Changing the Business Model: (2) Building the Sponsorship Base

One of cycling's greatest attraction for fans is that it's basically free to watch. The flip side is that, relative to other sports, there is much greater pressure on event organizers and teams to find external commercial sponsors to provide the financial foundation for the sport. And although there is an urgent need to diversify the sources of revenue in the sport, the fact is that pro cycling – by its very nature – will always be heavily dependent upon commercial sponsorship. Viewed from this perspective, one of the most pressing issues faced by the sport is the need to attract and retain more committed and global long-term sponsors.

The real problem (as pointed out in the first article in this series) is an underlying atmosphere of instability that affects everything and everyone in the sport, because the requisite sponsorship and financial backing are always in flux. Team managers are always on the hunt for new sponsors. Race organizers are trapped in revolving budget shortfalls. Marginal teams come and go. Riders and other employees worry constantly about whether their team is about to collapse – should they be looking for employment elsewhere? There is no sense of security. This continuous turnover, uncertainty, and sense of financial foreboding has a very negative impact on the sport – and it must be addressed.

Sports sponsors are after opportunities that will give their brand wide exposure, but they obviously steer away from options which they fear could turn into liabilities. In this regard, pro cycling is at a distinct disadvantage. Doping scandals have overshadowed the sport for so long that it has developed a poor public image – with the general public, but also with much of the potential sponsor base. As Bob Stapleton, chief of the former HTC High Road team, and now Chairman of USA Cycling, says, "you can't talk about cycling sponsorship without confronting the doping issue." Because of this historical legacy, "cycling can look like a risky bet," says Slipstream team owner Doug Ellis, especially vis-à-vis other sports. No one wants their name and brand to get bogged down in a doping scandal, and no company, even today, should enter the pro cycling market without directly confronting this issue and deciding how to deal with the risks.

Although it's impossible to know what the real impact of doping has been, it is certain that there are many *potential* sponsors out there who fear that associating their name with pro cycling may hurt rather than help their brand image and customer awareness. Because of this, cycling has had to adapt to continuously high sponsor turnover – with new firms coming in and out of the sport almost every year. Despite recent and hopeful progress in this regard, numerous key sponsors continue to pull out of the business – Belkin, Liquigas and RadioShack to name just a few.

Beyond this primary issue of changing and overcoming its historical image, there are also a number of secondary challenges in promoting pro cycling sponsorship:

First, it is very difficult to measure and document the value of a sponsorship investment. Accurately measuring the benefit and economic value of *any* sports sponsorship is at best an inexact science, but more sophisticated metrics and means of evaluating the real financial returns would be invaluable in attracting cautious potential sponsors. One recent study estimated a six-to-one financial return on cycling sponsorship investments – a claim which was briefly bandied about by various parties who wanted to agree with the conclusion, such as the UCI and sponsor-hungry WorldTour teams. Unfortunately, however, these studies are often based upon very simplistic value calculations or unverifiable assumptions – making it difficult to judge their accuracy or conclusions. Many sponsors tend to fall back on what is *easy* to measure – like the number of logo or signage "views," often measured as the number of seconds the logo is in view on television – rather than what may be *important* to measure, such as consumer recognition of the sponsors' product, and whether or not the consumer trusts the sponsor.

Second, the visibility and potential revenue-generating capability of pro cycling is overwhelmingly focused on a single event – the Tour de France. Getting selected for the Tour is a huge consideration for existing or potential sponsors, and unfortunately, the system for selection has historically been somewhat opaque. The sport desperately needs to diversify its calendar and logically organize its structure (to be discussed in later article in this series) in order to "spread the wealth" around a bit better. Here again, the sport is heavily dependent upon the decisions and strategies of ASO to move it in a positive direction for overall growth – not just to consolidate and preserve its current lock on key events.

And even *with* key sponsors, many teams don't cover all of their expenses. In many cases, there is a wealthy individual or parastatal owner behind the scenes absorbing at least some financial losses incurred by the team. This has led to a growing disparity or "income gap" within the ranks of the WorldTour teams – where some teams struggle to survive while others are propped up by the likes of cycling "patrons" like Andy Rihs or Oleg Tinkov. This allows some teams to survive over the short-term, but it's clearly not a sustainable long-term financial model; being a loss leader rarely leads to market success. Moreover, when patrons pull out, these teams often collapse.

Finally, cycling *events* are just as dependent as *teams* are upon sponsorship arrangements and wealthy backers to survive – particularly in the United States. All three of the top races in the U.S. are essentially underwritten by wealthy individuals or companies – in addition to name sponsors. Event organizers face most of the same challenges that bedevil individual teams, and sometimes actually find themselves competing with their constituent teams for the same sources of scarce sponsor dollars.

The list of sponsorship challenges goes on. Cycling is estimated to be one of the top five spectator sports in the world, in terms of fan participation and television viewership, but it seems to be the only one that lacks a viable long-term business model for promoting sponsorship. In short, cycling desperately needs to create a more stable situation, where potential sponsor benefits are more predictable, where the returns are easier to define and measure – and where more companies want to compete for the opportunity to put their logo on a jersey, or their name across a finish-line banner.

However, if cycling could move beyond its historical legacy and learn to better promote itself, there are plenty of reasons to be optimistic about the future. Fortunately, where there are great challenges, there may also be great opportunities – and there are many ways in which cycling can be made more sponsor-friendly:

First of all, the ***potential exposure value*** that sponsors can derive from cycling is hard to match. There are few other events like the Tour, where one has the opportunity to hit an estimated 3.5 billion people 180 different countries. Cycling sponsorships can be very good at developing brand recognition at a relatively low cost per impression. However, "that and two dollars will buy you a cup of coffee" says former *VeloNews* publisher Felix Magowan. "It's how that brand recognition is morphed into brand equity that really drives whether a sponsor will stick around." Simply running ads during TV broadcast hours won't do the job anymore. But there are new technologies, for example 2-way interactive "buy-on-demand" capabilities, that could be leveraged to promote impulse product buys, and the delivery of specific content to better target specific consumers.

Second, it has been well-documented that – particularly in the United States – pro cycling garners one of ***the wealthiest and most educated and environmentally-aware audiences*** of any televised sport. And there are lots of companies that want to sell their goods or services to the people in that demographic group. A platform that allows a vendor to address this high-end demographic "can be huge," says USA Pro Challenge CEO Shawn Hunter.

Third, ***cycling sponsorship is cheap*** relative to almost all other sports, in terms of the potential exposure and returns. Cynics might point out that one possible upside of the historical doping era is a big discount in terms of the current cost of cycling sponsorship and advertising – and they would not be wrong.

Another unique characteristic of cycling which could be better exploited involves the ***ratio between spectators and participants***. As opposed to spectators in many other sports who don't actually play the game, a very high percentage of cycling fans actually ride a bike. This has huge implications, particularly for the so-called "endemic" sponsors – firms that are selling bikes, components, equipment and apparel actually used by cyclists. It also cross-pollinates huge opportunities for companies in the health care, financial services, and professional services domains who seek to build high-dollar business relationships with new and existing clients, many of whom are cycling fans and enthusiastic riders.

An important aspect of cycling's playing field is its ***regional flavor*** – some sponsors are only interested in maximizing their exposure to a local, rather than global audience. If cycling is able to rationalize its racing calendar, and allow more regional races differentiate themselves and gain prominence, this will help those race events *as well as* teams to solicit investments oriented towards the regions where their sponsors want to do business. Reorganizing the overall race calendar so as to create *a season of racing*, rather than simply emphasizing or building around a handful of key events, will also help to drive overall viewership, and therefore sponsorship opportunities, for the entire sport.

In a related light, if cycling could build more stability among its top teams such that sponsors were not constantly changing, and where there was a more constant name and image to the team, fans might develop ***more loyalty and interest in a given team***. More critically, teams could develop a more regional or national flavor – as is the case in many other international sports – where fans could start to become more dedicated and attached to a single team from their region. Why buy a team jersey if the team name and half the riders are likely to be different next year? This type of regionally-based fan pride and loyalty is only a factor for a handful of teams today – for example, Astana and Orica Greenedge from their home countries, and perhaps to a lesser extent, Team Sky and Garmin. As opposed to individual riders, more interest and focus on teams would do wonders for building the fan base of the sport – and merchandising could become a much more important source of revenue. And what better way to see and cheer on your team than a well-supported race in the team's home region?

Another key opportunity for cycling is what advertising people refer to as activation – ***better ways to make the sponsorship actually work*** to achieve the company's objectives. Former race promoter Michael Aisner provides an illustrative example from his experiences in the early 2000s. "How do you go from watching the winning racer with the Saturn logo on his chest throwing up his arms in victory, to a person actually walking onto the lot and test-driving a Saturn?" How can you connect those two events, or establish what Aisner calls the "connective tissue." Effective sponsorship is sophisticated and complicated – and some sponsors are considerably more creative than others at juxtaposing their branding with lifestyle and consumer choices – but there is a lot of low-hanging fruit here.

Cycling also offers an unrivalled range of ***hospitality and networking opportunities*** which can be more creatively exploited – particularly from a business-to-business marketing perspective. And there is room for plenty of creativity. The former sponsor Computer Sciences Corporation (CSC) used to run "fantasy camps"– similar to the more widely-known baseball spring training camps. CSC invited key existing and potential clients to events where the guests could basically meet, ride and hang out with members of the CSC team. This is analogous to Citibank or Accenture inviting top business clients to tents at the Masters Golf Tournament – a real status symbol. This unique ability to bring consumers with big spending power into close contact with the sport reinforces Aisner's "connective tissue." It creates additional opportunities to help sponsors realize value from their investments, and encourages sponsors to make long-term commitments.

Finally, cycling can accomplish a lot by simply ***promoting better public awareness***. Too few people are ever exposed to pro cycling beyond the Tour de France. The sport itself must undertake more marketing and advertising initiatives to become better known in sporting communities around the world. The sport will never flourish unless it helps to broaden the acceptance of cycling at many levels, including efforts to improve public policy, integration with urban transportation planning, and programs that help schools encourage children to ride. This is analogous to how the NBA takes on "Global" tours and skills camps in both developed and developing nations – helping to spread the game, engrain it in the social fabric as a fun, healthy activity that anyone can participate in while improving its global market reach. Just as the NBA promotes itself as a world game, cycling should help promote itself in a truly accessible, global context.

There are certainly plenty of companies out there that *should* want to become sponsors of pro cycling. Besides the endemic bicycling and accessory manufacturers, cycling offers an excellent opportunity for other companies seeking an audience with active, outdoor, health-driven interests and lifestyles. Cycling sponsorship seems like a natural fit for healthcare-related companies, providers of natural foods or nutritional supplements, tourism destinations, financial services providers, cutting-edge communications devices or tech companies who have products to sell to younger, healthier, more active, and more educated people. Collectively, these sectors represent a large chunk of the overall consumer and business-to-business economy.

Even as selected doping stories continue to grab headlines, there are convincing signs that cycling is moving past its dark era, and that more and more potential sponsors are willing to take a broader view. As is the case in so many of the vexing challenges faced by pro cycling, discussions about sponsorship also eventually come down to questions of structure and governance. Obviously, all stakeholders in the sport have the responsibility – not only to others, but also to themselves – to help rid the sport of its endemic doping culture and its reputation for mishandling controversy.

Many observers say that – despite the ongoing Cycling Independent Reform Commission (CIRC), and recent moves to eliminate layers in the current anti-doping process – the UCI should be doing more to clean up the sport, and to make it more attractive to big sponsors. The burden of finding team and/or race investors currently falls entirely on the team owners, managers, or entrepreneurs themselves. The sport itself, via the vehicle of the UCI, should also look for new ways to create sponsor opportunity or continuity. If there is not enough investment in marketing the *activity* of cycling, the sport will be consistently undervalued and undersold. By doing all it can to ensure a clean sport, the UCI can help to address and reform the sponsorship crisis.

Fortunately, there are many encouraging signs of progress here. Individual teams are increasingly setting tougher internal standards, and individual events are establishing testing requirements above and beyond the UCI's requirements. Sponsors themselves can also take more responsibility to incentivize and enforce a cleaner sport. Some sponsors are now demanding at least some oversight of the team's approach and philosophy, and placing a higher emphasis on corporate responsibility and ethics.

Different sponsors have diverse objectives and seek differing advertising opportunities. But the bottom line is that cycling sponsors can enjoy great value for the money if they take the time to develop sophisticated programs, and if they are willing to trust that the sport is finally beginning to turn the corner and leave its dark days behind. And more and more sponsors seem to believe – and are willing to bet – that the sport has nowhere to go but up.

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Steve Maxwell and Joe Harris, October 19, 2104 (Note: Parts of this article were drawn from Maxwell's March, 2014 article in ***Velo*** magazine entitled *Your Name Here*.