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COMMERCIAL TRENDS IN ²⁰¹⁷ MOTORSPORT

FORMULA ONE AND MOTOGP SEASON EDITION



COMMERCIAL TRENDS IN MOTORSPORT 2017

Like rights holders and brands active in every professional sport around the world, motorsport's stakeholders are operating in a changed world.

This is a period of rapid shifts and intense competition for attention: enabled by technology, fans are rewriting the rulebook – they are increasingly demanding and want the ability to watch whatever they want, in whatever way they want, wherever they are.

Rights holders and sponsoring brands across motorsport are, therefore, having to adapt to a new and fully-connected world. From new sources of investment, to the exploration of new technologies such as virtual reality, the explosion of eSports and the splintering media landscape, international motorsport has much to consider as it battles for fans' attention, interest and revenue.

Based on **NIELSEN SPORTS' COMMERCIAL TRENDS**, our team of motorsport experts have plotted this landscape and, over the coming pages, outline the top ten challenges and opportunities facing all stakeholders in 2017 and beyond. For everyone involved, it promises to be a fascinating commercial journey.

1

IP OWNERS TAKING CONTROL OF CONTENT AND THE CONVERSATION

Liberty Media's acquisition of Formula One, like WME-IMG's buy-out of the Ultimate Fighting Championship (UFC), is ultimately an investment in content and intellectual property. In an age where everyone can be a broadcaster, quality content has never been more prized or valuable. Partnerships between brands and rights holders are being built around content, be it the NBA's relationship with Budweiser involving a collaboration on an 'original digital content media series' or McLaren's relationship with visual effects specialist Framestore which spawned the animated 'Tooned' series. The aim: to drive a stronger engagement with a fan base seeking more access to championships, teams and drivers. In motorsport, Red Bull set the standard for brands generating in-house content but Monster Energy's new partnerships with NASCAR and Lewis Hamilton will be closely monitored in 2017.

2

EMERGENCE OF NEW SPORTING POWERS, LED BY CHINA

Emerging markets are increasingly engaging with and investing in top-level sports: the next three Olympic Games will be staged in Asia, while Russia and Qatar are the next two FIFA World Cup hosts. A host of Chinese companies, meanwhile, are investing in events, broadcast rights, teams, facilities and leagues at home and abroad, encouraged by the government's stated desire to create a US\$813 billion sports industry by 2025. Motorsport, particularly Formula One, has been ahead of the curve in convincing governments in emerging markets to fund events. Malaysia was the first of the new generation of government-funded races as long ago as 1999. China and the Middle East hosted its first Grands Prix in 2004, Russia's debut came in 2014 and last year Azerbaijan staged its first race. Other series are actively exploring other new markets, with MotoGP in Argentina and planning events in Thailand and Indonesia.



Three-times world champion Lewis Hamilton has embraced social media.

INTEREST LEVELS IN CHINA

32%
CHINESE
MOTORSPORT
FANS

21%
CHINESE
FORMULA ONE
FANS

Source: Nielsen Sports SDNA, Urban sample

POTENTIAL FUTURE OUTLOOK

- In a world where everyone has the ability to produce and distribute their own content, those with a forensic understanding of their audience will thrive.
- Established broadcasters, facing their own set of challenges, will be more open to branded content partnerships with sponsors.
- A redefinition of relationships between stakeholders and further changes to rights/distribution structures.

POTENTIAL FUTURE OUTLOOK

- To retain the seasonal balance between races in the traditional heartlands of the sport and events in new markets – a challenge for the likes of Formula One and MotoGP.
- Despite recent progress, the United States remains a market full of potential for Formula One.
- A more sustained effort to understand and engage with local audiences in the sport's new markets.

1

IP OWNERS TAKING CONTROL OF CONTENT AND THE CONVERSATION

2

EMERGENCE OF NEW SPORTING POWERS, LED BY CHINA

3

NEW AUDIENCES, NEW HABITS AS THE CATALYST FOR CHANGE

4

THE GREATER FUSION OF SPORT AND ENTERTAINMENT

5

LIVE SPORT GAINING TRACTION ON OTT AND SOCIAL MEDIA

6

NEW REVENUE STREAMS EMERGING AS FANS GET FULLY CONNECTED

7

ESPORTS IS EMERGING AS MORE OF A GLOBAL FORCE

8

SOCIAL RESPONSIBILITY BECOMING MORE PREVALENT AND IMPACTFUL

9

INCREASED INVESTMENTS IN DATA AND CRM CENTRAL TO OPTIMIZE FAN RELATIONSHIPS

10

MORE FOCUS THAN EVER ON CRACKING THE SPONSORSHIP ROI CODE

3

NEW AUDIENCES, NEW HABITS AS THE CATALYST FOR CHANGE

With more demands on their time, greater connectivity and more competition for their disposable income, audience habits are changing. At the same time, all rights holders and sponsoring brands are seeking out new pockets of fans – whether by geography or demographic – and doing all they can to retain existing ones. The most successful rights holders are flexible and willing to adapt to meet the audience's demands, both in terms of media strategy but also the format and 'look' of their product. In motorsport that could mean events packaged for broadcast, shorter races, changes to qualifying formats, midweek races, in-race driver interviews and fan engagement activities such as Formula E's 'Fan Boost'. In the United States, NASCAR has introduced stage racing - including natural breaks for broadcasters to run adverts - for the 2017 season after input from all its key stakeholders.

4

THE GREATER FUSION OF SPORT AND ENTERTAINMENT

Rights holders and venues across the world of sport are on a constant quest to enhance the spectator experience at events by adding entertainment elements, such as concerts, fan zones and enabling more access to star performers. The likes of Taylor Swift's eve-of-race concert at the 2016 US Grand Prix and NASCAR's pre-race concerts add value for fans, generate additional coverage and, done correctly, offer additional activation opportunities for partners. They can also provide an access point for a new demographic. Carving out new assets in this way can open up new revenue streams, as is the case with Chip Ganassi Racing's Sound Garage – a series of exclusive concerts for fans held at the Indycar and NASCAR team's headquarters. Expect more motorsport events to be staged in city centres - either race meetings, car demonstrations or fan activities - as rights holders look to move ever closer to fans.

5

LIVE SPORT GAINING TRACTION ON OTT AND SOCIAL MEDIA

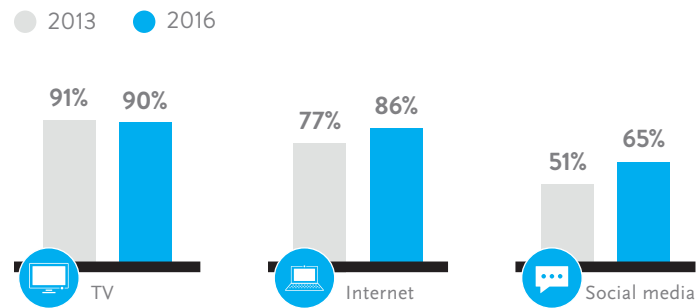
Thanks to technology, fans have come to expect content – live streaming, on-demand coverage and supporting statistics and analysis - to be available to them whenever, wherever. While motorsport's major championships are still reliant on traditional live broadcast audiences and rights fees, new options are opening up for rights holders to deliver content direct-to-consumer – MotoGP's VideoPass and NASCAR's RaceView are prime examples – and many experiments are underway. Formula One's move to pay television in several key markets, meanwhile, is also changing the value proposition for sponsors - opening up, for example, opportunities for branded content. The most successful rights holders will be those who achieve the right balance of content distribution via free-to-air broadcast, pay TV broadcast, their own digital platforms and social media.

6

NEW REVENUE STREAMS EMERGING AS FANS GET FULLY CONNECTED

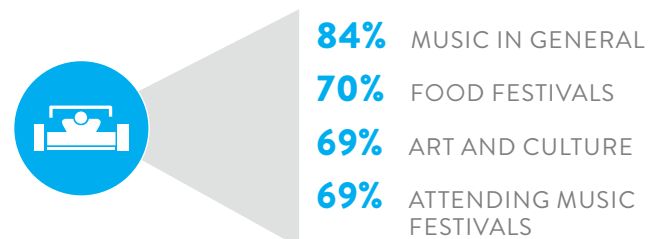
In addition to Facebook, Instagram and Twitter, Snapchat, 360 video and virtual reality have emerged as three new ways to connect with and engage the fan. All are at different stages of development and the platforms themselves continue to evolve, but the most advanced rights holders are already finding ways to monetise: brands, for example, can be incorporated into near-live clips posted to social media, as is the case with Visa and the FIA Formula E Championship. Facebook and Twitter Live has allowed, where rights allow, properties and teams to generate yet more additional content – Formula One delivered its first Facebook Live broadcast at the 2016 Abu Dhabi Grand Prix – while the McLaren Live app delivers fans content, including on-car telemetry, direct from the garage during Grands Prix. During February's pre-season testing in Spain, Formula One's new owners relaxed restrictions on teams posting video on social media.

MEDIA TYPE USED BY MOTORSPORT FANS



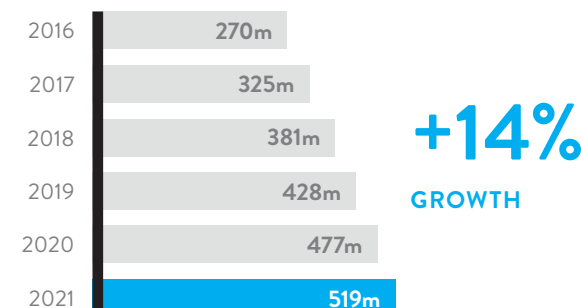
Source: Nielsen Sports SDNA

MOTORSPORT FANS INTEREST LEVELS IN...



Source: Nielsen Sports SDNA

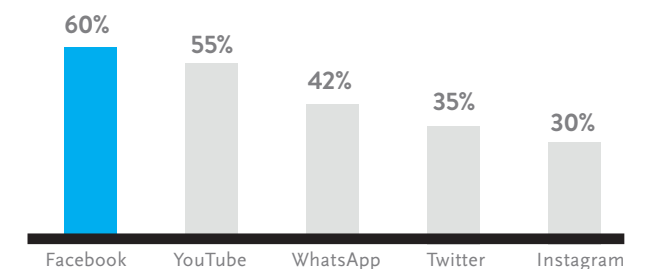
SVOD SUBSCRIBER GROWTH



Source: Ovum | SVOD: Subscription video on demand

MOTORSPORT FANS ONLINE

USE OF SELECTED SOCIAL MEDIA PLATFORMS FOR INFORMATION ABOUT RELATED CONTENT



Source: Nielsen Sports SDNA

POTENTIAL FUTURE OUTLOOK

- Rights holders, brands and broadcasters increasingly exploring new formats and scheduling of events.
- The ability to remain flexible and understand changing audience demands will be the central part of a rights holder's strategy.
- A growing need to balance changes to 'improve the show' with ensuring the core elements that have attracted the avid, long-term fan base remain in place.

POTENTIAL FUTURE OUTLOOK

- Further investment in entertainment and cultural activities around sporting events - because it works.
- Greater demand, from fans and brands, for behind-the-scenes/lifestyle/celebrity content around major motor-sport events.
- More events to be positioned as 'festivals', combining music, celebrity appearances, business-to-business meetings and fan zones.

POTENTIAL FUTURE OUTLOOK

- More rights holders looking to carve out new rights to distribute via OTT or retain digital rights currently held by broadcasters.
- OTT and social increasingly being seen as viable broadcast channels for secondary or junior championships.
- Star drivers, with their own large followings, increasingly acting as media generators and distributors in their own right.

POTENTIAL FUTURE OUTLOOK

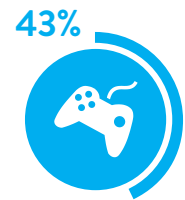
- A mobile-first world with great potential for new revenue opportunities.
- Increasingly sophisticated and tailored content strategies for each major platform.
- Greater data collection as fans interact with rights holders and brands, leading to even more refined and personalised content delivery and ultimately new revenue streams.

7

ESPORTS IS BECOMING MORE OF A GLOBAL FORCE

The size and attractiveness of the global eSports fan base has been much-discussed and in the long-term, established sports may come to see eSports teams and tournaments as competitors, for fans and sponsor acquisition. With eSports still maturing as a commercial entity, however, many organisations in established sports, motorsport included, currently view it as a way to engage a younger, much-prized audience and are experimenting in various ways. Nissan and PlayStation's GT Academy has proved hugely successful, turning gamers into professional racing drivers, while Formula E stages parallel eSports events at all its races. In January, it staged a full virtual race, pitting gamers against its regular drivers in Las Vegas. World motorsport's governing body, the FIA, has developed a full licensed racing programme for Gran Turismo Sport players. As eSports develops, a host of further tie-ups can be expected.

MOTORSPORT FANS AND ESPORTS



43% OF MOTORSPORT FANS ARE INTERESTED OR VERY INTERESTED IN ESPORTS

Source: Nielsen Sports SDNA

POTENTIAL FUTURE OUTLOOK

- The eSports market is starting to settle, with game publishers likely to be the key to future revenues.
- For rights holders in established sports, eSports presents an intriguing opportunity to access a potentially valuable new demographic – but authenticity is key.
- In the longer-term, the most commercially astute eSports organisations may be competing with rights holders in established sports for sponsorship.

8

SOCIAL RESPONSIBILITY BECOMING MORE PREVALENT AND IMPACTFUL

From good governance to financial transparency, environmental-friendliness to the use of sport as a tool for social change, rights holders and brands across sport are increasingly expected to set a good example. In Formula One, the 2014 move to more energy-efficient, hybrid engines was driven by the world's major car manufacturers, who are developing similar technologies for road vehicles. Formula E's founding mission, meanwhile, is to promote the use of electric cars in city centres. Brands investing heavily in sponsorship face much the same scrutiny: Heineken has launched its Formula One partnership with a strong anti-drink driving message as part of its broader social responsibility mission. Whether a rights holder or a brand, strong and transparent governance combined with solid messaging around social, environmental and even political issues is now a necessity.



The FIA Formula E series promotes the use of battery-powered vehicles in city centres.

POTENTIAL FUTURE OUTLOOK

- A growing challenge for motorsport's major series to balance the need to be socially responsible with the desire to maintain the appeal of the sport as a risky spectacle.
- More influence on rights holders by partner brands, many of whom have established, comprehensive CSR in place.
- What properties stand for will only become more critical for partner brands, fans and the media.

9

INCREASED INVESTMENTS IN DATA AND CRM CENTRAL TO OPTIMIZE FAN RELATIONSHIPS

An investment in gaining a more detailed understanding of audiences and fans – who they are, but also what makes them tick and how they behave – not only pays dividends in terms of offering more refined, tailored content. It opens the door to monetization, via membership schemes, OTT broadcast subscriptions and retail. The smartest rights holders are already using their in-depth knowledge of their fan base to ensure brand partners are activating in the most effective way. The smartest brands are already demanding such information from their sponsorship property. The proper ordering and interpretation of data from many sources - ticket and merchandise sales, social engagement and other subscription services - requires investment. Within motorsport, the potential rewards stemming from forensic knowledge of fan bases and the more tailored, personalized approach that can result are enormous.

FAN SEGMENTATION



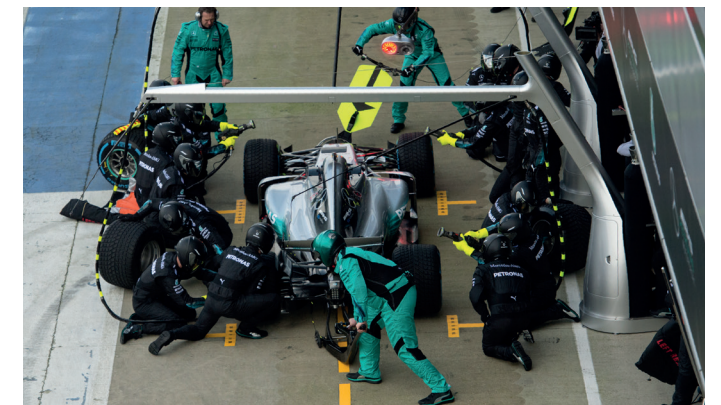
POTENTIAL FUTURE OUTLOOK

- The relationship between rights holder and fan will become ever more personal as more data is gathered.
- There will be a greater focus not only on the data itself but how it is interpreted, visualised and acted upon throughout all levels of an organisation.
- Investments in CRM to be properly budgeted and accounted for by rights holders.

10

MORE FOCUS THAN EVER ON CRACKING THE SPONSORSHIP ROI CODE

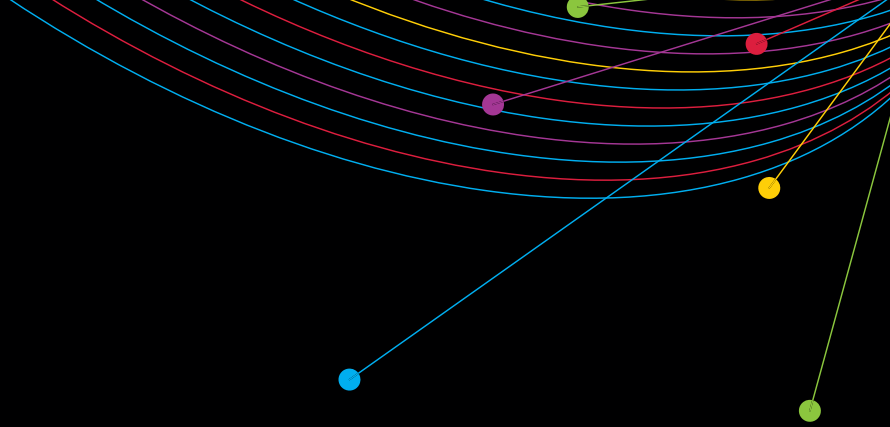
Few sports provide as natural a showcase for as many different types of brand as motorsport: from timing accuracy to engineering know-how, data analysis to rapid solutions, it continues to prove an attractive global platform for B2B brands like Tata Communications, IBM and KPMG as well as more consumer-facing brands. Return on investment continues to be measured primarily using viewership data and media values but in motorsport there is increasingly a move towards ROO (Return on Opportunity); the ability to showcase and demonstrate a solution in a sport that exists because of technology, is built on speed and requires accuracy in all sorts of ways, tends to require a bespoke measurement framework. The next few years are also likely to see a greater demand from rights holders for models which help predict ROI, as a tool to help them in pre-sales conversations with potential partner brands.



Formula One's data-led, team approach is an attractive platform for brands.

POTENTIAL FUTURE OUTLOOK

- Yet more demand for quantifiable measurement of sponsorship from all stakeholders in the process and at all levels of investment.
- More rights holders beginning to establish models to predict ROI a brand can expect in pre-sales.
- More rights holders and brands to join forces, to measure direct impact on sales.



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