Changing the Business Model: (1) Strengthening the Financial Foundation

Cycling is a unique sport, freely accessible to tens of millions of fans every year. Whether it is the estimated 15 million people who watch the Tour de France in person each year, or the countless spectators of the Classics, regional pro races, and downtown criteriums, almost no one has to walk through a turnstile or pay admission for the privilege. This is one of the great allures of the sport – the ability to get up close and personal with the riders, and truly experience the race first-hand.

Other sports which are played in large stadiums can collect tickets and charge admission. But because cycling lacks this fundamental source of revenue, it has always wrestled with financial challenges – and has historically been almost totally dependent upon commercial sponsorship for its financial viability. Unfortunately, to make the situation worse, the sport's image has been stained and overshadowed by decades of continuous doping scandals – diminishing its public appeal, and often shrinking the general level of sponsorship interest in the sport. After all, who wants their product or brand to be associated with a sport perceived to be saturated with cheaters and illegal drug takers?

This underlying atmosphere of financial uncertainty and instability means that cycling suffers from a state of constant worry and insecurity that affects everyone and everything in the sport. Sponsors come and go on a regular basis; team managers must always be on the hunt for new funding. Teams with limited budgets and marginal results appear and disappear. Riders, staff and management have to constantly worry about whether their team will survive – and not *if* they should be looking for employment elsewhere, but how soon during the season they should start. This atmosphere of continuous turnover, uncertainty, anxiety and the sense of financial foreboding is very unhealthy and detrimental to the future of the sport.

Even more problematic, from the long-term perspective, it is this lack of dependable and sustainable sources of revenue and profit which makes it difficult to create teams or events with significant economic value. And without the ability to create sustainable economic value, cycling will never be able to attract long-term investors to the sport. Until cycling teams and cycling races are able to build real and sustained economic value, cycling will never be able to attract the necessary level of financial investment. *This* is the root economic problem of professional cycling.

Hence, cycling faces several critical financial challenges which it must address: (1) first, in the shorter-term, it must develop better means of attracting and retaining dependable and global sponsors; (2) second, over the longer-term, it must explore and develop new means of revenue generation, and diversify away from its historical dependence upon third-party sponsorship; (3) it must find a way to make television viewing of the sport more compelling, in order to develop stronger TV revenues; (4) it must determine a reasonable and equitable way to share those revenues – small though they may currently be – amongst the various stakeholders for the maximum benefit of the overall sport; and (5) it must continually work to control the cost side of the equation.

Fortunately, there are numerous specific steps that cycling can undertake to address these challenges, and develop a more predictable and sustainable financial foundation. (Because the sponsorship issue is such an overwhelmingly critical aspect of the financial health of pro cycling, we will deal with it in a separate, second article in this series.)

First, cycling must become more creative in developing other means of generating greater interest and revenue at the race venues. This includes things such as merchandise sales (official bicycles, clothing or equipment lines; but also official beverages, lead vehicles, and other co-marketed products), hospitality events and premium viewing at the start and finish lines, paid admission events, co-branded public rides and Gran Fondos, and other parallel-participation events associated with the pro race. For example, the wildly popular Etape du Tour event, which features a private citizen ride of the Queen Stage of each year's Tour de France, is estimated to generate as much as $1 million. Baseball, football, soccer and other sports enterprises earn many millions of dollars from officially-licensed merchandise sales, by simply creating the brand association (licensing manufacturers to label the official products), and then helping to prominently feature and market the products. There is much that pro cycling can learn in these areas from other sports, particularly from those that are "played on the road" such as marathons, XTERRA™, the X Games, and triathlons.

At a more fundamental level, there are also numerous ways to promote greater interest in and growth of cycling as a pastime and sport – school and education-based growth outreach, encouraging cycling in major markets at an early age. Examples of this include the educational outreach to schoolchildren around the recent Pro Cycling Challenge in Colorado, and the community outreach planned for the Richmond 2015 UCI World Championships. Not every child that starts riding at an early age will become the next Cadel Evans or Marianne Vos, but continued and broader acceptance of cycling as a mainstream activity will help increase participation, bring greater recognition of cycling as a legitimate sport, increase bicycle and product sales, improve its priority as part of the transportation infrastructure, and ultimately expand the sport's global reach.

The building and negotiation of more valuable TV rights is perhaps the single most important means of generating new revenue for the sport. It is important to realize that, with the exception of a few of the largest and most popular events, TV coverage is actually a cost to most race organizers today – not a source of revenue. Although the Tour, the Giro d'Italia and a few other races generate significant television revenues, in most cases the race organizer has to buy TV time in order to be able to attract sponsors. This situation must be reversed.

But even more fundamentally, before TV revenues can grow to a significant size, cycling must find ways of making television coverage more compelling and entertaining. There are a number of specific approaches that have been suggested in this regard. For example, the race promoter Michael Aisner has argued for a greater focus on intra-race strategy and tactics, and "human interest" stories about competitions between individual riders – almost a reality TV show about life within the peloton. There are also numerous new technology options – such as on-bike cameras, individual bike GPS tracking systems, and power output meters that could be better utilized to track the race and individual riders in more detail. Furthermore, because cycling is an extremely expensive sport to televise – with all the helicopters, motorcycles, TV relay aircraft and so on – the sport must be vigilant in terms of investigating new means of controlling these costs. The UCI needs to demonstrate greater initiative in exploring these types of new technologies, and it must create a broadcast convergence strategy – leveraging new technologies together with television and interactive media to build a viewership experience which is more compelling than the current crank-by-crank type coverage (with the occasional thirteenth-century castle thrown in). In short, pro cycling must explore all the possible angles here, to become more interesting to a broader array of fans; it cannot afford to be stuck in a "this is the way we've always done it" mentality.

The global audience, the visibility and the current revenue-generating capability of pro cycling are overwhelmingly focused on a single event – the Tour de France. With as many as three billion people in almost 200 countries tuning in to watch, the Tour is clearly one of the world's largest sporting events. As Pat Cunnane, CEO of Advanced Sports (owner of the Fuji and Kestrel brands, among others) puts it, "Cyclists may watch cycling, but *people* watch the Tour de France." And just as the sport's popular visibility comes largely from the Tour, so does the lion's share of potential sponsorship return and profitability – it's estimated that as much as 80% of the typical team sponsorship return derives from that single race.

The upside is that there are almost no other sporting events like the Tour de France with that kind of reach. The downside is that cycling teams often live and die by on the basis of a Tour invitation. At the same time, many other cycling events struggle to achieve recognition and profitability, and some are in danger of dying. This potential downside is a huge hurdle to overcome when soliciting new investment in the sport. If you make it into the Tour as a team, your sponsor can achieve all of its marketing goals in one master stroke, but if you miss the invite, the sponsor investment is largely lost and you are less likely to have it renewed in subsequent fiscal years. For other races, living in the shadow of the Tour also means that the best teams are often committed to appear in other races owned by, or associated with the Amaury Sports Organization (ASO), simply to maintain good graces and increase their chances of a Tour invitation.

One of the most critical underpinnings for long-term growth and success is the development of some method for sharing the overall revenues of pro cycling with all the key parties – in order to ensure a growing, competitive, but balanced and entertaining sport. The lesson from other major sports is clear – television revenues have to be expanded and somehow shared across the teams and riders, in order for global cycling to truly flourish and grow. A move to revenue sharing in pro cycling will obviously to be a very controversial step, and it will undoubtedly be strongly opposed – at least initially – by some of those who pocket most of the limited revenues and profits of the sport today. However, there *are* a few encouraging signs that some of the race organizers, like RCS Sport, are open and willing to consider different alternatives for the greater good of the sport. And if some sort of revenue-sharing model allows the primary participants in cycling to become more financially secure, and hence promotes greater investment and growth within the overall sport, the *overall* revenue base will grow faster. The primary challenge here will be to convince the ASO and a few other parties that a slightly smaller piece of a much bigger pie will be in everyone's interest.

As Cervelo founder Gerard Vroomen has pointed out, the potential TV revenue is not sizable enough today to have a major impact on the economics of individual teams, but we believe we have to start somewhere. And indeed, cycling is the only widely-televised sport where the revenue is *not* directly shared with the teams and the athletes. There are many questions that will have to be answered before broadcast revenue sharing becomes a reality, but the most important one is, who should drive this process, and should it be the responsibility of the UCI, the teams, the race organizers, or the riders themselves? The answer is that all parties benefit, and they will each need to come to the table to contribute to, or make concessions in the process to charter a new shared-revenues model.

Modernizing the competitive structure of the calendar will help to address this concern, and will allow TV broadcasting companies to make more predictable and logistically simpler investments. In the same way that NASCAR has simplified the broadcast models of its racing series, and Tennis has linked its pro tournaments to build momentum for its keystone Grand Slams, a re-thinking of the calendar can pay huge dividends. The current racing calendar, which ranks events on certain “pro” categorization levels, should be reworked to build importance on lower-level lead-in races, such that competitive showings earn teams the rights to compete in the Grand Tours and Classics, or to make the leap from lower Divisions to the WorldTour. This logical structuring of a “world series” could raise the value of the lower-level events, invigorate the competition model for athletes and teams, increase the incentive for broadcasters to televise a more diverse selection of events, and help drive the broadcast revenue stream. (These topics will also be the subject of an expanded upcoming article).

Finally, as any business person knows, profitability is the difference between revenue and expense. Although there always seems to be a great deal of discussion about generating new revenues, there is typically little focus on the cost side of the equation. Both individual teams and events must focus on how they can operate more efficiently, to reduce unnecessary expenses or staff. Gone are the days when teams had fifteen riders and ten support personnel who travelled around in vans and stayed in Holiday Inns. “The costs of managing a race used to be far lower,” says Felix Magowan, former publisher of ***VeloNews***. “Average budgets for Tour de France-level teams were around $3 million a year in the mid-1980s; starting salaries were $12,000 to $15,000, and other costs – like policing, road closures and insurance – were a fraction of what they are today.” In addition, the sport used to be more creative in terms of divvying up those costs. “I can recall a stage of the Tour de France in the mid-1980s where the entire finishing circuit was closed off to anyone who didn’t pay a gate fee,” says Magowan.

Another key question – sure to be controversial in a sport where *average* salaries are still low relative to other sports – is whether cycling should consider institution of a salary cap? Yes, say many leaders within the sport, like the recently retired racer and now team director Marco Pinotti. Otherwise, a handful of the richer teams will gradually be able to buy up and control most of the talent. Should there be so many races on the calendar, many of them running concurrently in different corners of the world, resulting in huge expenses for the teams? The sport and its participants – particularly those wealthy individuals or parastatal groups which currently underwrite some of the biggest budget teams – must think more carefully in terms of running a tight and lean operation – just as individual businesses are forced to do in a competitive marketplace.

The UCI must lead the way in reconfiguring the competitive and structural landscape of cycling. This will enable the sport to become more financially stable and economically self-sustaining, and allow it to build a larger market share of the global sporting audience. In addition, all of these factors will contribute to making cycling much more attractive to sponsors – more and larger sponsors will compete to get into the business, rather than running away in fear. The discussion, evaluation and implementation of some version of the various recommendations above – while perhaps unacceptable to some and personally painful to others – will create a whole new array of self-sustaining benefits, restore the overall image and character of the sport, and help cycling to achieve its true global sporting potential.

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Steve Maxwell and Joe Harris, October 12, 2014