

**DATABASE MARKETING: HOW IT HAS HELPED OTHER  
SPORTS AND HOW IT CAN HELP HARNESS RACING**

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**Mr. Sugar**: At Smart Button, we do a lot of the player tracking, fan loyalty systems in the horseracing industry. The Meadowlands is a great customer. The Meadows in Pennsylvania is a great customer. We have almost half the industry with Churchill Downs, The Fair Grounds, our friends from the Ontario Jockey Club, Northlands, and quite a few others up and down the East Coast and throughout the country. We also do systems for quite a few other teams in other sports— the NHL, Major League Soccer, Major League Baseball, and a couple of other customers. What I'm planning to talk about today is what we can learn and what we see from other sports—how they manage and use their fan information, what they do with it and how they do it. We have an intimate knowledge of how other sports work and a very intimate knowledge, as we have a lot of experience, in the racing industry. So I'll explain some of the similarities and some of the differences.

I have to admit that I probably have the least experience of horseracing in the room. Even though I live within a mile of Delaware Park, I hadn't visited there until I joined Smart Button about two years ago. I am purely from the software industry. I can't claim to be an expert on the horseracing market place but I've learned quite a bit over the last couple years and we've learned quite a bit from other sports as well.

That brings me to the next topic, which is horseracing in general. Is it gambling or is it a sport? I listened to some comments from Churchill Downs yesterday regarding whether or not we should view this as a sport or gambling and I think the answer is that it's both. If you look at other sports, they view horseracing as a sport. I spoke at the National Sports Forum in Houston with Mark Midland from Churchill Downs and Howard Nuchow from Mandalay Sports. Mandalay Sports owns the New Jersey Nets and the New Jersey Devils. They're an entertainment property as well. One of their more infamous properties is the "Girls Gone Wild" videos. They certainly do a lot of marketing and we've learned a lot from them as well.

I view horseracing as a unique opportunity. One of the reasons horseracing has been so successful using fan database systems is because horseracing is

a sport as well as gambling. That's a big opportunity and I think people miss that sometimes here. Can you imagine if you can bet the trifecta on NASCAR—who comes in one, two and three—how big of a marketplace that would be. You can in horseracing and it is exciting.

What are fan databases, CRM loyalty systems? There are a lot of terms that are used. CRM is a three-letter acronym, which all the different computer-consulting companies like to use. CRM means customer relationship management systems. Basically they are about collecting information about your customers. Not only from one particular source but multiple sources. In horseracing it's simple, from the tote system, the food and beverage system and for people who have slot machines, the slot machine systems, to get a unified fan profile. That's the goal. To be able to collect all the information, all the touch points, where your fan might reach you—whether that's over the Internet, calling in by the phone, wherever. That's the key. Having one small picture of your fan—sending out a mailing list, that's a mailing database—and then trying to figure out the results of that. That's just a very small piece. What customer relationship management systems, what fan databases and fan loyalty systems really are is trying to understand each and every one of the touch-points that your fan interacts with you. A

lot of us, and a lot of sports companies, see themselves as very vertical operations. You have admissions as one department. You have ticketing as another department. In horseracing, you have slot machines, food and beverage, pari-mutuel activities. So people in teams and organizations look at that vertically. Fans view your organization horizontally. They don't really discern what was my experience when I came in? What was my experience with valet parking? What was my experience coming through the turnstile? What was my experience buying food? What was my experience when I placed a wager? What was my experience as far as looking at the facilities? They're looking at your organization as a grouping of those things. One of the things that people began realizing is that I need to sit there and look at my interaction with my fans across that horizontal, not across just the vertical departments that I, as a company, have set up but across the horizontal experience, which fans understand. Because if a fan gets a disjointed or conflicting views across those verticals, a confused buyer always says no and will never come back. Brand marketing 101. So I think people are starting to look at CRM fan database systems to understand their interactions with the fans across the entire experience that the fan has.

In the sports and entertainment business, CRM systems are a little bit different than the traditional CRM system. A traditional CRM system would be at some consumer marketing company where you call up, speak to a customer and say, “My customer support, my sales staff, my operations staff can all view this same picture of the customer.” The difference is that you’re reaching out to each of those customers. Someone like a Proctor and Gamble will use a CRM system to understand their relationships with Costco stores, but they have sales reps calling on those Costco stores, they have customer service reps understanding the product returns and they have operational people shipping out product.

We don’t have that in the sports and entertainment industry. Typically people use some sort of points or rewards systems to entice fans to provide their information to you, and you should post what you’re doing with that information and why up in three-foot letters on a wall somewhere. If you think you’re being secretive about it and trying to collect it in some way that the fan doesn’t understand, eventually that system will fail. That’s one of the things that we’re very cautious about and explain to people that look part of what you’re doing is basically trading value. And that value doesn’t

necessarily have to be rebates or anything like that. That value can be access. That value can be prestige.

There are some great examples with different sports. One of our customers Major League Soccer, DC United, does a great job and they say, “We’re not going to give away free sodas or anything in the stadium. What we’re going to do is if you’re a fan and part of our fan loyalty system you’re entered into a contest where one of our soccer players is going to come to your son or daughter’s soccer practice for an hour or two hours.” For people who enjoy major league soccer, that is a huge benefit. That’s not a cost to DC United but that’s a huge reward to people who actually have one of the soccer stars come out to their son or daughter’s soccer practice and teach them some of the basics. That’s what drives people to be a part of their fan loyalty system.

I’ll give you a little bit of background on sports teams and what has driven them toward CRM or fan loyalty and fan database systems. Up until recently— and there are a lot of similarities with horseracing— teams had the concept, “Build it and they will come.” We will build a product and we don’t need to market it. The marketing is the product; the product is the

marketing. If I can get one more superstar on my payroll it'll bring more people to my facility. People are starting to realize that's changing.

Teams hadn't focused much on operations because there was huge capital appreciation. An example is our hometown and one of the teams we work with, the Philadelphia Eagles. Look at Jeffrey Lurie. He bought the Eagles four years ago for \$100 million, a little more. Now it's said that the Eagles are worth \$700 or \$800 million. The economics of major league sports up to now has really been one of capital appreciation. As an owner, you're not as worried about operations as you are on what your capital franchise is going to sell for. All of those really have changed. In the last two years, people are realizing that capital appreciation is probably peaked out at this point.

Though there are still some huge valuations, like the Boston Red Sox happening, in general investment bankers view those as anomalies that prove the market place has hit the top, like some of the Internet bubble stocks.

Those dynamics are changing, therefore a lot of these teams have started to do sports databases and sports marketing databases.

I'm going to give you a couple of examples, which are relevant to your area. Sports teams in general are much more consumer product oriented—how

they view their database as compared to horseracing, and how we see their needs, requests and uses for our system, versus horseracing. They tend to be much more oriented as a consumer product company, like a Proctor and Gamble, where they're really worried about fan demographics first, revenue generation second. In horseracing, by necessity, the initial look is at revenue generation. People use systems to say, "Look, I have a particular customer. How can I drive that customer to come more often and spend more when they come?" In sports the first driver is what is my customer base and what are the demographics of my customer base and what do they look like and how do they behave. That tends to be most important.

In college athletics—we do George Mason for instance—George Mason uses database systems. They have a great basketball team, great attendance for their men's basketball. In most colleges, men's basketball and men's football drive their business, and college athletics is a giant business.

College athletics use our databases to ask, "Ok, I have these people who come to men's basketball and football but how can I drive them to women's basketball. How can I drive them to volleyball? How can I drive them to my alternative sports? Let me collect a database where I'm filling the stadium, for men's basketball."

You can't buy tickets, that's just the way it is—the same with football. If you go to Ohio State and want to sit anywhere near the 50-yard line, you have to buy a ticket to win the privilege to buy that ticket. You need to be donating huge amounts of money to their alumni organization. You need to be in their platinum club, minimum, to get there and if you not in their platinum club you're quickly moving from the 50 to the end zone. That's just the way it is. But they're using that information, they're using that fan database to say “How can I get those people to come to those other sports because those other sports can also drive sponsorship revenue.” That's going to be a theme you're going to hear because sports and college athletics really use sponsorships to drive millions of dollars of revenue.

The NFL is probably the purest example of looking at demographic information. As you well know, buying an NFL ticket is pretty tough. But the Buffalo Bills, for example, look at their demographics and how they are changing year to year. That's important to them because they want to understand the trends before the trends change enough that they're going to be in trouble. From the NFL's perspective, people use fan database to understand their demographics. Are the demographics from women to men

changing? Are the demographic age groups changing? Are the demographics on who is coming and from what zip codes are they coming, changing?

The NBA typically uses fan databases for a lot of big game type promotions. The NBA doesn't always fill up but the NBA wants to make sure that, if Michael Jordan comes to town, they get the word out to those people and those people buy tickets. The NHL tends to use databases quite a bit to drive corporate attendance. Racing hasn't done a great job on having huge corporate kind of sponsorships, corporate events, where a large corporation might buy hundreds of thousands of dollars worth of product—and this is all product—to provide to their employees and use that. The NHL wants to understand what employees are coming. Have they come from this corporation, do they come again? Do they come and buy a multi-pack? This is quite a bit of information that is used in the NHL.

Major League Baseball has had their problems. Major League Baseball tends to use their fan information to get fans from single ticket purchases to upgrade to multi-packs or season ticket packs. We've seen Major League

Baseball, and Minor League Baseball especially, trying to get people to come more often.

In NASCAR, Nazareth Raceway for example uses their large events, such as a NASCAR race, to collect fan information to try and drive revenue to their secondary races—their Busch series, their Craftsman Truck series—to be able to fill the seats for those.

The one unique thing that any sport has, and this includes horseracing, is that it's an entirely different business where a fan, where a database, where a customer database is critical. There are no other opportunities where the gross margin on revenue is 100 percent and usually exceeds 100 percent. Think about it. If you are in your local grocery market, they have a frequent buyer card that they give you. They're making three to five percent on that purchase. When you spend \$50, they might be making \$1.50 or \$2 on your purchase.

It's completely different in sports and entertainment and that's why fan databases are growing in popularity. If you buy a \$95 Philadelphia Flyers tickets, the Philadelphia Flyers not only get the \$95 that that seat represents,

they get a cut on parking, they get a cut on concessions. It is a huge driving revenue. There's no other industry that I can think of where one dollar of incremental revenue brings \$1.10 in gross margin. It's unheard of and it's why sports and entertainment in general really need to use databases.

You can start to spend a lot of money on promotions and teams do. You spend a million dollars, but can drive two million dollars of incremental revenue to your business—that's an absolute no-brainer. For instance, Mandalay Sports tries for a four to one ratio. They spend roughly \$3 million a year on promotions on their teams, the New Jersey Nets and New Jersey Devils, to try to drive \$12 million dollars of revenue. They send out mailings and offers of tremendously valuable enticements to have fans come and come more often.

That's something that the racing industry does. The biggest difference in addition to the demographics, between horseracing and other sports in general, is in sponsorships. Horseracing could sell quite a few more sponsorships than they do. You have very minor college programs. I'll use the University of Delaware as an example. Probably no one here has heard of the University of Delaware or can name their mascot—it's the Blue

Hens—yet the University of Delaware drives \$6 million a year in sponsorship revenue. If you can show demographic information, you can drive this information. I'll tell you how George Mason drives it. They pull out that information, go to a sponsor like a Cingular or Verizon and say, "Look, here are my demographics of someone who comes to the game. They're between 25 and 50 and they have "x" amount of disposable income." Not only that, they'll do questionnaires to find out what type of cell phones the fans have. Do they have a cell phone? Have they thought about changing? The answer is yes, they have a cell phone and they thought about changing. So George Mason will go out to Cingular Wireless and say, "You know, 50 percent of our people have Verizon but they've thought about changing and wouldn't it be good for you guys to spend a half million with us during our games to advertise. Wouldn't it be great to put signs out on our stadium." And they sell that for large six or small seven-figure numbers, and that's a small division school—nothing like Penn State or Ohio State.

That's one of the big differences that I see between sports and racing, and I do see that racing has a lot of strengths. When we went to the National Sports Forum they had a lot of question for Mark Midland from Churchill

Downs because people do see the strength in racing, which is the hosting aspect—really treating customers well. Thank you for your time.