

HOW LIBERTY MEDIA CAN IMPROVE MARKETING EFFORTS FOR FORMULA 1

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Abstract. Formula 1 has managed to keep many generations entertained throughout its existence. However, in the recent years, due to many factors such as the financial crisis, which discourages viewers to watch motorsport, and the owners not adapting a model that has been adapted by many other industries, has led to a decrease in viewership and popularity. Furthermore, Liberty Media's takeover on Formula 1 means that the motorsport will and has seen many paradigms shifts in the motorsport and so far, there are countless ideas that are yet to be explored. This paper first analyses the Formula 1 industry using Porter's Five Forces and discusses their role(s) and how they affect or are affected by the motorsports' current issue. The paper will then discuss how increased efforts in esports, and social media may help Liberty Media to regain lost territory and attain higher viewership count than previous seasons. Furthermore, to be discussed, the current model of Formula 1 and how a revamping and switching to another model may just throw the motorsports into uncharted territories that has potential for growing motorsport and solve the motorsports' current issue.

Keywords: Formula 1; motorsport; social media; marketing; freemium model; esports; viewership; consumerism

INTRODUCTION

In the recent years, viewership and popularity of the racing sports Formula 1, has seen a drastic decrease. According to Motorsport network (2016), the viewership of the motorsport has declined by a staggering one third of its viewership since 2008, in which the Motorsport network denotes the economic crisis to be the main culprit behind the fall in viewership. However over on Shanghai, China, one of Formula 1's most anticipated circuits every year, face a decrease in sales from 270,000 in 2005 to about half at 150,000 in 2009 (Kim et al, 2016). What this means is that, the decline in interest in Formula 1 races can be attributed to multiple factors, not just the world economy and that this is affecting the feasibility of Formula 1.

On the other hand, an article by the Independent (2018) states that in 2016, the viewership count of the year is 390m, which fell to 352.3m and that this was due to the fact that the sports has switched to a pay-to-watch system and according to a poll by Racefans.net (2016), 13% of all voters, from a total of 450, making it the highest, voted that the switch was the main reason to Formula 1's popularity slump, followed by over-regulation of the motorsports and dumbing down of the racing circuits. To put it into perspective, the video game industry and social media platforms, of which both has adopted disruptive innovations specifically, the freemium model to a certain degree. On the other hand, Formula 1 has not adopted such changes and therefore, fail to reap the benefits of the model, such as gaining a large profit margin from a mere fraction of the total customer base, which means that the company will require less resources to maintain those relationships (Voigt & Hinz, 2016).

With its upcoming iteration of the third season, that is The F1 New Balance Esports Series, 2019, (F1 Esports News, 2019) that will be held not long after the 2019 season for Formula 1 starts, following the success of the 2018's series, and in fact Liberty Media has had the chance to collaborate with current F1 teams to sign their own esports racers to represent them in the esports programme. However, these changes are not without challenges and difficulties. Introducing a new esports title is not a cinch in the ever growing, yet-to-saturate, (digital) world of esports. This paper will discuss how and what Formula 1 and Liberty Media can do to with the esports industry in order to increase viewership of the Formula 1.

The first analysis to be done will be using the Porter's 5 Forces (Harvard Business Review, 1979), on the Formula 1 Racing Industry. The scale of the paper will only cover the Formula 1 industry, as the esports presence of other racing series will not be significant enough to be used as a benchmark for Formula 1, due to the fact that they have not reached the level of Formula 1's esports programme. Furthermore, due to the nature of the Formula 1 industry and esports industry, the scope of this paper will be global, in a digital way. This means that the paper will not focus on a single country, rather on the digital world. Moving on, this paper will benchmark Formula 1's esports potential and growth to other substantial esports title, such as League of Legends (LoL) and Defense of the Ancients 2 (Dota 2) amongst other esports title that will also be discussed throughout the paper in moderation. According to Motorsport network (2017), Liberty Media will try to reach new audiences by venturing into a growing market that the Formula 1 series has yet to invest in. By bringing in those new potential customers for the primary offering that is Formula 1

races, Liberty Media will be able to solve its current issue, that is being a drop in Formula 1 viewership over the last few years. This in turn, makes it enticing for Liberty Media to venture in esports.

LITERATURE REVIEW

Using Porter's 5 Forces (Harvard Business Review, 1979), the paper will first analyse the competitiveness in the industry, in this case being the Formula 1 Racing Industry. To start with, currently there are 10 different teams that are currently registered, each with 2 starting drivers and some with one reserved drivers and one testing drivers as extra drivers. Legally, each team has to have their own team members, factory and legal entity, although however some teams have managed to bought multiple slots in the industry, where they can relocate other resources they do not wish to place in their primary team, however those teams are still differently in many aspects. Rivalry between competing teams have always been very high, more often than not drivers alongside their team coordinators will try everything to get the advantage over their opponents by any means necessary as long as it is legal. Furthermore, rivalry between drivers are even more ferocious, due to the fact that they are the one in control, most of the time and that they are also competing for the driver's championship and not just the team's, also known as the Constructors' Championship, which is significantly more important for all the teams involved. Tight regulations on number of participants has never been an issue, however if the FIA wishes to increase the number of participants to a logical number, in the long-term, that will help Formula 1 to be seen as more competitive and therefore help the outlook of the motorsport.

Many different organisations are involved in the process of setting up Formula 1 races events. To start with, each team will have to order sets of tyres that they wish to use on the weekend, leading to the race. Although in the past there has been multiple tire companies that teams may choose and partner with, the current iteration of Formula 1 only allowed one official tyre provider, that is Pirelli (PlanetF1, 2018). This translates to an increase power for Pirelli as what they determine as safe, in terms of what sets of tyre they deem to be so on each track, will be the only set of tyres available for teams, as they cannot directly influence Pirelli in their decision making. Furthermore, with the limited amount of engine providers in current iteration of Formula 1, totalling to 4, which are as followed: Ferrari, Mercedes, Renault and Honda engines. Like Pirelli, these four engine providers have a strong power when it comes to decision making in the outcome of regulations in the Formula 1 regulations. Due to the complexity of Formula 1 engine specification, it is extremely challenging and costly for engine manufacturers to create a competitive engine for Formula 1 races, and therefore those 4 companies have a lot of power when it comes to changes to the engines, and according to (Motorsport network, 2018), the amount of time invested into Formula 1 engines for these companies, is very sensitive and that any sudden changes to regulations may result in any of those makers to retract their resources from the Formula 1 series. Low number of supplier in motorsport is not beneficial in the long run due to the potential of damaging and harming multiple teams all at one, if one of them were to face issues and therefore a clear indicator of a big threat to the industry.

In the Formula 1 series, under normal circumstances, it is practically impossible for a new team to join scene, which translates to a high barrier of entry. Part of the reason being FIA's regulations (Racefans, 2008) that limits the number of teams and cars available in the field due to safety reasons and availability of space. One of the only ways for new teams to join the motorsport would be through buying a slot from a team, such as the case for SportPesa Racing Point F1 Team, which recently bought their spot from Racing Point Force India Formula One Team (The Independent, 2018). In addition to that, for a person to be part of a competing Formula 1 team, there would be countless of requirements that they first have to meet (wikiHow). However, it all comes down to requiring a great deal amount of financial resources and most importantly, years of preparations. Therefore, this translates to the high natural barrier of entry in the Formula 1 Series.

The Formula 1 industry can be considered as many things in the current, modern world. To start with, it definitely can be described as a motorsport, however most motorsports are also considered to be entertainment for the viewers. This also means that Formula 1 can also be considered as spectator sports. With these categories in place, there are countless of substitutes for any of these categories. Taking the motorsports category for example, instead of watching Formula 1, viewers at home are able to instead tune into a World Endurance Championship (WEC), or MotoGP, or even rallies. As for entertainment, instead of watching any motorsport series, viewers are able to play video games for entertainment instead, or perhaps watch something completely unrelated to Formula 1, yet still entertaining such as a local get-together game of basketball. As for spectator sports, viewers can just watch a game of football in a bar or pub, or even esports. To further complicate things, many alternatives do not require viewers to fork out a good amount of money to partake in many of those substitutes, unlike Formula 1, which has, as previously mentioned, switched to a pay-to-watch model. All these three categories are, in the case of Formula 1, somewhat interchangeable, hence the complication on the definition. However the conclusion is that, no matter from which point of view, the Formula 1 racing industry has numerous of substitutes and that this gives the consumers, or the viewer for this case, a lot of power to choose from, hence the issue rises of which, is the basis of this paper and the reason why a look into the world of esports, may just help Liberty Media increase the viewership of the Formula 1 series, back to how it was, proportionally speaking. Therefore it can be said that, with numerous of substitutes, the Formula 1 motorsport has a huge weakness right now. With correct and successful campaigns

and projects, those lost viewers will eventually come back to the motorsport and thus, those substitutes may no longer be Formula 1's big weakness.

The last on the Porter's 5 Forces (Harvard Business Review, 1979) is the buying power of consumers, or as in this case, the viewers. Using the exact same three categories as a benchmark for this force, the paper will analyse how big the audience gathered is in good estimation as per the data suggests, and compare the major race events with other major spectator sports such as esports and football. In 2018, according to (F1i, 2019), Monaco, the race event with the most viewers tuning in, in Formula 1, had accumulated around 110 million viewers, whilst only 6 race events gathered more than 90 million viewers in 2018. To put it into perspective, the giant esports, League of Legends (LoL) had accumulated around 99.6 million viewers (The Rift Herald, 2018) for their 2018 League of Legends World Finals, meanwhile Dota 2's The Internationals 2018, gathered around 52.8 million viewers (FOX Sports Asia, 2018). The reason why these two alternatives are so important is because these figures are what they can expect from a successful long-term Formula 1 esports, which in turn will boost the viewing number of the mainstay events of Formula 1. For comparison, F1 New Balance Esports Series 2018 gathered a staggering viewership count of 5.5 million people (F1 Esports News, 2018), meanwhile League of Legends Season 2 Worlds Championship managed to gathered 8.2 million unique people to watch the event (Gamespot, 2012). Both of these events are in fact the second iteration of both respective video games and looking at these numbers alone, the growth potential of F1 New Balance Esports Series in the future is endless.

METHODOLOGY

It is important for Liberty Media to always innovate and experiment with their esports programmes, and therefore anticipate future trends and accommodate the market demands. The gaming culture is always evolving, the medium of games were often arcades machines (Peša, et al, 2017) and nowadays there are countless of platforms which can be used for gaming. Therefore it is of utmost importance that Liberty Media invest into some internet-of-things ideas, as nowadays activities are done through the help of the internet, especially when the market has access to internet already. An example would be Brazil, which is reported to be one of Formula 1's biggest markets (The Drive, 2019). According to a study by McKinsey (2014), the internet infrastructure in Brazil has already been built and that the population has already adapted their lifestyle to cater around social medias. Therefore, if Formula E is to ever have a sudden burst of popularity, it is safe to assume that customer retention of the motorsport may be very high, due to Formula E's Fanboost system which encourages viewers to be actively participate in social media and have an effect to the outcome of the race, which in turn also keeps engagement rate with customers/viewers quite high.

Furthermore, by rolling out numerous of esports events around the year, Liberty Media will be able to retain their viewer base, and therefore their maintain popularity throughout the year and not just during high-profile events like those mentioned previously. For most viewers, changing cost from one service to another is quite minimal, in comparison to many other alternatives. At most, what customers need to do is subscribe to a specific channel offered by their television program manager of some sort. In other cases, it is in fact free, take for example esports: it is virtually free, with the only requirement being a working internet, which is not an issue for most consumers of the aforementioned applicable industries.

In the current iteration of the Formula 1 Series, fans and viewers have no active role in motorsports, unlike Formula E's fanboost system as mentioned previously. Ever since Liberty Media took over, fans and viewers have started to be more engaging. To start with, Liberty Media is delivering deliverables, through their social media outlets: Instagram, YouTube and others, more often than before. What makes viewers to feel more engaged exactly, are the type of content that has been posted on their YouTube channel, to be particular. For example, in 2018's F1 Championship, Liberty Media released a number of 360 degree videos, of a driver's perspective during the event (VR Focus, 2018), which in itself is an ingredient for a successful marketing campaign.

FINDINGS AND ARGUMENT

The current model of esports in Formula 1 Esports Series 2019, limits the power of drivers as they have no control over which team they will be signed to, as per the drafting method. According to tournament guideline, racers are picked by the official teams (F1 Esports News). This model is very different from the usual esports programmes, where competitors are signed by organisations independent from the official game that is the medium for the esports series, or they themselves are independent individuals who are not a part of any organisations, coming into their respective esports tournaments. What this means for the esports effort for Liberty Media, is that they will be able to keep a close eye on the programme and encourage cross-merchandising as teams in the esports programme are representing actual teams. Furthermore, their current total pool prize of \$500,000 would only place them in position #72 (Esports Game Rankings) on the list of highest prize money.

Furthermore, Liberty Media should continue to upload their 360-degree on-board cameras which allows viewers to enjoy Formula 1 contents, as if they are the one's driving Formula 1 cars. Currently, Liberty Media partnered with Virtual Reality 360° and limit

the usage of 360-degree on-board cameras to those who subscribed to their services. With Formula 1 already charging customers, through subscription of partner broadcasters, Liberty Media has the potential to centralise all their offerings and switch to a freemium model. The proposed model focuses on adding value to customers, whilst keeping in mind, that being profitable is key, Formula 1 is an expensive motorsport after all.

Another method which Liberty Media can increase customer retention is by slotting both Formula 1 and Formula 1 Esports events on every other week. This will allow attendees of Formula 1 races to be exposed to Liberty Media's effort on esports. When their esports counterpart eventually grows to a sustainable level, Liberty Media can start hosting their esports programs in a predetermined studio and host events in that location on a regular basis, just like any other esports series or programs, such as League of Legends (League of Legends, 2019). Furthermore, by having access to a studio and keeping a sustainable number of attendees on a regular basis, Liberty Media will be able to start promoting other series, such as Formula E series, when their esports programme eventually launches (FIA Formula E). By using Formula 1 race events as a springboard for Formula 1 esports programme, Formula 1's enthusiasts will eventually come to understand the potential of esports has on Formula 1 which will in turn, piqued the interests of esports dedicated media and organisations to want to invest in Formula 1 and promote Formula 1 in exchange for participating their Liberty Media's Formula 1 esports programme.

CONCLUSIONS

This paper has discussed the Formula 1 industry and discuss how one stakeholder may be affect or be affected by changes in the industry. The focus of the paper is the decrease in viewership, and therefore popularity and how Liberty Media overtaking the industry have somewhat contained the situations and in fact made many changes, whereas the previous owners neglected the future of motorsports and focused on keeping the motorsports solely for the elites and not those who will be the future customer of Formula 1.

The paper then discusses the potential of marketing efforts on Formula 1's esports programme, benchmarked it with a couple of esports series and concluded that in the long run, having a Formula 1 esports programme will help Liberty Media to acquire the growth that Formula 1 needs in order to keep it sustainable in the long run. Doing otherwise will result in Formula 1 losing its viewers as they may move on from the Formula 1 motorsport and move on to another, such as Formula E or the new W Series, which adopts postmodern practices and state of the art technology and advancements.

On the other hand, Liberty Media takeover of Formula 1 was still very recent and therefore, Liberty Media may be rolling out new services in the foreseeable future, of which information may not be readily available to the public yet. Therefore, further studies on the marketing efforts of Liberty Media and Formula 1 should keep their attention on the motorsports industry and FIA in general.

Furthermore, advancement in technology has driven the motorsports countless of times over the course of Formula 1's history, with the addition of halos being the most recent big changes to Formula 1 cars. As soon as it was introduced, many people, especially viewers we are against the idea of having halos, however after numerous of times where the lives of drivers were saved by halos, public outcry started to dim. Further changes to Formula 1, be it drastic or miniscule will more than likely attract the attention of different individuals and there will always be people who are against changes.

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