

According to Plan

Establishing a business plan is crucial to success with Thoroughbreds

BY ANDRE REGARD

Whether you are participating in the Thoroughbred industry as a business or as a hobby, the value of a properly crafted business plan will be a key ingredient for your success and enjoyment. Your business plan will act as the roadmap that you use going forward with your investment. It will help you establish the goals you want to achieve and act as a measuring stick to which you may compare your accomplishments.

The business plan will clarify your organization and really is the heart and soul of the business. The concepts discussed herein apply to anyone making an investment in the Thoroughbred business. Most participants in the horse business do not prepare a business plan. And most people who do one only do so for tax-planning purposes. While it is true that the Internal Revenue Service will look favorably upon a written business plan that is contemporaneous with your investments (if you are audited), there is an even better reason to complete one. You should write a business plan so you can determine exactly where you are about to invest countless hours and dollars.

In the end you may decide this will not be a business venture but rather just a hobby. Even at that point, however, the business plan will serve as an important planning tool to keep you on target and within the objectives that you want to achieve. Additionally, a periodic check against your business plan will help you to stay focused and make necessary adjustments.

BASIC POINTS

A business plan helps focus energies on the most important elements that will make your business successful. It can aid in identifying potential trouble spots and in formulating alternative solutions for moving past them. It can remind you what the objective is and helps you convey this to your co-investors, employees, or financing institutions.

You need to be realistic and practical in your analysis and approach to the business plan. All of the claims that you make in the business plan should be based on specific assumptions that can be documented. It is good to give





Business Plan

evidence to substantiate the assumptions and key elements of the plan. Formulating the plan should help you study the market and do your homework. The business plan is supposed to be carefully put together with objectives for performance that are achievable and not just speculative.

You need to figure out what works and what you will be able to do that differentiates you from your potential competitors. Finally, you need to have an understanding of the financial investment that you are about to make. Most importantly, put the business plan in writing and keep it handy.

The following points are key elements that should be included in your business plan as shown in Table 1.

■ **Objectives:** The first thing that you will need to do is establish the initial short-term and long-term objectives of the business, otherwise known as the “vision.” The vision should be balanced between enthusiasm and realism. You should write down what the ultimate measure of success would be for the business. There are many investment options within today’s Thoroughbred market, ranging from owning your own mares and breeding for the market to forming racing partnerships. If you approach the industry as a hobby, you still need to establish the objectives that you plan to achieve. Table 2 is a list of possible objectives to pursue in various segments of the Thoroughbred market. Determining your objectives represents the top of the pyramid. The rest of the elements of the business plan will support the vision.

■ **Management:** The most important part of the business plan after establishing your objectives is to put on paper how you intend to manage the process of achieving them. You will need to determine who will be your key management players and advisers. This is where you have to make an honest assessment of your own capabilities and interests. You may decide that you will be a hands-on person: selecting the horses, taking care of them, and selling them. On the other hand, you may determine that your main participation will be from the investment side and you will hire a top-notch bloodstock adviser. Another key issue to consider here is whether to purchase property to keep the horses yourself or contract board them with someone else. Your key advisers should include veterinarians, bloodstock agents, insurance agents, accountants, and bankers.

■ **Customers:** Next you need to think about who your customers will be. If your objective is to be a large commercial boarding operation, you will have to research who the main commercial breeders are. On the other hand, you may decide that you want to have a private operation and not have any customers at all. If you are breeding for the commercial market you will need to understand the dynamics of the buyers and keep a very close read on trends in the stallion market. If you are breeding or buying for racing, you need to understand what types of races are available in your market and the amount of money that participants in those markets are willing to spend to win those races. These are just a few thoughts to help you along with this section.

■ **Market Analysis:** Now that you have determined your objectives, the members of your team, and your target customers, you will need to identify the competition. By determining who the competition is, you will be able to figure out what resources you will need to compete. Your competition may include other breeders, racing stables, trainers, or boarding operations. You also need

Table 1.

ELEMENTS OF THE BUSINESS PLAN OR STRATEGIC PLAN

A basic business plan should include the following sections for further discussion:

1. Objectives
2. Management
3. Customers
4. Market Analysis
5. Risk Analysis
6. Financial Projections

to determine if you have a competitive advantage over the rest of the market. A competitive advantage may include access to superior facilities or trainers, geographical considerations, financial considerations, or analysis superiority.

■ **Risk Analysis:** In this section you will need to take a hard look at the objectives you have set and determine what obstacles may hinder your success. You should specify the factors that are in your control and which factors are out of your control. A key element of your objectives section is recognizing that some flexibility must be built

into your business plan as applied to the Thoroughbred business. For example, while your initial plan may be to purchase mares in order to sell yearlings, you should also have a strategy for selling weanlings and 2-year-olds as well. Sometimes a yearling may not be ready to sell until its 2-year-old year due to injury or lack of maturity, thereby making a later sale date the better choice. It is also wise to have an exit strategy in case things do not go as planned.

■ **Financial Projections:** The final piece of the business plan will be to evaluate the financial implications of trying to achieve your objectives. This section of the business plan will help you determine and project exactly how much money you will need to put into your new investment. While working on this section keep in mind that most businesses fail because of incorrect assumptions about start-up capital. Here you will need to establish a budget for capital acquisitions as well as costs of upkeep and periodic replacement of stock. Be sure to include costs of board, stud fees, vanning, insurance, feed, and veterinarians. You should also include a value for your time. Finally, you will also need to include realistic assumptions as to the revenue that you may receive in the future from the sale of horses or racing purses. This section will also establish most of the metrics you will use to measure your progress.

■ **Re-evaluation:** You should review your business plan regularly to see how you are progressing. Upon your review you may find it necessary to make adjustments as assumptions are updated based on your day-to-day experience in the “real world.”

■ **Resources:** While putting together a business plan may seem like a daunting task, there are many resources that you can use to help fill out the plan. You can contact the Thoroughbred Owners and Breeders Association for publications about the industry. The association will be able to put you in

touch with individuals with experience in the areas in which you are interested to give you more information about the industry. In addition, you may find a bloodstock agent helpful, or an accountant who is familiar with the Thoroughbred business. Industry publications such as this magazine are also useful in providing additional information about the costs associated with the industry and ideas on how to maximize your investment.

While developing the business plan is a key first step, the challenge will be following the succeeding steps outlined in the plan. Keep in mind that, as you go forward, you will most likely have to refine and remodel the plan based on the experiences that you encounter during your real world education. Good luck. 🍀

Andre Regard owns and operates the bloodstock advisory service Occidental Thoroughbreds. An equine attorney, he is the current chair of the Kentucky Equine Bar Section.

Table 2.

OBJECTIVES CHECKLIST

Here are some different objectives that you may want to pursue in the Thoroughbred industry:

- Establishing a broodmare band and breeding for the commercial weanling or yearling sales market.
- Establishing a broodmare band and breeding to race.
- Purchasing weanlings to resell as yearlings.
- Purchasing yearlings to resell as 2-year-olds in training.
- Purchasing yearlings to race.
- Purchasing 2-year-olds to race.
- Claiming horses for racing.
- Getting involved in investment partnerships.
- Getting involved in breeding partnerships.
- Getting involved in racing partnerships.
- Developing a private breeding operation.
- Developing a public boarding operation.
- Investing in stallions.