

# **ONTARIO HORSE RACING**

## **– Back On Track –**

Creating a revised race date model for  
horse racing in Ontario

August 31, 2010

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## Executive Summary

In September 2009, in reaction to a significant decline in the number of race dates applied for by a number of racetrack operators, the ORC Board ordered a moratorium on race date reductions and instructed the Executive Director to work with the industry to diagnose and develop a fact-based approach to determine the quantum number and distribution of race dates in Ontario.

Principle	Objective	Tactic
Enhance live racing, and provide benefit to the Ontario agricultural sector	<ul style="list-style-type: none"> <li>Demonstrate re-investment into live racing</li> </ul>	<ul style="list-style-type: none"> <li>Economic oversight of licensees</li> <li>Minimum standards</li> <li>Accountability measures</li> </ul>
	<ul style="list-style-type: none"> <li>Measure and demonstrate the impact of live racing on the agricultural sector in Ontario</li> </ul>	<ul style="list-style-type: none"> <li>Economic impact analysis</li> </ul>
Allow a fair return on investment in racing	<ul style="list-style-type: none"> <li>Measure and “balance” the potential funds available for breeders, racing horsepeople and racetracks to ensure stability in all sectors of the industry</li> </ul>	<ul style="list-style-type: none"> <li>Monitor the industry funds available to the various sectors</li> <li>Analysis and management of factors affecting the distribution of industry revenue</li> </ul>
Provide customer-focused, competitive racing by recognizing both supply and demand	<ul style="list-style-type: none"> <li>Determine and “match” current horse supply with customer demand</li> </ul>	<ul style="list-style-type: none"> <li>Standardized condition sheets</li> <li>Standardized purse structure</li> <li>Synchronization of the live race date schedule</li> <li>Rationalization of live and simulcast product offered</li> </ul>
	<ul style="list-style-type: none"> <li>Stimulate customer demand over time</li> </ul>	<ul style="list-style-type: none"> <li>Encourage the dedication of funds to marketing, and Research &amp; Development</li> </ul>

## Ontario Horse Racing – Back on Track

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Principle	Objective	Tactic
Develop a sustainable model that demonstrates accountability for government's partnership and investment in horse racing	<ul style="list-style-type: none"> <li>• Measure the economic stimulus (investment, taxes, employment) created by the horse racing industry</li> </ul>	<ul style="list-style-type: none"> <li>• Economic impact analysis</li> </ul>
Encourage and provide incentives for live racing	<ul style="list-style-type: none"> <li>• Design an economic system that rewards industry stakeholders for behaviours that promote live racing.</li> </ul>	<ul style="list-style-type: none"> <li>• Enhanced standards for racetracks</li> <li>• Benchmarking (in cooperation with OLG)</li> </ul>
Be as "simple and objective" as possible	<ul style="list-style-type: none"> <li>• Develop a model that can be implemented, monitored and improved</li> </ul>	<ul style="list-style-type: none"> <li>• Excel spreadsheet modeling inter-relations with simple formulas</li> </ul>

This document proposes a rational economic model of managing race dates.

It builds upon and evolves many of the initiatives that the ORC has implemented in the last three to four years. The solution will therefore look comfortably familiar in some areas, even returning to historically proven concepts where required - but still includes some bold moves to re-shaping and re-structuring the industry.

It is recognized that the various concepts and approaches presented in this document are not fully formed and that extensive work with the working groups will continue in the months and even years ahead. This model will be monitored, improved upon and further developed with the goal of providing a more predictable and stable future for the industry.

### Introduction

Within the horse racing community in Ontario, there are many who believe that the sport – in Ontario and the rest North America – is in a state of crisis. Wagering on horse racing is in decline, due in part to the competition horse racing faces with the proliferation of other gaming alternatives and the many other entertainment alternatives. There is widespread recognition within the industry that it must reposition itself to survive in the long term.

The proposed solutions to this decline frequently involve ensuring that racing product is customer-focused. Most believe that racing product can be made more attractive to the customers, by addressing the following factors:

1. Researching and developing new markets (through new betting products and distribution channels)
2. Providing good racing product (full fields of competitive horses)
3. Managing the amount of product available (ensuring supply does not exceed demand and dilute wagering pool size), and
4. Providing a consistently positive customer experience.

The solutions proposed in this paper therefore focus on the economic principles of balancing of supply and demand, optimally utilizing limited resources and driving demand through increasing the horse racing's value proposition to the customer relative to other gaming and entertainment options.

The focus of this exercise is primarily on standardbred racing, but the principles and many of the proposed outcomes will equally apply to all horse racing breeds.

### Objectives

Each stake holder group came to the project with their specific issues, and throughout the discussions have expressed their own statements of project success. Below summarizes the perspectives of each group – “what’s in it for them”.

The objectives of this initiative can be described by stakeholder type:

Racetrack Operators	Increased efficiency in regulatory and other costs, enhanced business certainty, predictable horse supply
Racing Horsepeople	Enhanced business certainty, more predictable racing opportunities, incentives to Ontario-based horses
Breeders	Support for sale prices that exceed production costs, promotion of Ontario-based horses
Customers & General Public	Customer-focused approach, improved racing and betting product offerings, enhance value experience
Government	Industry accountability for public funds, continued benefit of economic stimulus
Regulators	Industry commitment to live racing, increased efficiency in delivery of regulatory service

### Principles

Six original principles were discussed with the industry and their consultation and feedback is reflected in the principles for a solution stated below. The solution has been developed according to these principles:

“An acceptable model will:

- Enhance live racing and provide benefit to the agricultural sector in Ontario
- Allow a fair return on investment over the short term while protecting value for owners and communities over the long term
- Provide customer-focused, competitive racing by recognizing both supply and demand
- Leverage and support the horse racing’s partnership with the public sector by using government’s investment to enhance the economic sustainability of Ontario horse racing
- Encourage and provide incentives for live racing
- Be simple and objective”

### Who is “the customer” and what do they want?

In an industry-wide conversation, it is clear that “customer” means different things to different stakeholders.

- To a breeder, a customer is anyone who buys a horse.
- To a racehorse owner, a “customer” could mean a racetrack patron (pari-mutuel bettor and slot patron) – or alternatively a customer could be the racetrack who needs their race horses to card races.
- For racetracks, the customers can be at the racetrack or off-track via simulcast, internet or telephone.

First and foremost, the customer is the pari-mutuel bettor and slot patron, the person providing a revenue stream through its gaming activities. At smaller tracks, however, the majority of their customers are the food and beverage patron or the spectators of their live racing events (entertainment-based fans).

At a broader industry level, the government is both a partner and a customer. Through the Slots At Racetracks Program, the government partners and invests in horseracing. As a “customer” of horseracing, the government receives the benefits of extensive economic inputs through employment, taxes and other direct and indirect means.

Throughout the race date review process, when the industry stakeholders discussed “customers”, it focused primarily on the pari-mutuel bettor. The industry has also defined factors and indicators of customer demand (Total Home Market Area Wagering, Daily Average Total Wager on Live, Average Wager per Race, Average Wager on Live per Race Patron).

The industry also recognizes attendance as other indicators of customer demand (consistent with the concept of the “fan-based” track). They identified key factors of customer attendance to be estimated adult Home Market Area population, estimated market penetration.

The question must be asked, however, how much does the industry know about its customers or potential customers. Throughout this process, little useful market information has been brought forward (with the notable exception of Woodbine Entertainment). Improved market knowledge will increase the likelihood of success of the “customer-focused” approach to racing and betting product offerings.

**Recommendation:**

**As a group, the industry needs to engage in a province-wide program of market research to better understand the customers and their preferences.**

## Where and what are the pari-mutuel markets?

### Total Ontario Wagering by Markets

Ranked (highest to lowest) Pari-mutuel Markets	2009	% of total	4-yr Average \$	% of total
TORONTO	830,928,021.00	76.3%	830,365,962.52	74.8%
MOHAWK	20,956,805.80	1.9%	21,661,170.30	1.9%
<b>Subtotal WEG</b>	<b>851,884,826.80</b>	<b>78.2%</b>	<b>852,027,132.82</b>	<b>76.7%</b>
FORT ERIE	37,373,146.10	3.4%	45,107,836.00	4.1%
DUNDAS (Flamboro)	39,518,517.80	3.6%	41,087,735.95	3.7%
OTTAWA (Rideau)	30,476,468.80	2.8%	30,447,220.90	2.7%
WINDSOR	20,897,890.50	1.9%	26,045,367.84	2.3%
ELORA (Grand River)	21,755,003.60	2.0%	24,874,488.90	2.2%
LONDON (Western Fair)	20,062,647.00	1.8%	21,319,249.30	1.9%
INNISFAL (Georgian)	17,331,151.40	1.6%	19,274,841.41	1.7%
SUDBURY	11,213,684.40	1.0%	12,278,459.25	1.1%
AJAX	10,508,232.90	1.0%	9,603,012.63	0.9%
PETERBOROUGH (Kawartha)	9,265,454.20	0.9%	9,472,525.95	0.9%
SARNIA (Hiawatha)	4,780,051.20	0.4%	5,391,124.05	0.5%
HANOVER	5,164,373.60	0.5%	4,360,952.75	0.4%
WOODSTOCK	2,938,790.20	0.3%	3,082,044.95	0.3%
CLINTON	3,074,684.60	0.3%	3,035,465.80	0.3%
DRESDEN	2,465,654.60	0.2%	2,668,986.88	0.2%
BELLEVILLE (Quinte)	-	0.0%	911,826.55	0.1%
ORC licensed tracks	1,088,710,577.70	100.0%	1,110,988,271.93	100.0%
Unsupervised	41,873.00	0.0%	61,190.00	0.0%
Total Ontario Wagering	1,088,752,450.70	100.0%	1,111,978,350.73	100.0%

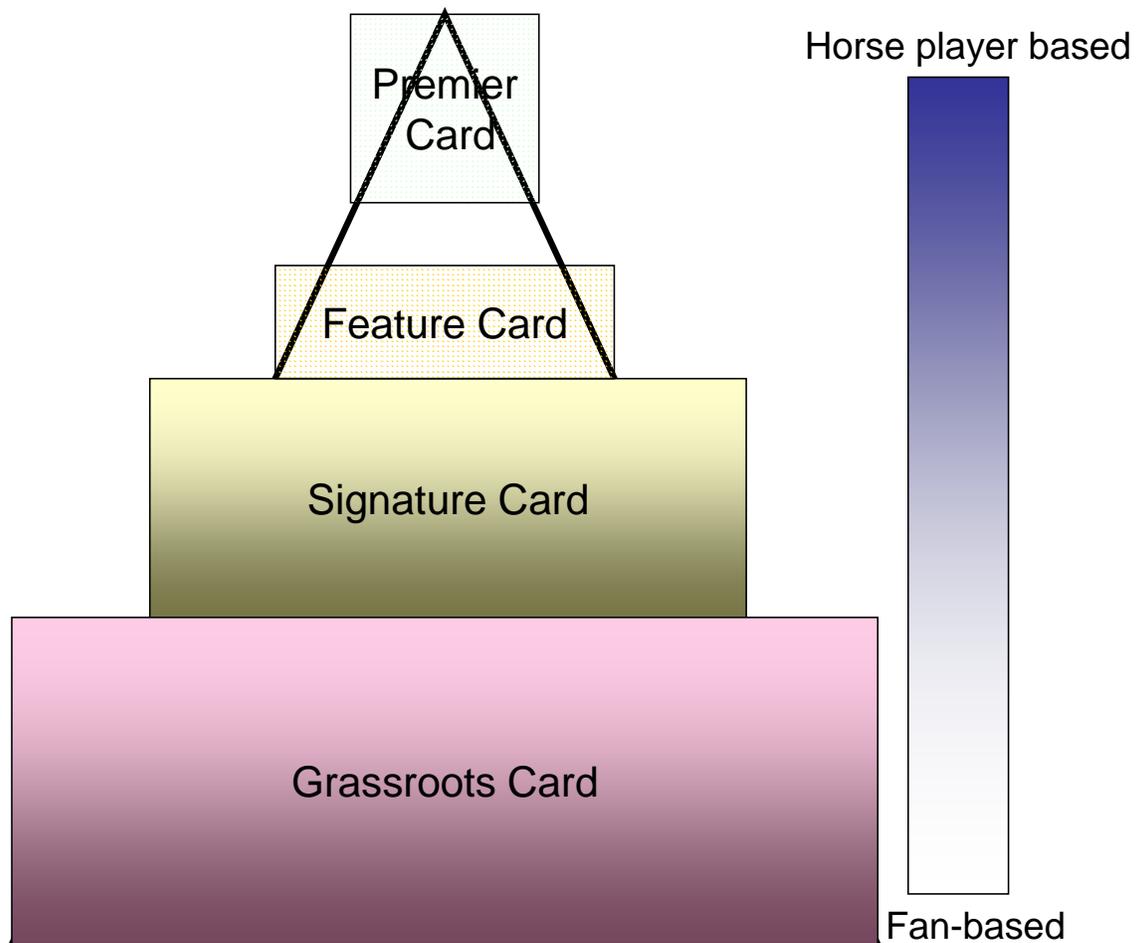
This table demonstrates the disparity in the wagering markets. Toronto is clearly the dominant pari-mutuel market, but there are promising second tier markets that should be fostered.

Further analysis and monitoring of these potential markets will be necessary to demonstrate the results of tangible changes discussed later in this document.

## Classification of racing

### *The Concept*

Within Ontario racing there are defined layers to the business, which build upon one another to make the system whole. The integration of these levels across the many parts of racing, from racetrack types to customer types, to levels of racing – are what make Ontario such a vibrant racing community. A number of different factors define these levels, some dependent on the population of the surrounding area, some on where there is a natural betting market, and some dependent on whether the area supports a strong horse population.



The pyramid model represents the Ontario industry – a broad base of horses, participants and customers that ultimately filter up to support the top level of participation in the industry – the Premier level. The health of the entire industry is dependent on a strong and successful “flag ship”, that being a product that is strong, viable and sold both domestically and internationally. It is for that reason that the concept is hierarchical, with a structure intended to support the racing objectives of the Premier product. The other levels of racing (signature and grassroots) have defined roles to play in the continued success of the province’s highest level of racing. The Premier product is reliant on a vibrant and healthy grassroots level, to be the feeder system of quality participants and horses that rise to the top as they develop. Similarly this model can be applied to the customers – exposure to the industry usually starts at an entertainment level, dinner at the races, going to see a friend’s horse race. This evolves over time as interest grows, and the fan based customer shifts to become a horse player or a purchaser of horses. It is through this two-way symbiotic relationship that the Ontario industry as a whole will prosper.

### ***Type of customer***

The definition of a “customer” varies at different levels of this pyramid, shifting along a spectrum of being more wagering-focused (horse player-based) at the Premier level and more fan-based at the Grassroots level. In other words, the product focus at the tracks offering “premier cards” would be more oriented to producing a high level of betting product, as opposed to the entertainment and community gathering at the tracks offering “grassroots cards”.

### ***Types of bet***

There is a fundamental belief in the industry that in terms of a “product life cycle, pari-mutuel wagering is has peaked in the maturity phase (or perhaps even the decline phase). Where competitive gaming alternatives like the slot machines have been refreshed with different types of games and different themes, little innovation has taken place in the world of pari-mutuel wagering. As a result, it is not surprising that pari-mutuel wagering continues to lose market share.

The sport of horse racing in Ontario has not invested in exploring new ways of doing business. Through the consultation process, it was clear that the stakeholder recognize the need for research and development of new bet types, as a fundamental component of revitalizing the industry. This type of initiative, however, requires a collective will and significant resources to make any real impact. Similarly, means of reducing takeout rates to generate increased wagering are being investigated.

### ***Racetracks***

#### **Type of live racing offered**

The pyramid model applies to the type of live racing being offered across the province. The “hierarchical fluidity” of this model assumes the best horses and the best product must be offered where the largest returns to the industry exit. A coordinated approach to create strong product, that is not diluted by multiple offerings is required.

If, for example, the existing Premier tracks offer 5 days of racing per week, there are two nights a week that would require an alternative high quality card of racing. This is the basis for the “featured signature card” – a card of racing that does not meet the purse levels or quality of horses as an “premier card” but is the featured race card for the bettors on that night. In effect, it demonstrates an opportunity for a track that normally offer “signature” or “grassroots” cards to “step up” and be the featured card and/or “undercard” in a time slot where the absence of a Premier track creates a gap (opportunity).

In this way, racetracks are not limited (“pigeon-holed”) in the short-term.

Similarly, through the racetrack licensing process, tracks could apply for marquis race cards within their race calendar. Granting of these marquis cards would permit the tracks to conduct racing with exceptional purse levels, as well as provide them with premium or “featured” status on the harmonized race calendar.

#### **Racetrack standards**

One of the fundamental components of this model is to advance and expand the current system of racetrack standards. Currently, certain standards exist, such as the racetrack surface standards. This system of minimum standards will be significantly increased to ensure consistency among similar racetracks and as a requirement for racetracks to offer higher calibre of racing events (“premier” cards rather than “signature” cards).

In conjunction with the OLG and the racetrack operators, the ORC will begin to establish racing-related benchmarks as contemplated in the Siteholder Agreements. **These benchmarks, along with the complementary system of ORC standards, will give a rational and well-rounded structure for the re-investment into live racing under this new model.**

### **Economic Oversight**

For several years now, the infrastructure has been developed to allow the regulator to more thoroughly understand the business of racing in the various regional markets.

**Accountability** – The OLG recently announced its desire for increased accountability through the benchmarking of the horse racing industry and increased reporting on the benefits derived from the Slots At Racetracks Program.

**Commitment to Live Racing** – Since 2007, applications for changes in race dates have required an accompanying business plan addressing, among other factors, the racetrack’s motivation to conduct live racing. The level of commitment to live racing that is necessary to make this industry healthy and vibrant will continue to be assessed through a system of measures.

**Reinvestment** – To meet or maintain the racetrack standards discussed above the racetrack operators may have to reinvest in the live racing business. Similarly, the accountability for funds generated through the Slots At Racetracks Program will require thorough and timely reporting on the reinvestment to live racing. This model does not intend to limit earning potential or return on investment, but such returns will be premised on meeting the objectives of the Slots At Racetracks Program (i.e. to support live racing and the agricultural community) and those reasonable standards set by the ORC.

**Recommendation:**

**The industry needs to invest time and resources into studying and promoting the significant contribution the sport of horse racing makes to the Ontario economy.**

### ***Quality/level of horse***

The pyramid structure outlined in this section also has application for horse supply and is consistent with the “normal distribution” of horse performance. As in any normal distribution, the bulk of the horses bred or purchased will be “average” in quality – one might describe them as decent “grassroots” horses. A smaller proportion (perhaps twenty percent) will achieve performance levels that

make them competitive with the “best of the best”. This is no different than another other pool of competition product.

Analysis of where Ontario horses are currently competing shows that approximately 20% of the unique starters racing in Ontario race at the Woodbine/Mohawk circuit. It therefore can be assumed that 80% of the remaining herd population is racing at the “signature” or “grassroots” level .

It is being proposed that a better system of managing horses available to race at Ontario racetracks is necessary to better allocate horse supply in a way that maximizes the return from pari-mutuel commissions by improving the overall quality of racing in Ontario and offering better wagering product to as many betting customers as possible. This system returns to a hierarchical structure which results in increased competitiveness of races. A structure of this nature also reduces or eliminates unhealthy competition for horse supply between racetracks.

Horse supply is a factor that frequently impacts race date decisions. To date, evidence of horse supply has been focused on statistics such as “entered versus drawn” or number of races with full fields. A more accurate means of quantifying horse supply would be to have a database of available horses that race secretaries can access. This database would also be an invaluable tool for the definition of horse supply that will be matched to customer demand for the purposes of quantifying race opportunities (and thereby race dates).

### **Recommendation**

**A centralized database of available horses should be created.**

## **Race Conditions**

The industry has discussed certain concepts intended to return to a more structured, hierarchical system of race conditions.

In general terms, the proposed race structure would improved the coordination the condition sheets written at various racetracks to ensure the maximum return on horse supply.

Having horse supply structured in a way that groups similar quality horses will allow race secretaries to write the more competitive racing with full fields, which will in turn, provide the highest returns from pari-mutuel commissions. This structured racing model compliments the hierarchical classification of racing.

“Grassroots” racing is intended for young horses and low-end claimers who, with success, will move up to the “Signature” circuit and so on. This feeder system approach will ensure that horses are racing in a circuit that best fits their current ability, rewards success with the opportunity to race for higher purse money, and provides for competitive racing at each level.

Although refinement of the concept is continuing, the a standardized system of racing conditions and purses will provide:

- more guidance and structure to the writing of race conditions,
- race conditions being classified in a hierarchical manner,
- more harmonized purse structure using ranges for “purse levels”, maximum purses on overnight races, targets for “average purse per race”,
- planning for added money, marquis races and other events at all levels of racing
- a discussion of certain Ontario-focused initiatives (bonuses, allowances, preferred entry, etc.)
- focusing on higher “value-add” and professional judgement from race offices
- targets for number of races per card, and
- a look into the consistency of qualifying times.

### **Purse management system**

Purse management is addressed in the structuring of the race conditions. Using mechanisms such as the uniform purse levels for standardized conditions, as well as total daily purse ranges per card of racing, a more rational, racing-based method of managing purses is proposed.

Managing purses in this way is an integral part of motivating horses to race at a level that best suits their ability and therefore provides the most competitive racing possible. Its hierarchical approach rewards success, thereby providing competitive horses with a reasonable expectation of racing for increasing purses by “moving up” through the system (“grassroots” to “signature” to “premium” where ability permits).

Although still in the early phases, discussions have taken place at a conceptual level on how best to manage the provincial purse, including redistribution, funding of various industry programs and initiatives (HIP, Ontario-bonuses, etc.), funding of transportation credits or starting bonuses, etc.

## **Synchronization of live racing product to support simulcast distribution**

The industry continues to discuss synchronization of live racing product. Currently racetracks communicate with each other when sharing a similar time slot, so that post times are synchronized in such a way that bettors would have 5 to 10 minutes between races at alternating racetracks.

There are, however, a number of broader concepts under the heading of synchronization being proposed.

### **1. Rationalization of live race product with simulcast product offerings.**

It has been expressed by some throughout the process that there is too much racing for the amount of customer demand, pointing at the declining wagering pools as evidence. While the number of live dates have declined somewhat in the last number of years, the amount of simulcast wagering product has remained constant. For a thorough analysis of customer demand, all forms of betting product offered to the customer – live and simulcast must be considered.

### **2. Live race date synchronization**

Each racetrack applies for its own schedule of racedates, for the most part, separate of the applications of other racetracks and the ORC responds to each individually – there is no provincial wide analysis of what the industry as a whole requires and what the customer is asking for.

In a different model, the various Ontario cards of racing could be plotted on a more holistic, synchronized schedule, not unlike the model employed by the television networks. Using this model, the industry could plan 364 days a year, with a limited number of simulcast signals at a time (maximum two) to accommodate a premier level and an undercard or feature track from the other levels at various times of the evening.

With such a model, Woodbine Entertainment's racing schedule of 5 days a week, 52 weeks a year becomes the prime time product offering. This product gets "pushed" to the customers and as the "feature presentation" enjoys heavy promotion through the number and placement of the displays of this product.

On that same day, "signature" race cards could provide the undercards to customer demand. If wagering number indicate that customers tend to bet from 1 pm to 11 pm EST, "signature" race cards could be conducted at 1 pm, a different track at 4 pm, and building up to the prime time presentation of "premier" racing between 7 and 11 pm.

This would result in less competition for wager among Ontario tracks, as each card benefits from being promoted at all other Ontario distribution sites, and the customer of Ontario product has a constant stream rather than competing products that dilute pool sizes.

Further, on an evening where Woodbine is dark, a track that normally races “signature” cards can step up to become the premier card, becoming the feature presentation for that prime time. This movement would create an opening on the undercard as well meaning that a track that normally conducts a “grassroots” card and does not simulcast can now present a “signature” card of racing for that evening.

In this way, product offering is more coordinated, supply is matched to customer demand, and tracks have the flexibility to “move up” to a higher level of racing where there is sufficient customer demand justify it.

## **Regional approach to live racing**

### ***Circuits/events***

It is expected that all tracks will continue to run their marquis events. The standardization of the conditions or purse in no way limits any racetrack from conducting such an event. In fact, using the more harmonized approach to Ontario live racing product gives the industry an opportunity to bring even more attention to these special events by promoting them with “featured” status in that day’s race schedule.

The idea of circuits is also advanced under this new model. By considering the geographical location and racing schedules, it is possible for the industry to design circuits that will provide more stable racing opportunities, less competition for horse supply and provide the excitement of having a circuit season.

### ***Regional tracks***

Throughout the review process, there has been acknowledgement that all regions have their own unique characteristics and markets in which they operate. There are examples where these characteristics are significant enough to warrant special consideration under this new model.

Sudbury, due to its remote geographical location, is an example of a regional track. Unlike Southern and Southwestern Ontario where there are multiple tracks

within a reasonable driving distance, Sudbury's location makes it a unique market for horse supply.

Similarly, the border tracks such as Windsor and Hiawatha have different markets based on the amount of gaming competition in their region, as well as the impact of U.S.-based horses on their horse supply. For this reason, they could also be considered regional tracks.

Rideau Carleton is another example of a regional track. It can be considered a border track based on the impact of the Quebec-based horses on its horse supply. Similar to Sudbury, Rideau is also relatively isolated region, when compared to the concentration of opportunities in the Central and Southwestern Ontario areas.

While these regional racetracks will not be immune to the changes being contemplated under the new model, their unique circumstances are recognized and will be considered.

### **Regulation under the new model**

The new model contemplates a system which works to align the goals of the various industry partners. By encouraging and rewarding industry participants to act with the interest of the industry as a whole, the view is the need for regulatory intervention will be reduced. The regulator continues to be committed to being responsive to the needs of the community in an effective and efficient manner.

Similarly, the regulator has committed to innovation, investment in technology, and other means of increasing the efficiency of the regulatory services delivered to the horse racing community.

## **Implementation and Transition**

While it is recognized that all aspects of the proposed new approach will not be fully developed to deal with the 2011 racing season, it is expected that the principles and directions articulated will form the basis for decision making.

For 2011, there will be many practical issues that will need to be addressed.

The following highlights some of the initiatives recommended moving forward

1. Province-wide market research to better understand the customers and their preferences.
2. Development of an industry-wide annual report on the value of the industry to the Ontario economy.
3. Development of a centralized database of available horses.
4. Creation of a standardized race condition system and purse levels
5. Provincial wide race date synchronization to maximize wagering.

Defining the exact mechanics of the model will require the continued cooperation between the industry partners. Not unlike the current system of regulation, implementation will involve working together under a defined set of rules (the revised model), where the regulator may be required to make decisions in the best interests of racing. As always, any decisions by the ORC will continue to be made based on the facts available and subject to the principles and corporate values of the organization which ensure fairness and due process.

The new model will be implemented in a managed and measured way, phased in over time.

With continued monitoring, measurement and refinement of this “living” model, this proposed solution should be considered a jumping off point for the on-going process of defining a direction for the future of horse racing in Ontario.