



2017

End of the Road : Why the Istanbul F1 Grand Prix Came to a Screeching Halt

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Recommended Citation

Tinaz, C., Turco, D. M., & Santomier, J. (2017). End of the road : why the Istanbul F1 Grand Prix came to a screeching halt. In S. Chadwick, D. Arthur, & J. G. Beech, (Eds.). *International cases in the business of sport* (2nd ed., pp. 55-66).Routledge.

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CSU, Fullerton ILL



CFI TN: 1164493

Call #: GV716 .J5725 2017

Location: 5th Floor South Available

Journal Title: International cases in the business of sport /

Volume: Issue:

Month/Year: 2017 Pages: 55-66 (2nd ed)

Article Author: Chadwick, Simon; Arthur, Dave; Beech, John G

Article Title: End of the road : why the Istanbul F1 Grand Prix came to a screeching halt

Send: E-Mail

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CASE 8

END OF THE ROAD: WHY THE ISTANBUL F1 GRAND PRIX CAME TO A SCREECHING HALT

CEM TINAZ, DOUGLAS MICHELE TURCO AND JAMES SANTOMIER

LEARNING OUTCOMES

Upon completion of this case study, the reader should be able to:

- identify the goals of Formula One in selecting Istanbul as a host city;
- define Istanbul's goals in hosting Formula One races;
- distinguish the problems that Formula One faced in Istanbul before and after the construction of the track;
- determine to what extent the lack of a grass-roots sports culture played a role in the failure of the Istanbul Formula One race;
- relate the local sports culture to the success or failure of an international sporting event.

OVERVIEW OF THE CASE

This case study explores the series of strategic decisions taken by event organizers and Formula One Management that ultimately drove Formula One's Istanbul Grand Prix to a dead end. The Istanbul Grand Prix required high levels of subsidy from the Turkish government and private investors, yet ended before realizing the expected goals. Findings reveal several factors that contributed to the discontinuation of Istanbul's Formula One Grand Prix, including a misunderstanding of the Turkish market, high costs, low spectator interest, and increased competition from other cities. This case provides a model that other cities considering hosting a major international motorsport event should take into account.

CASE STUDY

Formula One has had the reputation of being the top organization for motorsport for over half a century, and the brand itself conveys an elite status to the hosts of the Formula One auto racing events. In recent years Formula One has attempted to expand beyond the traditional European and North American markets. This desire to expand brought Formula One to Istanbul, Turkey. However, a lack of market analysis and inadequate planning caused Formula One to shutter its event after only seven years. In order to understand the failure of Formula One in Istanbul completely, it is necessary to focus on the goals of the Formula One organization as well as the goals of the Turkish government. Ultimately, the relationship foundered because each entity could not meet the needs of the other.

With total revenues expected to reach almost US\$3.3 billion in 2016, Formula One is one of the major sport enterprises worldwide (Baldwin, 2011). The sport's commercial rights alone annually produce US\$1.5 billion, and its top teams, backed by some of the largest global corporations, have budgets of over US\$400 million (Mehrotra and MacAskill, 2011). The money that flows through Formula One makes it attractive to cities that earn the rights to host Formula One events: the economic gains purportedly boost everything from infrastructure to tourism.

Not surprisingly, several studies have focused on the economic impact of Grand Prix events in host cities. One of the most comprehensive event analyses ever completed was a 1986 study of the Adelaide Grand Prix, which was published as a book. Burns, Hatch, and Mules (1986) scrutinized the economic, social, cultural, and environmental impact of the Grand Prix. This book constitutes a guide for communities and their governments regarding special sporting events, and provides detailed information about motorsport-related issues, such as noise pollution, property damage, disruption to normal services, and effects of the race on South Australian entrepreneurship. According to the authors' cost-benefit analysis, the 'psychic income' reached AUS\$25 million. From a sponsorship perspective, Donahay and Rosenberger (2007) determined that Formula One team sponsorship can cost up to US\$50 million annually. Perhaps the most important benefit Formula One events can bestow is to enhance the image of host cities. Liu and Gratton (2010) explored the impact of the 2008 Shanghai Formula One Grand Prix on that city's image. Their findings indicated that in order to achieve the most effective impact on spectators, event organizers must give priority to improving service quality and spectator satisfaction.

Although the benefits of hosting Formula One events in cities are numerous, Formula One CEO Bernie Ecclestone has demonstrated a willingness to cancel or reschedule events at short notice. The Grand Prix in Indianapolis was cancelled in 2007 after an eight-year run due to disagreements between race organizers and Formula One Management over the terms of the race (Olson, 2010). On the other hand, in March 2010 Ecclestone announced his plans to bring a Formula One race

to New York City for the 2012 season. Although this race did not come to fruition, rather than leave the US entirely, Ecclestone made agreements to move the race to another American city. In May 2010 Austin, Texas, was awarded a ten-year contract starting in 2012 (Formula1.com, 2010). In 2011 the Bahrain Grand Prix was cancelled for one year after the Arab Spring uprisings (Weaver, 2012). The race returned to Bahrain in 2012. In October 2011 the inaugural Delhi Grand Prix took place without government subsidy. Mehrotra and MacAskill (2011) reported that billionaire Jaiprakash Gaur spent US\$450 million to build the track and then paid an additional US\$200 million in royalties over five years to the Fédération Internationale de l'Automobile (FIA). However, Ecclestone announced in early 2013 that the 2014 Indian Grand Prix would have to be dropped to allow modifications to the racing calendar. Reportedly, he could not agree on dates with the Indian organizers (Rao, 2013). The most recent race to be dropped from the list was the Korean Grand Prix. This race ended primarily because it was not profitable. The location of the track discouraged spectators from attending, and when the Korean organizers attempted to renegotiate with Formula One to lower the costs, they were rebuffed. In the end the Korean Grand Prix was removed from the race schedule (Davies, 2013). The long list of cancelled races is evidence of Formula One's instability in new markets, even in developed countries. The high construction and operation costs and short operating time make hosting Formula One races a risky investment for governments or private investors.

The Istanbul Grand Prix is a prime case of Formula One's transformational financial and marketing models in the new Formula One era. In Formula One's haste to expand and the Turkish government's haste to host a prestigious event, both failed to analyse the market and plan for the long-term success of the event. After building a track and surrounding infrastructure and hosting several races, the Istanbul Grand Prix was cancelled after seven years, with announcement of the cancellation being made on 30 July 2011 (BBC News, 2011). One of the main reasons given for the cancellation was that Ecclestone had doubled the Istanbul race licensing fee from 8 million GBP to 16 million GBP, an amount the Turkish government was unwilling to underwrite. However, other contributing factors included an inadequate sport consumer market, a poorly designed track, a lack of marketing, and ultimately increased competition from other host cities.

Complexity theory

Several sport scholars have attempted to describe and explain sport organizational behaviours, change management, and decision-making, including Smith (2004), Slack (1997), Cousens, (1997), and Westerbeek *et al.* (1995). Smith's application of complexity theory provides an enlightened view on the dynamics of sport, sport governance, and sport management. He synthesizes three distinguishing characteristics of complexity theory as follows:

1. Complexly structured, non-additive behaviour emerges out of the organization's interactive networks;
2. Complex systems exhibit nonlinear behaviour that is unpredictably related to input; and
3. Complex behaviour is somewhere between predictability and non-predictability, a position sometimes described as the 'edge of chaos' (Peters, 1992). This is the point at which there is enough chaos or unpredictability to ensure that consistency and predictability is lost, 'but also enough order or predictability for consistency and patterns to endure' (Peters, 1992: 72).

As Smith (2004: 70) notes, 'some sophisticated change and innovation occurs at the planned instigation of senior management, but not all that occurs.' He posits the potential benefits of complexity theory for managing or understanding how organizations are managed: 'If complexity theory and the principle of emergence are useful constructs for explaining certain murky but advantageous changes, the possibility for such change to be deliberately harnessed and incorporated into strategic efforts may be improved' (2004: 70). For this case study, complexity theory offers a perspective for interpreting the behaviour of the Istanbul Formula One management team. With the awareness that the collective activity of the units is not fully explained by their sum, and that they may produce emergent properties, these properties feature spontaneous, unpredictable and self-organized patterns, behaviours, and outcomes (Smith, 2004).

The case study analysis has two elements. The first element is to discuss the rationale for hosting the Istanbul Formula One Grand Prix, identifying key decisions for track placement, track and event financing, and responsibilities of management entities. The second is to discuss the organization of the race and related managerial issues leading to the discontinuation of the event. Beech and Chadwick (2004) identified three interactive environments that directly impact a sport organization's success. These are the global environment (macro-environment), the industry environment (micro-environment), and the organizational environment. For this case study the micro-environment, organizational environment, and managerial decisions regarding the Istanbul Formula One Grand Prix are examined and discussed.

Early plans

Some global economists consider Turkey to be the 'rising star' of the Middle East (Champion and Parkinson, 2011). Turkey attracted 37.5 million visitors in 2012 and ranked sixth worldwide as a tourism destination (Tourism Highlights, 2013). Without question, Istanbul, with a population of 13.4 million, is the most visited and globally recognized city in Turkey. Marcuse (2008: 29) has defined mega-cities as 'the products of their own positions within the world of globalization, with its thread of

colonization, uneven development, competition, division of labor, and exploitation'. One could argue that Istanbul has risen to the level of a 'mega-city'.

It is understandable on a number of levels why the city of Istanbul (the municipality, governorship, and other institutions) wanted to host a Formula One event. Politicians and persons of influence wanted to elevate Istanbul's position to that of a 'world-class city'. Derudder and Witlox (2008: 11) define a world-class city as 'at least entailing the presence of well-connected international airports, major hotel chains, and a climate that is somehow conducive to inviting and redirecting globalised capital'. Istanbul's attempt to achieve international acclaim through Formula One, as well as through a bid for the 2020 Olympics, reveals the city's aspirations to join the world of elite sport.

As a result of lobbying efforts, Bernie Ecclestone visited Turkey in March 2002. He stated in his press meeting that:

Turkey is a hidden geography. We should use it. Your demand for hosting a Formula One race in Turkey is now serious ... There are lots of advantages and I don't see any disadvantage. We should first construct a proper track. Then you can consider hosting the race ... I expect that the interest will be higher than in Malaysia.

(Turkiyef1.com, 2002)

During the ground-breaking ceremony for the track in 2005 Ecclestone added: 'We have been working for 10 years to have a race in Turkey. I am very happy for achieving our goal. Thank you very much to the Prime Minister and other authorities for their efforts. Tens of thousands of people will visit Turkey because of the race. There will be great effects on your tourism' (Ntvmsnbc.com, 2003). However, bringing Formula One to Turkey was actually a long and often tedious process.

The marketing manager of Formula One indicated that the most important objective for bringing Formula One to Istanbul was to enhance the international prestige of Turkey (Ozerdim, 2012). Istanbul was emerging as a global destination in the early 2000s, and hosting Formula One was deemed to be a suitable and timely way to implement the city's international strategy. However, hasty decisions related to acquiring global recognition and reputation precluded extensive market research, and because of this, the viability of Formula One in Istanbul was immediately disadvantaged. Formula One's marketing manager further stated that 'Turkey's state of readiness to host the premier motorsports event was questionable. The decision to bring such a global event to Turkey required great vision (and risk)' (Ozerdim, 2012):

However, because of Istanbul's willingness to invest so much in the event, the risk was determined to be a worthwhile one, considering the potential economic benefits and international prominence the event could bring. Emery (2011) has pointed out that understanding the current market environment is crucial for investments of all kinds. However, prior to actually bidding for the event, there was no

indication that the organizations responsible did as much as perform a SWOT analysis (strengths, weaknesses, opportunities, and threats) to determine the macro and micro-environmental conditions for marketing a Formula One Grand Prix race in Istanbul.

The most overlooked factor in Istanbul's bid for the Formula One event was the lack of an established 'racing' market in Istanbul. The country simply had no motor-sports culture. While curiosity was expected to help attract consumers in the early years, the marketing team at race sponsor Mercedes-Benz expected an established motor sports fan base to develop into a 'core audience' with some international participation in the subsequent years (Bekdikhan, 2014). Even with this expectation, there was simply no 'core audience' in Turkey, and establishing one proved problematic. The marketing manager at Mercedes-Benz noted that there was no motorsports connection within Turkey (Bekdikhan, 2014) because Turkey did not have a team participating in any Formula One events, in contrast to India and Russia, which regularly sent racing teams to Formula One events. In the first years of the Istanbul race, Mercedes-Benz gave away thousands of tickets to promote the event, but after only a few years people refused free tickets, citing a lack of interest in the Formula One events (Bekdikhan, 2014). The lack of interest by Turkish consumers resulted in an unprofitable Formula One Grand Prix and essentially sealed the fate of the race.

All those involved in the development and implementation of the Istanbul Formula One Grand Prix, including Formula One Management, the Turkish government, and sponsors, knew of the risks associated with building a track and bringing Formula One to Istanbul, but the Turkish government accepted these risks. Although poor market analysis was only one reason why the Formula One event in Istanbul was unsuccessful, it was the only one that could have been addressed prior to construction of the race track. The problems that faced the Istanbul Formula One race initially continued throughout the subsequent series of events.

Construction phase

The construction of the Istanbul track began in 2003. Although the track's proximity to one of Istanbul's major airports and highways made it the best possible location in Istanbul, the construction of the track itself was mismanaged. Significant budget discrepancies, problematic infrastructure, and a poorly designed track were the three major track-related issues that contributed to the failure of Formula One in Istanbul.

Masterman (2004) has claimed that there are two levels of objectives involved in the management of events. First, there are the organizational objectives that are desired by the event owners for the future direction of the organization. Secondly, there are business objectives that are set for events, that is the maximization of sales, the maximization of profits, improved return on investment through dividends to shareholders, and/or the reinvestment of profits into the business for growth, and so on. In this case the financial or business objectives had no significant importance

or urgency. The Turkish government subsidized the event without requiring specific return on investment (ROI) estimates. In addition, the problem of goal incongruence increases with the size of the organization (Berry and Jarvis, 1999), and this lack of ROI measures became the foundation for the subsequent budgetary issues.

According to an independent economic analysis, race track construction costs were estimated at US\$20 million, but the actual cost exceeded US\$230 million (Uras, 2007). The vast discrepancy is evidence of inaccurate cost analyses, incompetence, and lack of financial oversight and/or fraud. The manager of Formula One in Istanbul contended that the estimated cost for track construction varied because some estimates contained costs for infrastructure (i.e. roads, water/gas piping) but other estimates did not. He put the total cost of the track at approximately US\$150 million (Ozerdim, 2012). Another source indicated that the Turkish government financed the Istanbul Park Grand Prix circuit at a cost of 80 million euros (Altinordu, 2015). The government's willingness to invest this much money and to exceed established budgets demonstrates not only a misunderstanding of the long-term viability of Formula One in Istanbul, but also effective financial risk management.

There was also a logistical problem with the track. While it was located close to one of Istanbul's international airports, it was far from the city centre. Giles (2001) noted the traffic jams after the race, and customer satisfaction surveys noted the substandard mobility services (i.e. public transportation and parking). Nearly 65 per cent of survey respondents were unsatisfied or only partially satisfied with these services (Ozbay 2009). The marketing manager of Mercedes-Benz, even though he personally thought the location of the track was the right choice, noted that, after the first few years of the race, the strong demand diminished and his customers cited the distance of the track from the city centre as a major factor deterring them from attending Formula One events (Bekdikhan, 2014). While the surrounding neighbourhoods developed as a result of the track construction, the track's neighbours were not interested in supporting Formula One events, and as a result most of the event's potential fans remained far from the site.

The final negative factor related to the track construction was its design. There were simply too many seats, and even when ticket sales were high, the stadium appeared empty. The manager of Formula One in Istanbul noted that 'no other Formula One track had a main tribune capacity as large as the Istanbul facility (27000)' (Ozerdim, 2012). He added, 'in some races the main tribune becomes full with 5,000–6,000 spectators but ours was empty with 8,000–9,000 spectators' (personal communication, 2012). In solving this problem, the Formula One manager noted that there should have been more research into the 'level of request and build some additional tribunes if needed' (personal communication, 2012).

The curiosity on the part of the public that inspired the first year of ticket demand was not sustainable. The cost of the track was underestimated, the fan base was unsatisfied, and the Istanbul track itself contributed to the impression that there was little interest. As a result, Istanbul Park could not meet the needs of government

investment, and when costs continued to increase and profits continued to fall, the government decided to cancel the Formula One event series.

Early races

The first race was held at Istanbul Park in 2005. The novelty of the Formula One event attracted a large number of spectators in the first years, but slowly the numbers of attendees dropped precipitously. For example, by 2009 only 36,000 spectators attended the event on race day. That same year 120,000 people attended the British Grand Prix (Giles, 2011). Low interest combined with high ticket prices discouraged attendance. In 2005, the first year of the event, tickets in the first category cost US\$490 and the open area tickets cost US\$53. In 2008 the prices were then increased to US\$570 and US\$82 respectively, but by 2010 the prices had dropped dramatically. At US\$350 and US\$44 respectively, the prices were still not low enough to attract fans.

The lack of interest of fans contributed to lack of interest of the media and sponsors, from which a large percentage of revenues would normally be generated. In addition, the number of television viewers was low. A normal Formula One race in Europe might be viewed by approximately 6 to 7 million people. In Turkey, that number was unofficially between 300,000 and 400,000 (Ozerdim, 2012). In fact, the manager of Formula One in Istanbul claimed that organizers actually paid the media to broadcast the race (Ozerdim, 2012).

Sponsors therefore lost their initial interest in the race. Petrol Ofisi, Turkey's leading fuel products and lubricants distribution company, signed a three-year contract with Formula One in 2006, but then terminated the contract in 2008 (Ozerdim, 2012). Mercedes-Benz developed an extensive marketing strategy, but the low spectator interest could not sustain their efforts. The Mercedes-Benz marketing manager reported that they 'did not launch any advertisement campaign but [they] directly targeted [their] customers, employees and business partners and tried to create awareness' (Bekdikhan, 2014).

While there is a lack of motorsport culture in Turkey, race organizers did little to develop any interest. The manager of Formula One in Istanbul noted that grass-roots activities such as cart racing could have helped introduce the sport to potential fans on a smaller scale. Education or training sessions could also have fostered interest in the sport (Ozerdim, 2012). Rather than finding ways to bring motorsports to the Turkish people, the track was left on the edge of the city, with few people interested in making the trip and buying tickets for the events.

The end of Formula One in Istanbul

In 2011 Ecclestone doubled Istanbul's race licensing fee from 8 million GBP to 16 million GBP. Increased competition from other markets such as Russia and India

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required a fee increase. The Turkish government, however, was unwilling to pay such a high fee, and failed negotiations led to Formula One dropping the Istanbul Grand Prix from the calendar. In general, however, Formula One was not satisfied with the market in Turkey. They were not making money either from ticket sales or broadcast rights. The empty stadium did not convey the idea of an elite sport, and the management of the Istanbul Formula One Grand Prix did little to convey a sense of professional competence to sponsors and fans.

QUESTIONS

1. What potential did Formula One Management see in the Istanbul market?
2. What reasons do you think explain the lack of market analysis undertaken before Istanbul was chosen as a Formula One host city?
3. The construction of the track was problematic on a number of levels. How significant a factor was this in the overall failure of Formula One in Istanbul?
4. How did the focus (or lack of focus) on short-term and long-term goals affect the success of Formula One in Istanbul?
5. How do you think Formula One could avoid similar results in other new markets?

CONCLUSIONS

In 2012 the Istanbul Park track was rented to private investors, and although the current owner of the track has claimed to be in contact with Ecclestone with a view to restarting Formula One races in Turkey, the future plans for the space are still unclear. Possible plans for the track include organizing local races, concerts, and various entertainment, staging an open air car market, and renting suitable areas to a car dealer (Otomobilsayfasi.com, 2012). Other potential activities include a driving academy, cycling and running activities, FIA Rally Cross RX championships, and Ferrari Racing Days (Intercity Park, 2014).

The case analysis of the Formula One Istanbul Grand Prix reveals several complex factors that contributed to the discontinuation of Formula One in Turkey. The most important factor was low spectator attendance, but high costs and increased competition were also key factors. Insufficient growth and lack of financial accountability of organizers, sponsors, media, and other stakeholders brought an end to the Istanbul Formula One race. Overall, government investors saw the potential benefits of increased prestige, positive destination image, and enhanced tourism income as outweighing the risks. The Turkish organizers and investors focused on short-term goals rather than long-term sustainability. When Formula One doubled its licensing fee seven years after the first race in Istanbul, the Turkish government was forced to confront its initial lack of due diligence.

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End of the road

Istanbul is not the only city that has failed to maintain Formula One events. Similar failures have occurred since Formula One first attempted to break into new markets. Although Formula One has earned a reputation as an elite European and North American organization, it is likely that it will need to make changes to its approach in order to appeal to new markets without an established motorsport culture. Only then will Formula One be able to be considered a truly global organization.

RECOMMENDED READING

A book such as *Event Marketing: How to Successfully Promote Events, Festivals, Conventions, and Expositions* by Leonard H. Hoyle (2002) might be helpful to students as an introduction to event planning and marketing. *Events Management* by Bowdin *et al.* (2002) provides useful information on event management. The most comprehensive report on Formula One business, *Formula Money: Formula One's Financial Performance Guide*, prepared by Sylt and Reid on its annual operations, provide all the facts on the business of Formula One. For specific cases, students should look at two articles: *The Formula One Australian Grand Prix: Exploring the Triple Bottom Line* by Fairley *et al.* (2011) and 'The impact of mega sporting events on live spectators' images of a host city: a case study of the Shanghai F1 Grand Prix' by Liu and Gratton (2010).

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CASE 9

HOW DID A SMALL-TOWN ICE HOCKEY CLUB BECOME A EUROPEAN TROPHY WINNER? THE CASE OF JYVÄSKYLÄ ICE HOCKEY CLUB, FINLAND

AILA AHONEN

LEARNING OUTCOMES

Upon completion of this case study, the reader should be able to:

- evaluate the importance of entrepreneurship in team sport organization;
- identify individual entrepreneurial characteristics;
- distinguish the different actions that can affect growth entrepreneurship in sport organization.

OVERVIEW OF THE CASE

Jyväskylä Ice Hockey Club (JYP) is an entrepreneurially-oriented ice hockey club in the small town (130,000 residents) of Jyväskylä, Finland. The club used to be an indebted non-profit sport club, but since 1999 when the current owner took over and changed it into a limited company, it has grown both financially and operationally. Today it is one of the most successful ice hockey clubs in Finland and it also won the European Trophy League in 2013. Behind this success is its owner's entrepreneurial growth orientation.