



“Back to the Core, Focus on Customers”

How the world’s leading horse racing and betting entertainment organization transformed itself to achieve world-class excellence

An interview with Mr. Winfried Engelbrecht-Bresges, CEO of The Hong Kong Jockey Club

Mr. Winfried Engelbrecht-Bresgestalks talks about his early days as CEO, his vision of building the Club into a world-class racing organization, and the transformation principles that have helped carry him through this journey.

Arthur D. Little: What were your early experiences with the HKJC as CEO?

Winfried Engelbrecht-Bresges: To understand this you need to consider the situation in the 1990s before I became CEO. At that time the Club's focus was primarily on maintaining the quality of horse racing operations and sustaining the wagering business. The recession which came at the end of that decade affected business. There were also other factors, most notably the downward trend in the global horse racing industry.

All of this impacted on our business. In particular our horse racing customer base declined from almost 2 million customers in the late 1990s to almost 800,000 in the early 2000's. Revenue also declined significantly in the first decade after the handover. And between 1999 and 2003, the Club's tax contribution to government fell from HK\$12.6bn to less than HK\$11bn.

So when I took over as the CEO in 2007 my vision was very clear. It was to push the Club's presence from being a local, or perhaps a regional, horse racing organization, to one of global leadership in the industry. This was partly to re-energize the customer base in Hong Kong – bringing world-class sport to the city was a way of re-engaging our customers. But it was also an opportunity to grow our business externally. I had a firm belief that Asia could potentially lead the global horse racing industry. Also, there was the growing presence of China, which was a very interesting prospect.

Arthur D. Little: What were the key challenges that you faced in the early stages of the transformation, and how did you work through these challenges?

Winfried Engelbrecht-Bresges: The first challenge was internal. The Club was very silo based, with people working in their own functional areas. It was also very inside-out,

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with people seeing everything from an internal perspective. They didn't consider how the customer perceives us from the outside and how the customer would ideally like to interact with us. For example, when football betting was introduced in 2003 it was run as a separate business. However, if you think from a customer perspective, this makes no sense at all. In fact, almost 70 percent of our horse racing customers wager on both horse racing and football.

The whole transformation was built around the fundamental premise that we could

not continue working like this. This is why we developed an internal strategy of "One Club, One Team, One Vision" to get away from the silo mentality. And we needed to start thinking like our customers, to develop an all-round, holistic and customer-centric approach to the business.

To help drive this process, we knew we had to bring in the best international talent. This was key since we needed the best skills available in the market to translate the Club's strategy into action plans that could then be executed.



Picture by The Hong Kong Jockey Club

Winfried Engelbrecht-Bresges

CEO of The Hong Kong Jockey Club

Mr. Winfried Engelbrecht-Bresges has been Chief Executive Officer of The Hong Kong Jockey Club since February 2007. Internationally, he is the Vice Chairman of the International Federation of Horseracing Authorities (IFHA), the world's highest thoroughbred racing authority, and Chairman of the Asian Racing Federation (ARF), which comprises over 20 member racing jurisdictions and is responsible for promoting horse racing within Asia. Mr. Engelbrecht-Bresges is also a

member of the Advisory Board of Aachen-Laurensberger Rennverein e.V., organiser of the World Equestrian Festival, CHIO Aachen.

In April 2006 Mr. Engelbrecht-Bresges was appointed to the Board of the Equestrian Events (Hong Kong) of the Games of the XXIX Olympiad Co Ltd, the company charged with managing the operations of the 2008 Olympic equestrian events in Hong Kong. He was appointed as a Justice of the Peace (JP) in July 2009. In June 2013, Mr. Engelbrecht-Bresges was elected as a Vice Patron of the Community Chest after serving as a member of the Chest's Board of Directors for six years.

Mr. Engelbrecht-Bresges joined the Club in 1998 as Director of Racing and was appointed Executive Director, Racing in 2000, at which time his portfolio was extended

to include responsibility for the Property Department. During this period he played a significant role in uplifting the quality and profile of Hong Kong horse racing to a world-class standard.

Prior to joining the Club, Mr. Engelbrecht-Bresges spent six years as CEO of the governing body of German horse racing and breeding, whose members include the representatives of racecourses, the Trainers and Jockeys Association and the German Breeders and Owners Association. A graduate of the University of Cologne in Economics, Finance, Statistics, Insurance and Business Administration, he has had a lifelong passion for horse racing and breeding thoroughbreds. He is also an avid football fan, and played football professionally in Germany before graduation.

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Second was the brand. The core of our existence is horse racing, but this was in decline. So one of the key strategies we developed was to “Revitalize Racing”, and to do this by a relentless focus on improving the racing experience, both in terms of the quality of the horses out on the track and the quality of the customer experience at the racecourse, in the betting branches, on-line, and all the other ways in which customers experience and interact with our product.

Thirdly, and most importantly, we had to grow the business and improve our customer base. This was spearheaded by systematic market research, which enabled us to identify specific customer segments, including those with a strong propensity to use our products and services and who are very price elastic. Based on this, and leveraging customer relationship management (CRM) technology, we were able to develop tailored value propositions that matched the needs of each customer group. An obvious target was the younger segment, who represent the future of our business, but who may not yet be familiar with racing, and who therefore need an attractive, relevant and accessible way into the sport.

To create this new customer experience, we decided to make a significant invest-

ment in rebuilding our racecourses, which are our core assets. Again, this involved a very systematic approach, with venues tailor-made to appeal to our customer segments.

In parallel, we also had to work on the external environment. Firstly, we had to work closely with the government to shift our tax model from turnover based to gross margin. That was important to be more competitive in relation to pricing and to build some level of sustainability into our financial base. Secondly, we focused on building our roots in the local community by increasing our participation as a charity organization.

So far, I think the results are very promising. From a customer base of 800,000 a decade back, we have managed to bring it back to almost 2 million in 2014. And when you consider our community contribution, that has grown from around HK\$975m (US\$126m in 2004) to HK\$3.4bn (US\$464m) in 2014. Likewise, our tax contribution grew in the same period from HK\$12b (US\$1.6bn) to HK\$19.6bn (US\$2.5bn).

So in terms of fulfilling our contribution to customers and community, I think we have done very well over a very short period of time.



Arthur D. Little: What in your opinion were the key factors for success in the transformation journey?

Winfried Engelbrecht-Bresges: We developed a very systematic transformation plan that we followed logically and thoroughly. This helped bring discipline to the change process, but it was also very motivating because it has given everyone a clear sense of direction and purpose. There were essentially five factors at work here, some of which I've already mentioned.

Firstly, we had to make the case for change – to demonstrate that not only could we no longer operate in the same old way, but also that there were very attractive possibilities for growth, both in our existing and new markets.

The second and third steps were to develop our customer centricity and segmentation strategy, as I have already described.

The fourth was to build our business planning capability and to hardwire the change



process into the organization through KPIs, with every business unit given clear tasks and accountabilities.

The fifth, was to develop the leadership capability of the management team, including bringing in top international and local talent, which, as I have said, involved recruiting top international talent.

Arthur D. Little: What was the support from the Board in this transformation program?

Winfried Engelbrecht-Bresges: The Board, which in the Club we refer to as the Board of Stewards, was very supportive. They recognized the need for change, but they also wanted us to proceed in a phased approach, so as to mitigate any risk. The Board also recognized the need to build relationships with key customers, particularly customers who wagered on multiple products, since that would create “stickiness” and significantly enhance the financial viability of the investments we were making in building the racing and wagering products.

Arthur D. Little: How important has the technology agenda been in the transformation program?

Winfried Engelbrecht-Bresges: Technology has always been one of the Club's key strengths and a core-differentiator from our competitors. It has provided an essential platform to drive cross-familiarization across different channels and segments.

This particularly applies to our younger segments, where we have created a racing entertainment experience which fits their entertainment and research information-driven behavior, providing them with a much richer and graphically attractive online experience.

Our ability to implement IT solutions has been well recognized externally as well. We have a massive IT operation. On a typical race night we handle more than 2.5 million transactions within a span of a few minutes, which is more than the Hong Kong Stock Exchange handles on their busiest day. This was why we have been chosen to support the China Sports Lottery as it develops its own capabilities in the China market.

Looking forward, IT is a key advantage that we want to build on. We want technology to be our key enabler for our next growth phase, supporting the development of exotic bet types and bringing a completely new and innovative sporting and entertainment experience, both to our customers



Picture by The Hong Kong Jockey Club

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and to the global racing industry. A good example is the IBU, or “Interactive Best for You” that we launched in 2012. This is the world’s largest multi-touch entertainment table interface, and it provides a totally new entertainment experience for novice customers or for customers who want to wager in a more interactive and sociable environment. This is an absolutely unique solution.

Arthur D. Little: The club continues to build performance every single year, both in terms of what it brings to its customers and the underlying financial performance. What do you think will be the key challenges that the Club will face in the coming five years?

Winfried Engelbrecht-Bresges: The biggest challenge for the Club today is succession planning. However, this is not solely an issue for the Club, as the entire industry is facing a similar situation. What is unique to the Club is its culture, and that creates even more difficulty in addressing the talent gap.

In terms of our customers, as we move into the next stage of our growth and provide a stronger digital experience, I am keenly aware that we are entering a new era of change. With a broader digital platform, the competition will change again for us, and this time it will be tougher. On the digital platform, we will compete with a much

wider and well-established set of competing forces providing varied entertainment options for our customers.

In short, I believe we are now entering one of the most interesting phases in the Club’s history.

Arthur D. Little: How is the Club preparing itself to face these challenges in the future?

Winfried Engelbrecht-Bresges: This growth and transformation journey is as much a commitment and change in mindset as in action. This is where we still need to do more work. For example, we still operate in silos in some ways. That part of our legacy is not completely gone, but we are changing and working hard on it.

The key is building an organization that can transition through this change. That is the future organization I would like to create – an organization which will sustain itself through this next phase of growth.

This sustainability will be driven not only from the inside but also from the outside, in terms of what we deliver for the community. Indeed, we need to stay close to our reason for being – which is to help the community grow and develop. This, I believe, will be the key to our long-term sustainability.



About The Hong Kong Jockey Club

Horse Racing in Hong Kong began in 1841 with the arrival of the British, who drained a malarial swamp on Hong Kong island to form the present Happy Valley racetrack. The Hong Kong Jockey Club itself was founded as an amateur racing club in 1884, with racing becoming fully professional in 1971 following the licensing of professional jockeys. The Club then went on to open its second racecourse in at Sha Tin in 1978. Today, The Hong Kong Jockey Club is widely recognized for its world-class excellence in horse racing. It

also operates the Mark Six lottery, and in 2003 was authorized by the government to operate football (soccer) betting. In addition, the Club runs one of the most prestigious membership facilities in Asia.

A not-for-profit organization, the Club promotes socially responsible betting and contributes significantly to the improvement of society by donating its surplus after operating costs to charitable and community projects. In 2014/15 the Club gave close to US\$ 500m to charitable

projects in Hong Kong. The Club is also the single largest tax payer, paying US\$2.57 billion in 2014/15 to the Hong Kong government, and is instrumental in maintaining Hong Kong's low tax regime.

The Club's current success is the product of more than a decade of transformation, launched with the twin objectives of building the Club into a center of world-class racing excellence and widening its charitable and commitment to the Hong Kong community it ultimately serves.

Arthur D. Little: What will drive the future for the Club?

Winfried Engelbrecht-Bresges: There will be three areas that we need to prepare for as we set out our future strategy.

Firstly, we need to be conscious of the challenges that come with an ageing population. The impact on customers will be significant, and we need to be aware of and adapt to that.

Secondly, we need to build our plans around younger segments and continue to build ourselves as a sporting brand for the younger generation. Our Vision 2020 is a response to that, focusing on building the next generation of assets and customer experience.

The third factor is that we need to adapt our future plans to the economic integration of Hong Kong into Mainland China, and especially into the Pearl River Delta.

All these three areas will need to be factored into our future strategy.

Arthur D. Little: What would your advice be to new CEOs?

Winfried Engelbrecht-Bresges: I have three key messages.

Firstly, focus on speed. Today, if I had to choose between a smooth transition and a fast transition, with the benefit of experience, I would choose the latter.

Secondly, and most importantly, when leading an organization through change, focus on building organizational capabilities every single day. It is not something you do at a particular point of time in the plan, but something you need do every single day.

Thirdly, and most importantly, besides good, systematic planning, use your intuition and instincts. They are sometimes the best guide you have when everything is changing around you.

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