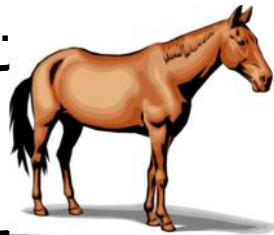


Notes from....



Serrano Creek Ranch Equestrian Center

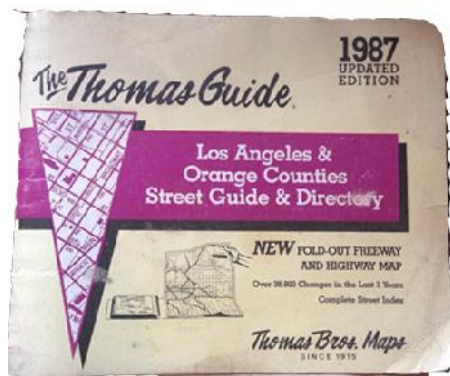
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For those who lived in Southern California, and traveled the streets and highways in the 80's and 90's, your map book / bible was the Thomas Bros Guide. There was no other source that was so complete and so up to date. If you were giving your



address, it was standard to provide the page and grid number from the guide. Especially during building booms, you absolutely had to upgrade to the current year's edition. Started

in 1915, and expanding in the 50's as the car culture took off, Thomas Bros maps dominated local map making. But trouble started when GPS and internet mapping devices started coming on scene. By 2003, all the skilled cartographers were laid off, and today it is just a fond memory for those of us who at one time drove with one hand on the wheel, and the other holding the guide. There were other business institutions that disappeared in the last few years:

Blockbuster: Failed to innovate to online videos. Had a chance to buy Netflix for \$50 million and passed.

Blackberry: Failed to embrace the touch screen, went from more than 50% of the phone market to .8%.

Hostess: Failed to keep up with a healthier lifestyle snack food. Management thought its key products "Twinkies" and "Ding Dong" would last forever.

Eastman Kodak: Failed to appreciate the digital revolution. Always thought nothing is better than an image shot on film.

The commonality of all these, is that at one time these were very successful companies that dominated the competition. But ironically it is that sense of security that breeds a management that only maintains the status quo. And it is this belief that "it will never change" that ultimately becomes the Achilles's heel that stifles innovation, and ultimately sends the company into the scrap heap of history. Yet other companies have been nimble enough to innovate, and remain leaders. Here are a few examples:

Western Union: Innovated by abandoning the telegram business to now being the world's largest money transfer service in the world.

IBM: Innovated by abandoning the razor thin margins of the PC market and now is the world's #1 supplier for server software and machines.

National Geographic: Innovated when it saw that the days of the photo magazine business was a dying model by moving its brand into a cable channel and reality shows.

Apple: Innovated from a struggling step-child to the powerful PC, (sorry Apple fanboys for being blasphemous) with the development of the truly revolutionary iPod and iPhone, and then iPad. It is now a peer to the largest companies in the world.

Changing times can devastate whole industries; think of newspapers, coal, or taxis. These were until recently, rock solid industries. But now, because of changing consumption patterns and unforeseen competition, they are vulnerable if they continue to maintain their old ways. The price of a taxi medallion (license) in New York City has fallen by more than 50% in just the last few years as Uber, Lyft, and other providers have challenged the status quo. Two other industries that are facing

trouble are golf and sailing.

First a caveat. The following observations are based on generalizations. And while the characteristics of a group don't necessarily apply to every member of that group, when those individual members' traits are aggregated, there are identifying features. For example, not every teenager has a cell phone, but we can safely state that teenagers text more than baby boomers.

Let's look at the state of golf today. The numbers are not so good. Since 2006, the number of golfers has dropped by 18%. When population growth is considered, the true drop in golfing interest has dropped by 24%. Because of the reduced demand, golf courses are closing on the order of 1.5% a year. So over the last ten years, approximately 15% of golf courses have closed. Obviously, the golfing industry has done a lot of self-examination of this trend, and some of their explanations are:

Time: The average round of golf takes 4-5 hours. Today's lifestyle patterns is less able afford these large blocks of time. The greater involvement of fathers in the parenting responsibilities precludes them from such activities.

Culture: Golf is seen as an elitist. In a country that is increasingly more diverse, different cultures have other ways to recreate.

Cost: The wages of lower and middle class users of the entry level courses have been stagnant or declining over the last decade. As

such, green fees are further and further out of reach for these strata.

Skill Based: Golf as a skill is very hard to master. It can take years to gain even a moderate success. Newer generations are looking for activities are



that gratifying on a faster time scale.

Lifestyle: Golf is in many ways meditative. Today's hectic lifestyle is out of sync with old timey way of spending large amounts of uninterrupted time in a quiet setting.

Role Models: There is a lack of heroes / role models. Unlike football, basketball, and soccer, that have a seemingly unlimited list of sports idols, golf now has none. When Tiger Woods was in his heyday, the sport had a large spike in interest. Yet since his downfall, there is no replacement. When Kobe Bryant retires this year, rest assured that there will be no shortage of new Kobes that take his place.

Outdoors: Golfing takes place outdoors. In a changing population that has grown more accustomed to a climate controlled environment, the heat, cold, humidity, sun, rain, etc. that are integral part of this activity are increasingly more discouraging.

The golf industry has come up with possible solutions:

FootGolf: The America FootGolf League follows the similar concepts of golf, but instead uses soccer balls and of course much larger holes. The advantages are that a round can be completed in 1- 1½ hours rather than the 4-5. Secondly players are already skilled, coming from the large number of kids that have learned soccer. Hence the skill acquisition is minimal. To shift from conventional golf to foot golf requires minimal effort. While this may seem crazy, it is catching on.

Renting Clubhouses: As clubhouse usage falls with declining membership; these large buildings with attractive grounds can be rented out for weddings and other events.

Time: Change the culture of golf from 18 holes being a round to 9 holes. This changes the mindset that you really haven't played a round unless its 18 holes. By convincing golfers that 9 holes is a round, the large "block of time" obstacle is cut in half.

Repurpose Landscaping: This is an interesting concept. In the past we have been contacted by an entrepreneur who is building

a program were the portions of landscaping in and around the course are shifted from ornamental to edible landscaping. Since the course already has the land and is paying for the water, additional revenue that can be generated from the sale of food-stuffs is pure profit.



And now let's look at another outdoor activity - sailing. In terms of numbers, things look a little worse. In 1979, 12.3 million Americans sailed at least once per month. Fast forward to 2010, that has dropped to 2.3 million. When adjusted for population growth during that time span, the number of sailors has fallen by 87%. Sailing's struggles share many of the similarities of golf: large time commitment, elitism, highly complex skill learned over the years of practice, quietness, outdoors, and lack of inspirational heroes. Today the average sailor is a 53 year old white male (hey that sounds like me!).

You can add to that list the high capital costs to get in. Boats can cost \$5,000 and upwards to purchase. Then there is a high monthly fee for storage, maintenance, registration, insurance, etc. You incur these costs whether you sail or not. At least with golf, the clubs take up a small space in the garage. So what is the sailing industry doing?

In the potentially transformative book "Saving Sailing", Nick Hayes offers a macro approach. Historically, sailing was a time of intergenerational time sharing. While the skills of sailing were being taught, on another level the general wisdom of the older generation was passed down to the younger, and bonding took place. He argues that parenting for the latest generation has changed where children are now chaperoned to various skill-building activities. Think soccer, football, piano lessons, dance, tutoring, etc. During the time the child is participating, the parents / grandparents are spectators not participants. Hence, while skills are being taught by a more skillful master, there isn't the emotional connection that comes from sharing the activity with family / elders. Mr. Hayes argues that it is this emotional connection, that comes back as an adult in the form of nostalgia, is the



best predictor of adult participation in sailing. To convert from a learned skill to a lifetime passion, there must be this important emotional connection. Programs should be about the leadership, emotional connection, and not just the skill based learning.

We have also seen the growth of sailing clubs. Now you pay a monthly fee and have access to a wide range of boats. The boats are owned and maintained by the club, and ideally are used every day by different members. Even the most avid sailor doesn't use his boat every day. Now to become a sailor the upfront cost of boat purchasing is removed, as well as the headache of maintenance. This is a harbinger (ouch, bad pun!) of the sharing economy that since has arrived.

If we are truthful with ourselves, the horse world is suffering the same headwinds (hey! stop already!). For like golf and sailing, (as well as fishing and hunting), the same general forces are squeezing the number of present and future horse owners. In order to participate in horses, you must:

Have a **big block of time** available on a regular schedule.

Acquire a **sophisticated level of skills**. The skills necessary to riding are on par (!) with golf or sailing.

The activity takes place **outdoors** with all the attending weather issues.

Lack of role models. Other than the occasional horse movie (*Horse Whisper*, *Sea Biscuit*) and a few books like *Black Beauty* and *The Red Pony*, there is very little positive reinforcement of the wonders of horses in the general media. Compare this to the omnipresent inundation of idols and drama that surrounds professional sports. Many boys want to be a professional sports player, but how many want to be a horseman? As young children, professional sports heroes are imbued with a godlike status: with their physical and mental prowess, the amazing homes they live in, the beautiful girlfriends / wives they have. The mes-

sage that is discretely taught is that competitive sports is a certain path to adult success. Yet in reality it only creates a large population that will keep alive the myth of success for the next generation. Unfortunately golf, sailing, and horses by their nature, are unable to sustain an ethos like that of professional sports.

There are two more challenges to horse recreation:

First you can add dirt, poop, and flies which don't play well with the hand sanitizer crowd.

Secondly, cultural shifts in the population. Yes again the following comments are based on generalizations, and which don't apply to every member of a subgroup, but when those members are aggregated, there are identifying features. That being said the beauty of horses is tied up into the myths of a culture. In Occidental cultures, horses are held in high regard. If you have grown up in a European culture, you have been exposed to countless stories of a princess being rescued by a prince on horseback. Medieval knights (nobility) showed bravery by jousting on a horse, and the landed gentry that rode horses in fox hunting. For the working classes, you had Robin Hood. In America culture, the Western cowboy and his horse is held out as a virtue of the independent self-reliant man.

Oriental cultures don't have the same connection between horses and wealth / nobility / freedom. In these cultures, horses are more often seen as beasts of burden and are employed by lower castes / strata of society. To associate with horses was to associate with these lower classes. Horses are seen as dirty.

The historical model of the horse business went something like this. There is an unlimited number of people who want to ride / own. As a trainer, no need to market, as there always were more students than you could possibly teach. Selling lessons required only stopping at the rail to speak with a prospect. As a stable owner, just get a bunch a trainers, and a decent percentage of their students will make the next step into ownership. As they get close, they'll need to put their name on your obscenely long waiting list. It was a pretty simple model and it worked for decades. There's a part of me that wants to believe that those days will come back. That the great recession was an exception, and the good ol' days are right around the corner

again. That the problems facing golf and sailing, bear no similarity to horses. For the Eastman Kodak Executive who thought that *film* will always be better than digital, history has written a different story.

Clearly, SCR must move beyond the historical models of operating and actively work to develop a new generation of riders. Over the last year, I have spent quite a bit of time accepting that this is the reality. By accepting the current state, this then allows for solutions to come forth. Considering the greater demographic forces that the horse world is experiencing, we seem to be surviving. As an example of innovating, the compost business has morphed from a means of reducing hauling costs, to producing income that is the equivalent of the board portion of 30 horses. When it was just an idea, it seemed like a long shot. But now it has become a major component in offsetting other costs.

On the positive side, horses offer some pretty unique experiences. There is an emotional connection that only exists between a rider and his / her horse that no other sport offers (well maybe dog sledding). No amount of soccer games will ever match this experience. In a world of unremitting competition, horses offer a respite from this "must-win" culture. To be successful at riding, we must utilize a different part of the brain. We must shut down the analyzer, and open up the intuitive part. Riding requires us to be present, in the moment. Interestingly, 20+% of all lesson income at SCR is derived from using horses for non-traditional programs. I expect this figure to keep growing.

In today's culture the extrovert is extolled, and the introvert is viewed with derision. Most sports are oriented to the extrovert, with their no pain-no gain mentality and zero sum gain competition. This warrior attitude is relished by the professional sports / media companies' symbiotic partnership. But for many, they want no part of this, and prefer instead pastimes that are cooperative rather than competitive. Horses are perfectly suited for this partnership. For the foreseeable future there is an atavistic connection between horse and rider, that while may lay dormant and unseen, is available to be awoken. The horse world has failed utterly miserably in recruiting the next generation. Our industry is stuck in the romantic 19th century, and we have all assumed that what worked back then, would work in today's dramatically different times.

The gateway to the horse world has been

traditionally guarded by the beginning instructor. For those new riders to this strange world we call horses, it is during those first few lessons that folks get the bug. For those who teach at this level, there will never be Olympic gold medals. Yet, their role in developing the next generation is critical. To be successful in the last few years, the beginning trainer must be engaged in competing with the myriad of other recreational opportunities, in a way that has never been the case. Besides their traditional role of teaching, to be successful today, they have to manage websites, follow up on leads, be available to book lessons in a moment's notice, have the capital to own a fleet of horses, have time to analyze their financial statements, etc. Today's entrepreneur must be highly skilled in all aspects of business, not a particular trade. Yet without a new generation of riders, and eventually owners, the equestrian world's future is sadly quite clear.

As a business, and in many ways an institution, it is time for SCR to take responsibility for its future. And that future means SCR must improve the marketing of the wonders of the horse, and be prepared to do all the things that other non-horse businesses do to grow its customer base. Thus the stable will begin a slow pivot from a boarding only model, to one of boarding and integrated riding academy model. This means that the stable will be developing a riding academy, to increase the number of new students. By fully integrating a riding academy into the daily operations of the stable, we will be utilizing the lessons that the golfing and sailing have pioneered. While the future has yet to be written, it would not be out of the realm of possibilities that a third of the horses at SCR would be for lessons and leases.

This last month we conducted a nationwide search for a director of the riding academy. I was hoping for that one candidate that shared my vision. Surprisingly, we received 25 applications in two weeks' time. I would say that 10 were excellent candidates, and each would have been a great choice. After multiple interviews, I selected Lara Myszynski as the director of the new academy. She comes with 20+ years riding and has earned a B.S. in Equine Business Management from Johnson and Wales University in Rhode Island. Her experience includes developing and managing riding schools while attending the college. She was an



New Academy Director– Lara Myszynski

employee rider for Danielle Gavriluk and Karin Donckers. On the medical side she has been a Registered Veterinary Technician.

She has a wonderful balance of maturity and youthful enthusiasm. We are very pleased that she will be an employee of the stable, backed by the full resources that the stable has to offer. She starts in May, and is charged to build the lesson side of the academy, and SCR staff will be the business side. I believe that you are going to see more stables taking control of their destinies by integrating academy-like operations in their business model.

As a final thought, a captain doesn't wait for the ship to sink, before he looks for leaks. His responsibility is to anticipate problems and solve them before they become emergencies. If he sees that the bilge water level is rising, he must begin an action plan to stop the leak right now. Ships at the bottom of the sea do no one any good. If we make these changes, we are well equipped ensure that horses will continue to play a role in the 21st century. If we keep our heads in the sand, believing that digital photography will never surpass beat the beauty of film, then our days are surely numbered.