

The world's most exp

Formula One motor racing attracted over 500m television viewers last year making it the world's most-watched annual sports series. An increasing number of emerging markets are harnessing its power to drive tourism, writes **Christian Sylt**, but it doesn't come cheap

At the end of this month Formula One's British Grand Prix comes to the Silverstone race track in Northampton and it will give the Midlands the shot in the arm it needs after months of wet weather have put a dampener on tourism receipts. The British GP is almost an industry in itself but, like many of its counterparts in Europe, it is under threat from rival races in emerging markets which are prepared to pay whatever it takes to secure a slot on F1's exclusive calendar.

Last year the British GP had the highest attendance of the 20 races on the F1 calendar with a crowd of 127,000 there for the main event on Sunday. If you count the spectators who were watching the build-up races over the two days beforehand, the total comes to 297,000. It has a significant impact on the UK's hospitality industry.

According to a 2008 report by SQW Consulting, 53,000 of the visitors stay in hotels and the benefits of this are felt far wider than the local area since Northamptonshire itself only accommodates around 9,000. The spectators' spend on accommodation comes to an estimated £5m which is around 10% of the total economic impact of the race.

Helicopters

Then comes £8.8m spent on merchandise and £7.7m spent on food and beverage. Even spending on helicopter trips over the three days of the race meeting alone came to a cool £1.7m. In fact, the world record for the busiest airport on one day is Silverstone's heliport during the 1999 British GP when there were 4,200 aircraft movements. It has dropped a little since then with 3,200 people using helicopter services in 2008 at an average fare of £520.

Despite this impressive contribution to Britain's economy, the race does not receive any government funding and this is why a question-mark ultimately hangs over its long-term future.

The SQW report concludes that the British GP is responsible for the creation of 1,358 full time jobs and 4,650 temporary staff are required to pull it off.

Surprisingly, paying them is not the biggest single cost involved with the race. Instead, its most significant expense is the annual hosting fee paid to the London-based F1 Group which controls the sport and is run by British billionaire Bernie Ecclestone.

Hosting fee

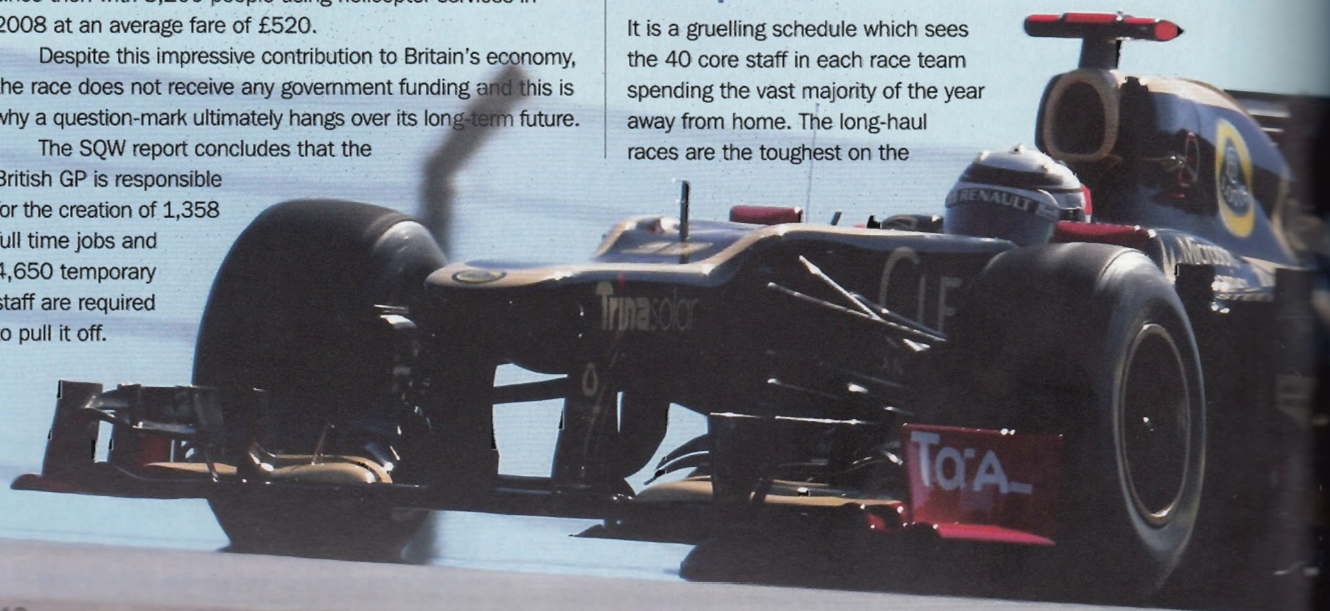
The British GP's hosting fee comes to an estimated £14.4m (\$22m) annually which is far from small beer but is actually below the F1 Group's average of £17.7m (\$27m). The most recent accounts for the F1 Group are for 2011 and show that its biggest source of revenue was race hosting fees which generated £335.2m (\$512m). The more races it adds, the more money it makes from fees but that's not all.

The race tracks' sole source of income from F1 is generally ticket sales with a small amount coming in from renting plots to merchandise and food and beverage stands. Revenue from F1's television rights, trackside advertising and corporate hospitality at the races goes to the F1 Group in almost every case. It means that each Grand Prix brings in a total of around £29.5m (\$45m) to the F1 Group so adding more races is the easiest way to boost its revenue which came to £1bn (\$1.5bn) in 2011. However, it isn't that easy.

This year's F1 calendar has 19 races on it with six back-to-backs in different countries. Just three days after the season-opener in Australia, the teams were setting up in Malaysia and later this year they will have a similar gap between the dust settling on track in Texas and the final race getting under way in Brazil.

Global profile

It is a gruelling schedule which sees the 40 core staff in each race team spending the vast majority of the year away from home. The long-haul races are the toughest on the



ensive tourism advert

staff, and cost the most to travel to, since eight of the eleven teams are based in the UK. To prevent them from being put under further pressure, the top three teams – Ferrari, McLaren and Red Bull Racing – have put a limit on the number of races in each season. This is written into their commercial agreements with the F1 Group and it requires their consent if there are more than 20 races on the calendar.

Next year it will hit this limit with the addition of a Russian GP on the winter Olympic Games site in Sochi. Although the F1 calendar will not be able to grow any bigger it isn't stopping Ecclestone adding races as he has come up with an innovative method of growing F1's revenues.

Over the past decade F1's accelerating TV viewing figures have brought the sport to the attention of emerging markets looking to increase their global profile. Hosting an F1 race puts them on the sporting map alongside developed nations such as Australia, Britain and Monaco. The tremendous visibility promotes tourism so governments of nations in the Middle East and Asia are prepared to directly fund the hosting fees for their races.

Exclusivity

Interest from them has fuelled an arms race in hosting fees as emerging markets battle each other for slots on F1's calendar. Ecclestone has added to the effect by giving exclusivity to certain races. ▶



The governments of countries such as Malaysia pay the steep fees to host Formula One



The British Grand Prix still has the highest attendance of all races



Lewis Hamilton signing autographs. F1 attracts mostly well-off and educated audiences

FEATURE

“ According to the UNWTO, countries that have joined F1's calendar since 1999 have had an average rise in tourism of 69% ”

For five years Bahrain had the status of being the only race in the Middle East until Abu Dhabi joined in 2009. Likewise, Singapore is currently the only night race on the calendar.

With deep-pocketed governments on the hook Ecclestone has been able to hike up the hosting fees with the price paid by organisers increasing by up to 10% annually. It has boosted the cost of the average annual hosting fee by £10.3m (\$15.7m) over the past decade.

In turn, many races in F1's European heartland have been priced out of the market. European countries don't need to use F1 to promote tourism so their governments tend not to fund the hosting fees. Accordingly, F1 has added seven new races in Asia to its calendar since 2003 as ones in countries like China and South Korea have replaced Austria and France.

Quality

It isn't just the size of F1's audience which is attractive but also the quality of it. According to the F1 Group's annual Global Broadcast Report, in China, F1 fans are three times more likely to be university educated than the general population and around 70% of the Indian F1 audience is from the top AB socio-demographic.

Using sports campaigns to promote a country pulls at the viewers' heart strings more than typical advertising and F1 offers perhaps the most emotional link of all as tourists can stay on the same streets where their heroes have raced.

This effect is magnified when the circuits are on city streets as local landmarks can become inseparable from the racing action. It isn't the only benefit as although purpose-built tracks take years to build, street circuits take just over a year to prepare. This gives their hosts quick access to the attractions of F1 and means that there are no fears of being left with a white elephant if they decide to quit when their contracts expire.

Location

Location of the host city is even more important than the location of the track itself. On average 40% of spectators at F1 races are not from the local area and the higher this figure, the wider the promotion and the bigger the spending on local hotels. So whilst a race in a densely-populated renowned city makes a great advertising flagship on TV, one



New races in Asia have replaced ones in Austria and France

in an area with outlying cities stands a greater chance of having higher visitor spend.

With a population of just 1.8m the city of Austin in Texas is the best example of the latter. The race there joined the calendar last year and its race-day attendance was the second-highest after the British GP with 117,429 spectators in the stands. It brought an estimated £227.5m (\$347.4m) of local economic impact because although Austin is only the 33rd-biggest metropolitan area in the United States, there are much bigger cities nearby including Houston and Dallas.

Smith Travel Research reported that over the five-day period ending on Sunday 18 November, when the race took place last year, hotels in the Austin area took in £21m (\$32m) - triple the amount made during the same period the previous year. Hotel occupancy in downtown Austin the night before the race averaged at 97.8% with guests paying an average rate of £196.70 (\$300.44).

In comparison, average rate on the same day the previous year was £72.93 (\$111.40).

Power

Even beverage takings got a sharp boost as Austin alcohol sales for November 2012 were 23% higher than the same month the previous year. The Circuit of the Americas, which hosted the F1 race, sold more beer, wine and mixed drinks in November than any other venue in Texas and made £1.8m (\$2.8m) from this alone.

Perhaps the clearest indication of the power of hosting a race is that according to the United Nations World Tourism Organisation, countries that have joined F1's calendar since 1999 had an average rise in tourism of 69% by 2011. The best performer has been Malaysia which experienced a 343% increase in the number of international tourists visiting annually since it hosted its first F1 race in 1999.

Races in Thailand, Mexico and Hong Kong are understood to be under discussion but one obstacle is in their way. Ferrari, McLaren and Red Bull Racing also have clauses in their contracts requiring their consent if more than 60% of the races are held outside Europe, the United States or Canada. It currently stands at 52.6% so these teams really do hold the keys to F1's future. ■

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