

TDN **Q&A**

Last week, the international consulting group Value Partners presented a report to the Breeders' Cup's Strategic Planning Committee along with other members of the Breeders' Cup board. The report was the result of months of study and dozens of interviews at the behest of the committee to help the Breeders' Cup chart its course over the next five to 10 years. Last month, the TDN sat down with Satish Sanan, who heads the Breeders' Cup's Strategic Planning Committee and Value Partners' William Field. Today, the TDN follows up with Breeders' Cup Chairman of the Board Bill Farish and President and CEO Greg Avioli.

TDN: The Breeders' Cup continues to be among the more successful entities in horseracing and has made some dramatic changes in recent years. Why, then, was there a feeling that a consultant should be brought in to suggest changes, solutions and ways to grow the Breeders' Cup?

Bill Farish: We think that since 2006, the Breeders' Cup



Bill Farish

Horsephotos

has made a lot of aggressive moves and major changes. There has been the increased number of races and the increase in purses to \$25.5 million. We were very happy with the first year of the two-year run at Santa Anita, with 31 international horses and 156 horses total. The Classic was the No. 1 rated race in the world. Our handle grew slightly in a down year overall for handle. We believe we are hitting on a lot of good things and a lot of good themes. But, looking long-term, it is prudent to take a step back and come up with a plan to

make sure we're not missing anything. Also, we have to be more inclusive of our constituency, our Trustees and nominators, and get them involved in the process of having a say in where the Breeders' Cup is pointing long-term. That has been the most satisfying part of this process to me; to see the number of people who have participated over the three retreats and to get their input has been very gratifying. As you know, people in this industry are rarely ever on the same page. It's been good for everyone to be in the same room, even with people who don't share the same view. It has been helpful to hear divergent opinions.

Greg Avioli: Back in 2006, when Bill became chairman and the new 13-member Board was elected, the Board



Greg Avioli *Horsephotos*

had a very specific plan in mind, which was to grow the size and the stature of the event as quickly as possible and to address what everyone on the Board realized was a serious awareness problem that the Championships had with the general public. The Breeders' Cup was very well known within the industry and not nearly well-enough known outside the industry. In retrospect, we probably didn't do a good enough job of getting the details of that plan out to the broader nominators. We want to correct that with this current planning

process. So, when you hear that the Breeders' Cup didn't have any strategic plan, that's not correct. The reality was we had a plan, but it wasn't widely understood and could have been communicated better. People understood parts of it, like a two-day event, but didn't exactly understand why we were doing everything we were doing.

TDN: Understanding that you aren't able to go into specifics right now, in broad terms, what did you learn from the Value Partners report?

BF: Value Partners undertook a very extensive survey of nominators and industry participants across the board, and they did 40 or 50 personal interviews. There were many themes covered and addressed, but one of the encouraging things to me was the confirmation that, overall, people view the Breeders' Cup in a very positive way. It's viewed as a positive for the industry and for the nominators. The greater group views the Breeders' Cup with a sense of ownership. That, I think, is part of why people get so passionate about it, positively or negatively. They feel that they are vested in it, and that's a good thing.

GA: The other thing that we learned is that we have a lot of different people with very large and varied expectations of the organization. There are some people who believe the Breeders' Cup should be the panacea for all the industry's woes. They essentially say, if there's a problem in the industry, the Breeders' Cup, and, possibly Keeneland and Churchill Downs, have to fix it. These are the three organizations in the industry that are doing the best and have the most resources, and many people feel it is our responsibility to fix what ails the industry. While we knew there were some people who shared those views, it was interesting to hear their specific comments.

TDN: Do you agree with that view--that the Breeders' Cup should work toward the greater good of the sport as a whole? Or should the Breeders' Cup care only about what's best for the Breeders' Cup? What did Value Partners have to say on this subject?

BF: Value Partners was very clear that the Breeders' Cup needs to focus primarily on the Championships. Obviously, there is an undeniable fact that we are part of a bigger industry and there are certain things we need to do to help the industry. But the best thing we can do for the industry is to put on the best possible Championships that we can and, as a result, promote the industry to as wide an audience as possible.

GA: Value concluded that the Breeders' Cup needs to focus on what it can do best as an organization. If we're focused on that and do our job well, that will deliver the most benefit to the industry. If we tried to do multiple other things that may not be within our critical skill set, then we are very likely to hurt our event and dilute the positive effect we can have on the industry.

TDN: Let's try to delve into the actual report, at least a bit. What were the major areas that Value Partners covered?

GA: Their recommendations focused on five areas.

The first is a combination of the host-site selection and the business relationship between the BC and the host tracks. Value recommends we focus on having more structure in the rotation of our host tracks and developing a closer, long-term relationship with a limited number of host tracks. Many of these issues are already being analyzed separately by the Host Site Selection Committee, chaired by R.D. Hubbard.

The second area is really just a continuation and a deeper exploration of what has been part of our plan the last three years, which is how do we continue to best expand internationally? We want to focus on markets that present the greatest long-term opportunities. One of the things that was very helpful for our Planning Committee members was an explanation of how much revenue is generated for the Breeders' Cup from a dollar wagered in Hong Kong as compared to a dollar wagered in Turkey. Different countries pay different rates based on their business practices, tax rates or laws. Many people on the Committee also were amazed to learn that the importation of any signals into Japan is still illegal. The Japanese can only bet on Japanese races. So when you look at the expansion of international markets, you have to factor that in. How much effort are you going to put into Japan knowing that a significant law would have to change before you could generate any wagering revenue?'

The third area, which is common to all companies going through a process like this, is identifying opportunities for the Breeders' Cup to embrace emerging technologies. Some examples of that: there are applications out there right now that allow good, fast-paced service on BlackBerries for wagering. Yet we're still living in a time where the vast majority of our fans on site have to get up and go to betting windows. How do we make it easier on our customers? How do we embrace technology? Value has recommended that rather than trying to create technological innovations from whole cloth, we try to identify partners who are well advanced in leading technologies, and then make appropriate strategic relationships to jump-start action in those areas.

Four, while Value was very adamant that we should focus on what the Breeders' Cup does best, there's no question you have to do that in the context of where you expect the industry to be both domestically and internationally over the next five years. There has to be some projection as to which tracks and races are going to be in existence, how are people going to bet in the future, and what is your main international competition going to be. Is it going to be Dubai, Hong Kong, Japan or Australia or someone else?

They really want us to focus on the future environment in which the Breeders' Cup will operate. Directly related to that is also the broader question of how the Breeders' Cup can best connect with the year-long divisional races domestically and abroad that lead into the Championships.

Lastly, and, maybe, in many ways perhaps the most important area, are the finances of the organization. We have done a lot of reviewing of what our current revenues streams are, including our reliance on foal and stallion nominations, and what new revenue streams are out there now or might be out there in the future.

TDN: What additional revenue streams might there be?

BF: One of the things Value Partners was pretty clear on is that you shouldn't go out and invest in possible revenue streams just for the sake of investing in possible revenue streams. To the extent that something represents a good synergy for our business, that's one thing. But just to enhance revenues while diluting what we focus on and do best would be a mistake.

GA: They analyzed many of the same potential revenue streams that have been suggested in the past. What about the Breeders' Cup starting its own account-wagering company? What about the Breeders' Cup starting its own racetrack or buying a racetrack? After looking at these options, their clear recommendation is that that's really not what we do best, which is to put on the legitimate World Championships of horse racing.

BF: They made the analogy of other successful sports events. There are very few that put on a secondary event as well as their big event. You have the US Open, where you have an attempt to bundle some tournaments before the Open together and have a lead-up to the Open. But other than that, there are not a lot of examples of sports or organizations that do that.

GA: In looking at revenue sources for major sports championships, like the Masters and US Open, their revenues come from ticket sales, licensing and merchandising, sponsorships and television rights fees. What the Breeders' Cup has that they don't have is legal wagering.

The Breeders' Cup has been lucky or good or some combination of the two and, counting our on-track and off-track wagering, is generating somewhere between \$11 to \$14 million a year in wagering revenue. That needs to grow and there are opportunities to do so. Some of that will come from international expansion.

TDN: Let's go back to the subject of site location and site rotation. What did Value Partners have to say about those areas? Have we seen the end of the Breeders' Cup being held at tracks like Lone Star, Woodbine and Monmouth?

BF: I don't know if we will ever go back to any of those tracks, but it would take a significant chain of events for us to be able to look at any of those sites in the near future. Our event has grown and our wagering has grown and we need to stage the event at places that can complement that.

GA: If you look at the last decade, whether it's with Texas, Illinois or New Jersey, with all of those non-traditional host venues, their bids to host the Breeders' Cup were significantly augmented by state monies. We are probably at a time right now where it would be difficult for a state to come up with that level of support. No decisions have been made on site selection beyond the immediate future. What Value Partners has said is that they see our past track rotation as an area of concern. Everyone knows about the Kentucky Derby, but if you ask even some racing fans exactly what the Breeders' Cup is you're still going to get some varied answers. The consultants believe that one of the reasons for that is because we are at a different location every year. In many ways, people identify with an event by identifying with the location of the event. We need to have more structure and a better and easier story to tell people as far as teaching the broader public about the Breeders' Cup.

TDN: Would the Breeders' Cup ever settle on one location, with no rotation?

BF: In Value Partners' minds, there are two ways to go. One option is a single host track. The other option is a rotation, where you are between two, three or four tracks in a set rotation where you would go back to the same place every two, three or four years.

TDN: Value Partners had the opportunity to grade the Breeders' Cup. Would you grade Value Partners? Were you happy with the work that company did?

BF: They did an excellent job. I can't say that I was totally stunned by any of their conclusions, but I am emboldened by them. I feel that they gave us a better sense of focus. The process has been very good for our organization and for the nominators and Trustees as a whole, so they I think they performed very admirably.

GA: They were able to assimilate a tremendous amount of information in a very short period of time and really get at the core of the issue. As an example, they quickly came up with the tension between maintaining a vibrant foal nomination program and the fact that, almost by definition, that leads to the exclusion of some of the top horses in the world from your Championships event every year. If you want the best horses in the world competing each year, what is more important to you--that, or maintaining X million dollars a year in foal nomination fees?

TDN: To be a world championship in the truest sense of those words, the Breeders' Cup needs more participation from countries other than the U.S. and continents other than Europe. Did Value Partners come up with any innovative ways to include horses from places like South America, Australia and Japan?

GA: Bill mentioned that the planning process has emboldened him. One of the things that emboldened me was Value Partners' conclusion that we truly are the World Championships of this sport. There may be other championship events outside the U.S. that attract international horses, but no one really comes close to being able to claim the World Championships moniker that the Breeders' Cup has. Value noted that in other sports, people have spent billions of dollars trying to get to the place where we are today and be able to justifiably claim true World Championship status. That goes back to their point of staying focused on the Championships, because that's really what separates us from everybody else. As to the more specific issue of getting more international horses involved, that's a pretty complex issue. A subgroup of the Breeders' Cup's Racing and Nomination Committee headed by Chairman Bob Manfuso just went over to Newmarket to begin discussions with the European Breeders' Fund on the cross-registration agreement the Breeders' Cup has had for decades with them. The current one is about to expire. There are complicated issues relating to attracting international horses, but it goes back to a comment I made earlier, that it's a combination of maintaining the nomination program, being fair to those who do nominate their stallions and foals, and trying to not to be so punitive that you end up excluding too many of the best horses from being able to run in the Championship races.

TDN Q&A cont.

TDN: In what areas do you think the Breeders' Cup can do better or have more of an impact on the sport as a whole? How do you make a good thing better? Would bigger purses help?

BF: There were two things that came out of this in that area that are worth mentioning. One, Value Partners weighed in on something that we have all been dealing with for many years, which is how do we keep the casual fans interested in racing after the Triple Crown is over and before the Breeders' Cup begins? We have their attention during the Triple Crown, and then the whole summer goes by and we try to get them to once again pay attention to our sport when the Breeders' Cup comes along. How can we better tell the story of the whole year and what leads up to the Breeders' Cup and have sports fans understand it and listen to it? How do we create a narrative that lasts through the season? That was central to their proposal. There have been numerous proposals through the years concerning how the Breeders' Cup can do that. It continues to be something where we are still searching for the right answer.

GA: On a positive note, we just had Kentucky Derby 135 and this year will only mark Breeders' Cup 26. In fewer than 30 years, we have made considerable strides in the international and domestic sports marketplaces. But we are really still in our infancy in terms of major championships, and the fact is we are already established as an international event in an increasingly international, global marketplace.

BF: As far as purse levels, the Kentucky Derby purse was \$2 million and the Kentucky Oaks was a \$500,000 race. The lower levels of those purses don't detract people from coming. Our purse levels are very high and more than adequate for the foreseeable future. We've gone up to \$25.5 million for the weekend and that is a huge level of total purses. We're at a level where we don't believe we need to raise purses to attract the top horses. Instead, we need to focus on other areas for making the event better.

GA: As to where we can get to, borrowing from my golf background, I think there really are some analogies to be made with the Ryder Cup in terms of the dramatic growth of the last two decades of interest in and appreciation of that event. Not coincidentally, the growth in interest in the Ryder Cup directly paralleled the increased success of the Europeans in the event. When you have better international competition, it becomes more interesting both to those outside the U.S. and to those inside the U.S. After last year's Breeders' Cup, we were asked were we concerned that too many foreign horses were winning Breeders' Cup purses? When you take a look at it, a significant number of those international horses were foaled in Kentucky.

Value Partners focused on that point, as well. In many ways, the Breeders' Cup is the marketing arm for the U.S. breeding industry. Being that buyers come to U.S. sales from all over the world, what the Breeders' Cup needs to do is continue to grow awareness of the U.S. breeding industry through the presentation of the Championships.

TDN: Back to an earlier point that was made, how can the Breeders' Cup help bridge that gap from the Triple Crown to the Breeders' Cup?

BF: We're going to try things. That's what we said when we started the 'Win and You're In' and the Challenge races. We will continue to try things until we get something that gets traction. There are a hundred different ideas that people have that they believe are a foolproof way to go. But it's complicated and we're operating in a sports marketplace that is so vastly different than even 20 years ago. You can now watch most anything you want anytime, so it's hard to break through.

GA: As far as any new series goes, one of the recommendations Value had is to try to design it from the ground up with like-minded racetrack operators who want to be part of it. What has generally been the process for many years for the Breeders' Cup and for others has been for people to develop a racing series or a concept and then go and mandate that a track participate or commit to what is essentially someone else's idea. Value recommends we sit down with our colleagues at the racetracks and say, "what can we come up with that can address the specific question of 'How do we keep interest in racing alive after the Belmont and until the Breeders' Cup?'"

TDN: Did anyone look at ideas that might be considered outside the box, like running at night, moving the event to somewhere else on the calendar or holding the Breeders' Cup overseas?

BF: We definitely would like to run on the first weekend in November and not the last weekend in October. The reason is the World Series. Through 2013, we have come to an agreement with ESPN and will always be the first weekend in November. It's hard to envision the Breeders' Cup ever being anything other than a season-ending event. If we were to push it earlier on the calendar, you would tend to lose that because of so many Grade I stakes coming in behind you on the calendar.

GA: As to night racing, you've heard rumors over the last few weeks about the Derby considering it. But they are dealing with a different and much smaller group of horses. We have the best horses coming in from around the world, and most all of them have never raced at night.

I think it would be a longshot for us to ask them to do that for the first time at the Breeders' Cup. As far as the Championships being held at an international venue, that is a question that was posed in the surveys to the nominators and to the Trustees. While no final decisions have been made, I can tell you that there was not an overwhelming level of support within the Breeders' Cup's constituency to host the Championships, or even part of it, outside of North America.

TDN: As far as the entire process goes, I take it we're not even into the stretch yet. Would you take us through what will happen from here?

GA: We are still working on schedules with Value Partners and members of the Planning Committee, but in early June we will reconvene the Committee back in Lexington. At that point, the Committee members will have had three or four weeks to digest the report they were given from Value Partners. Value will also digest the feedback they have received in the last meeting. Everyone will get in the room one more time and the Committee will, hopefully, reach a consensus on its recommendations to the Board. Then Committee Chairman Satish Sanan will make a presentation of the Committee's final report to the full Board of Members and Trustees at the Annual Meeting July 9. At that point, given the level of complexity of a lot of these issues, I would assume there will be vigorous discussion and, I would expect, the Board of Directors will then direct management to take a deeper dive in certain areas.

TDN: Look into your crystal ball if you will. When this is all said and done, how might the Breeders' Cup be different than it is today?

BF: One thing that could come from this is that we could have a better understood set of metrics that we use to gauge our success. Other than that, I really don't want to venture in to what my hopes and expectations are for this.

GA: Bill mentioned metrics. That might sound like just a word. But I think it might just be the most important word of all coming out of this exercise. From my perspective, and this goes back to Year One of the Breeders' Cup in the 1980s, there has never been a common scorecard of how people were to judge the effectiveness of the organization. I hope and believe that out of this process we will have that for the first time. Whether that's going to turn out to be some combination of the number and quality of the horses in the Championships, how the Championship races are rated internationally, what the Championship revenues, attendance and wagering are, we will see. There are any number of ways to gauge the success of an event and an organization, and we have to come up with a common set of metrics to do that going forward.

When we do, it will be easier to have a discussion about whether the organization is achieving its purpose. Value Partners has said that one of the biggest problems we have as an organization is that so many different people have such different views on what the organization should and should not do and whether it is succeeding or not. If we can come out of this process with a clear agreement on the mission of the organization and have an agreement on how we're going to judge whether we are accomplishing that mission, I think that would be a huge success.

TDN: You are trying to take the Breeders' Cup level to the next level, but are trying to do so in a terrible economic environment. How much of a worry is that?

BF: We've already seen an impact. Our nominations will be off at least \$5 million from last year, from \$20 million down to \$15 million. We're not expecting in the next 12 months to see any kind of huge explosion forward for the Breeders' Cup. We're operating in a very difficult environment and we are hunkering down, to say the least. It is hard to grow significantly in that climate, but we can only play the hand we were dealt. We're trying to perform the best we can in this environment.