Horsemen Utilizing Modern Means to Address an Old Problem

THG Aims to Address Outdated Simulcast Business and Revenue Models

Over the past several months, the acronym THG has appeared with increasing frequency in news reports associated with horsemen's rights and the future of race signal distribution in North America.

What is THG, and what does it stand for? With the changing economics of the sport seemingly always a question, all horsemen should know the answers to these questions.

THG is short for "Thoroughbred Horsemen's Group," and it stands as one of horsemen's best hopes to help this industry revise old business and revenue models that fall well short of guaranteeing an equitable share for all stakeholders.

Formation of the THG

In December 2007, TOC, the Delaware Thoroughbred Horsemen's Association, and seven Horsemen's Benevolent and Protective Association (HBPA) affiliates including Florida, Kentucky, Louisiana, Ohio, Pennsylvania, Texas, and Virginia enrolled as owner-members of a new company, the THG. This new entity was created by horsemen's organizations to assist and represent them in interstate simulcasting negotiations and associated revenue tracking, both of which have become significantly more complex in a business environment increasingly dominated by multi-track and multi-state wagering companies.

To meet these challenges, the founding horsemen's organizations created THG, under the guidance of one of the country's leading anti-trust lawyers, intending it to function as an independent entity focused on interstate simulcast business practices that could advise and provide its member organizations greater efficiencies and improved access to information, enhancing their effectiveness as representatives of the industry's primary stakeholders – racehorse owners – to improve the overall competitive vitality of the pari-mutuel horseracing industry.

The formation of THG was the culmination of a series of informal meetings among horsemen's organizations – initially TOC, the Florida HBPA, Kentucky HBPA, and Illinois THA – over a three-year period. That gathering eventually grew to nine organizations, and was known among them as the "Horsemen's Study Group."

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The group was concerned that the industry – led primarily by track interests – had been unwilling or unable to address an obvious problem affecting stakeholders' interests: a simulcast revenue distribution model that was outdated and riddled with inequities that hurt horsemen and track interests alike. Despite increasing wagering handle figures, this "broken model" was consistently yielding declining revenue for tracks and horsemen. Similarly, the group was concerned with distinct, but troubling related trends in the pari-mutuel horse racing industry:

- *The consolidation of certain racetrack and wagering companies that sought to change the economic balance and structure of the industry in a way that suited only their narrow corporate interests;*
- *An account wagering sector that is increasingly fractious and unaccountable to the industry;*
- *The growth of unregulated offshore wagering operations that provide large rebates to high-volume customers yet increase the effective takeout of the average player; and,*
- *The threat to true racing interests in an industry that is more and more dominated by alternative gaming companies.*

The "Broken Simulcast Model"

In recent years, the industry has come to recognize that inequities in our "broken simulcast model" are playing a large role in declining revenue trends. On-track and Inter-track wagering have decreased as the "growth" in wagering dollars has shifted to new simulcast distribution outlets such as Advanced Deposit Wagering companies.

The problem with the shift is that the return to the industry is significantly less through these companies than when the same wager is placed at On-track and Inter-track sites. Unless the industry can reform a simulcast revenue model that was never intended to accommodate ADW and rebate-oriented wagering, the gap between purse money earned and the cost of training our horses will continue to increase, and the appeal of horse racing as a business and sporting venture will continue to decline for owners at an accelerating rate.

THG and its member organizations strongly believe that owners' extraordinary ongoing investment in racing entitles them to participate actively in crafting a new revenue distribution model that reflects shifting and changing sources of handle. That belief was shared by many around the country, and within three months of its formation, THG's membership grew to include the Kentucky Thoroughbred

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Association (KTA), Maryland THA, and HBPA affiliates in Arkansas, Tampa Bay, Indiana, Minnesota, Oklahoma, West Virginia, and Ontario, Canada.

THG Leadership

THG is led by volunteer officers, including president Bob Reeves (director, Ohio HPBA); vice president Drew J. Couto (president, Thoroughbred Owners of California); treasurer Joe Santanna (president, Pennsylvania HBPA and National HBPA); and secretary/general counsel Frank Petramalo (executive director, Virginia HBPA). Together, this group manages THG's role as a negotiating agent for its members with racetracks, wagering companies, and others as authorized independently by THG's owner-members.

For example, THG has facilitated simulcast negotiations with the New York OTBs as well as with TrackNet Media Group, the joint venture simulcast company owned by Churchill Downs Inc. and Magna Entertainment Corp., on behalf of THG owner-members that have contracts for race meetings at tracks owned by those two multi-track operators.

Goals of the THG

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In all states that have legalized pari-mutuel horse racing, there are laws, regulations, or contracts between tracks and horsemen's organizations that set forth the distribution of revenue derived from wagering anywhere in the state; i.e., tracks, inter-track, and off-track betting sites. Unfortunately, this is not the case with account wagering.

There are only two states – California and Virginia – that have clear-cut account wagering laws, yet account wagering companies take bets from account holders in 41 other states in which such wagering is essentially unregulated, whether or not they have a contract with a local racetrack and horsemen's group in that state. For wagering in these unregulated states, ADW companies have opportunistically developed a business plan, based on the "broken simulcast model," that enables them to retain up to two-thirds of all wagering revenue.

Under the "broken model," the majority of revenue derived from a wager was retained by betting companies, which pay to the tracks and horsemen that conduct races only a modest "host fee" to be split between them. How modest? Well, if one considers that, on average, wagering revenue/takeout is about 20% of wagering handle, that means from the 20 cents deducted from a dollar wagered, horsemen and tracks are expected to share – and prosper on – perhaps 4 to 5 cents as "host fees," with the remaining 15 or 16 cents retained by the ADW company.

As a result of the efforts of the TOC, CHRB, and certain track interests, some ADW companies have reluctantly modified contracted distributions to include slightly higher host fees (6% to 7% of handle) and a component known as the "source market" fee. Though in California the "source market" is defined as the entire state, source market fees paid from wagers made outside of California are defined quite differently. In most instances, source market fees are only paid for wagers made by account holders residing within a defined distance from a racetrack, commonly 25 miles, outside of which the ADW company pays nothing to local racing interests.

What just a few years of experience has revealed for the industry is that the vast majority of the general population, including ADW account holders, live outside of these source markets, and thus the vast majority of all account wagering is derived from outside of the defined source markets. As a consequence, the purportedly "generous" source market fee rates paid out-of-state actually work out to be less than 2% or 3% of an ADW company's total handle; meaning, ADW companies still keep in excess of half of ADW wagering revenues, with tracks and horsemen getting less than 25% apiece.

This has got to change!

What Lies Ahead

Bearing in mind that, in the absence of state regulation, ADW revenue distributions are governed only by contracts between tracks and ADW companies, the problem is seriously compounded if the tracks themselves own the ADW company; they are in essence negotiating with themselves, with no one looking out for owners' interests.

The horsemen's organizations that formed THG believe that this host/source market model simply perpetuates the "broken simulcast model" that has failed to produce a fair simulcasting return to live racing interests, particularly to the racehorse owners they represent. If the most promising avenue for growth in the pari-mutuel horse racing business returns less than half its revenue to live racing interests, and less than a quarter to purses, then horse racing and racehorse owners will not benefit from that growth, and future overall purse revenue from wagering will inevitably decline from current levels.

Owners' rightful interests cannot be adequately protected under contracts between an ADW company and a track when the same company owns both. For these reasons, a new business model is needed in which horsemen's organizations have a direct contractual relationship with ADW companies and can negotiate for revenues that tracks have left on the table under the flawed host/source market model.

To remedy this wrong is the initial goal of THG, and is deserving of owners' support everywhere!

Special contributor to this article was Wilson Shirley. Shirley was a long-time consultant to TOC specializing in statistical analysis and trends in Thoroughbred racing handle and revenue, interstate and international simulcast wagering, and purse revenue. He currently serves as Manager of the Thoroughbred Horsemen's Group.