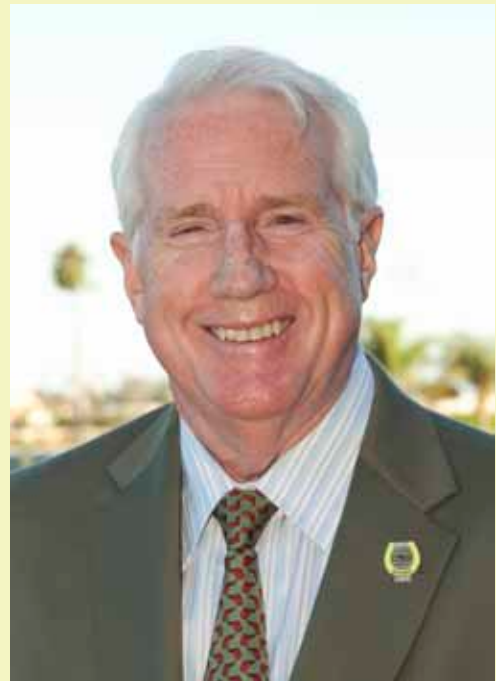




# Pricing the Future

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Just why is it that our sport, which is dependent upon the objectivity and precision of the photo-finish camera, seems not only to tolerate but to stimulate the most exaggerated, unclear, and irresponsible talking and thinking imaginable?

There are a few choice, provocative, and impolite words I could use to describe that fuzzy talking and thinking, but I'll refrain. One has a certain bovine tinge. I have always preferred equines, myself.

Before I get any deeper into this metaphor, I'll just introduce a fundamental topic that's been on our minds in California lately: prices and pricing.

The whole racing world knows that takeout on two-legged exotic bets has been raised in California as of January 1 by two percentage points from what it was previously, and on three-or-more-legged exotics by three points. That makes the takeout on those bets now 22.68% and 23.68% respectively – increases of 9.7% and 14.5%, from the previous takeout on both types of exotics, which was 20.68%. (“Only” two and three points more in the takeout, we are relentlessly reminded as by our grammar school arithmetic teachers, are really a lot more.)

These were literally overnight price increases – which is to say that the takeout was at the lower level on December 31, and suddenly the higher levels on January 1. A great hue and cry went up in anticipation of these price increases when the legislation mandating them was enacted in September, and an even louder wailing has been reverberating in racing's house since New Year's Day. The fact that higher purses are the intended recipient of the funding from the price increases has not appeared to mollify those who object, even though higher purses should (theoretically, at least) result in better field sizes than we would otherwise be seeing, and therefore improved wagering opportunities. In short, better quality justifies a higher price. Anywhere. In anything. Or so it is said.

Who is objecting? Some of our customers, that's who. Quite probably many of them. Racing fans who live in California and like California racing, and those who may live outside California but like to bet on our racing and don't like the higher takeout.

About the only good thing I can see in this controversy is that a bright light is now shining on a subject that has bothered me for nearly forty years. Bets on the races are still priced as though we are in the Stone Age. Everywhere, not just in California.



Name me one other product category (or any brand) that has its essential offering priced according to immutable law, regardless of market forces, and has that simplistic price enforced by a regulator. I suppose there still are other such regulated industries out there somewhere, besides racing, that you might name – but I don't know what they are. If they exist, they're probably in the same trouble that racing is. As Milton Friedman, the Nobel Laureate economist, once said, "Any price the government sets is wrong." Or, more famously, "If you put the government in charge of the Sahara Desert, in five years there would be a shortage of sand."

Where did "takeout" even come from? It is a creature of state government regulation over pari-mutuel betting, of course, dating in almost all American states back to The Great Depression. After all, contemporary racing in the United States was widely enabled and regulated as a stimulus to the agricultural and greater economy in the 1930s, particularly in California. Probably because of the primitive calculators and totalizers of the time, straight, place, and show bets all had the same takeout for ease in figuring prices. When exotic bets were introduced – hard to fathom now how popular the Daily Double once was, and that it is now "exotic" in name only! – the takeout for such bets could be higher because of the higher expected payoffs.

Since the gaming market in those days was local or regional, and competition mostly illegal or across some border and therefore extremely inconvenient (to put it politely), machine guns and alligator-filled moats couldn't keep the customers away. We used to say.

This competitive situation was changing forty and even fifty years ago in most places, and ever more rapidly since then. But as Professor Friedman would have predicted, governments could not and did not respond fast enough; managements and horsemen have likewise appeared to be paralyzed in their reactions to market forces. Governments are not markets! And it's all so understandable: people in racing had little if any experience in truly competitive markets, and therefore no practice in responding to real market forces. Those of us who were advocating enormous changes in our business model and pricing structures decades ago, as well as research and development to combat competition from other forms of gaming, were often laughed out of the room. Or worse. Anyone in management who didn't really love horses or the sport is long since gone, shaking his or her head.

So, what to do? Embrace the possibility of truly flexible takeout . . . which is to say modern, competitive pricing applied to betting on the races. Only a Neanderthal thinks everyone should pay the same price for something no matter how much of it they buy, whenever they buy it, and whatever the quality is! (And those are only a few pricing criteria.)

First, recognize the problem for what it is – fundamental. Second, brainstorm and explore the theoretical and practical opportunities (given the present need of enabling legislation) for flexible takeout. Third, recognize the impact of local, regional, national, and international competition for the gaming, sports, and entertainment dollar, and then use a sophisticated understanding of it to unsparingly inform all potential pricing scenarios.

Let's stop yelling at each other, and get together to improve our pricing in a collegial fashion. We just might be able to fix the problem if we stop wasting our time fixing the blame. The entrepreneurs originally responsible for the concept of takeout as it is still largely imposed upon our sport and our markets have been laughing at us from their clouds for quite some time now. 