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A Perspective on Racing – As I See It

Speaker:
Dana Parham; Owner, Odds on Racing, International Software Services

Mr. Doug Reed: Today we would like to introduce something new, we like to change things up all the time, and this year we are trying something different. To start things off this year, this will be first of three perspectives on racing each morning. It's kind of a new twist, to hear different points of view from different stakeholders in the industry.

Our first speaker is Dana Parham. He is an entrepreneur, an owner, a breeder and a wagering customer. I look forward to starting each day of this conference with a new message, so please welcome Dana.

(Applause)

MR. DANA PARHAM: Good Morning. Before we get started, first I would like to thank Doug Reed, thank you very much.

(Applause)

MR. PARHAM: Thanks to the University of Arizona, for having us here, and are there any students in the audience present? If you are would you please stand up? Any students? Well, they certainly are our future and I wanted to recognize them as such. I would also like to thank everyone for attending and I am truly honored to be here for the opportunity to give my views on racing. I've prepared a folder, which I'll show, if there is not enough to go around, someone can get with me and I'll be happy to mail you one. Anyway, they are right up here and I encourage anyone to take a folder, it has a lot of information on it on at least my viewpoints on our industry.

I would first like to start off by talking about McDonald's, which happens to be a Dow 30 company. Back in November of 1999, McDonald's was above $48 a share. In March of 2003, McDonald's stock hit a low of $12 a share. What happened? Every quarter they had excuse after excuse why they could not meet their expectations, and this was reflected in their stock price. The general market was in a downturn but Wendy's stock had appreciated 20 percent during this same time. Currency exchange rates were unfavorable, but this had not affected most multinationals. A few years ago McDonald's spent $5 million on a study to get customer feedback. What they learned was that they had forgotten how to treat the customer. They had stopped saying words like "welcome," "thank you," "please come again soon." In short, they had forgotten to be friendly and courteous. Since March of 2003, McDonald's has improved their customer service, their product, and their stock has risen from $12 a share to $60 a share. What McDonald's did was recognize what you need to do and then do it. That is the essence of high performance.

I use the McDonald's story to make this point. McDonald's had all these excuses why they could not meet expectations, when they stopped making excuses and took a close look at themselves, they exceeded expectations.

Our industry needs to do the same. Take a hard look at ourselves, recognize what we need to do, then do it; that is the essence of high performance.

Next I would like to talk about the New York Stock Exchange and what I believe is an industry with many parallels to our industry. I've included in the folder that I've prepared a paper called, "Reflections on a Lifetime in the Securities Industry." It's written by William C. Freund, PhD. Dr. Freund joined the Stock Exchange in 1968 as a senior vice president and chief economist. He spent 20 years at the Exchange and witnessed many dramatic changes that have helped to make the Exchange what it is today.

Also in 1968, the government began questioning the entire concept of fixed commissions, questioning the anti-competitive effect of the New York Stock Exchange's fixed commission rates, and asked the Securities Exchange Commission to investigate whether fixed rates were justified. A Federal Court of Appeals ruled in 1970 that the New York Stock Exchange was required to justify its prohibition on commission rebates. When it came to adapting rules that would allow for the rates to be set competitively in the marketplace, Dr. Freund cited, and I'll quote, "the New York Stock Exchange's members failed to understand the immense power of competition in that they could no longer stem the powerful tide of competition. In the end good economics has a way of prevailing over artificial price fixing."

By 1975, after extensive hearings, the FCC declared rates open to competition. The argument made by those opposed to competitive pricing was that it was an industry with such heavy fixed costs that competition would lead to destructive competition, leaving only a few monopolistic survivors. These are the same types of arguments we are hearing in our industry today. According to Dr. Freund, the New York Stock Exchange spent over a million dollars on their economic consultants, a fee they earned by delaying fully competitive rates for nearly seven years. But before the battle was lost, the clear-thinking president of the New York Stock Exchange, Bob Haack, had had enough. Here was the president of the New York Stock Exchange attacking the fixed rates as an outdated anomaly that could not continue because it was not in the best long run interests of the securities industry itself. His explanation that the industry would benefit from competitive rates was vindicated by subsequent events. New competitive opportunities arose from markets and firms as a result of this competition. The industry discovered new ways to enhance productivity by automating processes, streamlining the clearing and settlements of security transactions and generally reducing unit costs. New competitive ideas proliferated.

Let’s take a look at the history of the New York Stock Exchange. The New York Stock Exchange increased its non-member commission rates five times between 1934 and 1965. I feel that this is similar to what we are seeing today in our industry as track fees continue to escalate. In 1975 the New York Stock Exchange began changing the way they did business and fixed commissions were abolished. Since then, they have experienced spectacular growth and volume which would be equivalent to what we call handle. Over the past 40 years, the New York Stock Exchange has made many changes to create a better trading experience and to bring the price of trading down. Some of the changes they made in addition to abolishing fixed commissions rates were the major modernization of the trading floor, introduction of electronic trading, trading in sixteenths, and as we see today, trading in decimal pricing.

Let’s take a look at the growth that these changes created. In 1961, average daily volume exceeded four million shares. In 1982, they had their first 100 million share day. In 1992, average daily volume surpasses 200 million shares. In 1997, volume tops one billion shares. In 2001, volume tops two billion shares. And in 2007, they had a record volume day, over 4.1 billion shares.

Even with this phenomenal success that the New York Stock Exchange has enjoyed, they missed an even bigger opportunity that was virtually handed to them. One day a Wall Street reporter presented the idea that options should be standardized and traded like stocks. At the time, the New York Stock Exchange had a short-sighted and conservative individual at the helm, a poor leader who rejected the idea, equating it to turning the New York Stock Exchange into a Las Vegas-style gambling casino. He even went so far as to forbid the research department from studying the idea. The idea was, however, adopted by the Chicago Board of Trade soon after. The result was that options trading on the Chicago Board of Trade reached the point where it exceeded the volume of the New York Stock Exchange. The New York Stock Exchange later realized their mistake but it was too late. The Chicago Board of Trade already had the liquidity and best prices as determined by competition. The New York Stock Exchange missed the boat because the chairman lacked vision.

One area where racing may be missing the boat is betting exchanges. Unlike the New York Stock Exchange, it still may not be too late. I have been a horse racing fan for over 35 years and I am involved in many capacities, as a racehorse owner, farm owner, breeder and player. Being passionate about racing, I can’t help but feel a growing anxiety about the state of racing today and the challenges it continues to face. As I see it, horse racing today is a complex industry which is arguably in disarray. Our industry is uniquely complex and diverse. Our industry consists of many segments, racetracks, OTBs, tote companies, breeders, owners, jockeys, trainers, drivers, regulators and certainly last, bettors. All of whose interests are often misaligned, not to mention the fierce competition between states attempting to increase their share in the horse racing and slot machine market. Legislatures are juggling the interests of racing against other interests, and the public, which have varying levels of interests and opinions regarding horse racing.

The main point I would like to make this morning concerns what I see as the key challenge facing our industry and that is, in this new online world, horse racing is increasingly forced to face direct competition from other forms of gambling which from a wagering perspective, provide a better deal for the player. A larger and…….**Other terms, concepts and keywords contained in the balance of this transcript are:** entertainment business, entertainment experience, betting market, financial markets, betting exchanges, trading instruments, leadership, High Volume Customers, Drugs, drug testing laboratory, withholding taxes, revenues, rebates, batch wagering, SPMO…….If you desire a full transcript contact bprewitt@ag.arizona.edu