



Driving Transformation at Formula One

Following the 2017 British Grand Prix, Criticaleye talks to **Mark Gallagher** a Formula One team management board member of more than three decades, about the sport's evolution

During more than three decades at Formula One, **Mark Gallagher**, CEO of Performance Insights, has worked on the management board of the highly successful Jordan Grand Prix team, run the world famous Cosworth engine business and established the commercial arm of Red Bull Racing, which went on to become four-times World Champions.

During that period **Mark's** been witness to what he describes as Formula One's "existential challenges". These include the collapse of its commercial model, the development of highly disruptive

technologies and a lack of succession and leadership development under its former CEO, Bernie Ecclestone.

Mark was invited to Criticaleye's recent [Member Dinner](#) to discuss the many developments at F1, including its sale to Liberty Media, owner of US TV company Discovery, for \$8 billion in January 2017.

Rebuilding the Commercial Model

When **Mark** joined Formula One in the 1980s, its model could not have been simpler. It designed and manufactured

cutting-edge cars, for which it then sold corporate advertising and sponsorship. "The cars were essentially a 200 mile per hour billboard," he says.

That model disintegrated in 2005, when the EU banned tobacco sponsorship. With just three years notice to find a replacement for 70 per cent of team sponsorship revenue, the organisations involved initially looked for similar sponsors. They had to be established, profitable and would be enticed by the glamour of racing. One of which was the banking industry. >



"Eighteen months later the financial crisis hit and with it a tidal wave of corporate governance that meant sponsoring F1 was seen as a bad thing in the corridors of power. Our business model had broken right beneath our feet," **Mark** explains.

Not only were the sponsoring banks under the critical gaze of shareholders, media and regulatory bodies, so too was F1's former CEO, Bernie Ecclestone, who was still at the helm and fighting bribery allegations in Germany.

The type of sponsorship that had supported the sport for 40 years was on its way out. Fortunately, Bernie Ecclestone had already considered alternatives by looking to the most profitable sporting entities – the Olympics and World Cup. He took their business model, under which governments bid to host their tournaments, and refined it. Today F1 now has 20 globally tendered events, many paying a promoter's fees of over \$50 million annually.

Innovating to Obsolescence

Data has allowed Formula One to address the demands of developing cars that are not only high performing, but also inherently safe. Quality has improved to the point that most cars finish most races, but using a data-driven approach to achieving this level of certainty has created another existential issue, that of predictability.

"In 1994, we decided to put risk management at the centre of everything we did, including how we designed cars and tracks from the perspective of safety. The tool that enabled us to do that, was data – in particular the aviation industry's black box, which allows you to analyse in detail all the factors

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involved in a dangerous incident. The turnaround was dramatic, as the next 20 years were without fatality,” says **Mark**.

"The only variable now is whether the driver makes a mistake, and we don't like to employ drivers who do that. Yet it's an issue for our viewers and the media, who want excitement and the tension of an unexpected outcome," he adds.

While Formula One is far safer and more fuel efficient, it is also much harder for outperforming underdogs to win, making the sport less enticing to viewers. For example, while football fans have been whipped up by the likes of Leicester City unexpectedly winning the Premier League, this year's British Grand Prix was taken by five-time winner, Lewis Hamilton.

It's not just the exponential rise of data that's disrupting the essence of Formula One as we know it, but the development of technology too. "I often ask myself where F1 will be in 20 years. Internal combustion engines will be old hat. Autonomous vehicles will prove to the world – and particularly governments – that they are the safest option. They won't drink and drive, for example," **Mark** explains.

"We're imminently reaching a fork in the road due to changes in transport technology. One path will take us to a fully electric, autonomous car that we can use to showcase new systems. The other option is to look at F1 as we do horse racing, which is still very popular despite horses having become obsolete as a form of transport.

"Maybe in the future people will watch F1 for the spectacle of seeing humans control cars by themselves. Either way, we need to be relevant and embrace everything that the automotive industry is about to go through." >

CAREER HIGHLIGHTS

2009 - 2011

Head of Cosworth's F1 business: supplying engines & electronics to teams including Team Lotus, HRT, Marussia Racing and the iconic Williams team.

2006 - Present

Regular motor racing industry contributor to Sky News, AJ Jazeera News, BBC Radio, CNN, Channel 4 news. Sports industry columnist for isportconnect.com.

2006 - 2009

Consultant to Pixar on CARS The Movie and CARS II.

2004 - 2005

Head of sponsorship for Jaguar Racing / Red Bull Racing.

1991 & 1995 - 2004

Jordan F1 team; head of marketing, member of the management board.

1983 - 1991

Freelance journalist and broadcaster in Formula One including for Sunday Express, BBC Radio, Independent Radio news. Media consultant to Marlboro and Canon.



The new owners, Liberty Media, must acknowledge what the audience of today – and tomorrow – want to watch. Formula One currently receives an average audience of 500,000 through Sky's pay-per-view service and about 2.5 million for the races it shows on Channel 4. In comparison, the early 1990s saw an average of five million people tune in to watch a Formula One race, rising to 12 million for a big event such as the British Grand Prix.

"Young people aren't watching TV. In this mobile world we are going to have to repackage our global sport for a generation who aren't prepared to watch two hours of sport, especially if the outcome is predictable," **Mark** explains.

Another issue is that it's become far less accessible to its audience. "The difference is that you can buy your kid a football and

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experience it in your back garden, yet it's very hard to imagine yourself driving a Formula One car nowadays. F1 made the mistake of becoming elitist as opposed to aspirational. A Grand Stand ticket for the family is equivalent to a week's holiday in Spain.

internal skills. Former CEO, Bernie Ecclestone, created a business model that took the sport to global prestige and multi-billion dollar revenues. For many years he drove profits, innovation and success, yet this tapered as a result of ignoring leadership development and succession.

"The biggest mistake that Bernie made was in not bowing out sooner or having have a clear succession strategy in place. It's a pity because unfortunately his legacy will be that the subsequent owners delivered far more value. You get to a point where it's time to pass the baton and he just didn't empower people around him," says **Mark**.

"A lot of the talent in F1 has been latent. The business has stagnated for a decade and the sport is full of people waiting for the floodgates to open." ■

CRITICLEYE COMMENT



Charlie Wagstaff
Managing Director
Criticleye

Every business is undergoing transformation, yet as a leader making sense of it and its implications is a daunting task. Looking at parallels can be inspiring and can give a meaningful perspective. As a fan or even a curious bystander, the Formula One story can deliver both context and a catalyst.

Mark's story illustrates the requirement for a long-term, far-reaching vision that stretches beyond the ego of a dominant leader. It also teaches us that technology and innovation cannot be ignored, nor can their implications.

"Liberty want to democratise the viewing of F1, making it more accessible, less predictable and to repackage it for the mobile age," he says. It plans to leverage the skills at its subsidiary US cable and satellite company, Discovery, which owns the rights to show the Olympics across Europe from 2022.

"One of the profound changes will be the ability to access paid content wherever you are in the world. As it stands today, even if you pay for premium content, you don't have global streaming access. For younger audiences, we need to use Formula One's data-rich environment to create compelling online content, including gaming and e-Sports."

To address all of these changes, the business must be innovative, customer-centric and committed to developing



Mark Gallagher
CEO, Performance Insights
Formula One Analyst

Mark has held senior management roles within Formula One motor racing over the last 30 years. Founder and CEO of Performance Insights, he is also co-commentator and Formula One analyst for broadcasters including the BBC, ESPN and Sky Sports F1.

Along the way he founded Status Grand Prix and helped develop the new hybrid petrol-electric engine F1 regulations introduced in 2014.

Contact Mark through:
www.criticleye.com