

# false profit

The Grand Prix may bring millions of dollars into Victoria but in the decade since the event returned to Albert Park, Andrew Fenton reports sponsorship and ticket revenue has fallen almost \$10m in real terms



VINCE CALIURI

**B**ernie Ecclestone has created the money-making equivalent of a perpetual motion machine with his formula one empire. Promoters, attracted to the glitz and glamour of the elite motor sport, eagerly compete with each other for the opportunity to spend millions of dollars staging their own Grand Prix. Ecclestone's Formula One Administration (FOA) made a \$A605 million profit in 2004 – almost double the previous year.

The company makes such an enormous return because it doesn't bear much of the risk, explains Forrest Bond, editor of motor sport website Racefax.com.

"Ecclestone, the teams and even the FIA (Fédération Internationale de l'Automobile) are assured of a healthy profit from any Grand Prix," he says. "Only the race promoter risks losing any money."

In Victoria the race promoter is the Australian Grand Prix Corporation, which is underwritten by the Victorian

Government. The FOA's fee for the race increases each year which contributes to the Melbourne Grand Prix's increasing losses.

Grand Prix chairman Ron Walker, at the announcement in December, 1993, that Melbourne would host the race, predicted the event would eventually make a profit. In 1996 the first race lost \$1.75 million, which rose the next year to \$2.7 million and has increased every year since. Last year it was \$13.6 million.

But that's not the total cost of the race to taxpayers, because it doesn't take into account non-recurrent funding provided by the government for capital works. For example, last year \$2.48 million was spent on capital works at Albert Park, and a similar amount was spent the year before.

The cost of staging the event needs to be considered in the light of an economic study by the National Institute of Economic and Industry Research (NIEIR), which estimates the event attracted more than 56,000 tourists and had a gross

economic impact of \$174.8 million in 2005.

NIEIR calculates the Grand Prix has generated \$1.2 billion in turnover for Victoria since it began.

GP Corporation CEO Tim Bamford says the research shows the benefits to the state far outweigh losses.

"Yes we make a loss, you can call it a loss," he says. "But it's perfectly sensible from a business point of view. If you look at the reason the government puts \$15 million into our event, it's not dissimilar to the reason Foster's puts in millions to the event. They want to be associated with it, they get publicity, it's good for their image."

According to the NIEIR study, the State Government made \$15.2 million in extra tax directly attributable to the 2005 Grand Prix.

"From the point of view of the government, as to whether it's making a profit or a loss, you'd have to take that into account," Bamford says.

But the equation will change as the event becomes even



Bernie Ecclestone

more expensive in the coming years. The Victorian Government's ban on tobacco advertising will take effect after this year's race. Some commentators believe FOA may insist the Grand Prix Corporation or the Victorian Government make up for the lost revenue.

**To make matters worse**, the contract with the race's naming-rights sponsor, Foster's, expires this year. Earlier this month, *Business Review Weekly* reported that Foster's Group is expected to drop the sponsorship, worth \$5 million a year.

*BRW* columnist Adele Ferguson says her information came directly from a Foster's insider. "It's true," she says. "They would have come down on us like a tonne of bricks otherwise."

However, Bamford says Foster's has not made a decision. "There are discussions ongoing with Foster's," he says. "We're talking to them and I've been assured by them that no decision has been made not to (continue the sponsorship). Far from it." He declined to answer whether the GP Corporation was negotiating with other potential sponsors in case Foster's left, but conceded there weren't many companies that could afford the naming rights.

"Well, it's a limited pool, isn't it?" he says.

The most likely sponsor is an Australian-based company with a product or service aimed at the international market. Ferguson can't think of an Australian-based company that fits the bill. "A company doesn't spring to mind," she says. "Qantas used to sponsor it but I can't see them doing it again. BHP is a global company, but what benefit would they get? They're not a retail company. Coca Cola maybe? I think it will be a challenge."

The last time a large sponsor withdrew from the race was when AMP ditched its substantial second-tier sponsorship in 2002, believed to be two years before its contract expired. Bamford denies AMP got out early.

The AMP sponsorship wasn't replaced with another sponsor of equal size. If Foster's isn't replaced, taxpayers will have to fork out even more for the race.

Last Friday it was announced venue signage sponsor Panasonic would be the naming rights sponsor of the V8 Supercars. Although this sponsorship cost Netspace about \$300,000 until 2004, major sponsor Qantas is believed to have paid just an additional \$15,000 to sponsor the V8s last year. Bamford disputes this.

According to Bamford, only two new sponsors have been signed since he took over as CEO 18 months ago: Repco, which sponsors the historical exhibition; and Dodo, which provides some finance and the telecommunications systems. They are believed to be fourth-tier sponsors.

"I think we've got cause at the Grand Prix to be

reasonably proud of the way we've retained sponsors and signed new sponsors in the face of a very competitive market and things changing significantly in that market," says Bamford.

A comparison of the 1996 and 2005 annual report shows sponsorship and commercial revenue has increased from \$9.742 million to \$10.886 million. Based on the Reserve Bank's inflation calculator, the first year's revenue adjusted for inflation would now be worth \$12.12 million – so it's fallen in real terms. Sales revenue has fared worse. According to the 1996 annual report, total sales revenue was \$40.018 million (the equivalent of \$49.8 in 2005); last year's report shows it was \$41.475 million.

What all of this means is that the event is down \$9.56 million in real terms since 1996 in its two biggest money-making areas: sponsorship and sales. Official attendance figures at last year's event were also 31,400 down on the crowd of 401,000 who watched the first Grand Prix.

The Melbourne Grand Prix's revenue comes from corporate, grandstand and general ticket sales; sponsorship, food and merchandise. Unlike some other major local events, the Grand Prix Corporation is unable to recoup any money through the sale of television rights or trackside advertising, which mostly goes to the FOA.

FOA charges an escalating fee for the rights to the race. The fee is a closely guarded secret, although freelance journalist Kevin Summers has two documents he claims reveal it. They were individually leaked to him in 2000 by two highly placed State Government officials.

Summers is an experienced journalist who has contributed to *The Age* and the *Canberra Times*. He's also a long-standing and vocal critic of the Grand Prix.

"One piece of paper falling across my desk you treat with suspicion, but when you get two different pieces of paper with corresponding information from two different ranking bureaucrats, you pay attention," he says.

Summers says the annual fee in 1999 was \$18 million, with an annual increase of 10 per cent per year. With a compounding increase, that makes the fee about \$35 million – but even if the 10 per cent is just on the original amount, the fee would still be about \$27 million this year. (That's based on an original fee of \$13.84 million increasing by \$1.38 million annually.)

Bamford declines to comment. "The Australian Grand Prix Corporation cannot comment on the actual fee," he says. "The cost of the event to taxpayers is public knowledge as outlined in the annual report but the individual value of contracts is not disclosed".

In defence of the increasing costs of staging the event, the Grand Prix Corporation and the Victorian Government cite NIEIR's research that estimates the gross economic impact to Victoria has risen from \$95.6 million in the first year to \$130.7 million in 2000 to \$174.8 million last year.

**University of NSW** senior research fellow Ray Spurr and Monash University professor of economics Peter Forsyth reviewed the NIEIR report about the 2000 event. They argue the input/output methodology used by NIEIR is flawed and outdated.

"Not many economists regard input/output analysis as a very acceptable methodology," Spurr says. "It tends to add up all the plusses and not address the minuses."

The pair believes NIEIR's input/output studies overstate the gross economic impact of the race by at least double,



JOE ARMAO

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making the actual figure more like \$90 million. Even then, they say it's still not the net economic benefit.

"It looks at turnover rather than profit for Victoria," says Forsyth. "It's not the net gain the state makes in things like additional tax receipts, profits for Victorian businesses and increases in wages. (The profit) is a fraction of the \$90 million." The pair's research suggests the net benefit to the state is about one-fifth of the gross economic impact. Logically, it could be as little as \$18 million.

NIEIR spokesperson Peter Hylands says the company stands by its work but does not wish to get into a public slanging match about the details.

Bamford says the methodology needs to remain consistent. "What we do is we have a reputable assessment at \$175 million, which is consistent not only with our estimates from previous years but also with methodology used by the Government for other events," he says.

Spurr says computable general equilibrium modelling and a cost-benefit study should be done for all major events. A 2002 cost-benefit analysis of Canberra's now-abandoned V8 Supercar race by the ACT's auditor-general found the event's benefits had been exaggerated. The ACT lost more than \$11 million over three years staging the race.

Victoria's auditor-general, Wayne Cameron, also apparently believes cost-benefit analyses should be done for major events. He wrote in his 2005/06 annual plan: "A key challenge of the public sector is to ensure that a systematic and rigorous cost-benefit analysis is undertaken to inform decisions about whether or not to invest in major events."

A year later, the proposal seems to have been shelved. The auditor-general's office says it is still in the "preliminary planning stage" and nothing more is expected at least until some time in the 2006/07 financial year. The auditor-general's spokesperson refused to be quoted. **mwm**