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TIF Reports:
Horse Racing and 'Legal' Sports Betting

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THE IDEA

North American horse racing is facing a momentous threat to its business: the rapid expansion of legal sports betting.

In May 2018, the United States Supreme Court overturned the 1992 law established by the Professional and Amateur Sports Protection Act (PASPA), which had effectively banned individual states from offering betting on sports, with few exceptions – Nevada being the most notable.

What has transpired in the ensuing months is, as ESPN writer David Purdum described, “the American sports betting gold rush.”¹

Eight states and the District of Columbia have advanced legislation authorizing sports betting in their jurisdictions in the eight months since PASPA was overturned, and up to 30 states are expected to permit some sort of legal sports betting within the next three years. As a result, well-established sports – most of which already enjoy significantly greater distribution and popularity than horseracing – will see millions of Americans take added interest in their games via legal gambling options.

How is this a threat to horse racing?

While sports betting has long existed in an unorganized fashion, its legalization will swiftly lead to a massive development of supporting infrastructure – including marketing, data services and customer management – **that will transform the competitive landscape of the gaming industry.**

Racing’s existing customers, including our best customers, will be wooed by fabulously funded sports betting agencies, while future generations of potential customers will be avalanched by customized fixed-odds betting products

featuring their favorite leagues, teams, and players. The opportunities will be endless.

Adding to this competition for bettors, the cost of a sports bet is significantly lower than horseracing’s takeout, typically two-to-three times cheaper. Average takeout in racing, before any bigger players receive substantial rebates, is approximately 20%. For sports betting, it’s closer to 5%.

With greater efficiencies and innovation in the future, experts suggest sports betting pricing will eventually push lower than ever before. If racing gets it right, the cost of wagering should go the way of \$35 commissions for stock trades.

Markets and industries evolve. North American horse racing must adapt to compete.

The established leagues which oversee the sports that will serve as the major conduits for betting – Major League Baseball, the National Basketball Association, National Football League and National Hockey League, among others – after decades of opposing legalization, are now embracing it, recognizing the value of the added attention this will bring to their product.

Gambling will be good for their business – and like responsible businesses that wish to grow the pie for their investors and participants, they are aiming to please customers. *Sports Business Journal* named these customers – “The American Sports Gambler” – the most influential person in sports business in 2018.²

What is the product these customers want? Fixed-odds betting.

Outside of occasional casino-based future wagers on the Kentucky Derby or Breeders’ Cup, American horse racing has not offered fixed-odds wagering in any legal capacity since the

¹ http://www.espn.com/chalk/story/_/id/25145786/why-nba-other-professional-leagues-jumping-sports-gambling

² http://www.espn.com/chalk/story/_/id/25559213/american-sports-gambler-beats-adam-silver-roger-goodell-most-influential-2018

reign of on-course bookmakers in the early 1900s. The venerable pari-mutuel system of betting in horse racing will be a stark contrast to the booming fixed-odds products available to the sports bettor.

In other words, this threat presents an irresistible opportunity for horse racing.

Over roughly the next two to three years, racing must adapt to these new market conditions – accepting fixed-odds and exchange wagering on its product; developing a new funding model to support the sport in light of this disruptive, well-financed and aggressive competition; significantly boosting and improving our marketing efforts; and innovating to create new types of bets for customers who will soon be taken by agile, forward-thinking sports betting outlets.

The future of horse racing on the continent will depend on it.

THE “AMERICAN SPORTS BETTING GOLD RUSH”

The Consumer Electronics Show (CES) is the largest convention annually in Las Vegas. More than 180,000 converged on the city in the second week of January from all corners of the globe to hawk or gawk at the newest technology, attend insightful sessions with industry leaders and network.

A short drive south of the Strip is the South Point, a full-service hotel, casino and entertainment complex, and also the home of the Vegas Sports and Information Network (VSiN), which launched in February 2017 as “the first multi-

channel network dedicated to sports gambling information.”³

Talent on the network includes the legendary broadcaster Brent Musburger, whose references to gambling in mainstream sports coverage over a five-decade career behind the microphone were as appreciated by many viewers as they were cringe-worthy for network executives.

Times have changed.

To coincide with the 2019 CES, VSiN hosted a three-hour summit to discuss the explosive growth of sports betting, assembling two distinctive panels. The first panel included three long-time bookmakers (Johnny Avello, Vinny Magliulo and Jimmy Vaccaro), a group with more than 120 years of collective time setting markets, taking bets and serving the sports gambling industry – almost exclusively in Nevada.

The second panel was markedly different.

Among those participants was Bobby Skoff from Swish Analytics, “a machine learning platform for sports betting, fantasy and data,”⁴ Davyeon Ross from Shottracker, “a sensor based system that automatically captures statistical and performance analytics for an entire team in real-time,”⁵ and Darren Rovell, formerly of CNBC and ESPN, now the senior executive producer for The Action Network, described as “the market leader and most trusted source for sports fans, enhancing their betting and entertainment experience through original news, premium insights, betting tools, data and odds.”⁶

Accurate estimates of the existing illegal sports betting market in America are elusive. According to one piece from *Wired*, “experts estimate total

³ <https://globenewswire.com/news-release/2017/01/30/912056/0/en/VSiN-First-Media-Network-Dedicated-to-Sports-Betting-Information-Launches-on-Biggest-Gambling-Day-of-the-Year.html>

⁴ <https://swishanalytics.com/about/>

⁵ <https://shottracker.com/>

⁶ <https://www.actionnetwork.com/about>

wagers at anywhere from \$80 to \$150 billion annually.”⁷

The legal market handle on racing in the United States in 2018 was \$11.26 billion.⁸

When asked at VSIN’s summit how large was the projected legal market for sports betting, Jimmy Vaccaro did not waver.

“Whatever you think it will be, multiply it by five, and that might be low.”

“LEGAL” MEANS MUCH MORE THAN SIMPLY ALLOWED BY LAW

Maury Wolff, a long-time professional bettor, was a horseplayer selected as one of the 30 members of the Wagering Systems Task Force (WSTF), a group organized by the National Thoroughbred Racing Association (NTRA) in 2004 to review some growing concerns in racing.

While many of the recommendations from the WSTF remain unresolved, Wolff is keen to highlight the even more challenging threat looming for racing today.

“Sports betting is hardly a new competitor, but the current change is in its legality. The word ‘legal’ means much more than ‘simply allowed by law.’

“Legal’ means infrastructure, strategic planning, investment and innovation, mobile delivery, customer service standards, marketing and advertising – lots of advertising. And importantly, it comes with the assuredness of being paid. That adds up to a lot.”

All sports betting in America, now and in the foreseeable future, is conducted at fixed-odds. Prices are set and changed by the operator of the sportsbook. You bet at a price and know what return you will get if you win.

⁷ <https://www.wired.com/story/the-sports-betting-revolution-will-be-muted-online/>

Conversely, in horse racing, the price is only set when the market is closed and additional money cannot change the odds. The pari-mutuel system, in which the weight of all the bettors’ money on any possible combination of outcomes determines the price, is foreign to other types of event-based wagering.

The “gold rush” of American sports betting is all in fixed-odds markets. But horseracing’s competitive challenge is not just the kind of bet offered, it’s the price of the bet – pari-mutuel wagering on horse racing is expensive.

“Racing has largely not understood it has a pricing problem. But even those of us fortunate enough to get substantial discounts [rebates] are paying more than sports bettors,” says Wolff.

“That’s inevitable, horse racing bettors have to pay the cost of production – sports bettors don’t. But gambling isn’t a morality play and you will shop or bet where you find the best deal. And if that’s the NFL instead of Belmont, so be it.”

The cost of horse racing betting in today’s market – through takeout – is too high. The most substantial players in racing receive rebates to help mitigate that cost. Ordinary players tend not to receive such rebates.

A widespread, “legal” fixed-odds sports betting product will naturally shine a spotlight on the cost chasm between racing’s pari-mutuel product and the emerging, well-distributed alternative.

THIS ISN’T YOUR FATHER’S NEIGHBORHOOD BOOKIE

If you think that the average American won’t be inclined to sit and engage a two or three-hour sporting event awaiting a final result, more so

⁸ <http://www.equinbase.com/content/news/releases/010419release.cfm>

than they already are now – then you're not thinking.

Gambling on sports in America will be intensely customer-driven, on markets of the bettors' own choosing.

Swish Analytics' Bobby Skoff explains:

"Odds-making over the course of the history of sports betting in Nevada and even overseas has been very manual. It has been large trading teams sitting around trying to figure out exactly what certain spread totals and different kind of prop lines should be. We've started to really dive into automating that process by building models off historical and real-time data.

"What that does is provide more accurate pricing overall. Eventually in the US we'll come to a mature state where I believe people will start to compete on price. You won't just download your favorite app, but do some price shopping as we all do in other sectors in our lives...and it allows you to start providing newer experiences that previously never really existed. Building automated infrastructure that allows you to take whatever is happening on the field at any given time and turning that into a compelling, bet-able market that is risk-averse and safe for the sports book, but also compelling to the customer.

Skoff goes farther, noting that similar to some more time-consuming, customized requests that exist in some European markets at present, automation will enable sports betting customers to request and obtain pricing on almost any outcome, of any sporting event for which data exists, at any time.

"Bet Request is what we call it. [Now], you can start tweeting to sports books in Europe – 'I don't see this on your site, but I'd love to bet on LeBron James to score exactly 42 points tonight because it's my 42nd birthday and I think I'm lucky' – well, the sports book will tweet back and say 'wait an hour, go to this link, our guys will figure what the right price is for that exact bet and we'll hang it out there and you can place a bet on it.' We're looking to innovate that very quickly, to automate that entire process."

"I think we can all agree in a mobile world, in a world where a much younger audience which grew up with technology, they want what they want when they want it and nothing else. That's the point we are innovating towards. Machine learning and data science is at the core of allowing that to happen.

We see a lot of popularity in our synthetic markets. [A customer says] 'I want to bet on Steph[en Curry] over 5 ½ three-pointers and Steph under 10 ½ assists.' Those markets are correlated, so you need to take some approach in understanding how to price that correctly. We have spent a ton of time on figuring out how to provide that in real time to the customer as quickly as possible."

This is the betting environment in which racing will need to compete.

TEAMS AND LEAGUES RESPOND IMMEDIATELY TO OPPORTUNITY

The swift reaction and support of teams, leagues, broadcast partners and gambling-related sponsors to the May decision of the Supreme Court cannot be ignored.

Here are just some of the developments that have occurred in this rapidly-evolving market over the last seven months:

- The NBA, NHL and shortly thereafter MLB announced deals with MGM Resorts International as official sports betting partners in July, October and November, respectively.

"Our collaboration will result in the best possible gaming and entertainment experience for consumers through the use of accurate, real-time NBA and WNBA data, and our collective efforts to maintain and enhance the integrity of our games," said NBA Commissioner Adam Silver.⁹

"The new sports betting landscape presents a unique opportunity for fan engagement utilizing technology and data that are exclusive to our league...Fan engagement, technological advancement and innovation are paramount to our progressive approach and will be at the forefront of everything we do," said NHL Commissioner Gary Bettman.¹⁰

"There's been a huge change in public opinion," [MLB Commissioner Rob] Manfred said. MLB will make a limited part of its Statcast data available to MGM on an exclusive basis. That data also is available to the 30 clubs. 'It has presented an opportunity for all sports

*and baseball in particular,' he added. 'We have to take advantage of every opportunity to drive engagement by fans.'"*¹¹

- The NBA signed separate deals ensuring official data from the league's games can reach other legal betting entities.

*"Under identical multiyear deals, Genius Sports Group and Sportradar AG will be the official gatekeepers of the NBA and WNBA's betting data, serving as middlemen of sorts between the leagues and gambling houses across the country."*¹²

- NBC Sports Washington, the broadcast rights holder for the NBA's Washington Wizards, hosted a gambling-related broadcast on its alternate channel, engaging viewers in a series of predictive contests during a January game against the Milwaukee Bucks, the first of eight such broadcasts for the season.

"We are encouraged by the early engagement data," NBC Sports Washington GM Damon Phillips told The Action Network's Darren Rovell. *"We had close to 4,000 responses. Fans who participated in Predict the Game spent significantly more time on our digital platforms than regular users."*¹³

Rovell wrote:

⁹ <http://www.nba.com/article/2018/07/31/mgm-resorts-international-becomes-official-gaming-partner-nba-official-release>

¹⁰ <https://www.cbc.ca/sports/hockey/nhl/nhl-sports-gambling-partnerships-1.4882268>

¹¹ <https://www.usatoday.com/story/sports/mlb/2018/11/27/mgm-resorts-is-mlbs-official-gaming-partner-after-nba-nhl/38627859/>

¹² <https://www.bloomberg.com/news/articles/2018-11-28/nba-breaks-fresh-ground-for-sports-with-first-gambling-data-deal>

¹³ <https://www.actionnetwork.com/nba/nbc-sports-washington-betting-broadcast-alternate-wizards-2019>

“There have been plenty of predictive win products that let you play along with the game, but this was the first time there was an integrated product with a rightsholder...the alternative broadcast tested the future of a seamless sports gambling product and was the first broadcast by any of the four American major sports leagues to do so.”

- A December report noted that NBC Sports, whose broadcast rights include the NFL, NHL, NASCAR, the PGA Tour, Premier League and the Triple Crown series, registered a variety of website domains – including NBCSportbook.com and NBCSportsSportsbook.com.¹⁴
- Despite a combined record of two wins from 146 combined tournaments over the last five full years, legendary golfers Tiger Woods and Phil Mickelson squared-off in a made-for-TV, and made-for-gambling head-to-head, winner-take-all match in November.

Golfweek writer Dan Kilbridge investigated the sport's growing acceptance, and eventual integration, with gambling.

“PGA Tour commissioner Jay Monahan sees sports gambling as a way to help accomplish his greatest challenge entering 2019: expanding viewership and bringing more fans to golf...”

Monahan said: *“On a normal week, first tee time at 7 (a.m.), last group off the course at 6 (p.m.). And that's Thursday, Friday, Saturday, Sunday. Different markets around the world. We have something that no other sport has in*

terms of ability to engage people for long periods of time with multiple competitions or multiple ways to present it.”

“For a sport that has often arrived late to trends,” Kilbridge wrote, “Monahan and the Tour seem to be getting ahead on gambling. They've quietly built an integrity and monitoring program over the past several years to watch for tampering. They've been in talks with gambling outlets and daily fantasy operators and recently announced a deal with IMG Arena, which will distribute Shot Link and other data directly to betting operators.”¹⁵

Turner president David Levy, speaking at the CES Convention in Las Vegas, summarized the impact succinctly.

“If you bet on a sports game, you are almost 80 to 90 percent more likely to watch more of the event. If you watch more of the event, you are engaged. If you're engaged, guess what happens to ratings? One of the Nielsen metrics is time-spent-viewing. If you are spending more time watching sports, ratings will go up.”

The inference, then, is that the value of those broadcast rights will also rise, and so too the values of the teams.

"It doubled the value of the professional sports franchises in a second," said Dallas Mavericks

¹⁴ <https://domainnamewire.com/2018/12/24/nbc-registers-domain-names-for-sports-betting/>

¹⁵ <https://golfweek.com/2019/01/13/golf-on-tv-pga-tour-commissioner-jay-monahan-understands-opportunity-with-gambling/>

owner Mark Cuban in the immediate aftermath of the Supreme Court's decision.¹⁶

The key point here is the fundamental difference in the revenue model for horseracing compared to other sports.

Sports leagues and franchises are funded through distribution deals – primarily television. Betting on sports is, for those leagues, a massive marketing windfall, not a revenue source. Whatever small piece of the action the leagues might receive from sports betting agencies, if any, is merely incidental to the vastly increased consumer attention to their games that betting will create. North American racing, however, cannot survive without betting revenue.

Given the financial implications of the Supreme Court decision, and the commensurate rapid responses from leagues and teams, racing must react on its own in order to survive in this dynamic market.

A reliance on the pari-mutuel system, and at its current pricing, is a path to more widespread horse racing industry failure.

Change is necessary.

THE RACING INDUSTRY RESPONSE

Off-the-cuff reactions from some racing insiders has been that there will be some benefit to racing with the addition of sports betting, or that racing needs to find a way to get a cut of the proceeds.

We believe that such an opinion is misguided.

Fighting for racing to “get a cut” of the sports betting market **could** yield some additional revenue for horsemen.

Roughly two decades ago, racing generally leveraged many of its pre-existing locations as acceptable zones for gambling and in many jurisdictions, landed comfortable deals to share in slot revenues.

There could be some places where racing may try to secure this. But sports betting often produces far smaller margins than slot play. The number of outlets to be licensed in some states could far exceed the number of racetracks, and those independent locations will fight relentlessly to leave racing out, far more than racing will fight to be included.

Passive deals where racing can be cut into the mix are unlikely to have much impact.

Our more active suggestion – racing must compete.

We believe the most meaningful way racing will benefit, directly, is to meet the exploding sports betting industry where it is – with fixed-odds and exchange offerings to its existing and potential customers, and the development of new ways to bet on the sport.

Furthermore, the cost of a racing wager – takeout – must decline if racing is to survive in this market.

Jockey Club Chairman Stuart S Janney III offered a reference in his closing remarks at the 66th Annual Round Table Conference on Matters Pertaining to Racing last August in Saratoga Springs.

“Finally, lobby for a horse racing fixed-odds betting pilot. Virtually all sports bets are placed with fixed-odds, as you heard, and customers are accustomed to it. They want to know the payoff they'll win. Especially in this area of sports

¹⁶http://www.espn.com/chalk/story/_/id/23511326/dallas-mavericks-owner-mark-cuban-says-sports-betting-ruling-doubled-franchise-values-overnight

betting, shouldn't horse racing be able to offer fixed-odds like everyone else?"¹⁷

The answer to Chairman Janney's closing question is a resounding **YES**.

So who has the burden to ensure that racing does this?

We believe this falls almost exclusively to the horsemen's organizations to drive the conversation and begin structuring deals.

Racetracks, many of which have slots facilities or full-fledged casinos as part of their business, will certainly seek to be in the sports betting business. Some already are - Monmouth, Parx, Penn National and Charles Town (the latter three of which have full casinos on their property) have already launched sports books.

But will these tracks exploit this opportunity to generate increased revenue for themselves, or will racing be a part of that in some capacity?

It is incumbent upon horsemen's groups to be proactive. They must ensure that any sports betting bill their jurisdiction considers clearly identifies horse racing as one of the sports upon whose outcomes sports betting licensees can offer wagering products. This would automatically legalize fixed-odds betting on horse races along with other sports, allowing racing to compete on the same terms.

The path to structuring a deal is, admittedly, less clear. The guaranteed takeout model which the industry has relied upon for decades does not apply to booked racing bets, but rather, the "house" winning.

¹⁷<http://jockeyclub.com/default.asp?section=RT&year=2018&area=8>

¹⁸ [William Hill recently reached an agreement to operate a sports book at Iowa's Prairie Meadows if the state approves such wagering.](#)

The mechanics of this are not simple, and every jurisdiction is in a different place in the sports betting legalization cycle at present.

New Jersey, without question, is farthest along.

Betfair, now part of FanDuel Group which also operates the only legal ADW in the state – 4NJBets.com – has offered exchange wagering to residents of the Garden State since April 2016.

With analytics on players in both the traditional tote and the newer exchange markets, FanDuel suggests that not only do they **not** see any cannibalization with the exchange now an option, they report incremental growth, with dual-product customers growing total handle by an average of 15% and representing the largest share of growth in 4NJBets.com annual business.

FanDuel also operates a sports book at The Meadowlands.

English bookmaker William Hill¹⁸ has partnered with Monmouth Park since 2013, launching a sportsbook in mid-2018, shortly after the Supreme Court ruling enabled such an action.

The book even offered fixed-odds prop bets on the 2018 Haskell Invitational – one which featured six head-to-head matchups, paying out on whichever horse finished ahead of the other, and a second which paid out on the official winning margin of the race. Another required bettors to select the winner of three races (including the Haskell) and the winner of the Cubs/Cardinals baseball game that night.

The head-to-head props handled \$15,012 with the margin prop collecting \$4,396. The four-way racing/baseball parlay handled the least at \$4,233.¹⁹

¹⁹ <http://live.drf.com/nuggets/44061-monmouth-some-racing-sports-figures>

New Jersey's Division of Gaming Enforcement approved the application for these wagers just days before the race and as the *Asbury Park Press* reported, "while there aren't a large number of wagers available, **it marks the first step in the process of creating synergy between the horse racing product and sports betting, with plans for expansion.**"²⁰

With almost no advanced marketing of these bets, no history of fixed-odds wagering on horse racing, the bets being offered only to customers betting in a very limited area of the facility (the William Hill Sportsbook), and without any other distribution (simulcast), the total of the fixed-odds bets on the Haskell still exceeded several exotic betting pools offered on the day's races.

In late 2018, the New Jersey Thoroughbred Horsemen's Association announced a deal to launch a mobile sportsbook in concert with Toronto-based theScore. While the terms were not disclosed, this represented the first such agreement in the market.²¹

Racing cannot grow or thrive solely in a market where it continues to offer **only** its existing menu of pari-mutuel options – win, place, show, exacta, trifecta, superfecta, high-five, double, pick three, pick four, pick five, pick six (and whatever outrageously expensive jackpot varieties one could imagine).

It should not go unnoticed that there ARE some clear benefits to pari-mutuel betting that should ensure its survival – notably the ability to earn potentially huge payoffs through exotic wagering, risks that bookmakers offering fixed-odds returns are generally unwilling to take.

²⁰<https://www.app.com/story/sports/horses/2018/07/27/haskell-2018-parlay-head-head-bets-approved-sports-book/850621002/>

²¹ <https://mobile.thescore.com/2018/12/thescore-announces-plans-to-launch-mobile-sportsbook-in-new-jersey/>

But to remain competitive and provide liquidity to the most significant players in pari-mutuel pools, racing's tote business must also adapt to this new competition in order to retain customers, and this includes the need for the industry to analyze if its betting menu is appropriately priced at its current levels.

If racing gets it right, the current cost of wagering should go the way of Blockbuster Video stores and of \$35 commissions per stock trade.

Markets and industries evolve.

Seth Klarman, billionaire investor and fund manager, and also passionate horse owner whose runners have accounted for more than 3,300 starts, recently gave a rare interview to *The New Yorker* regarding the state of the global markets.

"I think people who fail to evolve and learn are part of the problem."²²

North American racing's betting markets and opportunities must evolve. Racetracks, horsemen's groups and regulators are vital to this evolution as they establish a modern funding model for the sport.

How **could** the future of North American horse racing wagering look? Here is just a small sampling of the possibilities.

- Tracks installing photo finish cameras at the half-mile pole, taking fixed-odds bets on the winner at that pole.
- Offering mid-race, fixed-odds markets after the first quarter-mile of a race (exchange wagering offers in-race

²² <https://www.newyorker.com/news/daily-comment/the-investor-seth-klarman-in-a-rare-interview-offers-a-warning-davos-should-listen>

wagering throughout the race already).

- An over/under on the number of Chad Brown trained winners on Travers Day at Saratoga.
- An over/under on the number of Chad Brown trained winners on Travers Day after the first seven races.
- Customers creating their own parlays, any combination of races and sporting events. Want a pick three that encompasses Parx's first race, Aqueduct's third and Mahoning Valley's fifth? Machine-learning should help automate pricing these markets to please both the market-makers and the customers.
- How many winners will Jose Ortiz ride this...year, month, at Saratoga, or tomorrow at Gulfstream?

Pari-mutuel pooled trifectas, superfectas and multi-race Pick n wagers still have a place in the future, filling a market gap that fixed-odds operators are unlikely to want. A robust fixed-odds market should enliven development of the tote to focus on offering better service for exotic wagers, integrating technology available today with predictive pricing on those markets.

TRANSPARENCY, INTEGRITY ENHANCEMENTS NEEDED

Commensurate with the growth of fixed-odds and exchange wagering, racing must improve the integrity functions of the sport. This includes all of the current requirements of stewards, but brought to a much higher standard of public

disclosure and reporting. The stewards' reports found in Australia, Hong Kong and Singapore would serve as meaningful examples of what North America needs. Customers need more direct proof that stewards are looking out for their best interests, and racing's participants should want this too. The status quo is far too casual.

Fixed-odds and exchange wagering also require vigorous monitoring to protect both the integrity of the sport and the betting customers. In November, the Sports Wagering Integrity Monitoring Association (SWIMA) was launched, modeled after the Europe Sport Security Association. "The organization...will bring together key gaming stakeholders, including state and tribal regulatory bodies, federal, state and tribal law enforcement, in an effort to uncover and prevent fraud and other illegal activities related to sports betting and sporting events."²³

Racing's current monitoring entity, the Thoroughbred Racing Protective Bureau, describes its activities as follows:

"The TRPB, a wholly owned subsidiary of the Thoroughbred Racing Associations of North America, operates as a national investigative agency in the horse racing industry...The mandate is to expose and investigate all activity prejudicial to horse racing and to maintain public confidence in the sport of Thoroughbred racing."²⁴

Its website, under the "wagering security" tab, reports it is still "under construction" as of late January 2019.

Firms such as Sportradar have emerged, offering services "that identify betting-related manipulation in sport."²⁵ The same should be

²³ <https://sportshandle.com/mgm-caesars-among-founding-members-of-sports-betting-integrity-monitoring-group/>

²⁴ <http://www.trpb.com/index.html>

²⁵ <https://integrity.sportradar.com/products-and-services/monitoring-and-detection/>

required for racing, but particularly in a legal fixed-odds environment.

SECURING RACING'S FUTURE

The Board of Directors of the Thoroughbred Idea Foundation comprises a wide cross section of the sport – owners, breeders, horseplayers, former jockeys, industry executives – all business people who have enjoyed great success on the track and quite a bit away from it as well. Our group is well aware of the dynamics that exist beyond our industry, and this paper implores the industry to embrace much-needed change.

We believe this paper should serve as a call to action to begin down the path towards modernization, creating new ways to bet on the sport and ensuring racing's sustainable future. Furthermore, there is a fairly narrow window of time to accomplish this and still remain competitive in the minds of the American consumer, maybe two or three years, and a bit longer in some states that are slower to adopt legal sports betting.

Action is required.

The Round Table meeting in August featured a presentation by consultants from McKinsey who rightly noted the rise of sports betting, but contrary to our opinion, suggested racing had little reason to worry about the loss of customers, or cannibalization, due to sports betting. They cited their own research that showed 4% of horseplayers surveyed would “bet less on racing if sports betting were legal in their state.”²⁶

We believe most of the surveyed interpreted the word “legal” as “allowed by law,” and not Maury Wolff's far more eloquent depiction of a legal product as noted earlier in this paper.

They cite racing “prospering in other countries” which also offer a legal sports betting product. Taking two of their example jurisdictions – racing turnover has grown in Hong Kong over the last five years, with handle up 18% from the 2013-14 fiscal year through 2017-18. But, soccer betting during the same five-year period is up 66%.²⁷ Australia, in just the last fiscal year published, saw a rise in racing betting of 6.9% while sports betting was up 15.3%.²⁸

Racing may not be in dire straits in those jurisdictions, but the growth rates in sports betting are exponentially exceeding those in horse racing. The comparison isn't as rosy as described.

Racing needs to change.

This means that the stakeholders that set racing's funding model – most especially horsemen – must agree on a path forward that includes fixed-odds and exchange wagering. Concurrently, they should also address the pricing scheme that exists through tote betting now and adjust it while they can.

The clock is ticking – racing's actions on these matters must occur before sports betting takes off and leaves its relatively single-minded pari-mutuel brethren at the gate. Different states will have different timelines. Some may strike more favorable terms than others. Some will approach it in a different fashion. Some will have to adjust models after launch.

Horsemen – now is the time to lead and preserve your future by embracing the unassailable change that is sweeping the land. Take the reins and start now. The future of the sport depends on it.

²⁶<http://jockeyclub.com/default.asp?section=RT&year=2018&area=6>

²⁷<https://corporate.hkjc.com/corporate/english/history-and-reports/annual-13-14.aspx>

²⁸ <https://responsiblegambling.vic.gov.au/about-us/news-and-media/latest-edition-australian-gambling-statistics/>



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