

TDN Q&A

Editor's Note: As was noted in a news item in the Mar. 15, 2011 edition of *Thoroughbred Daily News*, The Jockey Club has commissioned the consulting firm of McKinsey & Company to conduct a comprehensive study to examine the current state and prospective future of Thoroughbred breeding and racing in North America. The following question-and-answer feature with Jim Gagliano, the president and chief operating officer of The Jockey Club, sheds some additional light on the project.

TDN: Why is The Jockey Club taking responsibility for this project?

Jim Gagliano: The Jockey Club, by virtue of its century-old charter, has long sought ways to improve the sport. The core of our mission is, and always will be, to maintain the integrity of the Thoroughbred breed, but we often take a proactive leadership role in initiatives that we think will benefit this sport.

As you know, we are not just a breed registry. Over the past 20 years or so, we have developed commercial



Jim Gagliano

companies to serve the industry in various ways. And the revenue from those entities enables us to support numerous projects and initiatives benefiting the industry, such as this study.

This study is a major undertaking and will differentiate itself from any other efforts because of its depth and quality. McKinsey is one of the world's most prominent and well-respected management consulting firms. It serves as an

advisor and counselor to many of the most influential businesses and institutions in the world and works with more than 70 percent of *Fortune* magazine's most admired list of companies.

The Jockey Club is pleased to be able to fund this study for the good of the sport and its many participants. We feel very strongly that it is necessary--and that the time to do so is now.

TDN: Why is this important to racing?

JG: It is obvious that the Thoroughbred industry is facing a period of extreme uncertainty. Existing data suggests a contracting industry: we are seeing decreases in pari-mutuel handle, foal crops, racing days and even the number of racetracks. New technologies are causing sweeping changes with respect to the manner in which fans receive content, as well as how they place bets. There is increased competition from gambling alternatives, as well as other live entertainment and sports options. States are beginning to express ambivalence about the future of horse racing in their jurisdictions. Many proposals or suggestions to reform the industry are deficient for numerous reasons: they tend to focus on single segments of the industry, lack rigorous analytical support or ignore political realities. Often these proposals lack objectivity, making it difficult--if not at times impossible--to build consensus around a plan of action.

This industry is made up of people who are passionate about this sport and have strong opinions about how to improve it. We need to channel that passion in an objective and constructive manner in order to achieve measurable progress. We like to think of this study as providing the "seed capital" for a great many future considerations.

TDN: Why have you chosen to engage an outside consulting firm, and what does McKinsey bring to the table?

JG: This industry's complex problems are not solved with simple answers. McKinsey brings not only its reputation, but its vast network of resources--8,000 consultants in about 90 offices worldwide--and vast experience in sports and entertainment. Their people have worked in the gaming and racing industries and serve three of the four major U.S. sports leagues, as well as many of the most prominent sports organizations in Europe and Asia. McKinsey has conducted more than 80 sports-related engagements in the past five years. In fact, the partner who will oversee the project for us leads McKinsey's Sports and Entertainment practice.

Having said that, I think it's important to note, from the outset, that the McKinsey team clearly understands the fragmented regulatory nature of the Thoroughbred industry and will keep that in mind at all times as they go about their research and work toward creative, pragmatic solutions to some of our issues.



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TDN: Where did the concept of this study begin?

JG: I know that presentations made at our 2010 Round Table Conference opened some eyes about the changing landscape of the Thoroughbred industry, specifically with regard to decreasing foal crops, racing days, handle and sales figures. Our Board of Stewards and members of The Jockey Club have always encouraged the management team to use our financial, technological and human resources to lead this industry, especially where a void exists. A few other individuals, at different points, mentioned the idea of conducting a comprehensive economic study. My predecessor, Alan Marzelli, was one of them. Nick Brady and Ted Bassett also brought up the need for a comprehensive and objective study. In considering this, I went back and looked at the volumes of research that have been collected on various aspects of our sport. One, in particular, stood out: the Pugh-Roberts Report, a similar economic study that The Jockey Club commissioned in 1975. In many ways, the study we are undertaking today is patterned after the Pugh-Roberts Report. We are seeking to objectively analyze the future of our sport, using econometric tools and to source a great many participants and their ideas.

TDN: What is the timetable for the project?

JG: We engaged McKinsey earlier this month, and we have provided them with heaps of reports, studies, books, data, editorials and other materials to give them some appreciation for the history and inner workings of the sport. We also gave them a list of more than 200 individuals in this industry that they will reach out to for insight. It's a wide cross-section of industry stakeholders with divergent opinions on many topics (and it seems that each day we add to that list). We sent letters to those people and we are reaching out to them now to set up interviews. Jason Wilson, our vice president of business development, and I will be working very closely with McKinsey personnel throughout the engagement to ensure that the project follows a proper path. We expect to issue this report at the Round Table Conference Aug. 14, 2011 in Saratoga Springs.

TDN: Is there a way that others who are not on that list can contribute ideas and suggestions?

JG: Yes. As I mentioned, we have provided McKinsey with the names of many industry participants, as well as others outside our sport who have some association with, or interest in, Thoroughbred breeding and racing. McKinsey will also leverage, and seek input from, their huge network of contacts throughout the world who can share their perspective and their expertise. McKinsey maintains a broad reach across industries, functions and geographies. It helps people and companies explore opportunities, manage and sustain growth, and maximize revenue. But several individuals who are not on the list have already volunteered their thoughts, opinions and ideas. We welcome input from anyone who cares about this industry.

They can send ideas through the "Contact Us" option on jockeyclub.com, or may contact us directly at (212) 371-5970.

TDN: What has been the reaction to the study so far?

JG: It has been extremely positive and we--The Jockey Club and McKinsey teams--are very encouraged. Clearly, there is no shortage of passion and ideas about our sport. Our challenge will be to channel these into credible actions. We are up to that challenge.