A Prospectus for a Landmark Multi-Client Study:

The Changing Future of the British Horse Racing Sector to 2010

from

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The Changing Future of the British Horse Racing Industry to 2010

Introduction

Has there ever been a time of such potential and drastic change in British Racing? Racing Economics believes that British Racing is at a crossroads. The evident weakness of certain key players, the increasing competition for the 'gambling pound' and the Office of Fair Trading's overt intention to introduce dramatically different practices to elevate competition all combine into a very volatile situation.

In this context, Racing Economics, the leading British organisation of racing economists and strategists, is proposing to provide all the stakeholders of the horse racing industry in the United Kingdom with a new, landmark research programme that will be both cost effective and an imperative reference work for the future of the sector.

We must not lose sight that the British Horse Racing Industry is important to the British Economy. It employs 60,000 people (in 2002) directly in racing and breeding, and it is the eleventh largest sector, ahead of some of the traditional manufacturing sectors such as automotive. It also supports an enormous network of subsidiary businesses that supply services to it, varying from feed merchants to horsebox hauliers, vets and suppliers of bed and breakfast accommodation. All this is at risk.

The Sector is undergoing significant radical change and experiencing turmoil. The stakeholders who survive this accelerating process will be those who understand what is afoot and respond intelligently. Each stakeholder is facing individual threats and opportunities and these need to be assessed to understand the individual impacts of these changes.

Table 1: Initial Research Indicates the Changing Landscape

Some Current Facts	Initial research[1] by Racing Economics indicates that by 2008
59 Racecourses	50-54 Racecourses (2-3 new all-weather courses, 8 less traditional courses and more traditional moving to all-weather)
Strong on-course betting market	Significantly less on-course bookmakers
540 trainers	400-450 trainers
430 professional jockeys	
13,000 horses in training	10-11,000 horses in training
Circa 10,000 owners	8-9,000 owners
£7.5 billion bet off-course on horseracing 8,500 licensed betting offices	FOBT's and virtual racing take around a fifth of the off-course horserace betting Exchanges carry significantly higher traffic and payments to the sector Almost a fifth reduction in sponsorship

Note: [1] Initial estimates under a 'free for all' competitive scenario.

Whilst some stakeholders may be well placed to benefit from the developing turbulence, not all face the same opportunities and threats. Though they have differing strengths and weaknesses, it is having the insight and foresight to position themselves to maximise their opportunities that matters. The more dogmatic elements will find themselves outmanoeuvred. Failure to act and position correctly will lead to their locking themselves out of any satisfactory solution.

Consider the potential impact of total deregulation of the racecourses. This could involve ruinous competition in the same geographic catchment area and/or similar tier; some or all courses insisting on 48 hour declarations; some deciding that only top quality races are appropriate; others establishing prize money that restricts opportunities for lower quality racing and/or focusing on a particular type of racing, say handicaps only. These potential outcomes will not only affect the racecourses, but also the bookmakers, the trainers, the owners, the horsebox hauliers, the jockeys etc. Any major change to one sub-sector has serious implications for the entire sector.

So, the strategies followed by one set of stakeholders may significantly disadvantage others. The forward thinking stakeholders will be looking at their mid- to long-term strategic development, both internally and in the context of the external environment to provide forward planning that can optimise the opportunities presented by developments in the sector. However, contingent planning for the future requires a degree of insight and foresight into how the future landscape of the sector will appear in order to answer such questions as:

How is our industry evolving?
What is the true potential for our sector?
What will bring success?
Where are the opportunities for my organisation/team/department?
Who will be the 'winners and losers'?
What can we learn from the experience of others?

Answers to these questions and guidance on what lies in the future for British racing must be reliable, in-depth and qualitatively and quantitatively assessed. Racing Economics, an Associate Practice of Berkeley Hanover Consulting, is uniquely placed to propose an in-depth study combining the Group's quantitative and qualitative analytical capabilities with a profound knowledge of the sector to provide an Outlook to 2010 for the British horse racing industry.

A Sector Under Pressure to Change

There are two key pressures on the sector at present. Firstly, horse racing's share of gambling revenue is declining and thus there is undoubted unfilled growth potential. Secondly, the Office of Fair Trading's Rule 14 Notice to the British Horseracing Board and the Jockey Club on the restrictions that racecourses face in organising their racing, entry payments and data rights.

Declining Revenues

The growing strength of the betting ‘Exchanges’ in British horse racing is changing the landscape for wagering and radically altering the traditional betting markets. This has two immediate implications; (i) that the traditional off-course bookmakers will respond by offering the wagering public higher margin alternative wagering opportunities (witness the growth of fixed odds betting terminals); and (ii) the contribution of the on-course layers to the levy board (or similar body) will decline (witness the recent reduction in contributions from 10% in 2003/04 to 6% in 2004/05 as a direct result of reduced profits).

Although a sector can survive comfortably with a declining revenue share provided the absolute revenue is growing in the short term, it may suggest the possibility in the mid-term of a structural indicator for a critical point when declining share translates into declining absolute revenue. Both a declining share and declining absolute revenues will affect the entire sector. The implications are immense and interdependent. They include

- **Declining quality of racing**. A reduction in the quality of racing means less competitive races, which in turn reduces the amount of wagering on these races, which in turn will lead to a lower contribution to racing from the bookmakers. This has all the signs of a ‘vicious cycle’.

- **Declining average prize money**. Reductions in prize money will cause trainers to squeeze costs further with a direct impact on their staff. There is also the likelihood of less owners being attracted to the industry, which would reduce the number of horses in training and eventually impact auction prices and studs as the demand for horses shrinks.

- **More fixtures**. An answer to the bookmakers’ request for more wagering opportunities is the expansion of the fixture list. The impact on competitiveness of individual races by adding more fixtures is not clear, as it could open the floodgates for horses that do not run often due to lack of opportunity or it could result in a lower number of entries and declarations. The latter will contribute to fewer horses in training. However, the increased pressure on jockeys and stable staff is clear.

- **Declining National Hunt Racing**. The argument that flat and the top National Hunt races subsidise most of the rest of National Hunt racing means that any increase in competitiveness in the sector will have negative consequences for the viability of National Hunt racing.

- **Reduced Sponsorship**. There have been a number of well-publicised sponsorship withdrawals over the last few months, particularly for National Hunt. This decline in sponsorship may be the start of a trend that will be aggravated by declining competitiveness of the product.

- **Exporting the product**. There is an argument that British racing could garner a large foreign audience via media rights. However, this is likely to need 48 hour declaration with the concomitant impact on trainers’ costs and thus the fees charged to owners. There will be reduced field sizes due to an increased number of non-runners which in turn will lead to less competitive races.

Recent research by Racing Economics has demonstrated that some proposed changes, such as 48 hour declarations, have a disproportionate effect on the competitiveness of races by altering the balance of the wagering opportunities.

With the industry facing such a vast array of changing factors, individual stakeholders need a clear view of the future and the implications for them to make informed and profitable investment decisions.

The OFT Rule 14 Notice

The OFT Rule 14 Notice will undoubtedly change the competitive landscape. Either it will be enforced or the BHB and the Jockey Club will put in place an approved alternative. The impact of the changing competitive landscape resulting from fallout of the Rule 14 will compel change within both the BHB and the Jockey Club and the industry.

Racecourses, faced with competing in a de-regulated environment, will adopt differing strategies that will affect their and other racecourses ability to succeed. Mere survival will no longer be an option and we expect to see a decline in the number of courses. The impact reaches further, in that it will favour flat racing over national hunt, and may favour all weather racing over turf. This will be further exacerbated by the racecourses owning individual rights over their race and runner data, as the prices realised by selling these to the bookmakers will vary widely from course to course. Clearly, racecourses that achieve more competitive racing will realise proportionately higher revenues for their product.

A classic example in the UK of ‘sector crunch’ is the decline of the automotive sector. Once a world leader in the design and manufacture of cars and trucks, the sector has declined to a small tier 2 and 3 inputs to the global industry. One major contributor was the lack of foresight and the unwillingness to encompass change and technology. Do we want this to happen to British horse racing?

We believe that racecourses such as Newbury are taking first mover advantage as they position to take advantage of any and all opportunities that change may bring. This does not mean that all tracks need to install all-weather, but that each track or group of tracks needs to take action appropriate to exploit the threats and opportunities. Basically, stakeholders need to adapt or die.

This pervasive environment of change makes dependable insight and forecasts for the sector crucial and invaluable to enable stakeholders to make informed decisions about the future of their organisations in order to succeed. Where success is measured by the ability to adapt or survive.

Proposed Report Table of Contents

The Changing Future of the British Horse Racing Industry to 2010

The complete Study will comprise four Sections; Part 1 - Executive Overview, Part 2 - The Industry; Part 3 - The Future for and Impact on the Stakeholders; and Part 4 - Appendices.

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Note: Racing Economics reserves the right to change the contents of the report in response to industry developments and requirements.

Robust Analytical Framework

Racing Economics is proposing to detail a picture of the future of the industry to 2010. The approach we will adopt is to provide three qualitative and quantitative outcomes of the future (scenarios). This will allow us the flexibility to analyse the future under three different sets of assumptions and assign probabilities to each set. Thus, the three scenarios we envisage conceiving are ‘business as usual’, ‘free for all’ and ‘consensus and realism’.

- ❖ The business as usual scenario assumes no major changes in the industry over the next six years. (This will act as the base case).

- The free for all scenario assumes complete de-regulation with racecourses having absolute discretion over their racing, data and media rights with open competition; and the accelerating impact of betting ‘exchanges’.
- The consensus and realism scenario assumes that there is some collaboration and a degree of co-ordination of racecourse fixtures, some collective selling of data and media rights and a greater burden on exchanges to contribute to the racing product.

These assumptions illustrate the approach and are not exhaustive. Additional assumptions will be integrated into each scenario.

Racing Economics’ quantitative approach will include using statistical modelling (state of the art econometric forecasting methodology) to determine the impact of revenue variations on the stakeholder groups, including racecourses, trainers, horses in training, bookmakers (on and off-course), exchanges, media etc. The results of the modelling will indicate which stakeholders will benefit or lose under each scenario, and in what way. This will allow our clients to determine the appropriate strategy for their organisation.

The resulting Report (150-170 pages) will provide a robust and in-depth picture of the future of British Racing. It will allow you to:

- Determine your best opportunities for investment, expansion or profitable consolidation over the next six years;
- Create a focused plan to exploit future developments;
- Understand the trade-off between the opportunities and risks of the changing industry;
- Compare opportunities and risks across stakeholder groups.

Following the completion of the Report, there will be a workshop for subscribers to focus on and discuss the strategic implications of the research for the sector stakeholders.

What Is A Multi-Client Study?

A multi-client study is a researched Report that examines critical issues, changes, developments and/or technological change whose impact falls upon industry stakeholders. It allows these stakeholders to pool their resources on research that is of common interest.

It allows subscribers to purchase a full research study at a fraction of the cost of the entire programme. As the results published in a multi-client study have different implications to different stakeholders, there is no issue of providing one group with a competitive edge over another, but at the same time it provides a level base for a sector or an industry.

‘Charter’ subscribers have the opportunity to help shape the research so that it encompasses their particular concerns.

Who Should Consider Becoming a Charter Subscriber?

As noted above, the industry's linkages are very interdependent; any major change to one sub-sector has serious implications for the entire sector and all other stakeholders. Thus all major stakeholders should consider joining in this proposed landmark research programme. The list includes:

The regulatory bodies, including the BHB, the Jockey Club, the DTI, HM Customs & Excise, the Levy Board and the Department for Culture, Media and Sports.

Racecourses and the RCA.

Media (including Sky, attheraces, publishers and the racing press).

Trainers and the NTF.

Owners and the ROA.

Jockey Representatives/Agents.

On-course Bookmakers.

Off-course Bookmakers (including spread betting).

The Betting Exchanges.

Professional advisers to sector.

Suppliers of Services to Racing (including catering, parking staff etc.).

Regional Development Associations and local authorities with race tracks in their area.

Subscriptions and Delivery

Q: How do I subscribe to 'The Changing Future of the British Horse Racing Industry to 2010'?

Complete and return the Order Form at the back of this Prospectus.

Q: When will 'The Changing Future of the British Horse Racing Industry to 2010' be delivered?

Work on this first-of-its-kind Study will commence in January 2004; the Study will be delivered in the spring 2004.

Q: How many copies will I receive?

Subscribers may receive up to three copies of 'The Changing Future of the British Horse Racing Industry to 2010' for internal distribution.

Q: How much will it cost?

Prior to 10 January 2004: The fee for charter subscribers is £5,000.

After 10 January 2004: Non-charter subscribers pay £10,000.

Q: I need to review the appropriateness of the Study for me and my organisation, to whom should I address my questions?

For additional information, call Racing Economics on +44 (0) 20 8873 0513

Charter Subscriber Benefits

Charter subscribers to 'The Changing Future of the British Horse Racing Industry to 2010' – those clients committing before 10 January 2004 – will receive the following substantial benefits:

Ö A 50% discount on the non-charter subscriber rate.

Ö The opportunity to help steer the coverage of the Study (if feasible, we will make every opportunity to incorporate individual requirements).

Ö Two free places at the post-publication workshop on 'The Changing Future of the British Horse Racing Industry to 2010' in June 2004. We envisage the workshop to be an interactive forum to use the Report as a basis for discussion.

Ö Charter subscribers pay 50% on commencement of the programme, and the balance on Study completion.

Racing Economics reserves the right to postpone the launch of this landmark research in the event that there are insufficient charter subscribers.

Racing Economics

Staffed by experienced highly trained professionals. Professional analysts from Racing Economics combine rigorous academic training and racing sector knowledge with extensive hands-on experience in applied research.

Racing Economics is an associate practice of Berkeley Hanover Consulting (BHC). BHC was founded some 12 years ago by Martin Shenfield and has a long history of forecasting the future landscape for the stakeholders in various key commercial sectors, both internal to the sector and cross-sector impacts. We also have extensive experience of analysing the impact of leisure and recreational projects on stakeholders including the local communities. As a direct result of the personal experiences of the senior management of BHC, we set up Racing Economics as an individual arm under Jamie Douglas-Watson, who has 20 years experience in economic and industry research and forecasting. Thus, we are using our extensive consulting experience coupled with our in-depth racing industry knowledge to provide a vehicle specifically for the sector.

The team has worked alongside captains of industry in the automotive, transport, energy, agricultural and leisure sectors, as well as with key civil servants in government bodies. Our experience has proved that strategic development initiatives need to be relevant, credible and consistent if they are to produce positive benefits. Thus, we provide an understanding of the economic dynamics such that these can be intelligently and collectively framed.

Although, economic impact studies and forecasting have the same basic premise for research in any sector, there is a strong argument that the racing industry is unique and requires specialised knowledge to understand its complex dynamics. Thus, Racing Economics is in a unique position to use our expertise for the benefit of the racing industry. A unique strength is that not only do our consultants understand the racing industry in depth; they are also personally committed to the sector via racehorse ownership, regular attendance at meetings and blood stock monitoring.

Berkeley Hanover Consulting Group

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