

## **Working Title: Virgin and Formula 1: A Sign of Things to Come?**

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The recent announcement that Ross Brawn has completed a successful management buyout of the Formula 1 (F1) team formerly known as Honda Racing means that the speculation that Sir Richard Branson would acquire the team is now consigned to history. So was this Branson opportunistically creating some publicity for his global brand? Or was it a serious attempt to explore how the current global economic downturn could create some very new and very potent relationships for the post recessionary world? The cynics may think the former, but I like to believe that Virgin F1 was, and may still be, a real possibility.

A global downturn, such as the one we are currently enduring, undoubtedly creates hardship and challenges for many individuals and organisations, but it also creates many opportunities. There is no question that the world has changed in a way that we don't yet fully understand and that the post recessionary landscape will be very different to that which came before. We have been used to continual growth, falling prices and an ever-increasing standard of living. Shareholders have expected exponential increases in the value of their investments, and managers have been expected to achieve double digit growth year on year. We are now in a very different place, and it is now that entrepreneurs and entrepreneurial organisations are creating the strategies that will build the post recessionary world. So what will this world look like and what has it got to do with Virgin and F1? There are strong indications that organisations in the future will focus their strategies around three key areas: value creation, cost effectiveness and environmental impact. It is these three areas that provided the basis for the dialogue between Virgin and Formula 1 and it epitomises the kind of opportunities that may be created in the future.

With changes in technologies, relationships and customer perceptions value creation in the future is to become central to strategic thinking. It is those who can anticipate how customer patterns and motivations will change who will win in the future. Value creation is easy to claim but hard to deliver. For many years now Formula 1 has been drifting away from its core fan base and failing to deliver the things that customers want – great racing and value for money. The growth in F1 between 1994 and 2004 saw most of the teams at least double in size. Frank Williams started his team in 1969 with five employees and that included driver Piers Courage. In 1986 the team had grown to 101, by 1994, 203 and in 2004 there were over 490 employees, with the figure now in excess of 500. In this period the viewing figures for F1 soared with significant growth occurring after the fatality of Ayrton Senna at Imola in 1994, this global expansion of F1 encouraged cash rich automotive manufacturers such as Ford, Honda, Toyota, Renault Mercedes Benz and BMW to invest heavily in F1 to help differentiate their products and access new emerging markets. They did so either through the acquisition of teams (Ford acquired Stewart Grand Prix; Honda acquired British American Racing and Renault the

Benetton team) or by building up a totally new F1 operation – the path which Toyota have followed in Cologne.

So while the growth in F1 was created by global expansion of the viewing audience the money flowing into the teams was corporate investment created by the automotive, finance and other high growth sectors. This meant that the focus of the teams shifted away from the fans and towards corporate clients. With the auto-manufacturers now experiencing a huge drop in demand – up to 40% in the USA with the consequential impact on production levels and cash flows, their appetite for F1 as a basis for brand differentiation and corporate relationship building has suddenly diminished. This means that the F1 teams need to re-orientate themselves back to their fans, something which intuitive marketers such as Flavio Briatore (Benetton and Renault) and Eddie Jordan (Jordan) have always realised. It is perhaps no coincidence that Richard Branson's previous involvement in Formula 1 had been with the Jordan team in 2002. The key for Jordan was staying close to the fans, in the late 90s their merchandising revenues were close to those of Ferrari – a brand which transcends F1. Jordan, who will be playing a major part in the BBC coverage of F1 starting on 29<sup>th</sup> March 2009, played the part of the non-establishment outsider bringing glamour and (literally – with his own band) rock and roll into Formula 1 – does this sound like someone else's entry into the airline business?

The second issue and one which is closely related to the first is that of cost effectiveness. Growth creates waste and what we strategists sometimes refer to as 'slack' resources. Slack can be a good thing, it creates the space for innovation and change that lean organisations may not enjoy, but to use slack in a way that creates value you must have the right people and infrastructure to facilitate such innovation and change. People must want to find new ways of doing so and the organisation needs to respond when they do. Unfortunately what happens more often is that during growth we focus on creating capacity and overloading the organisation with costs, much of which becomes unproductive and does little to create value. Formula 1 has suffered from this in spades. When Patrick Head developed the World Championship winning Williams FW07 in 1978 with Frank Dernie and a young engineer named Ross Brawn, he only had one week of access to the wind tunnel at Imperial College London as this was all the time and cash the team could afford to develop the car. In 2008 the majority of teams have their own bespoke wind tunnels running 24/7 365 days a year and the larger teams will have two wind tunnels as well as large Computational Fluid Dynamics (CFD) teams who will be exploring initial designs by computer software before the concept goes in the wind tunnel. Recent steps by the regulatory body (FIA) have begun the inevitable process of paring down an industry whose costs have been out of control (and Formula 1 is not alone in this), the teams themselves have recently stated their desire to cut costs by 50% between 2008 and 2010. This is now a commercial imperative rather than a theoretical idea. The key is of course removing those costs which don't create value for the customer, anyone can cut costs but cutting costs and building sustainability is where the real opportunities lie. F1 must cut its cost in line with the environment, it must make it easier for new teams to enter to bring the kind of innovation and creative change that entrepreneurs do best and that leads us to perhaps the most fundamental shift that of environmental impact.

Environmental impact is an area close to Branson's heart. Virgin Atlantic have been experimenting with a number of measures to reduce environmental impact such as towing aircraft from their stands to their 'starting grids' close to the runway, they were the first airline to fly with bio-fuels using an unmodified Boeing 747 to fly from London to Amsterdam using a mixture of coconut and babassu oil. This year, for the first time, Formula 1 will have hybrid cars racing around Grand Prix circuits, while they will not look like the Toyota Prius and will also (hopefully) go a good deal faster, Formula 1 has become the first major race series to use hybrid technology. Kinectic Energy Recovery Systems (KERS) allow the cars to store what would otherwise be wasted energy, the driver can then reuse the energy to create a power boost of around 10% for several seconds perhaps to overtake another car or defend themselves against a rival. This is a much needed shift for Formula 1 and one which the teams have been reluctant to embrace, it has been largely through the commitment of FIA President Max Mosley that this change has been implemented. Environmental impact is key for future businesses and technologies and we will see a shift in thinking away from pure performance and cost dimensions to move environmental impact as a key element in strategic thinking.

So perhaps there will come a time when there is a Virgin F1 car racing around the circuits of the F1 championship, and if there is I for one will be glad as it symbolises a new era of corporate relationships, opportunities and new thinking, all the things that will help us move forward out of our current crisis.