"Strategic Analysis of the U.S. Quarter Horse Industry, Emphasizing California"

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Abstract

The American Quarter Horse is the most popular breed of horse in California, as well as nationwide. This breed has shaped agricultural history and has had a major impact on the agricultural economy because. The objective of this report is to provide strategic information about the U.S. quarter horse industry, with an emphasis on California. This report provides information on the following topics: statistics of the industry, quarter horse associations, trends in the industry, prevailing marketing practices, innovative/successful marketing practices, success factors for horse businesses, and characterization of related and supporting industries. The primary contribution of the report is a diagram and description of the horse industry supply chain. The varying levels of entry barriers and varying degrees of attractiveness to potential entrants are given for many types of businesses in the horse industry.

Keywords

American Quarter Horse, associations, breeder, California, entry barriers, equine, horse industry, industry trends, livestock, marketing practices, registry, related and supporting industries, supply chain, success factors, trainer

Strategic Analysis of the U.S. Quarter Horse Industry, Emphasizing California

Introduction

The American Quarter Horse is the most popular breed of horse in California, as well as nationwide. This breed has shaped agricultural history and has had a major impact on the agricultural economy because of the hundreds of thousands of Americans employed in the equine and allied industries. The American Quarter Horse has also been the breed of choice for the beef cattle industry because of its innate cow-sense and speed over short distances (Jennings). The name *quarter horse* is used because this breed has established itself as the fastest horse over a quarter mile (PCQHRA). Given the economic importance of the horse industry, and the human resources dedicated to it, it is a good candidate for strategic analysis.

The American Quarter Horse Association (also known as AQHA) was formed in Amarillo, Texas in 1940 in order to keep track of breeding records and racing statistics, as well as other pertinent information about the horses and their owners, as the breed was developing (AQHA). Today, the quarter horse is used for a variety of purposes including ranch work, racing, showing, and recreation. As a result, other registries for quarter horses will be discussed in this report.

Objectives

The objective of this report is to provide strategic information about the U.S. quarter horse industry. While the geographic scope of the report will be national, in certain sections of the report, special emphasis will be given to California. This report will provide information on the following topics: statistics of the industry, quarter horse associations, trends in the industry, prevailing marketing practices, innovative/successful marketing practices, success factors for horse businesses, and characterization of related and supporting industries.

Methods

This report draws on data gathered through a review of secondary sources (e.g., trade and academic journals) throughout 2005. Once this information was compiled and analyzed, the authors developed sets of questions to pose to various types of participants in the industry. Telephone interviews were conducted with key informants. Interviews were conducted with breeders of quarter horses, university experts, and representatives of industry associations. Results from the telephone interviews are included in the report, especially in the sections regarding industry trends and marketing practices. For the sake of simplicity, when we use "respondents," we refer to breeders whom were interviewed.

Statistics of the Horse Industry in the United States and California

There are countless statistics to prove the American Quarter Horse has a major impact on the United States economy. As of 2005, records state there are more than 9.2 million horses in North America. 4.6 million Americans are involved in the industry as owners, service providers, employees, and volunteers (AQHA). This is not to mention tens of millions who participate as spectators. The horse industry has an economic effect on the U.S. of about $39 billion annually. It also provides over 460,000 full time jobs while paying about $1.9 billion in taxes to all levels of government (AHC).

California is home to roughly 698,000 horses with 70% of them engaged in showing. There are around 311,100 Californians involved in the California equine industry, producing goods and services valued at $4.1 billion annually. It provides around 54,200 full time jobs and 76,000 part time jobs for California residents (AQHA).

An issue that complicates accurately accounting for the size of the horse industry is the amount of off-the-books economic activity that takes place. For example, in the case of a wealthy person who

owns a horse and only wants to ride it once or twice a year, it is necessary for another person to be responsible to caring for it at all other times. The wealthy owner, who does not want to be bothered with such activities, may make an arrangement with a young horse enthusiast who cannot afford their own horse. The arrangement could include the young horse enthusiast riding the horse daily, and providing some care for the horse. This person may be so pleased to have a horse to ride, that they do not charge the owner for their services because having access to the horse is sufficient compensation. As a result, this type of arrangement will not be reflected in GDP figures, or in employment statistics.

Purpose of Quarter Horse Associations

Horse associations exist to register horses in order to preserve the breed by keeping track of pedigrees and bloodlines. These associations can also connect persons with similar interests with other members so they can take advantage of each other's services. Associations can be as small at 100 members, such as the Hancock Quarter Horse Association, and as large as 327,000 members, like the AQHA (AHC, AQHA). The members of each consist of owners, breeders, exhibitors, and even fans of the breed.

It is important for quarter horse enthusiasts to take advantage of everything these associations have to offer. They are trying to keep the cost of membership and other resources low in order to help their members financially. To make it even more convenient for everyone, these associations have websites where all their information can be accessed.

Distinguishing Characteristics of the Industry

The quarter horse is a unique agricultural product because it is not a product produced in mass proportions, like a crop or other consumable livestock; it is an animal whose benefits are derived while

it is alive. With today's farm equipment and technology, horses are less of a necessity for farmers and ranchers, giving the quarter horse a different place in society (Jennings). They have become companions and competitors. For example, many are being raced for prize money and trained to chase cows in a competitive manner. These horses are judged for the best conformation and bloodlines, or simply enjoyed at home as pets and companions. The firms of this industry now revolve around the breed registries and organizations because there are no dominant, commercial producers of quarter horses. Because these horses are bred privately and in so many areas, it is nearly impossible to have an exact count of the number of firms in the industry.

The AQHA is by far the biggest quarter horse registry and represents all aspects of its industry. However, the Pacific Coast Quarter Horse Association (also known as PCQHA) encourages the breeding and ownership of California-bred quarter horses by maintaining an awards program that rewards the accomplishments of these horses. It also provides opportunities for youth, amateur, and professional horse people of the Pacific Coast to gain knowledge of the suitability and adaptability of the quarter horse through venues and beneficial services. There is also the Pacific Coast Quarter Horse Racing Association, which is not connected with the PCQHA mentioned above. This organization specializes in preserving the breeding, selling/buying, and racing of quarter horses in California. It has over 2,000 members with a full time staff. The National Foundation Quarter Horse Association's registry is based on bloodlines, and was founded to protect the working cow horse. The last registry discussed is the National Quarter Horse Registry which allows quarter horses with too much white (not allowed in AQHA) to be registered because they feel they are still quality horses.

The pleasurable nature of being involved with horses creates a challenge for one of the basic assumptions of business, namely, that the purpose of a business is to maximize profits. The fact that certain industry participants are involved due more to a love of the horses rather than pursuit of profit

inserts a wrinkle into standard strategic analysis. The analyst must keep in the back of his/her mind that the horse activities of a particular participant of interest may be more like an expensive hobby, rather than a profit maximizing business.

Industry Trends

The quarter horse is becoming more and more popular due to industry trends. Every year there are more competitions and more ways to win and make money with the quarter horse. Advances in training are creating better athletes, which create more of a need for better breeding and new ways of training. Each year there are more competitions and more competitors. The AQHA show circuit is therefore one of the most competitive in the horse world today (AQHA).

As the shows grow, the competitors come up with new ways to have an edge on the competition. For example, in the western classes, the tack they are using at bigger shows is covered in silver and crystals. The trends also call for improvements in the facilities and mechanical equipment. Footing in arenas is constantly being improved and covered arenas are becoming available with heating and cooling systems so the horses can be kept at maximum performance throughout the year. Recent developments in trailers have proven that it is easier for a horse to ride in a light slant-load trailer as opposed to a heavy straight-load trailer. This has led to a booming trailer industry creating trailers with full living quarters for the owners and heating and cooling systems for the horses in the back, as well as cameras monitoring their movements.

As the competition industry gets bigger and in turn pricier, the industries surrounding it must advance to keep up. Memberships for the AQHA are growing every year; California has the second largest population of AQHA members at 22,307. In 2004, there were 353,607 members in the United States (AQHA). The population of quarter horses in California is also growing every year due to

horses being bred as well as transferred in from other places (NQHR). The industry continues to grow and improve every year.

Slaughtering of horses used to be a large part of the industry, but in November, 1998, California passed a law making it illegal to slaughter horses for human consumption overseas. When legislation passed in Texas and Illinois in 2007 that made it illegal to slaughter horses, slaughtering horses for human consumption on U.S. soil became history. It's a very common conception that the recent slaughterhouse bans have affected the industry negatively because breeders have nowhere to put the horses they no longer have use for. It used to be that horses were like many other assets, in that they had an underlying salvage value, obtained through sale to the slaughter industry (Jennings). Now, horses that are no longer useful or economically productive represent a liability. This is because in addition to the average $200/month cost to keep a horse, there is a cost to have a professional put such an animal to sleep and to dispose of the carcass. This situation has created a concern that we will start to see more abandoned horses, and that such horses may even create a hazard on the roads.

Due to a slowdown in the economy and slumping consumer trends, farms breed fewer horses because feed, veterinarian, and farrier costs have risen (AHC). Lately, the industry has noted a decline in the number of people at big shows and an increase of people at smaller, more affordable shows. Phone survey respondents also indicated their businesses were slowing down and they were gaining few new clients. They all expect this to continue to affect them in the future and plan to keep an eye open for opportunities to downsize. In addition, horse zoning in some areas makes it difficult to expand ranches.

The technology that respondents are raving about is the progress made in breeding, such as artificial insemination and the easy transportation of frozen semen. This allows mares easy access to breedings from top stallions from all over the world without leaving the comfort of their farm.

Computers also play a major role in quarter horse businesses, with many business functions being accomplished online nowadays.

Prevailing Industry Marketing Practices

The American Quarter Horse is an easy breed to market because they are versatile and can accommodate many people's desires. One of the most popular marketing tools of the AQHA is the *AQHA Journal*. This publication includes articles about breed shows and champions as well as advertisements for farms. The majority of top trainers and breeders have ads in the *Journal*. It is a very large book, usually around 600 pages per issue (AQHJ). This is a great publication to subscribe to because it updates its readers on current trends, the toughest competitors, who the leading sires are and so on.

There is a variety of other publications that touch on quarter horses in California such as the *Pacific Coast Journal*, *The Horseman's News*, and *The Equine Chronicle*. These journals are also positive marketing tools and they are free. A smaller scale publication in California is the *Horsetrader*. The *Horsetrader* is not exclusive to quarter horses, but it comes out twice a month and is free. The main objective of the *Horsetrader* is to advertise horses for sale in and around California, as well as all kinds of equine products. Aside from written publications, there are a few opportunities for equine products to advertise on local radio stations and some cable channels.

The quarter horse breeders interviewed for this report make their living breeding, training and showing, reining, as working cow horses, and as halter show horses. These horses are bred specifically for their pleasant dispositions. These horses are sold to people from all over the country (such as private owners and other breeders) who own and raise competitive quarter horses. Because of the

slumping economy, these businesses are trying their best to keep prices at a minimum and market to customers close to their facilities.

Their current marketing tools consist of advertising online (including personal websites), networking (or word of mouth), annual sales, print ads in magazines, and events such as large horse expos and small community events. They find the successful strategies are keeping close relationships with the clients so they know exactly what they want, being knowledgeable about the most popular stallions, and making sure the public is aware of their breeding stock by taking babies to shows. Some of these breeders believe in selling their horses at an early age because owners want to grow up with them. They try to stay on top of what each individual desires and will go out of their way to learn about their customers so they can match them up with the best horses. Finally, it is important to network and impress customers so they will establish a positive word of mouth.

Innovative, Successful Marketing Practices

As the quarter horse industry grows, new marketing strategies are developed. New sites on the Internet appear regularly, expanding the marketing of horses and products. Each registry and many independent farms have their own websites. It is easier for people to buy and sell and find exactly what they want via the Internet. In the same respect, trainers and breeders in remote areas can advertise on the Internet and easily find clients. There have also been new shows on cable television promoting the horse industry and gaining a new demographic, which previously had no exposure to the horse world.

As with other products, advertising for horses has migrated from print media to the Internet. The broad reach of the Internet has made online classified advertising especially popular. An example in the horse industry is equine.com. This site has classified ads for many breeds of horses, including quarter horses. It also has ads for trailers and many other horse-related items. This site claims 1) to

have classified ads for more than 55,000 horses, 2) to reach more than one million visitors, and 3) be responsible for a horse being sold every twelve minutes (AQHA).

As competitions expand and gain more spectators, there are more places to advertise. For example, the National Finals Rodeo (NFR) is one of the biggest rodeos in the world. You have to qualify but do not need a specific breed of horse, so the AQHA finds out which of their registered horses has qualified, and sponsors them for advertisement (AQHA). The NFR is in Las Vegas, so people from all walks of life come to see it. There are many other competitions that quarter horse organizations advertise, and every year the number of spectators grows, increasing the number of people exposed to the industry. The bigger the industry gets the more creative the marketing practices become.

Success Factors for Horse Businesses

To be successful in the industry you must have the correct resources. Successful horse trainers must have knowledge of training gained through experience. A trainer must have access to a facility allowing them everything they need to succeed. For example: if they train racehorses they must have access to a track, otherwise the horse cannot learn properly. They must have a facility where they can exercise the horse in all types of weather. Access to a good feed source and the ability to maintain a sanitary property are also important. They also must have enough room to accommodate as many horses as needed to make a profit (PCQHRA).

Breeders need a proper facility to birth and raise healthy babies, as well as knowledge of equine genetics and the reproductive systems. They must keep up to date with the current leading stallions in order to breed popular lines and have successful offspring (Lindeman).

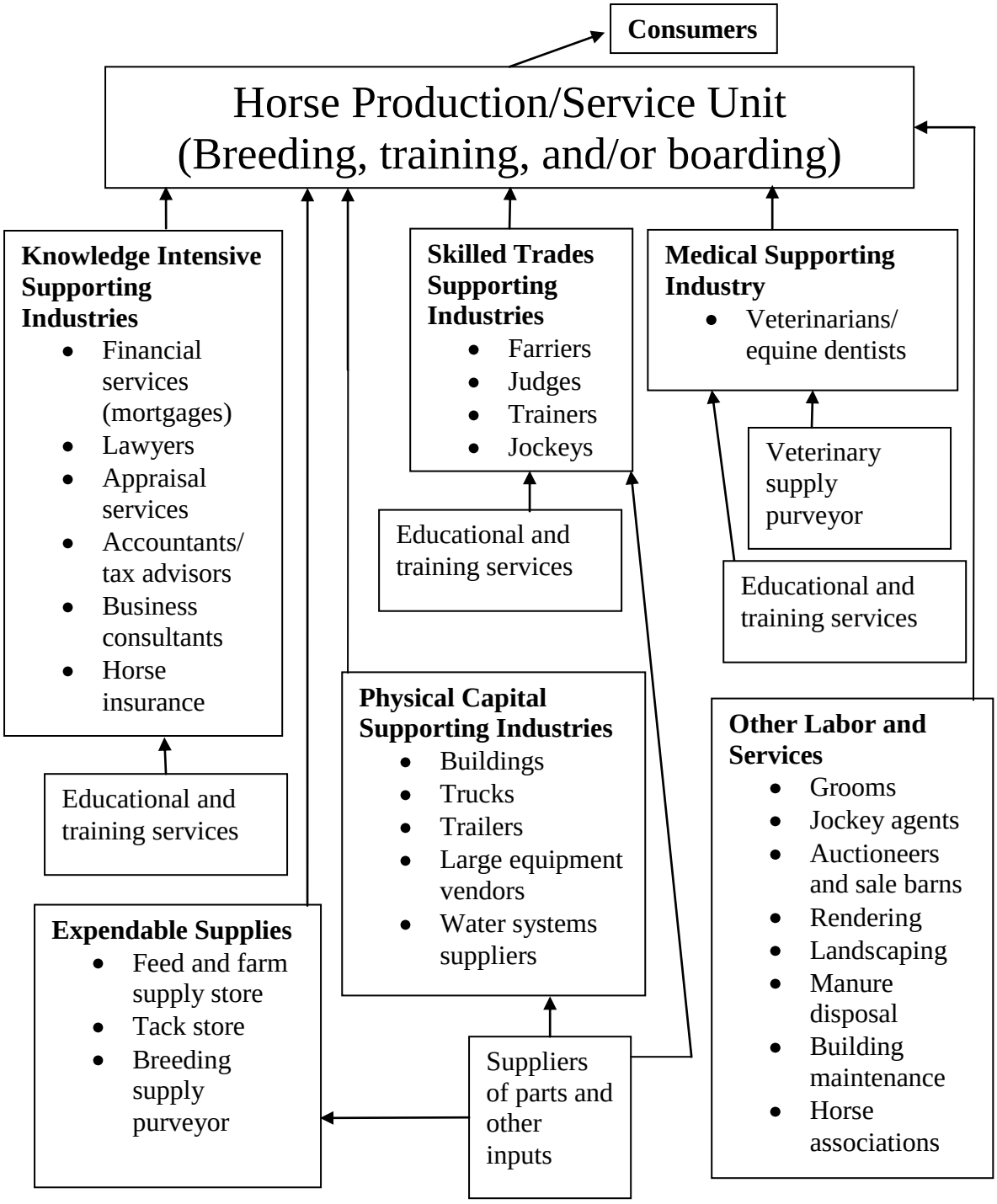
As for the consumer who only desires to own successful racehorses or show horses, necessary financial resources are needed to pay for the best trainers as well as upkeep of the animals. One of the biggest success factors for a horse owner is access to a professional network. Unfortunately, without such a network, it is very difficult to become successful, although there are exceptions. The quarter horse world is based, in large measure, on politics. Sometimes what matters is not what you know, but whom you know. This is unfortunate because if you were not raised in the industry, it is difficult to enter it and become successful (Jennings).

The breeder respondents indicated that shows are important resources so that they can win and make their horses seem impressive. They also find it important to network online via the AQHA and the Horse Council (particularly to post pedigrees), and even universities with equine programs. Printed publications and feed and tack stores can also be very helpful. Utility is obtained from working with horses and therefore the quarter horse industry is perceived as very attractive. While breeding is hard work and profits are difficult to achieve, the pleasure of working with the animals makes the industry a pleasure to be involved in. Before entering the industry, respondents suggest you become knowledgeable about what resources are available to you and necessary to be competitive. It has to be something really important to you if you are going to get involved. If you plan to become a breeder, you should aim to improve the stock and know what is popular. There are always opportunities, you just need to do research, start from the bottom, and advance from there.

Horse Industry Supply Chain Model

A model of the horse industry supply chain is given in Exhibit 1. While this report focuses on quarter horses, this breed of horse is not unique enough to have its own supply chain diagram. A model for the horse industry in general also applies to quarter horses.

Exhibit 1: Horse Industry Supply Chain Model.



The particular format and content of the model shown above is a contribution of this report. The intention of creating and presenting such a model is to demonstrate a reasonably comprehensive list of business and career opportunities within the horse industry. To provide a sense of clarity and organization, the businesses/job fields are grouped into categories.

In Exhibit 1, the basic horse business is called a horse production/service unit. Such a business could provide horses (i.e., be a breeder), training services, or boarding services. Because many businesses provide a combination of these three products/services, it is useful to group them into one type of operation. To individually depict every possible combination (e.g., breeder-trainer, breeder-boarder, trainer-boarder, etc.) would have made the model unnecessarily complicated. There are six categories of tier one suppliers to the horse business.

While vendors typically provide a combination of products and services, this diagram classifies the suppliers by type of products or services. There are two categories of suppliers in Exhibit 1 that primarily provide products: providers of expendable supplies and physical capital supporting industries.

Providers of expendable supplies market products that are used on a regular basis, and must be repurchased frequently. Another way of characterizing these suppliers would be dependent on their short-term assets. The three examples of providers of expendable supplies are feed and farm supply stores, tack stores, and breeding supply purveyors. Once again, these basic formats can exist in various specific manifestations, including combinations of the three. It is crucial for these types of businesses to maintain loyal customers.

Physical capital supporting industries provide long-term assets to the horse production/service units. Businesses in this category are those that supply buildings, trucks, trailers, large equipment, and water systems. Because items supplied by these businesses are bigger-ticket items purchased less

frequently, a different set of skills is required to succeed in this area. In particular, physical capital supporting industries must be able to accurately bid for contracts, satisfy customers on contracts they win, and be cost effective in order to be profitable. It should be noted that providers of expendable supplies, physical capital supporting industries, and skilled trades supporting industries (to be covered below) are supplied by second-tier suppliers of parts and other inputs.

In addition to suppliers who primarily provide products, Exhibit 1 depicts four categories of suppliers who primarily supply services. The first category of service providers is individuals who provide medical services (the medical supporting industry). These are veterinarians, including those who provide dental services for horses. The time and expense required to complete a veterinary program, not to mention the high standards to even be admitted to a program, serve as effective entry barriers for this industry.

The next category of service providers is the knowledge intensive supporting industries. This category includes the office, or white-collar, professions. Specific examples are providers of financial services (mortgages), lawyers, appraisal services, accountants/tax advisors, business consultants, and horse insurance. In order to practice, lawyers must graduate from law school and pass the bar exam. Certified Public Accountants (CPAs) must meet specific requirements in terms of education and experience, as well as pass an examination. These careers have very high barriers to entry. The other knowledge intensive job fields have varying levels of certification requirements. In general, the higher the certification requirements, the greater the financial rewards for the career.

The next category of service suppliers includes the skilled trades supporting industries. These types of careers generally require an apprenticeship or an extensive training program. Exhibit 1 lists four types of skilled trades supporting industries: farriers, judges, trainers, and jockeys. Beyond the training requirements for these careers, an innate talent is required to perform at their best. Due to the

nature of these skilled trade jobs, it is infeasible to own a business providing these services, unless the principal is qualified and engaged on a day-by-day basis. It should be noted there is a second tier industry that supplies educational and training services to the medical supporting industry, the knowledge intensive supporting industries, and the skilled trades supporting industries.

The final category of service providers is a catchall category called other labor and services. The intention is to include the jobs that do not require the level of skill the practitioners in the other three categories must obtain. This categorization is subject to disagreement and debate. Refer to Exhibit 1 for eight examples of other labor and services. This category is included to display the vast reach of the industry, and provide ideas for potential careers in the horse industry other than breeding and training.

Conclusion

The horse industry, particularly the horse breeding industry, is tremendously competitive. The quarter horse industry is no different. This is due to the glamorous and enjoyable aspects of industry activities. It is questionable whether certain horse breeders are in the business to earn profits, or if their activities could be viewed as an expensive hobby. This creates an exit barrier and makes it difficult to earn profits for those entrepreneurs engaged in the industry who are motivated to make profits to be financially successful.

There is a plethora of businesses that are related to and support the basic horse production/service unit, however (see Exhibit 1). These related and supporting industries have varying levels of entry barriers, and varying degrees of attractiveness to potential entrants. Individuals who are considering entering an industry described in this report should perform due diligence. They should examine the resources required to enter their target industry, and compile an inventory of resources

which they own or control, or to which they have access. A thorough and detailed analysis of the market potential for a proposed business should also be conducted.

This industry offers a diverse number of disciplines and uses for the quarter horse. The quarter horse industry has a huge impact on California, and the U.S. in general. In particular, it affects California and the U.S. economically and socially. It is a complicated industry, which requires a wide range of knowledge and resources. The American Quarter Horse has had a huge impact on Americans and as time passes, the industry keeps growing and improving. This is one of the agricultural products that should always be respected, kept as part of our history, and cared for as part of our future.

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