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Daily Racing Forum

January 27, 2011

Is racing a sport on the ropes?

By Matt Hegarty

Three consecutive years of unprecedented declines in betting on U.S. horse races have officials contemplating whether the sport is becoming irrelevant or merely reeling from a recession-induced contraction.

The overall decline – 22.7 percent since 2007 – has wiped out all the gains provided by the expansion of simulcasting in the 1990s and the growth of account wagering in the last decade, and it cost the racing industry approximately $2 billion in revenue, by standard measures. Because of the decline, betting on U.S. races in 2010 was the lowest since 1995, unadjusted for inflation.

The quandary for many racing officials is how to stop the decline and, more troubling for the industry, whether the declines are putting the sport at risk of dropping off the radar in an international gambling market that grows more competitive day by day.

Racing officials and economists point to myriad reasons for the decline, with the most significant factor being the recession. The gambling industry has been hit especially hard by the recession's crippling impact on disposable income and consumer confidence. Gamblers at Atlantic City's casinos, for example, bet 9.6 percent less in 2010 than in 2009. Similar declines have beset casinos in Las Vegas.

But it's also true that racing was in a weakened state when the recession hit in 2008. Handle on U.S. races hit a high-water mark of $15.2 billion in 2003, followed by four years of stagnation, at a time when the economic boom had created what appeared to be new sources of disposable income for large segments of the population. When that boom proved to be illusory with the collapse of the credit markets and ensuing recession in 2008, stagnation was followed by precipitous losses: Handle fell 7.3 percent in 2008 compared with 2007, to $13.65 billion; then 9.8 percent the following year, to $12.32 billion; and then to $11.42 billion this year, a decline of 7.3 percent.

Most significantly, the stagnation of the numbers during the economic boom revealed that racing was falling behind its competition despite its legal monopoly on Internet gambling and the rise of rebating, which encouraged high-rolling gamblers to bet larger amounts of money. If racing couldn't grow during good times while it enjoyed those advantages, when could it grow?

Richard Thalheimer, an economist who studies the racing industry, said the declines in annual handle were especially sharp when the recession hit because the competitive landscape had changed so dramatically in the last decade. In that time, a dozen states legalized casino gambling in some form – in many cases at racetracks. So when the current recession took hold, many gamblers kept their money in their pockets, while those who continued to bet spread their money among more competitors.

“If you look at the long-term trends, ontrack handle at racino racetracks has declined, and that’s directly as a result of putting slot machines and table games in the building,” Thalheimer said. “The racing industry has far more competition now, and a lot of it is right at the racetrack’s doorstep.”

Most of that competition arguably offers a better game than racing, at least when price is taken into consideration, according to Thalheimer and Jeff Platt, the president of the Horseplayers Association of North America. Platt contends racing is not only losing customers through attrition and the effects of the recession, but that the sport is also keeping new customers away because of takeout rates that are uncompetitive with options such as poker and sports betting. Even slot machines have takeout rates that are well below that of the typical horse racing wager.

“Horse racing is having trouble adding young people to the mix,” Platt said. “And here’s why: Those people are going to the places where they can get bang for their gambling buck, and so they’re going to casinos, they’re going to poker, and they’re going to sports betting.”

Platt is part of a growing chorus of racing fans and industry representatives who are calling for takeout rates to be cut, but the inertia of the industry’s economic model makes such a cut difficult to imagine. Right now, simulcast sites keep the difference between the takeout and what the sites pay for the signal, so any cut in takeout means less revenue to the simulcast sites. And because racetracks compete on price to get into simulcast sites, few tracks are willing to cut takeouts out of fear that the majority of simulcast sites will shut them out, costing the tracks access to offtrack customers, who provide 90 percent of a typical track’s handle.

With takeout cuts apparently off the table, many racing officials are counting on the benefits that would seem to accrue to the industry by a cut in racing dates. As racing dates decline, then field sizes should go up, as the same amount of horses chase fewer racing opportunities. Handle is highest on races with big fields, and existing bettors consistently say they are most interested in full, competitive fields of horses (and lower takeout rates, explaining the trend toward rebating).

But two factors are rubbing against a potential increase in field size. First, the foal crop is declining rapidly, so fewer horses are entering the pipeline to the racetrack. And secondly, the average starts per horse per year has dropped 13.4 percent, from 7.19 to 6.23, from 1999 to 2009, continuing a decades-long trend of year-to-year declines.

Although the number of races held by U.S. tracks dropped 6 percent in 2010, field size declined slightly in 2010 compared withy 2009, to 8.20 horses per race, according to the Jockey Club. This underscores just how difficult it will be to increase field sizes. Field size has not topped nine horses per race since 1985, and it has hovered near 8.2 horses per race for 15 years.

According to several racing officials, slot-machine subsidies have also weakened the racing product from a gambler's perspective, providing incentives for tracks to card more races, at a time when the sport is rapidly losing its customer base and racetracks are struggling to fill races. As a result, the industry is resisting a contraction that could make the survivors far healthier and put the industry on better financial footings.

"We're trying to sustain racing industries in 40-some states," said Chris Scherf, the executive vice president of the Thoroughbred Racing Associations. "I understand why people want to sustain racing in each locale, but it's not sustainable in the long run. No one wants to be the one to fall on their sword for the collective good of the industry."

Alex Waldrop, the president of the National Thoroughbred Racing Association, echoed comments of other industry officials, saying slot machines have created a new class of tracks that are not providing overall benefits to horseplayers because they are attracting horses from the most popular tracks.

"Some of the weakest tracks got slot machines," Waldrop said. "Those tracks probably should have been out of business a long time ago. So we're taking a well-known, widely distributed product with a great brand and replacing it with a less well-known, less widely distributed product. Horseplayers are not gravitating to those products."

So what is the answer to stop bettors from leaving the game? Most racetracks without slot machines believe the answer is to get slot machines, which would enable them to make their product competitive with subsidized tracks. As it stands, approximately one-third of the $1.03 billion of total purse distribution at U.S. tracks is provided by subsidies of some kind, mostly from casino-type gambling.

But continuing to fatten purses is a solution that directly serves horsemen, not bettors. In a macroeconomic sense, it's hard to argue that the $318 million in subsidies distributed to purses in 2009 made the game better. The U.S. foal crop cratered, the bloodstock market remained in its doldrums, and handle continued to decline at unprecedented rates.

"We can't spend our time arguing over who among the tracks and horsemen get what share of the pie," Waldrop said. "We have to figure out how to serve our customers. They're the ones that matter."