

# **Report on the 2006 ARF Japanese Racing Study Tour**

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## **Background / Participants and Structure of the Program**

Each year in early June the Japan Association for International Racing (JAIR) and the Japan Racing Association (JRA) invite members of the Asian Racing Federation to participate in a general study program which aims to showcase the Japanese Racing Industry as well as build friendships and working relationships between member associations.

In 2006 I was selected as the Australian representative on this program. In all there were 12 participants on the program with a variety of backgrounds in their respective racing industries including vets, track managers, handicappers, wagering specialists, club secretaries and stewards.

The following countries were represented:

Australia	New Zealand
Hong Kong	Oman
India	Singapore
Korea	South Africa
Malaysia	Trinidad & Tobago



2006 ARF study tour participants

### **Outline of the Program**

The 10 day program began in Tokyo with two days of lectures presented by JAIR and JRA officials on the structure of the Japanese racing industry.

The tour then moved out into the field so to speak with visits to key infrastructure including the centre for totalizator operations, the production studio for the satellite TV racing channel (green channel) and one of the flagship “WINS” offcourse betting facilities at Shiodome in central Tokyo.

One of the highlights of the trip was our day at the Tokyo racecourse to watch the running of the Yasuda Kinen (G1) which is part of the Asian Mile Challenge.

The following morning we flew to the northern island of Japan, Hokkaido to view the major thoroughbred breeding area in the country. During our two days in Hokkaido we

visited some of the major stallion stations and breeding farms including Shadai, Shizunai and Shimokobe. We also inspected the impressive facilities of the JRA Hidaka Yearling Training farm.

The trip then returned to the main island of Honshu moving north to Chiba province. It was here that we saw more JRA facilities including the Horse Racing School and the Miho Training centre.

The finale of our trip was returning to Tokyo to experience night racing at Ooi Racecourse which is conducted by local government (NAR) as opposed to the JRA.

### **Japanese Racing Industry Structure**

A key point to understanding the structure of racing in Japan is that gambling is essentially illegal, however special laws have been enacted to allow pari mutual wagering on a select group of sports. They are limited to horse racing, motorboat racing, bicycle racing, soccer pools, motorcycle racing and lotteries. As a result, horse racing in Japan is heavily regulated by the government. The government seems to be in a sort of conundrum, on one hand they earn substantial revenue from wagering and as a result it is in their interests to promote wagering, while on the other gambling is seen in many corners of Japanese society as an evil and as such the government is charged with the responsibility of ensuring that it does not create social problems.

A number of restrictions have been placed on racing to ensure that wagering does not create social problems in society. These include limiting the number of race days that can be conducted in a year as well as limiting racing to weekends and public holidays.

Horse Racing in Japan falls into two distinct jurisdictions.

**JRA (Japan Racing Association)** is the national association which conducts racing on behalf on the national government.

**NAR (National Association of Racing)** racing is conducted on behalf of regional or local governments.

This report will primarily focus on JRA racing.

Apart from the breeding industry, the JRA has monopoly power in all aspects of the racing industry in Japan. They perform the roles of the owners of racing, the operators of racing and the wagering operator. This is in stark contrast to the Australian industry where there are multiple peak racing authorities (owners of racing) hundreds of racing clubs (operators of racing) and multiple wagering operators in both the pari mutual and bookmaking sectors.

High on the list of charter for the JRA is ensuring that the general public or racing fans are provided with “impartial and fair racing”. Integrity is of paramount importance as is highlighted by the following idiosyncrasies:

- JRA employees are banned for betting on any races conducted by the JRA.
- Trainers, stablehands and JRA employees are unable to own racehorses.
- All jockeys competing in JRA races on the weekends are “locked down” from the Friday evening and are denied all contact with the public and the press until after the raceday is completed.
- All horses competing in a JRA race must have been physically trained out of one of the JRA’s two training centres for a period of at least 15 days prior to the race.
- Horses are floated to the races on JRA buses with a maximum of four horses per bus to ensure that the horses travel in comfort and arrive at the racecourse in good condition.

### **JRA key stats comparison with Australia**

	<b>JRA</b>	<b>Australia</b>
Race Meetings	288	2,754
Racecourses	10	364
Total Turnover	\$35.6 billion	\$11.7 billion
Prizemoney	\$1.0 billion	\$387 million
Starters	47,937	196,683
Government Revenue	\$3.6 billion	\$2.0 billion
Racing Industry Revenue	\$5.3 billion	\$600 million
Daily Attendance Record	196,517	122,736
Daily Turnover Record	\$1.3 billion	\$300 million

### **NAR key stats comparison with Australia**

	<b>NAR</b>	<b>Australia</b>
Race Meetings	1,520	2,754
Racecourses	22	364
Total Turnover	\$4.5 billion	\$11.7 billion
Prizemoney	\$225 million	\$387 million
Starters	165,250	196,683

### **Racing**

JRA racing is conducted on Saturdays, Sundays and Public holidays only. On any one day there can be up to three JRA meetings held nationally.

Racing is conducted on both dirt and turf tracks. Generally a race meeting has a mix of dirt and turf racing. There is no discernable difference in the turnover between dirt and turf races. Annually there is a 50/50 split of turf and dirt JRA races.

The maximum number of races that can be held at one meeting is 12. The standard procedure is to program the meeting’s feature races at the end of the program.

Last year the average field size in JRA races was 14 starters.

## Racecourse Facilities

The fact that the JRA are the operators of all racecourses ensures consistency between facilities. JRA recognises that they are competing in the leisure / entertainment industry and are attempting to make the races an attractive day out. In particular, there has been a recent focus on attracting women and families, which traditionally have been poorly represented oncourse. There is also a noticeable effort to ensure that horse racing is seen as a sport rather than just gambling.

The public has access to a variety of activities within the course. At Tokyo racecourse the infield area resembles a fair ground with children's play areas and large lawns and gardens which are ideal for family picnics. Equestrian centres are located at all JRA racecourses where the public can go and try horse riding on race days.



Main grand stand Tokyo racecourse



Infield area at the Tokyo racecourse

The customer has excellent choice in catering and dining facilities on course with a wide variety of eating options available for all budgets. The JRA makes no profit from catering / dining facilities. These services are all tendered to local businesses.

There are no members facilities at JRA racecourses. Entry to the racecourse is usually a very nominal fee. It was just ¥200 or about \$2.50 to get into Tokyo racecourse on the feature Yasuda Kinen raceday.

In Australia many racecourses rely heavily on the opportunity to interact with horses on raceday to attract customers oncourse. The public are free to roam through the stabling area and get close to the stars of the turf either on the track or in the mounting yard. The situation in Japan is very different. The public can not access the stabling area. In fact they only place they can really view the horses is in the paddock (mounting yard). At Tokyo racecourse the horses proceed from the stabling area to the paddock via an underground tunnel which is hundreds of meters long. They reach the track via another underground tunnel to emerge on the inside of the track. Rather than coming back to scale after the race via the winning post horses again exit via an underground tunnel.

Initially I hypothesised that this lack of interaction between racing fans and the horses on raceday would limit the average racing fan's connection to the horse although this does not appear to be the case. Japanese feel deeply connected to the horse as is evidenced by

significant turnover and attendance spikes during eras of star racehorses and jockeys. Also it is common for the Japanese racing fans to make pilgrimages to see retired champions.



Paddock (mounting yard) at Tokyo racecourse



Finish of a dirt race at Tokyo. Turf course is on the outside while jumps course is on the inside

### Prizemoney

Total prizemoney for JRA races last season was the equivalent of \$1 billion

The prizemoney % split in Japan is as follows:

	<b>Prizemoney %</b>
Owner	80%
Trainer	10%
Jockey	5%
Head Stable Lad (Groom)	5%

It is interesting to note that a groom is a very respectable career in Japan and can also be very profitable.

In 2005 the Japanese Triple Crown winner Deep Impact was the leading money earner with the equivalent of \$8.3 million from just 7 race starts.

Interesting to note that the 20<sup>th</sup> horse on the money list earned the equivalent of \$1.7 million.

## Ownership

There is an over supply of people wanting to own racehorses in Japan. Racehorse ownership is the domain of the wealthy and as such it is considered a status symbol to be an owner. In 2005 there were just 2,381 owners of which 2018 were private owners, 329 were companies and just 34 were syndicates. In Australia syndicates are seen as one of the key methods of driving participation in racing.

This is an interesting point and highlights the fact that the Japanese racing fan is very much a spectator in the industry. In Australia people often have a connection to horses either through being an owner themselves or friends being owners. This is rare in Japan

## Training

The JRA operates two training centres. Miho located near Tokyo and Ritto located near Osaka. For a horse to be entered in a JRA race it is a requirement that they must have been trained for at least two weeks at one these JRA training centres prior to the race in question. The objective of this policy is focused on facilitating impartial and fair racing by ensuring:

- horses are at the peak of their racing condition
- horses are free from outside tampering
- horses are free of contagious diseases
- provision of concise information on the training status of horses to general public

Trainers, jockeys, track riders, stable hands and their families live on site at the training centres. Miho training centre near Tokyo has a resident population of around 5,000 people with around 2,300 horses being trained at the facility at any one time.

All horses conduct track work at the same time in the mornings under the watchful eye of trainers, handicappers, form analysts and the general public. Each horse can be readily identified by their saddle blanket which also contains a barcode to allow sectional time to be recorded at various points around the track and displayed via monitors around the track to on lookers.



Horses training at the Miho training centre



Uphill woodchip training course at Miho

Trainers are allocated stables oncourse. The average trainers will have around 20 horses in work at a training centre. Training techniques vary somewhat to Australia possibly as a result of varying drug rules. They appear to do a lot more fast work than in Australia and also swimming is not all that common. Only around 5% of horses swim at the training centre.

Concentration of training into just two centres has allowed the facilities to be first class. This is highlighted by the nature promenade which was created, complete with forest tracks, streams and a waterfall that provide the opportunity for both physical and mental relaxation of horses in training.

Another advantage of centralised training is that it has facilitated fantastic data capture on training related injuries in horses. This information is analysed and published in an effort to reduce injuries to horses.



Nature promenade training area at Miho training centre



One of the JRA horse transport vehicles

### **Horse Transport**

The JRA conducts all horse transport between the training centres and racecourses. The owner is not charged for this service.

On the day of the race meeting or the day before in cases where there is significant travel involved, horses will be transported to the racecourse on trucks owned by the JRA. In some cases the trip can be in excess of 1,500 kms taking up to 2 days (Ritto to Hokkaido). The JRA owns a fleet of around 80 horse floats which is valued at around \$40 million.

### **Breeding**

The northern island of Hokkaido is the undisputed breeding centre of Japan with over 80% of Japanese thoroughbred foals being born there.

Until recently almost all races in Japan were closed to foreign bred horses and as a result the local breeding industry thrived.

The Japanese breeding scene is dominated by small family owned businesses, which is in distinct contrast to other major racing nations where multi national conglomerate breeding operations dominate.

In recent years there has been a steady decline in both the number of breeding farms and the national foal crop. These indicators have coincided with a decline in the Japanese economy and the gradual opening up of Japanese races to foreign horses. Today there are around 1,300 breeding farms producing a foal crop of around 8,000 foals.

Hokkaido is excellent country for rearing horses during the spring, summer and fall seasons however the winter is extremely harsh. Many of the breeding farms are located close to the coast yet despite this most are covered in snow for up to 4 months of the year. It is not uncommon to have snow half a metre deep between December and March.

Breeding farms are quite often connected with a racing operation and as a result a number of the properties have their own training facilities. The winter climate has lead to many studs investing in indoor training courses which allow training to continue during the harsh Hokkaido winters.



Fuji Kiseki at Shadai Stallion Station. Indoor training track behind



800m uphill indoor training track

## Sales

The method of sale of thoroughbreds in Japan is also very different to the rest of the world. The vast majority of horses are sold as foals in private deals. Last year only 14.1% of foals were sold at public auction.

The method of private sale has its roots in Japanese business culture and is often difficult for a foreigner to understand. Breeders will produce a catalogue of their foals and distribute this among past and potential clients. If a client is interested then negotiations will begin between buyer and seller. The sale is almost always on a first come first serve basis. Price is most certainly not the dominant factor as is the case in most other countries. Once a deal has been negotiated a higher offer from a third party is unlikely to be accepted. Integrity in business is extremely important to the Japanese. If a breeder was to renege on a deal and sell to a client who subsequently made a higher offer they would lose their honour and all respect within the industry.

Upon sale the buyer pays only a portion of the full price, with the balance paid in the future which in some cases may be years down the track. Unlike in Australia, foals fetch the highest price while the price tends to decline as the horses get older presumably as the horses with the best pedigree are in the most demand as foals.

The sales figures for the limited public auction sales are provided below:

<b>Type of Sale</b>	<b>Average Price</b>	<b>Highest Price</b>
Foals	\$330 000	\$2 700 000
Yearlings	\$70 000	\$515 000
2YO	\$70 000	\$350 000

### **JRA Yearling Training Farm in Hokkaido**

JRA has invested heavily in a yearling training facility in Hokkaido. This facility was originally developed to allow research into Nutrition, exercise physiology, reproduction and pasture maintenance.

Each year the JRA purchases around 80 yearlings with the aim of conducting research on training techniques which is then shared with industry participants in an effort to improve racing performance and reduce injuries. These horses are then sold at public auctions a year later as 2YO's. While the facility's primary function is for research, it is also available to the general public with trainers being able to use the complex for a minimal fee of Y600 (\$7.5) per horse per day.

The following facilities are available at the Hidaka Yearling Training Farm:

339 Stables	700m Indoor Uphill Woodchip Course
2 Indoor Riding Arenas	1000m Indoor Woodchip Dual Course
5 Outdoor Sand Tracks (800m -1600m)	2000m Straight Turf Course
800m Indoor Oval Sand Track	2200m Open Grass Pasture Course
600m Indoor Oval Sand Track	20km Cross Country Promenade Course

In addition there is a research centre, vet clinic and accommodation for 54 people



Shizunai Stallion Station



Hidaka yearling training farm. 1km indoor straight track in background

## Wagering

As mentioned previously wagering in Japan is illegal. There are no legalised bookmakers, so essentially horse racing, together with a limited number of other sports has a monopoly over the gambling market in Japan.

Last year total JRA turnover on horse racing was \$2.9 trillion yen (\$35.6 billion) this represents around 55% of the total gambling market in Japan.

Being a relative monopoly, the take out rate on turnover is particularly high being 25% on almost all bet types. Of this 10% goes directly to the national government and 15% goes to the JRA to cover all costs associated with racing.

The JRA is dependant almost solely from revenue derived from wagering. Last year this amounted to \$5.3 billion.

As has been mentioned previously wagering is heavily regulated as is evidenced by the relatively small number of bet types available. Betting is only allowed on individual races. There is no race to race betting such as doubles or quadrellas

The split of turnover by bet type is as follows:

<b>Bet Type</b>	<b>Percentage of Japanese Turnover</b>	<b>Percentage of Australian Turnover</b>
Win	3.1%	46.6%
Place	3.3%	16.0%
Bracket Number Quinella	4.7%	-
Horse Number Quinella	21.1%	5.9%
Exacta	17.2%	3.3%
Quinella Place	4.2%	-
Trio	19.4%	-
Trifecta	27%	19.4%
Doubles	-	2.6%
Quadrella	-	2.4%
Other	-	3.8%
Total	100%	100%

It is significant that trifecta betting was only introduced in 2004 and yet within the space of 2 years it has become the most popular bet type. Win and place betting is very minor accounting for just 6.4% of total wagering. This compares with over 60% in Australia.

Wagering has shifted from being predominantly an oncourse product to now representing just 6% of total wagering which is a trend experienced in the Australian wagering market.

There are only 39 off track wagering facilities throughout Japan. These are known as "WINS" which in many cases are huge complexes covering many floors. On feature days it is not uncommon for over 300,000 people to pass through one of the major WINS

facilities. Historically these facilities have been viewed as quite seedy places, however in recent times the JRA has made a concerted effort to modernise these centres with the aim of attracting to a wider customer base. In addition they have introduced premium seating sections at a number of facilities where by customers can reserve their seat for an entire year.



Showcase "WINS" off track betting centre in Tokyo



Reserve premium seating area in "WINS" facility

The limited number of off course betting venues is a significant factor in why phone betting is extremely popular in Japan, accounting for 44% of total turnover. Last year the JRA had 2.57 million telephone betting subscribers. These subscribers are serviced by 15 telephone betting call centres throughout the country. Future expansion of wagering is very much focused on phone betting due to the significantly lower costs involved with servicing these customers in comparison with establishing more offcourse betting shops. The JRA is continuing to expand the services offered to phone betting customers. It is felt that the more information and service they provide the more likely the customer is to wager. The JRA is in a privileged position to be both the operator of racing and wagering. This gives them access to a huge database that they can analyse customer behaviour and so establish a racing program and promotions which will maximise wagering activity.

Considerable investment has been made in wagering infrastructure at both race tracks and at offcourse WINS facilities. Almost all infrastructure is automated, including machines for both placing bets and collecting dividends

It is interesting to note that it is illegal for Japanese residents to bet on any horse races outside of Japan, hence there is no opportunity to simulcast international racing for the purpose of wagering. This is perhaps the reason why there is very little interest by Japanese racing fans in international racing. Even international races where Japanese horses are competing are often only televised on delay.

### **NAR Wagering.**

NAR (Local Government) racing is very reliant on oncourse wagering. Historically off track wagering was limited to betting shops in the local government area where the race meeting was conducted. In recent times allowances have been made to sell tickets in shops in other jurisdictions however NAR racing remains heavily reliant on oncourse wagering with around a third of total sales made oncourse. The totalisator system is different to that operated by the JRA.

### **Recent Trends in the JRA Racing**

Since the mid 1990's racing in Japan has experienced a decline which is closely correlated with the path of the Japanese economy.

Attendances have fallen by 45% since their peak in the mid 1970's while turnover has fallen for the 8<sup>th</sup> consecutive year after reaching a heady peak of \$50 billion in 1997.

These factors point to a common problem experienced the world over with an aging of the core racing fan and more choice in the leisure market for the younger generations. The JRA has measured the average age of the Japanese racing fan to be 51.

It is with reflection on these key points that the JRA has adopted a new approach to growing participation. In the good times racing fans were plentiful. The JRA acknowledges that the mentality was to grab a fan's money as fast as possible and move them on to make way for the next fan. This was a short sighted approach and led to a shrinking market. Now, there has been a shift in thinking towards sustaining existing customers as well as attracting new customers by ensuring fans have an exceptional raceday experience. It is hoped that this will encourage them to return to racing, bringing their families and friends.

The JRA is in a unique position where it has access to significant customer data which it can analyse for a variety of purposes. In addition it conducts extensive customer research aimed at ensuring its products and facilities match customer needs and expectations.

### **Recent Trends in NAR Racing**

Racing by local governments has experienced a more dramatic decline than that of JRA racing. From its peak in 1991 of \$12 billion, turnover has declined to just \$4.5 billion and according to officials, the end of this decline is still not in sight. Many of the local government racing operators have high cost structures which are a legacy of racing in the good times. They have not been able to adjust their operations to reflect the dramatic decline in revenue and as a result in recent years a number of racecourses have closed for business and those that remain are generally operating in the red.