



Market Research & Jurisdictional Review

A summary report to the Horse Racing Industry Transition Panel

October 11th, 2013

INTRODUCTION

In Summer 2013, OLG commissioned two research studies to better understand the opportunity to integrate gaming and horse racing:

1. A consumer segmentation study of the horse racing market in Ontario. This project was completed by Research Strategy Group (RSG); and
2. An inter-jurisdictional study focused on how other jurisdictions integrate gaming and horse racing. This project was completed by Deloitte's international gaming practice.

The key findings of both studies are set out below. These findings are intended to provide additional insight and context to support the work of the Horseracing Transition Panel. In the case of the inter-jurisdictional findings, it is important to note that the regulation of gaming and horse racing in Ontario and Canada is unique, and thus the strategies employed by other jurisdictions are not universally compatible.

1) Consumer Segmentation Study

METHODOLOGY

The consumer research study consisted of the following elements:

1. Discussions with industry stakeholders;
2. Fifteen focus groups within the GTA, London and Fort Erie regions that explored consumer attitudes and motivations with respect to horse racing;
3. Interviews with VIP customers who regularly attend horse racing in Ontario; and
4. A 30-35-minute online survey of 2,225 Ontario residents (19 years or older) who were either current customers or potential customers open to attending a horse race in the future. The online survey was conducted from August 14-20, 2013.

Based on information gathered from this research, the needs and motivations of existing and potential customers were identified. The results provide a framework to support the horseracing industry in developing targeted marketing programs for various consumer groups, and provide insight into consumer behaviour.

PRIMARY FINDINGS

The first-time experience of attending a racetrack is paramount in building adoption to the sport.

The first experience of attending a horse race is a foundational element in establishing a connection to the sport. This is largely due to the unique nature of horseracing as a form of entertainment. Many individuals interviewed as part of the study demonstrated a strong ability to recall their first experience at the racetrack, and provided vivid descriptions of the distinctive elements of racing: *the pageantry of the parades, the blanket of flowers adorning the winning horses, the racetrack fashions, the smells of the animals, discarded tickets on the floors*. Given that the initial experience of attending a race track has a significant impact on a customer's attitude towards the sport, it is critical for racetracks to fully understand how to attract first-time customers and to create a positive experience for them.

Few people attend horse race for the first time by themselves.

Horse racing is unique in that most consumers will not try it alone. New patrons attend tracks for the first time with a family member or are invited as part of a group. For young people in particular, the first-time experience of coming to the track with their family often leaves lasting, positive impressions.

The Initiator is crucial to encouraging new consumers.

Individuals who bring new persons to the track (“Initiators”) are essential to creating long-term consumers. Initiators serve as mentors to first-time visitors, explaining the rituals of the sport and teaching them how to decipher a program and place a bet. While some tracks have designed programs to simplify wagering, first-time visitors rely on the Initiator and not track staff for advice and mentoring.

In order to increase attendance, racetracks must develop more Initiators. Marketing efforts should not focus on targeting new customers, but developing new Initiators. For a new visitor, placing a bet at a racetrack is an intimidating task, and teaching someone to make a bet is an equally challenging job. To develop new Initiators, tracks should engage in tactics such as simplified wagering forms (to accompany traditional forms for experienced bettors), and designating tellers for new-to-moderate players.

To develop new Initiators, the Industry should encourage programs to support the mentoring process. This is especially important as the majority of horse racing customers are not introducing new customers to the racetrack.

Enhancing the family experience is a key strategy for the horse racing industry.

Racetracks have historically been welcoming to families – especially in rural and suburban areas where entertainment options are more limited than in urban centres. About 60 per cent of customers attend their first race with a family member.

The industry can take a number of steps to enhance the family experience at the track– a key element in growing the sport’s popularity across various age segments:

- While many tracks occasionally host family days, research indicates this may be counterproductive and that a more permanent solution is required. Tracks should seriously consider creating separate sections at the track that cater to the needs of core players, new players and families.
- Live racing allows families the chance to access the horses and see the animals up close. Family promotions should leverage this unique opportunity and focus on horses and agriculture, pony rides, paddock tours, and/or interaction with the animals. Such promotions open up opportunities to further promote the sport in urban areas at events like the Royal Winter Fair and the CNE, or visits to racetrack paddocks.

Teletheatre and Internet customers are introduced to the sport through live racing.

The use of teletheatres (off-track betting locations operated by racetracks and licensed by the Ontario Racing Commission) and Internet betting channels are not – on their own – the single most effective way to attract new customers to live horse racing. These channels can serve as a tool to augment customer frequency and convenience. Encouraging more first-time customers to attend a live race is the best way to build the customer base for off-track wagering.

Horse racing customers have different motivations than slots players.

Slots players and horse racing consumers are distinct from each other. Horse racing customers value the challenge of picking a winning horse and the environment of the track, whereas slot players value the escapism that gaming offers.

Improving the atmosphere at the track is an important component in attracting and retaining customers.

Several other tactics that can improve the atmosphere at the track include:

- *Make horse racing more than just gambling.* Losing money on a first visit to the track negatively impacts one's experience. This suggests that – especially for adult first-time customers – the horse racing experience should be about much more than gambling.
- *Horses themselves are key actors in the process of creating new customers.* Proximity to the animals is an important aspect of what makes horse racing unique. Tracks should design viewing areas to be as close to the track as possible. When these areas are available, patrons should be encouraged to utilize them.
- *The industry should deploy an integrated public relations strategy to promote and celebrate new champions of the sport as a means to generate excitement among potential customers.* Survey respondents knew the names of Northern Dancer and Secretariat, but were not able to identify contemporary horse champions. Increased celebrities could assist horse racing in remaining top of mind for the infrequent fan.
- *In today's marketplace, there is greater competition for the sports and entertainment dollar than ever before.* Track venues must meet high standards in order to attract and maintain loyal customers.

2) Inter-jurisdictional Survey

PRIMARY FINDINGS

The industry is changing its business models and building new capabilities to drive new or improved revenues (e.g. TV signal revenues, mobile technology) and to attract new customers.

A key strategy being used in other jurisdictions is greater central promotion and coordination among horse racing stakeholders. The mechanisms of this coordination vary, from the establishment of a new central agency (Great British Racing) to the setting of policy frameworks in which new initiatives are devised and implemented (Ireland and Victoria, Australia). In France and Hong Kong, there has been increased investment to improve their internet and mobile technology.

Some countries have much more success than others in increasing their fan base.

Sales of exotic pool bets, as seen in France and Sweden, have been particularly successful in increasing betting handle or total dollars bet. Establishing new types of bets, while challenging, is being tried by several countries. Some tracks have reversed the decline in attendance through more intense customer relationship management (CRM) and social media strategies, while others use non-horse racing entertainment to broaden their fan base.

Focusing on premium assets such as top race days and festivals is a widely used strategy.

An effective strategy being deployed by the industry in many countries is to focus on and promote top race days and special events among the general public and media. Notable examples include the British Champions Series and recently created Irish Champions Weekend. There is also a clear focus on “meets” or “festivals” where attention and revenue is focused around a few key events.

While the four countries reviewed in detail all have some type of public support, the means vary considerably.

In Ireland, the government provides direct financial support through the Horse and Greyhound Fund. The French government uses regulation to protect the Paris Mutuel Urbain’s (PMU) monopoly on racing betting, which generates over CDN \$1.2 billion in tax revenue per year. In Australia, new legislation was introduced to prevent the migration of horse race betting revenues to private betting firms outside of national boundaries, while still generating revenue for the racing industry. Finally, the UK uses existing legislation to support racing. This is the most limited form of support observed, as it is restricted to a now-outdated statutory levy on profits of British betting operators from British Racing. Betting taxes paid to government actually exceed levy amounts paid to the racing industry.

There were instances where public support for horse racing diverged from public control/management. The Italian racing industry, currently controlled by the government’s agricultural department, has experienced significant financial difficulties and contracted substantially in recent years.

The decline of traditional betting and concurrent migration to online betting is driving the regulatory strategy in in most countries surveyed.

Strategies include attempting to capture some of the online betting through new legislation (Australia), lobbying for new legislation (UK, Ireland), and placing online betting at the heart of product/distribution development plans (France).

However, there are marked differences in betting product and distribution between Ontario and other jurisdictions that would preclude easy adoption of these strategies.

Product: The biggest difference between Ontario and some other jurisdictions is fixed odds betting on horse races (Ontario has only pari-mutuel betting). Fixed odds betting is the primary vehicle in the UK and Ireland, accounting for well over 90 per cent of bets. Australia has another betting product, ‘Favourite Numbers’, which is essentially a lottery-type ticket that still provides an interest in horse racing.

Distribution: In most markets studied, distribution channels were more diverse than Ontario’s. In Sweden, V75 is the top-selling lottery product, and can be purchased in grocery stores and other non-track locations. In the UK and Australia, the distribution system is more dense with more competition among betting agencies.

Another difference between Ontario and other jurisdictions is that the *Criminal Code of Canada* does not permit provincial gaming agencies such as OLG to conduct and manage pari-mutuel betting on horse racing. As well, the *Criminal Code of Canada* does not permit single-event wagering for fixed odds (e.g. single-sport betting).

Non-wagering income is an important source of income for race tracks.

Reflecting the finding above regarding a focus on premium assets, it was found that a large proportion of non-wagering racetrack revenues were from a small number of well-established, high-quality and

high-profile race days and festivals – especially in the UK, Ireland and Australia, as well at several successful US tracks. A mix of offerings were observed at such events, including some where the racing is just one element of entertainment along with music, fashion and other prominent activities.

Due to the horse racing industry structure in the UK, the industry there receives a much smaller proportion of total income from wagering – about a third of its total revenue when all betting-related elements are included. Race day income (i.e. income from admissions, programs, food & beverage, etc.) accounted for more than 50 per cent of total revenue to the UK industry. The industry also actively seeks sponsorship revenues to drive additional income sources.

The study observed that the diversity of racing industry revenues generally decreases as the level of public support increases. French racing has the least diverse revenues, with approximately 90 per cent from betting income from the PMU.

The study found only limited examples of integration between lottery/casinos and horse racing globally.

- In Europe, there is little or no connection. In France, the PMU (a government entity) has a monopoly on horse racing betting and also accepts sports bets on other products.
- Many of the jurisdictions in the United States have slot purse support programs.
- In Hong Kong, the Jockey Club controls significant activities for both horse and non-horse wagering.
- In Australia, recent legislation has created more separation between racing and casinos.

Internationalization

Australia is pursuing an internationalization approach, extending marketing to other jurisdictions and co-mingling betting pools. Sweden's successful V75 is bet on in a number of countries, and building international betting revenue is a priority for the PMU in France. This helps to increase pools, which brings added attention and betting.