, are on the same system. Most in the business lament these companies getting their split, and have been a beacon for the "pirate" moniker. This, in my view, is missing a strong point. Horse racing's big complaint for some bettors has been price. Many of these ADW's do not use the split for their immediate bottom line, but on customer development and customer life time value. They believe rebating some action back helps keep patrons interested in the sport, incentivizing them to bet more, because doing so gives them a better chance to beat the races. Some ADW's try to go after new gambling markets on the net, increasing racing's reach. Some ADW's offer tons of incentives, handicapping information and more to make the user experience better. That's something that Xpressbet and other track owned ADW's do not do very well, and ignoring this salient point is missing the big picture.

What happens if a split is increased from the supplier and these resellers--the whole cog of your distribution system--receive less money?

For every action there is a reaction. There will be fewer purse dollars for a reseller track's horsemen, which is not great for them. They might respond by not allowing your signal to be shown, angering customers and sending them offshore. OTB's in some areas that are beyond the reach of racetracks or internet signals might simply close up shop, or spend less on the comforts, location, and marketing. ADW's will have to raise takeout on price sensitive customers, sending them to the nearest Draft Kings game, offshore, or to a casino. In addition, value added incentives to bet, through free handicapping information, etc, could all go away.

In effect, there may be no IMAX theaters, or stadium seating, or top of the line sound systems, or innovation that keeps people interested in your product. There may be no growth.

It is beyond my pay grade to have an opinion on what the ideal split is; how much should go to track A, or track B, or ABCBets.com, or your neighborhood OTB in Niagara Falls or Portland. What I do know is that "the home track deserves all the money" might look good on a bumper sticker, but it is far too simplistic. Racing needs to analyze revenue splits and its distribution network, what it's doing well, and what it's doing poorly.

They need to come up with a plan that expands racing's reach fairly, and incentivizes downstream investment to grow the end user demand for horse racing. Horse racing, just like the movie business, can never achieve growth by decreasing reach, or robbing Peter to pay Paul.

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