



PADDOCK TALK

Experts in commercial landscape of Formula One met at *SportBusiness International* headquarters last month to debate the real extent to which stakeholders in the sport are achieving ROI. Will Formula E be competitive to Formula One? Is the sponsorship proposition as attractive to brands as it has been in the past? And who should replace Bernie Ecclestone when he leaves the sport? All of this, and more, was discussed in depth.

TALKING POINT 1: COULD FORMULA E TAKE MARKET SHARE OFF FORMULA ONE?

DAVID WEBB: No other motor sport series offers a CSR element like Formula E, however sponsors are still only dipping their toe in the water with it because its success is yet to be proven. They will remain quite cautious until at least after the first race in Beijing [on September 13]. Formula E is also still being compared to Formula One; its point of sale is not that it is the fastest motor sport series - especially compared to Formula One and GP2 - so the organisers should focus on the futurist aspect of Formula E.

HEIDE COHU: For a young consumer, and for our brands, CSR and environmental concerns are really important. But [Bacardi brand] Martini sponsors Formula One for its global reach and the lifestyle around the sport. I really admire Formula E for building something new - especially in motor sport, which has seen

years and years of establishment - but Formula E racing will need to be as exciting as Formula One week-in, week-out, with a truly global impact.

OLIVER WEINGARTEN: There's always a risk that Formula E could be a novelty. The first year is crucial. It is almost comparable to Formula One's inaugural Austin grand prix, when people were questioning whether the organisers could maintain the momentum after their successful first event. But they did. I don't think that Formula E will take away a share of Formula One audiences; it should only complement and enhance it. This is because it should attract a younger demographic that may also migrate across to Formula One. Additionally, the calendars don't conflict too much, and with Formula E being in the winter and positioned as a fusion of sport and entertainment, it can only complement with the main attraction. Some of Formula E may be seen as a gimmick - such as being able to give drivers the Fan Boost [using a public vote to determine which drivers are given extra power to deploy during a race] - but

the interactivity is part of the appeal. Fans don't just consume races on traditional TV anymore. Everyone is using a phone and tablet so it makes sense to engage with them during the race.

CHRISTIAN SYLT: I agree, because Formula E will really appeal to the video game generation. If you look at how much revenue is derived from that sector, it's a really good way for Formula E to approach that market.

NIGEL GEACH: Formula E will also enhance Formula One by attracting audiences to city centres to watch the races - they won't have to travel out of town like they do for most Formula One grands prix. The problem is people have been unfairly comparing it to Formula One and also A1GP. One has to look at it in the perspective of any competition being good for the industry.

OW: Formula E is essentially one race day that is surrounded by entertainment. They've really gone out to the fans and have said 'This is for you and we want you to be engaged'. You can already see how the drivers are interacting with fans on Twitter, and the Fan Boosts...that's what some perceive Formula One currently lacks - things that bring the fans closer to the sport. Something that I have been shouting about for a long time is that Formula One drivers are not big enough stars - they're not high profile enough. How many drivers would be instantly recognised if they walked down the street, compared to footballers?

NG: Formula E's TV audiences won't be impacted by where the races are being held, it'll be more of a factor of how many races they have and whether they clash with other sports events such as the FIFA World Cup, which took some of Formula One's audiences this year. If Formula E gets good broadcast schedules beyond its current deals with CCTV5, ITV4, Fox and ESPN - that's the most important thing.



It is also impressive the way organisers have marketed Formula E. Just look at the column inches Formula E gets compared to Formula One in the business and national press - and the series hasn't even started yet.

OW: Formula E could essentially use Beijing as a test race - the organisers can live and learn from it rather than treat it as a flagship event. Regarding its Malaysian grand prix clashing with Formula One's final race in Abu Dhabi, I think it is a fantastic thing because people will watch Malaysia on Saturday and think 'I've now got a fix for motor sport so I'm going to watch Abu Dhabi on Sunday'.

NG: Competition creates a market. Audience figures are generally plateauing in motor sport, so anything that can rejuvenate should be supported. Just look at the recent success of the WEC (World Endurance Championship). There is so much that the young generation is being bombarded with on TV, anything new in motor sport will have a good effect.

CS: Formula E is essentially trying to create a new audience, rather than trying to attract existing motor sport fans.

DW: If Formula E does reach the younger and more digitally-advanced audience, then that's where their success will lie because Formula One hasn't yet caught up to this demographic.

NG: The Formula One app that FOM (Formula One Management) launched is actually really good - yes, you have to pay for it, but it's a simple way to reach this audience. The Wimbledon app made tennis - a sport that traditionally attracts an older generation - more accessible to young people. That alone created a talking point and essentially a new fanbase, and motor sport can learn from that in terms of how to create a buzz. ■



Heide Cohu
Global Consumer Experience and Engagement
Director, Bacardi

Cohu is responsible for leading the global consumer activation of Bacardi, Grey Goose, Bombay Sapphire, Martini and Dewars in key international markets. Prior to Bacardi, Cohu spent seven years at Red Bull where she was global brand communications and media house director.

Nigel Geach
Senior Vice-President Motorsport, Repucom

Based at Repucom's offices in the UK, Geach is an expert in commercial trends in motor sport. He joined Repucom in June 2012 when Sports Marketing Surveys was acquired by the company.

Peter Laatz
Executive Vice-President, Repucom

Laatz joined Repucom in 2011 with over 15 years of professional experience in marketing and media. He was previously director of marketing for Chip Ganassi Racing, and sports and entertainment marketing manager at Miller Brewing Company.

Dominic Reilly
Former Head of Marketing, Williams F1

Reilly founded luxury travel brand Dom Reilly Ltd in 2012, which sponsors the Williams Formula One team. Reilly was formerly head of marketing at Williams, where he raised over £150 million in sponsorship for the team.

Christian Sylt
Formula One journalist and expert

Sylt regular covers the business of Formula One for a variety of print and broadcast media outlets. He is also co-author of *Formula Money*, the annual report that examines all aspects of Formula One's finances, from teams and drivers to sponsors and races.

David Webb
President, International, JMI

Webb is responsible for JMI's client services and business development activities outside the Americas. Webb was previously head of group brand and marketing at the Royal Bank of Scotland and head of marketing for Jaguar Racing.

Oliver Weingarten
Former Secretary General,
Formula One Teams' Association

Weingarten was secretary general of the now defunct Formula One Teams' Association and is the former in-house lawyer of the English Premier League. He has recently launched a new business, OW Advisory Limited.



TALKING POINT 2: IS FORMULA ONE PRODUCT AS ATTRACTIVE FOR BRANDS AS IT HAS BEEN IN THE PAST?

DOMINIC REILLY: When I was selling Formula One sponsorship, there was a period when some companies had issues with it being a so-called 'gas-guzzling' sport. Formula One addressed that issue magnificently with its hybrid technologies, but Formula E can certainly fill that gap in the industry and go after firms that really want to promote their green credentials or electric capabilities. A company like Philips Lighting, for example, might consider Formula E as it is promoting energy efficiency through its energy-saving lighting solutions.

CS: The problem with Formula One is that it mainly attracts B2B sponsors. In NASCAR, sponsors interact with consumers because there are a lot of B2C firms like Burger King and McDonald's...

DW:...Formula One has recognised that, and is now bringing back B2C companies with the Unilevers and Martinis of this world. That engagement will bring fans' passion back into the sport compared to all the banks that sponsored Formula One.

HC: It is definitely a challenge for sponsors to draw on the characters and the passion for racing in Formula One today compared to the 1970s and 1980s when the glamorous lifestyle,

coupled with the drivers' big personalities, was so prominent. Now, you feel that the sport is more closed off. Martini is different from a lot of the current technical sponsors in Formula One: we'd love to make Formula One more accessible to fans, inside and outside the race track, and help grow the sport into new, younger audiences. It is currently quite difficult to bring racing to life outside the race track, and that feels like a missed opportunity. Formula One has a massive attraction across both genders, but as with every sport, it needs to keep reinventing itself to reach younger demographics. I think that's where Formula E will show the way, because that series has to work super hard to compete. Sponsors also have to try to bring the sport to life in a digital world, without relying on the presence of drivers, who already have huge demands on their time.

DW: We often put a downer on Formula One sponsorship, but there are more opportunities now than ever to sponsor it. People are watching the sport on a number of different platforms – you can no longer stick a badge on a Formula One car and walk away. It is now all about the ability to maximise the assets you get with a sponsorship. People also want to pick and choose – they won't just buy something off the shelf. Most companies know the audience they need to communicate with, they know the channels in which they will consume their media and they can now buy specific assets that can be fed down those channels. Formula One is also still doing a great job in providing a platform for companies that do want that global footprint and a huge brand-building programme.

DR: I am yet to come across a sport that does the same in terms of delivering sponsorship results as Formula One: it has the reach, frequency and quality of audience week in and week out. The Williams race team has had a terrific year of bringing in huge sponsors on

the back of signing [Brazilian driver Felipe] Massa and reaching Brazilian companies, as well as partnering with Martini of course. In my experience I have found a lot of the big sponsorship decisions with major corporations are a facet of timing. I approached [global courier company] UPS hundreds of times to sponsor Williams, but its commercial team said it would never go into Formula One. Then, all of a sudden, it did a deal with Ferrari. Many companies may look at sponsoring Formula One and say 'That's really expensive and we don't really need to do it at the moment', but then when there is finally a strategic need for them to do it – say expansion in Brazil for example – then it's the ideal platform.

DW: But Formula One teams cannot relax on having that platform. They still need to identify companies that suddenly do have a strategic need.

NG: The worse thing is if a company does decide to sponsor a team and does nothing with it like Nokia did [when title sponsoring the Tyrrell Yamaha race team in 1995]. Nokia had a huge opportunity but just put a sticker on the car and expected it to work. That will have put a bad taste in the corporation's mouth for a long time.

HC: Martini chose to go back into Formula One because it is head and shoulders above any other motor sport in terms of its global reach. One of the reasons we partnered with Williams was because the team only focuses on racing – not manufacturing cars or anything else, and the fact the Williams team has an incredibly successful racing heritage. Like Bacardi and Martini, it also has very strong family values. We also went into Formula One knowing that a lot of our investment was going to be spent activating the sponsorship outside the race track. I think that's an advantage for us in that we stand out from other sponsor programmes, but we need other sponsors to help drive interest

outside of the race weekends themselves. Over the whole season, Martini hosts huge experiential activations with local bars, and big digital/social activations, so we don't need to be in the same city as the race itself. It would be great if FOM could support us more in these areas, because we both share the aim to build passion for Formula One amongst new, younger audiences. The more that we can be helped to do that, the more momentum we have in bringing more FMCG (fast-moving consumer goods) and lifestyle brands to the sport. Generating content for digital consumption is quite difficult and, unless you have the privilege of going to a race, it is quite a rarefied environment.

DW: I understand why FOM are incredibly protective over broadcast footage, but if it doesn't open it up, how are the sponsors going to promote the sport to fans? It would also help the teams too, because if they're not performing on the track, they have to perform off the track with sponsorship activations. It's a Catch-22 situation. Can't the teams have 20 seconds of footage for their partners to use? That would make a real difference. FOM's position [on limiting the amount of video content] hasn't just materialised, it has been developed over decades, and there's no better person than Bernie to understand the value of what is there.

DR: The other thing that Bernie would be worried about is trying to police the footage. If he sold mobile rights, he would suddenly have to monitor countless telecoms companies like AT&T and Vodafone to ensure they weren't broadcasting footage illegally. He doesn't have that problem with broadcasters ■

TALKING POINT 3: WHAT CAN FORMULA ONE LEARN FROM OTHER SPORTS WHEN IT COMES TO THE MEDIA COVERAGE?

OW: The English Premier League sells its rights on a platform neutral basis. I think part of the problem is that Formula One is too inward-thinking and it possibly doesn't look enough to other sports' business models. If the Premier League can sell mobile rights, clip rights and free-to-air rights and still maintain a huge amount of exclusivity in live rights, then there's no reason why Formula One can't do that. Formula One has struggled to adapt with the migration to pay-TV, although it is arguable it has been more of a success in the UK. Take, for example, the Malaysian grand prix – it was aired live in the middle of the night in the UK, so a lot of people watched the BBC's highlights show in the afternoon. The audience figures were therefore substantially more than if the race had just been live on BBC. All Formula One has to do is extend that highlights package to online and other platforms.

NG: The point about the highlights package is very valid because only two million or so people watch the race live on Sky, and around

six million watch the BBC's highlights of the race. When people hear that a race was exciting, they want to watch the highlights. It also proves that more people would be willing to watch a Formula One race if it was shorter. There's been a lot of talk about shortening grands prix, because not many people have the time to watch three hours of sport in one go on the weekend.

PETER LAATZ: The difference between NASCAR and Formula One viewing figures is quite significant, largely based on Formula One's global distribution and following. This year, NASCAR's US TV ratings are down on last year, primarily because there has been a significant number of weather delays throughout the season. The Daytona 500 race household viewing figures were down by 40 per cent alone this year. However, the new 10-year domestic TV rights deal that NASCAR inked with NBC and Fox, beginning 2015, is worth over \$8 billion and represents a huge increase in fees despite viewership continuing to decline.

The networks are ultimately using motor sport to grow their audiences, but it's difficult in any business to see how there can be such a massive increase in rights-fee without the increases in viewership to support it. Those arrows should not be pointing in the opposite direction, but motor sport is just a different business. You will have a person like Gene Haas, who is set to enter his Haas Automation race team in Formula One in 2016, who will invest significantly into the business operations side of sport and all the sponsorship trappings will be viewed as secondary. That stumps the ability for consumer-facing brands to properly or affordably activate, because Formula One will keep growing through people in the background pouring money into the sport.

NG: Comparing Formula One to the Premier League, the Premier League's TV rights values have consistently been increasing. How has this been possible?

OW: The Premier League spends a lot of time and investment protecting broadcast rights to ensure that when it goes out with a tender document the value will be stable at worst, and more often than not, a lot more. The reason why the Premier League sued organisations all over the world that breached its intellectual property rights is because broadcasters were saying that their rights had been diluted. By the Premier League taking action, that provided the broadcasters confidence to come back and often bid big, because they know there's value in the Premier League's TV rights.

CS: Even though there is a cost in policing rights, it is ultimately beneficial for TV rights deals. I don't think Formula One understands that, and Bernie is just sticking to his old business model. Time will tell whether that will change or not, as TV viewing figures dropped around 50 million last year.

NG: What's interesting in China, for Formula One, is that a lot of coverage is being consumed on other platforms [aside from TV], which can't be legal because there are no rights for online coverage.

CS: The big question is whether Formula One will move into that digital platform, and if it will be too little too late?

HC: I don't think it is ever too late to jump onto the digital bandwagon. We live in a digital world, if we don't communicate with young audiences in this way, we'll get left behind. We found a huge enthusiasm from Formula One broadcasters in the United States to support and take all forms of content from sponsors. They get that commercial relationships are needed to grow the sport. However, in Europe, in some media, there can be a little bit of cynicism towards sponsors – preferring just to speak to the racers and teams. It would be great if broadcasters and some other traditional media outlets in Europe opened up and encouraged the more lifestyle promotion and growth for Formula One ■



The problem with F1 is that it mainly attracts B2B sponsors

TALKING POINT 4: IS BERNIE ECCLESTONE'S STRATEGY TO PLACE RACES IN EMERGING MARKETS WORKING FOR EVERYONE?

HC: We really applaud the development of Formula One in new markets. Having a grand prix in Sochi, for example, is a great opportunity for Martini, despite the political and security issues in the region. I don't know enough about the FOM plans for exploring other new regions/markets, but it is refreshing for global brands to expand into new markets. However, I know it can't be easy for Formula One to arrive in a new market, generate interest in motor sport there, and then have its grand prix cancelled the following season because the country can't afford to host it again. I admire Formula One moving into new territories, but a balance of commercial and political stability needs to be ensured for the races to be sustainable.

OW: Ultimately, the teams don't mind moving into new territories as long as the calendar doesn't exceed 20 grands prix and the new territories can accommodate their commercial partners. Places like Azerbaijan are willing to pay the big money that FOM is seeking, and ultimately that's where they have to go. There's fewer and fewer places that are willing to pay as much as Sochi and Azerbaijan. I just wonder how sustainable that business model is because those race circuits are essentially state funded, and there is a lot of evidence that the privately owned circuits are financially struggling – such as in Germany and Italy.

PL: Viewers find it difficult to understand the rationale behind going to new markets. For example, deciding to have a grand prix in Austin



was a head-scratcher initially. Why there? While the Austin result was and is a great one, why can't Formula One pull a race off in New York? I don't think FOM needs to explain the rationale of moving into a certain territory, it just needs to make it successful from a tourism and fan experience standpoint, which is difficult in some of the new markets that have been put on the schedule or are being proposed to host a grand prix.

OW: Look at what happened when India hosted the grand prix – the taxman got the better of the sport. That's something that should have been foreseen. If a country is going to tax Formula One as a business and not a sport, then there's going to be ramifications. The inordinate amount of time the teams spent filling in tax forms meant that they didn't look forward to racing there. Same with Korea – nobody looked forward to going there because it was six hours from Seoul and there were no spectators. As an event organiser, FOM should try and ensure that things like this shouldn't happen. FOM recognised this and have agreed to have races

in other territories, and the Austin race, for example, is now a highlight for the teams.

DW: I think you have to give FOM credit. For example, some historic tracks have really struggled to pay the hosting fee, and FOM dipped into its pockets and has helped them along when other governing bodies would just move on. FOM's done a great job of retaining a core audience, and there is no harm in moving into new markets. However, it may need to look at its business model when moving into new territories as some of the deals are done for business reasons when FOM should be looking at the fanbase.

CS: If you look at the calendar, only five or six grands prix don't follow that model. The majority of races are arranged for financial reasons, and I don't think FOM is in the position to change that model. The best it can do if it breaks out of the mould is to make up revenue through merchandise and other marketing. But I don't see the FOM business model changing in the next five years, that's for sure ■

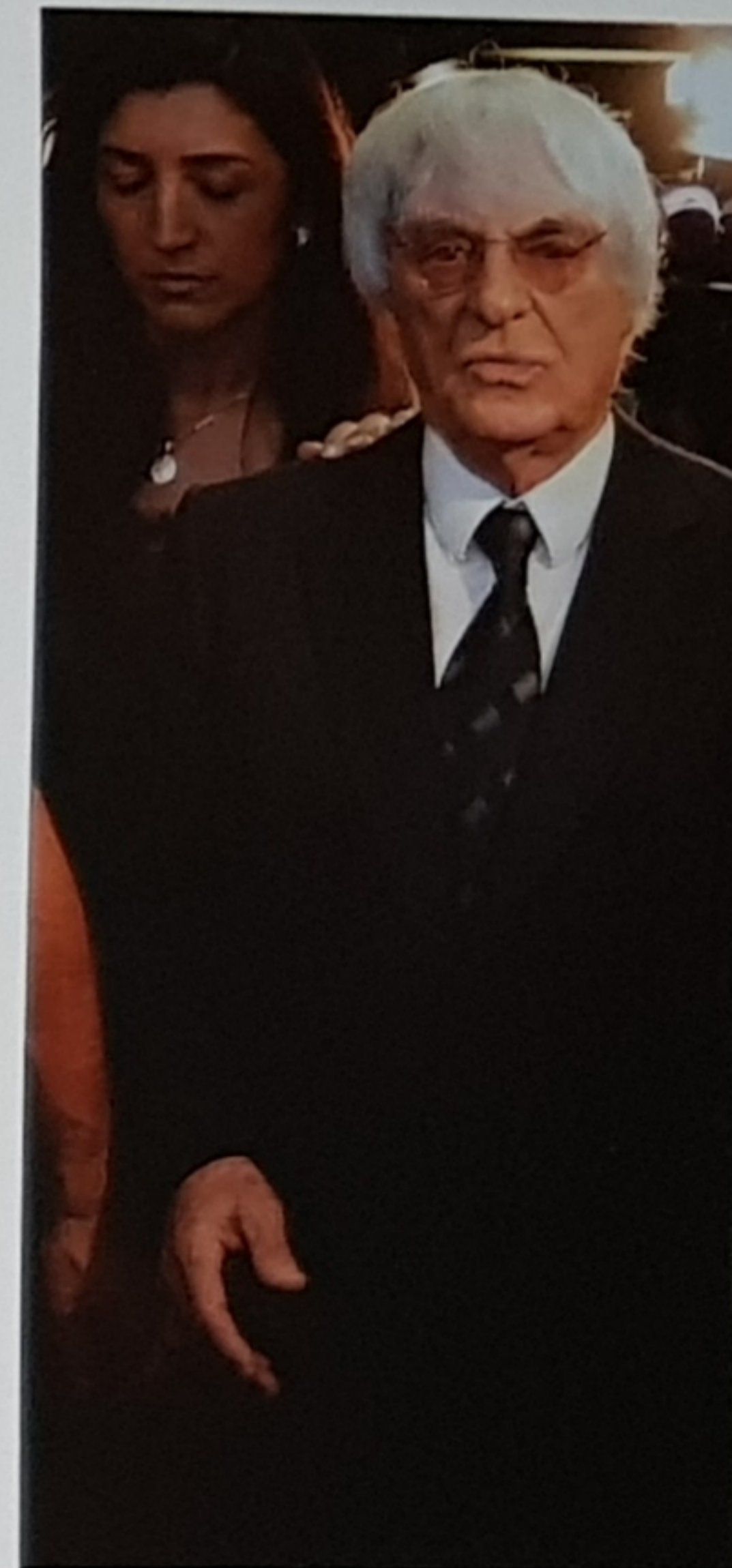
TALKING POINT 5: ARE QUESTIONS OVER THE SPORT'S OWNERSHIP HAVING A NEGATIVE IMPACT ON THE BUSINESS?

CS: At the moment, CVC is essentially an investment fund, and I'm not sure that it matters who the owners of Formula One actually are.

OW: I don't quite agree. Owners of a sport can make a real difference. Just look at the ownership debate in football. The ownership structure in Formula One is, however, quite distinct from other sports and there is a lot of negativity because of their apparent lack of interest, other than to ensure their healthy return, which nobody can blame them for. However, arguably they could and should earn more. You can have an owner who just wants to derive as much revenue as possible and take it out of Formula One, or you could potentially have a company like Disney who may actually help evolve the commerciality on the basis of its previous experience, which will review the current structure. For instance, the amount of negativity around the sport has surely been detrimental. The current owners have left Bernie to run the sport, and he has done a great job for the owners. I know some of the teams feel hard done by, because they would like a larger and more equitable split of the revenues. It is not inconceivable that there could be a different ownership structure that would enfranchise the teams. The teams could have a certain amount of equity between themselves with, for example, Mercedes and Ferrari having more than Caterham or Marussia. This is probably unrealistic, given

the teams' current inability to unite. Formula One needs a real crisis that impacts on the teams to bring them back together. Currently, the teams all have far too many vested self-interests - some of them are battling to stay afloat, they're all fighting for sponsorships, some of them would like to renegotiate their commercial deals, and others are not happy with the regulatory regime. There's a lot of nervousness out there.

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DW: I'm not aware of any sponsors creeping away from the sport because of what's going on with ownership and Bernie.

DR: Let's not forget this season has been one of the best seasons for many years and most consumers are really only interested in the racing. The more viewers watch the action the more valuable it becomes from a marketing perspective. The Bernie situation hasn't been ideal - least of all for him - however I'd be surprised if sponsors left the sport due to the publicity surrounding the case.

HC: These off-track issues are something we were – quite rightly – questioned about by our board before agreeing any new partnerships in the sport. We needed to consider how a potential new leadership would affect us. But whatever people think about the current leadership, ultimately the sport has flourished under one man. Whoever comes in as a new leader and whoever owns it needs to focus on the growth of Formula One for new audiences, and that must include Formula One being considered an entertainment property, not simply a sport ■

