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Coming Out Ahead While Losing a Partner: The Thoroughbred Industry Stays on Course

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Abstract

Purpose

In many industries firms collaborate as business partners, which helps them achieve superior outcomes and ensure survival in a crisis. Business relationships help companies access limited resources, share information, and build trust within the community. This paper highlights strategies that firms can use to adapt to the loss of a business partner.

Design/methodology/approach

We consider qualitative examples from what happens when a business partner disappears in the Thoroughbred horse industry. We draw attention to several types of partner loss due to firm bankruptcy, owner death, and strategic restructuring.

Findings

Our paper proposes a framework of strategies for surviving the loss of business partners. Specifically, surviving partners may respond by strategic distancing, relationship self-repair or reconfiguration through asset purchases, or mimicry by minimizing exit risks.

Practical implications

The proposed framework can be used by strategists and managers to determine a course of action when faced with the loss of a business partner. Managers can quickly respond to a partner's exit with the appropriate action to distance their business or stabilize alternate relationships.

Originality/value

The novel framework, informed by examples from the Thoroughbred horse industry, conceptualizes an important theoretical and practical problem. The paper proposes strategies for how businesses react and adapt to survive after losing a business partner.

Keywords: business relationships, owner death, bankruptcy, exit, partnerships

In many industries, firms collaborate and cooperate as business partners in buyer-supplier relationships, strategic alliances and licensing agreements. The business relationships formed between firms contribute to their mutual success and superior returns over time. They allow firms to acquire resources, develop capabilities, seek other partners to form alliances, and share trusted information. However, business relationships can also be deeply affected by a partner's exit from the industry. We analyze the strategies available to surviving firms in a broad, real-life context by examining the impact of relationship loss on the surviving partner who continues to participate in the industry. We use in-depth qualitative examples of market exits to create a rich conceptual description of strategies that companies can deploy to weather the industry exit of a business partner.

Our paper posits a framework of response strategies to partner loss based on examples of relationships in the thoroughbred horse industry. The horse breeding industry accounts for $122 billion in the U.S. economy (American Horse Council, 2018) and includes 5000 different firms participating in breeding transactions annually. In this industry, firms collaborate to create new products (racehorses) and sell them at auction. The business relationships among firms are vital to their success. We focus on three types of market exits and their effects on surviving business partners, who may benefit from or be hurt by a partner's disappearance. The outcome of the exit depends on the circumstances of the exit and on whether the surviving partner can obtain information about the exit and acquire the defunct partner's resources. We conclude with recommendations and practical implications for surviving businesses.

Business Relationships in the Thoroughbred Industry

In the US, the horse industry is primarily based in Kentucky, where horses are bred for racing, sold at auction at various ages, and trained for racing. Firms collaborate as business partners to breed horses, decide on veterinary care, and cooperate with auction companies that promote and sell the horses. Many companies partner with each other to acquire new capabilities to enhance their performance and supplement resources (Fudge Kamal *et al*, 2021). The thoroughbred horse industry is well suited as the context for considering the impacts of market exits on the business relationships for surviving firms. A firm exiting the market impacts its current business partners as the firm's resources may become unavailable to future alliances and partnerships. The surviving partners may need to expend funds to counteract the exit's potentially adverse effects, find a new business partner, or purchase assets from the exiting firm.

Firms can have different reasons to exit an industry: mismanagement causing bankruptcy, sudden death for a family-owned company, restructuring and divestiture, or a negative shock to the economy. The exiting firm's surviving business partners will have to shift their activities to account for the loss of relationships with that firm. If they were sharing assets, they must find other partners who have those assets and enter new relationships (Nistor and Selove, 2020). The surviving partner incurs new search and transaction costs and new risks. If the exiting firm was a competitor, the surviving firm might benefit from the exit by increased demand for its services or products. Thus, we can theorize that after a market exit, regardless of why a company exited, the remaining relationships will undergo a period of change that can challenge surviving firms.

The entire industry is affected by a firm's exit. Direct business relationships will be more greatly impacted than others. Thus, a surviving firm should take deliberate strategic action to compensate for a partner loss.

Large and well-connected firms heavily impact their partners so their exit will be felt more intensely. For example, the Phipps family is one of American horse racing's most important family dynasties. Ogden Phipps features heavily in the story of Secretariat, perhaps the greatest racehorse in the United States, despite not directly owning an interest in the horse. When Ogden Phipps, former Chairman of the Jockey Club, died, his prized Phipps Stables' mares were dispersed (Mitchell, 2016). Industry players saw this as an opportunity to gain access to bloodlines typically closely held by the family. Daisy Phipps Paulito reflected on the consignment, "We think other people can have more success with than we did. … It is something we have not done in a long time and something that really needed to be done." (Mitchell, 2016) Exiting firms that are more important, or more connected to other firms, may have a larger impact on their surviving partner's business outcomes.

Some firms have an outsized importance in their business relationships. Their exits will have a profoundly disrupting effect on the remaining partners. The partners' actions following the loss will determine their survival and should account for the factors surrounding the partner's exit.

Survival Strategies After Losing a Partner

[Insert Figure 1 Here]

In the thoroughbred horse industry, business exits are an opportunity for other businesses to acquire the coveted bloodlines that belonged to the exiting firm. Yet that opportunity may not be equally available to all the business partners. We present three examples of firm exits for different reasons: (1) bankruptcy precipitated by poor management and misconduct, (2) dispersal caused by the owner's death, and (3) dispersal of a business location due to consolidation of assets in another location. We use the following examples to inform our conceptualization of how surviving partners react following an exit and how their actions, coupled with the cause of the exit, impact their remaining business relationships.

Calumet Farm: A Bankruptcy Precipitated by Bad Management and Risk-Taking

William Wright founded Calumet in the 1920s. The farm started to breed and race standardbred horses but gradually moved to thoroughbreds. For about 20 years, Calumet Farm dominated horse racing and received many awards. After Lucille Wright, William's widow, passed, Wright's son-in-law, J.T. Lundy, took control of the operations and ordered millions of dollars of infrastructure renovations and spent large amounts of money for stallions based on loans that used the farm and the existing stallions as collateral (Beyer, 1992).

The farm's most prized stallion, Alydar, had a stud fee as high as $450,000, and Calumet Farm easily took out loans with Alydar's stud fees as collateral. However, when the markets crashed in the 1990s, Alydar's stud fee was cut in half (Beyer, 1992) and the horse suffered an injury to his leg that led to his death.

Calumet collected over $25 million in insurance money, but it was insufficient to save the heavily indebted farm. In 1991, J.T. Lundy resigned and the company entered bankruptcy with its debt exceeding $135 million (Bill, 1999). The farm had extensive relationships with other businesses. However, its former partners were reluctant to step in to purchase the assets due to potential legal issues associated with risky and questionable behavior under Mr. Lundy's management. There were suspicions that Alydar's death was not an accident (Beyer, 1992). Even Calumet's valuable genetic lines could not overcome this reluctance. Bill (1999) notes "Lewis Burrell Sr., who with his son, rap star M.C. Hammer, and other family members have spent millions of dollars this year on bloodstock, is interested in buying a farm, but he said this week that Calumet is too expensive and he would have concerns about its legal entanglements."

Calumet is a classic example of a company that declined due to misconduct. When Alydar, the top producing stallion, suffered an accident, the surrounding firms suspected foul play based on industry experience and knowledge about horse temperament. The other actors did not make their suspicions public due to a lack of proof and their desire to protect the industry's reputation. Hollandsworth (2001) noted that "It was difficult for Kentucky horse people to believe that such a calamity could have happened. A few of them quietly said they were haunted by the strange circumstances of Alydar's death. […] Yet there was never an official investigation into the events of that night. No public accusations were made. As everyone in the horse business knew, horses could be unpredictable, and they could also be fragile. Alydar's death, no doubt, was one of those accidental, heartbreaking tragedies that no one could have done anything about."

The business partners included insurance companies deeply connected in the industry, veterinarians, other breeders and competitors with horses for sale who were worried about the industry's overall reputation. As Hollandsworth (2001) pointed out, the players in the industry quietly distanced themselves from the exiting firm: "Yet in the end, Golden Eagle officials [insurer] decided not to challenge the circumstances regarding Alydar's death, and they too paid off the claim. "It was as if those who made a living off the big horse farms—like the insurance adjusters and the veterinarians—realized it was not in their best interests to rock the boat" […]"Why risk losing any future business by asking too many questions?" Even breeders from competing farms were hesitant to talk about an event they knew could make the entire industry look bad. "There was this fear that a scandal about Alydar would deeply hurt the public's perception of horse racing," says Tomala. "So people started circling the wagons."".

The prosecution provided evidence that the death was not accidental at Mr. Lundy's trial in 2000. He was convicted of fraud and served a prison term (Biles, 2005). The company went bankrupt in 1991, but there was no rush to acquire its resources or continue the breeding and racing tradition. The local business partners unequivocally suffered from Calumet's history and subsequent exit. Firms like Calumet, which disappear due to toxic circumstances such as misconduct or bankruptcy, damage the entire industry. Surviving partners question the trustworthiness of the exiting firm, while more distantly tied firms seek validation and legitimacy signals needed to maintain their reputation in the industry. In cases of corporate misconduct, alliance partners may distance themselves from problematic partners where relational uncertainty and stigma anxiety are high.

We point out that the business structure partnership can suffer **irreparable damage** if a **toxic firm exit** occurs. Toxic firm exits are situations when firms leave an industry due to misconduct. Their surviving partners may distance themselves from the bankrupt company, refuse to acquire their assets, and even dissolve indirect relationships with other joint partners to preserve their own reputation and brand. Surviving partners are forced to seek relationships with new partners in marginal or distant areas of the industry and may become more innovative. Such dramatic changes encourage partners to move away from rigid structures, seeking broader connections away from the toxic firm.

Firm exits due to misconduct (or bankruptcy) are detrimental for direct relationships. ***Toxic firms*** *that exit cause* ***irreparable damage*** *to existing relationships. Surviving firms may choose a strategy to distance themselves from the exiting firm and they may improve their long-term outcomes by seeking new ventures and new business partners.*

Springhill Farm: Owner's Legacy Impacted the Business Relationships

Springhill Farm, based in Virginia, was founded by Edward P. (Ned) Evans in 1969 when he purchased the land. Springhill Farm bred more than 100 stakes winners (Biles, 2011). Evans, the owner, died suddenly in 2010 and led to his stock of horses being sold and the firm exiting the industry. However, his business partners helped their relationships self-repair by acquiring the exiting firm's horses, the most important assets for a firm in this industry.

The auction companies hold eight major yearling auctions each year, where most of the players in the industry purchase horses. At the Evans dispersal, the auction company printed leather-bound catalogs with details of the dispersed horses for the other major players (Biles, 2011), highlighting the entire industry's desire to keep the assets locally. The owner's reputation was emphasized in advertisements for the assets. For example, several news articles at the time contained interviews of major businesses describing Ned Evans' acumen for business and for selecting horses. "You could talk for hours about Ned Evans," Farish said. "He was a fascinating guy and he looked at things differently from most people. He had real beliefs about how successful breeders achieved success." (Biles, 2011)

The surviving firms guaranteed to other firms in the industry that the dispersed horses were of high quality. Lane's End Bill Farish stated "Ned sold successfully as well as raced successfully, which a lot of people don't think you can do […] He sold to take care of some of the expenses (of his farm) and he had a track record of not just selling culls; he sold [future champion horses such as] Saint Liam." (Biles, 2011) Throughout his career, Evans enjoyed the respect of his employees and business associates and received praise for his business acumen in training stakes winners. Following his death, the subsequent dispersal of the horses remaining on the farm was a highly anticipated but also bittersweet event for the industry: "For us, there are a lot of mixed emotions; we worked with Ned for many years," said Lane's End's Bill Farish. "While it's an enormously impressive catalog of horses, seeing an operation like this disbanded is sad. Ned experienced so much success and unlike with some dispersals, things are really peaking right now as the horses are about to be sold. There is so much going on in those pedigrees that makes the dispersal very enticing to buyers. You can't help but pick up that catalog and think, 'What can I get out of there?'" (Biles, 2011)

Evans's reputation as an astute horse breeder and respected businessman in the industry has endured. The horses he bred at Springhill are still considered his horses, and their successes are well-known. In 2018, the industry celebrated the wins at the Breeders Cup: "It was also a meeting of which the late Edward P. 'Ned' Evans, former chairman of Macmillan publishing, might have been particularly proud.[…] Many were the products of families integrated into Springhill over an extended period, and the subsequent cultivation and level of investment was such that today a Ned Evans family[…] remains easily recognizable and highly sought after. Nowhere was that more evident than the Evans dispersal sold at Keeneland through Lane's End Farm after his death in 2010, which turned over $62,347,000 for 220 horses sold. […] Six years on following his dispersal and the Evans name continues to burn bright […]" (Sexton, 2018) The firms that purchased the dispersed horses can still associate themselves with Springhill Farm's legacy, which indicates their desire to keep a placeholder firm in the space left by the exiting firm. As Chris Baker, manager at Springhill Farm for 11 years, pointed out in 2018, "Mr. Evans would have been extremely proud of how all of his families have carried on, especially Gun Runner's accomplishments to date in racing and Quality Road's accomplishments at stud." (Sexton, 2018)

Informed by the example of the industry rallying around the memory of Ned Evans, we posit that in some circumstances surviving firms may adjust and repair the relationships by substituting the exiting firm**.** Several conditions can aid the process: if the exiting firm has assets that can be acquired and it exits because of an unexpected exogenous effect (such as owner death). These processes allow the relationships that disappear to be regenerated among the remaining firms.

Sudden owner death exit from industry has a subtle impact. If the partners can acquire some assets, then the impact of the exit can be positive or at least *mitigated by the direct relationships regenerated among surviving firms. Thus,* ***relationships can self-repair*** *without the exiting firm****.***

River Edge Farm: A Consolidated Company Whose Exit Added Uncertainty for Local Partners

Marty and Pam Wygod became farm owners in 1975, and in 1995 acquired River Edge Farm in California. River Edge became a very successful operation. It was an important location for the Wygod breeding operation, with 44 horses of their 63 stakes winners located at River Edge. The farm led breeding in California from 2006 to 2008 (Shulman, 2010).

In 2010, Wygods decided to exit their horse breeding operations in California and focus on their business interests in Kentucky. The company emphasized placing their prized horses in a dispersal that allowed their former local business partners to purchase these bloodlines. Marty Wygod said, "We have confidence that these mares and stallions will continue to do well in the future, and we will continue to support the stallions. But going forward our primary focus will be breeding and raising horses in Kentucky." (Shulman, 2010). The consolidating firm expressed its desire to stay connected with former business partners: Wygod was quoted, "We hope whoever ends up with the weanlings, mares, and yearlings have the greatest success, and I'm rooting for them" (Gantz, 2010b). Bill Baker, vice president and controller of Barretts, the auction company in charge of the dispersal, said: "The dispersal is a great opportunity to purchase mares, foals, and yearlings that are a product of such a magnificent breeding program" (Gantz, 2010a).

The former partners were thrilled to have a chance to access these bloodlines but also worried about the impact on the local breeding industry in California. All influential players in the industry attended the dispersal sale, with buyers purchasing horses for firms as distant as Arizona, which further worried local partners about the future of California breeding operations. For example, Shirley Kimball was the leading purchaser during the Wygod dispersal, buying six mares for breeding with her stallion, Tale of the Hills (Gantz, 2010b). These strategic purchases captured a prized bloodline (of Bertrando) that first became available with the consolidation, “I am probably the biggest Bertrando fan there is. […] I watched him as a racehorse. I would ditch work to watch him run.” (Gantz, 2010b).

The end of the prominent River Edge Farm was a further blow to several noteworthy operations in the Santa Ynez region. Bertrando, one of the Wygod’s top breeding horses, was leased to Bella Vista Farm, which is located several hours away. A year later the horse was no longer reproducing offspring. In 2020, Bloodhorse magazine noted the transition to wine production for the region (Fernando, 2020). Since 2010, the number of new racehorses born in California had declined and was half of the crop size when River Edge Farm closed, indicating that some surviving firms also reduced their operations in the area following the exit. Thus, when firm exits occur under high environmental and strategic uncertainty, the remaining firms may struggle to assess appropriate strategies. The surviving firms will guess the reasons for the exit and weigh whether the exit is sudden and driven by exogenous conditions or whether the exit was strategic and thus a harbinger of extensive problems in the industry. Due to this uncertainty, some firms may preserve prior relationships while others distance themselves from the exit.

*Strategic firm exits can bring about a **larger context of uncertainty** if the remaining firms are unable to get trusted information about the exit. In such situations, surviving firms may use **mimicry** and invest in **mitigating exit risks** if they consider the exiting firm to be a harbinger of extensive industry-wide problems.*

Implications for Business Relationships

Our work has important managerial implications for surviving firms who experience a business partner's exit from the industry. Managerial actions could include:

(1) Creating pre-emptive public relations campaigns to deflect adverse effects from a toxic firm exit that could damage brand reputation if their firm has a direct relationship to a firm whose bankruptcy stems from fraud or mismanagement. Further, companies can seek new business partnerships

that are not closely related to their current toxic partner, which may in the long-term lead to more innovative outcomes.

(2) Sweeping quickly into action to purchase valuable assets from the trusted exiting firm, if the exit was by planned consolidation or caused by sudden death. Surviving business partners can benefit from acquiring resources and substitute for the exiting partner in related business transactions.

(3) Seeking more information from trusted business partners if they are not a direct partner but are worried about a distant firm exiting. Distant business partners should proceed with caution unless they are able to determine the cause and circumstances surrounding the business exit directly. Firms may start mitigating exit risks for themselves. They may also prepare to exit themselves if they determine that the partner's exit reveals industry-wide problems.

We use examples from the thoroughbred horse industry to understand firm exits and their effect on the surviving firms' strategies. This industry is an important business-to-business context in which firms routinely collaborate as business partners. This industry context allows us to examine relationships where firms exchange both assets and information.

Conclusion

Firms can use business relationships to develop capabilities, to acquire assets, to share information and to find partners with other firms. At the same time, firms can impact these business relationships and the larger industry with their exit because they will remove assets and capabilities, decrease the productivity of partners, and create mistrust in the industry. Our paper conceptualizes three different business strategies for surviving partners. We consider situations where a firm exits because of toxic events, and thus the surviving firms do not want the relationships to mend and may instead seek new partners and improve innovation over the long term. We include examples and propositions for relationships to self-regenerate. Finally, we point out the value of obtaining trusted information and trying to resolve uncertainty to decide whether mimicry should lead surviving firms to exit.

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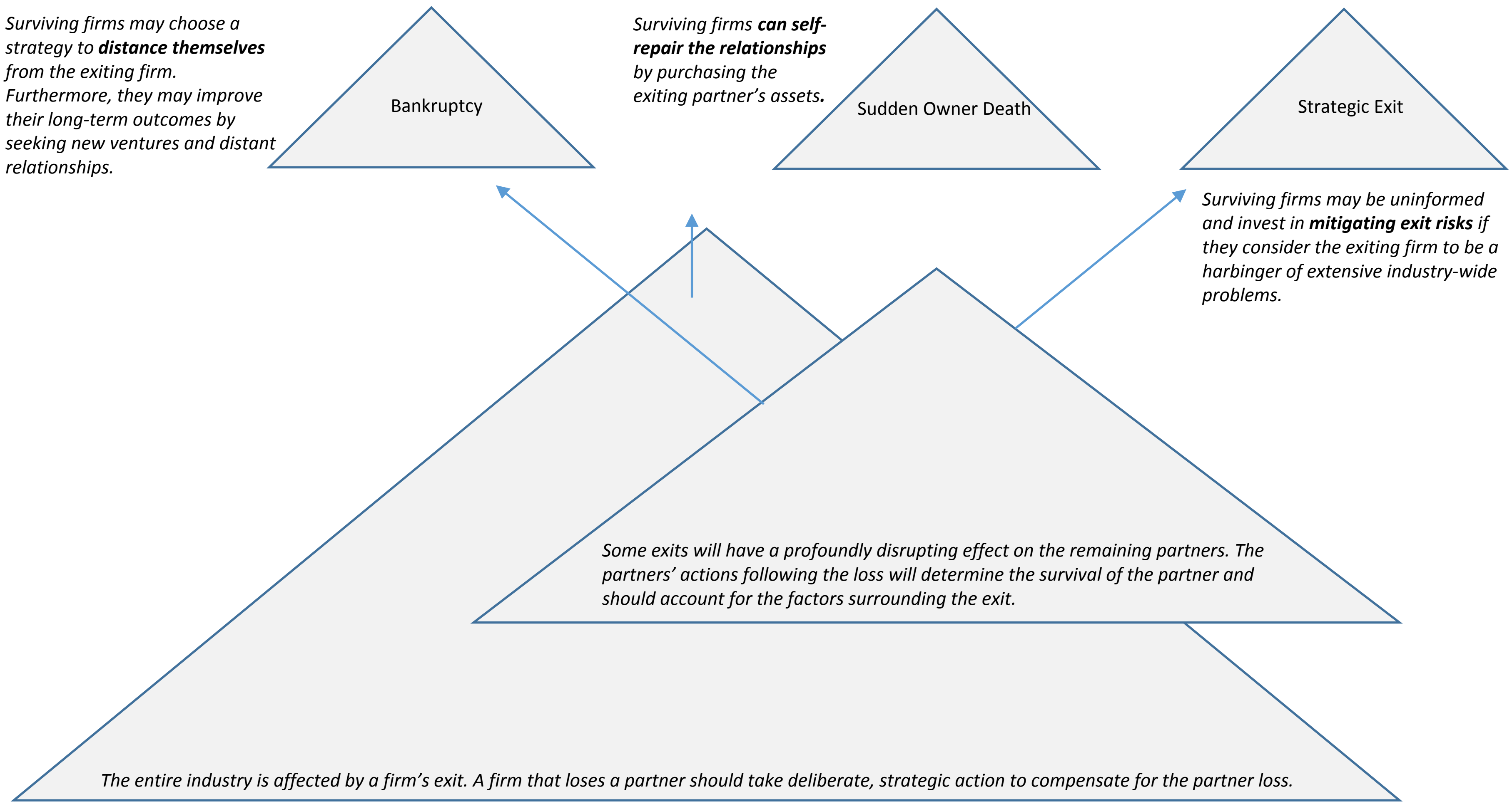
Surviving firms may choose a strategy to **distance themselves** from the exiting firm. Furthermore, they may improve their long-term outcomes by seeking new ventures and distant relationships.
Bankruptcy
Surviving firms **can self-repair the relationships** by purchasing the exiting partner's assets.
Sudden Owner Death
Strategic Exit
Surviving firms may be uninformed and invest in **mitigating exit risks** if they consider the exiting firm to be a harbinger of extensive industry-wide problems.
Some exits will have a profoundly disrupting effect on the remaining partners. The partners' actions following the loss will determine the survival of the partner and should account for the factors surrounding the exit.
The entire industry is affected by a firm's exit. A firm that loses a partner should take deliberate, strategic action to compensate for the partner loss.