Executive Summary

TIF Special Report: Racing Not Only For (the) Elite

Do stakeholders in American Thoroughbred racing **really** understand the state of the business as it relates to wagering? Do the horsepeople's representative groups, HBPAs and THAs, groups that have a hand in approving contracts to permit wagers on their races, understand it? Do the boards of major industry organizations? Does Kentucky, whose economy is so intricately tied to the proliferation of Thoroughbred racing?

If so, there is no conceivable way that our sport would find itself in the position it does.

Industry organizations boards and the directors of representative groups of horsepeople surely have the desire to act in the best, long-term interests of the sport and their membership. But have they been given, or do they understand, the full picture as it relates to racing's most natural source of sustainable income – wagering?

All signs point to no. We believe the HPBAs and THAs should be asking some of the following questions: Where is your handle originating? What are the "effective" takeout rates for horseplayers from different handle sources? What is being done to attract and retain recreational and middle-market horseplayers? Are some wagering groups given preferred information or access which advantages their rate of winning over others bettors?

This TIF Special Report outlines a problem which has grown increasingly noticeable. Unfortunately, it is a problem that was detailed in a report commissioned by the NTRA's Wagering Systems Task Force, published in 2004. The report is a blueprint on how to avoid the exact situation racing is in today, though which few seem to recognize.

In brief, deals enabled by tracks and distributors of their signals with high-volume betting shops (HVBS) such as Curacao-based Elite Turf Club, have promulgated a great disparity between racing's largest bettors and the rest of the sport's bettors. This has a crushing financial effect on recreational horseplayers, racing wagering's largest customer base, while stunting growth of the sport's middle and upper-market players who are left to compete on a distinctly unlevel playing field.

In raw figures, wagering on American racing is down roughly 27 percent in the last 17 years, but over the last decade, the figures seem relatively flat. Judging the performance and state of wagering based on these numbers alone reveals almost nothing.

Play from HVBS customers, a group whose overall numbers reach into the dozens, has grown from roughly four percent of handle in 2002 and more than seven percent in 2003 to maybe 30 to 35 percent of overall play in 2019. The estimate of 30 to 35 percent is based on a combination of private expert assessments and a review of behavior in wagering pools. Some think this estimate is slightly high, but believe it is rapidly reaching that point. The exact figures are known by tracks and those who enable HVBS play, but major industry organizations, which include representative groups like HBPAs and THAs, do not seem to know.

Many in racing think of the bettors they see **AT** the track, or their experiences with betting via a retail advanced deposit wagering outlet (ADW) like TVG, TwinSpires, Xpressbet, or the rapidly growing NYRA Bets. The only trait these entities share with players from HVBS is that they are betting on the same races. Everything else is different.

HVBS players operate what are, essentially, the equivalent of **profit maximization machines**.

These are not individuals who bet big to impress anyone. They bet big because their own systems, developed and honed over years – the math – tells them to do it. Those bets, and the rebates they receive, will maximize profits. **They are the most efficient operators in a sport that is notoriously replete with inefficient market behavior.**

They don't lose, and if you try to reduce their rebates, they will turn to another source for betting.

HVBS play makes them the least profitable participants, as it relates to their contributions to purses, across racing wagering. As HVBS play grows, profits shrink, the net amount returned to racing declines.

Racing's most loyal, passionate customers, its recreational ones, contribute the most to the sport as a percentage of their overall play. Of prime concern is the portion of non-HVBS play which is decreasing. Since the publishing of the Wagering Systems Task Force Report in 2004, **we estimate non-HVBS wagering in America has reduced 63 percent**.

Now, take note of this element of the WSTF Report, again – with figures from 2004.

"There has emerged…a major gap within the retail distribution of Thoroughbred racing in the portion of handle going to purses and other track expenses associated with putting on live racing. On average, purses ($1 billion) are 6.7% of aggregate U.S. handle ($15 billion). Under the current pricing structure, however, a rapidly growing distribution channel, [that which we recognize in this report as commissions from high-volume betting shops], contribute materially less than this amount – from 3-5% of their handle – to tracks for purses and other track expenses associated with putting on live racing.

"All other distribution channels contribute materially more than this amount when one combines revenues going to host tracks, to guest tracks and/or to in-state hosts – at least 8%, and more typically 10-13%. So the gap is at least 3% but more typically 6%. There are two principal effects of interest. First, the distinct gap in overall support of live racing is a key component – and probably the key component – of rebates made available by the advantaged entities to high volume bettors. Second, the growing (and resulting) shift in handle toward these entities necessarily reduces track revenues and purses relative to aggregate handle."

It was not addressed in 2004, and the gap has widened ever since. Action is needed.

This WSTF Report made three key recommendations to the greater industry. First, increase handle – that has **NOT** happened. Second, tracks should vertically integrate, that is, become online betting providers, control the tote companies, manage the levers in the greater value chain of the sport. This **HAS** happened.

The third recommendation, which has not been implemented, was presented as follows:

"Establish the most attractive blend of economic incentives to participation for both informed bettors and recreational players…Economic theory suggests that the higher effective takeout rates on all other bettors would decrease their participation in Thoroughbred racing, all else equal.

"The imbalance, we believe, is rooted in current [2004] technology that makes handicapping information and pool data available on demand and the process of placing bets almost instantaneous, but which cannot then redistribute updated pari-mutuel pool information on a real-time basis. Longer term, the solution lies in improving technology for all bettors."

This report is meant to leave industry stakeholders, and particularly the boards of major industry organizations which includes representative groups of horsepeople, with a single call to action. Recognize that the situation, as outlined, is problematic, get answers to the key questions we suggest, discuss this more than it has ever been discussed before, and **then** move on to finding a way to operate successfully and sustainably, in the future.

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For more information or to submit a comment, visit RacingThinkTank.com or Email: ThoroughbredIdeaFoundation@gmail.com