

## In this issue

### A race apart?

*In its recent investigation of the 15-year lease of the Silverstone circuit by Octagon Motorsports – the operator of Brands Hatch – a central question for the Competition Commission was whether these circuits were part of an elite group of prestige motor sport venues. Did playing host to major international and national races set Brands Hatch, Silverstone and Donington Park apart, facing little competition from less prestigious venues in attracting championship promoters and customers sampling the thrill of motor sport on experience days?*

*Had the Commission maintained the view that there was a distinct market for access to prestige circuits, the deal, bringing two of these three circuits under common control, may well not have received the go-ahead. But how does one show whether there is a prestige effect or not?*

By **Dan Maldoom**.

## A race apart?

### Market definition in the Brands Hatch/Silverstone merger

When the Competition Commission looked at the proposed agreement between Octagon Motorsports Ltd and the British Racing Drivers Club, the owners and previous operators of the Silverstone circuit, it identified a number of distinct markets within which the agreement could potentially affect competition. UK motor sport circuits are not only used for staging racing events (thus serving spectators), but also to supply services to a participatory market involving either “enthusiasts and professionals using their own vehicles” (the ‘track-hire market’) or “one-off occasional customers who are provided with vehicles” (the ‘experience market’).<sup>1</sup> In addition, the Commission looked at two upstream markets, namely the promotion of spectator events and the provision of track time to organisers of participatory events.

A key issue in all of these markets was whether Brands Hatch and Silverstone, together with Donington Park, were part of an elite group of ‘prestige circuits’. In the Commission’s words:

“[I]t was suggested that Silverstone, Brands Hatch and Donington were all perceived as more famous than other circuits because they had all held a Formula One British Grand Prix in the last 15 years, and all continued to hold major international events.”<sup>2</sup>

Such a prestige effect could, for example, mean that organisers of championships might need to include one or more of these circuits in their racing calendar, or that those participating in track days or experience days would not consider any of the other licensed circuits (and even less so alternative venues such as unlicensed circuits or airfields) as a suitable alternative.

Whilst it may be tempting to conclude that the best known circuits are in a league of their own, the true picture is more complex.

- First, prestige could be associated primarily with events, not circuits. To the extent that Silverstone, Brands Hatch and Donington enjoy ‘prestige’, it would derive from each of these circuits having hosted a F1 British Grand Prix within the previous 15 years. Circuits have to compete hard for the most prestigious events, and their ability to do so is mainly determined by licence constraints and available infrastructure. Therefore, the existence of prestige does not automatically mean that there is a competitive failure.
- Second, whether there is ‘prestige’ depends on consumer behaviour in the affected markets. Even if some spectators and participants might not consider other venues to be suitable alternatives, as long as there is a sufficient proportion that do, other licensed circuits and alternative venues act as a competitive constraint on Brands Hatch and Silverstone.

Whether access to a prestigious circuit is crucial for organisers of championships can be analysed by looking at the distribution of rounds of the 44 major UK motor sport championships. Whilst each of these championships had at least one round at Brands Hatch, Silverstone or Donington, there was no evidence that either of these was essential for a championship’s success. 44% of championships did not have a round at Silverstone, and the circuit that played host to most of these championships was Snetterton (with 37 out of 44 championships holding at least one round there). Indeed, organisers of championships require a good geographic spread of venues in

<sup>1</sup> Competition Commission, *Octagon Motorsports Limited and British Racing Drivers Club Limited – A report on a merger situation, Cm5252*, September 2001, paragraph 4.5.  
<sup>2</sup> *Ibid.*, paragraph 4.185.

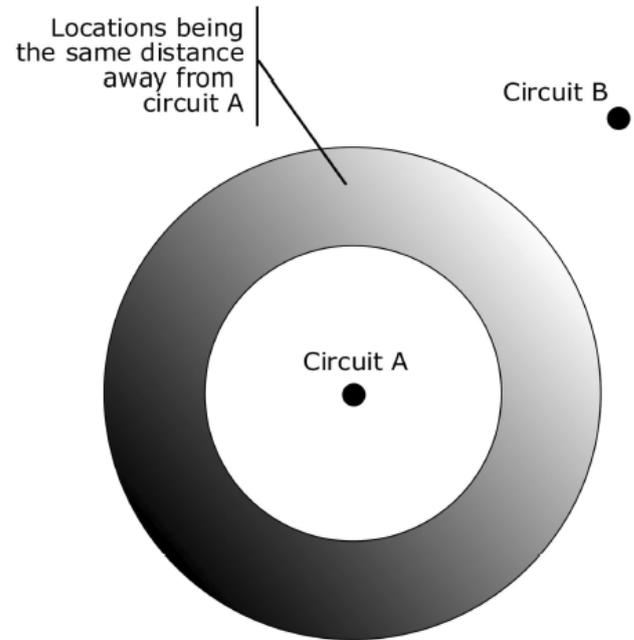
order to offer variety to drivers and maximise audiences (which is crucial for sponsors) by bringing championships close to those wishing to watch them.

The relative importance of geographic proximity and the willingness to travel is also the key to establishing whether there is a prestige effect in the market for participatory events, both with regard to final customers and intermediaries wishing to acquire track time.

Using postcode data from booking and billing databases, it is possible to establish catchment areas and calculate customer penetration – the proportion of customers living in a particular postcode area who have been attending participatory or spectator events at a particular circuit – by geographic area. This shows that:

- Catchment areas for spectator events are generally larger than for participatory events, indicating that the geographic market for participatory events is smaller. At the same time this suggests that the product market for participatory events may be wider: compared to travelling to a particular circuit in order to watch a special event, the range of alternatives to a track or experience day at that circuit appears to be larger.
- Customer penetration falls sharply with distance – the majority of customers come from within an area that is close to the circuit.

Using the relationship between attendance and geographic proximity in order to establish whether there is a prestige effect, however, is somewhat more complicated. For this purpose, one first has to look at the impact of proximity to other circuits on attendance of events at a particular circuit, say Silverstone. Whilst customer penetration should increase with proximity to the circuit in question, it should be lower in areas that are closer to another circuit.



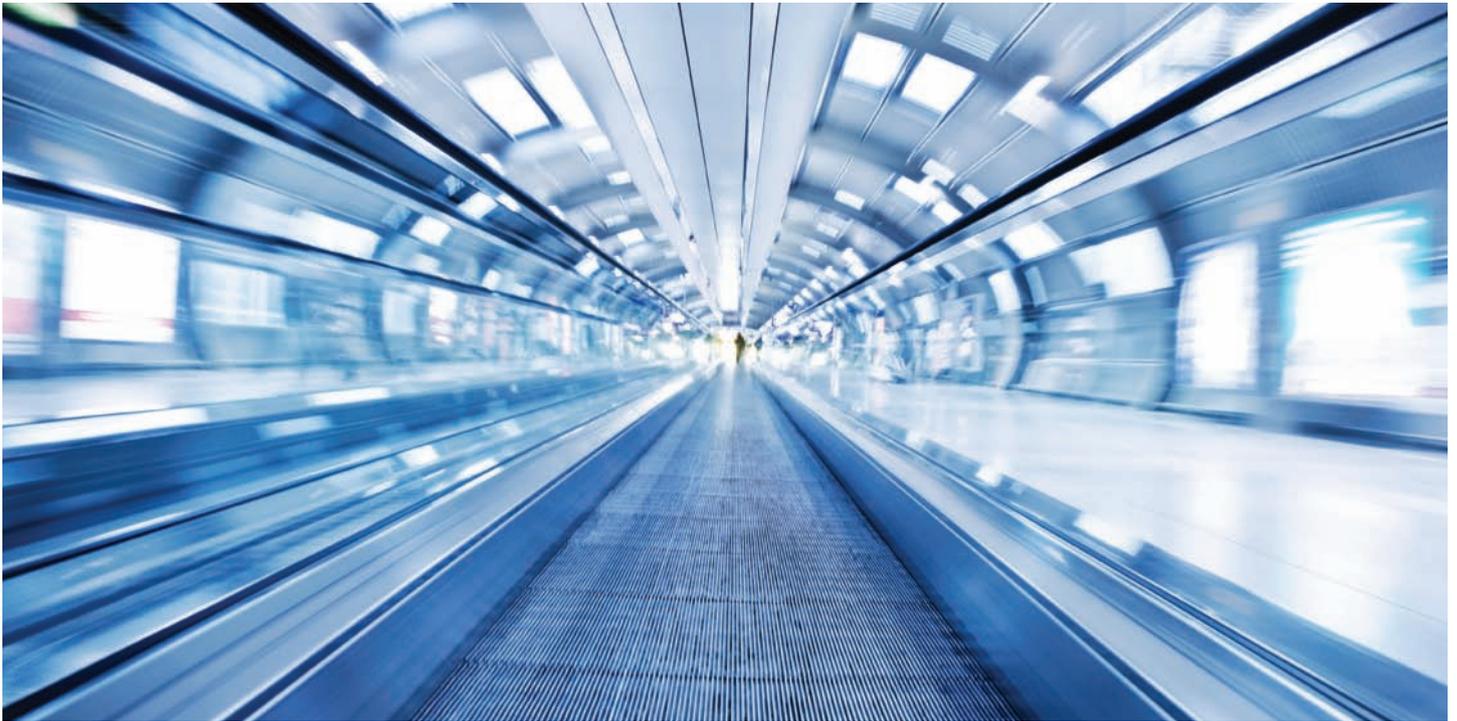
A simple illustration of this effect is given in the diagram above, where customer penetration is higher the darker the shading of the ring around circuit A. Looking at the proportion of customers attending events at circuit A, we would expect to find that this proportion is lower in an area that is closer to circuit B compared with another area that is the same distance from circuit A, but further away from circuit B.

This can be used to show the presence or absence of a prestige effect. If the proportion of customers in an area attending, say, Silverstone were significantly reduced by proximity to Brands Hatch or Donington, but not by proximity to any other circuit, this would suggest that these three circuits indeed form a separate group of prestige venues. If however, there is no difference in the impact of proximity to Brands Hatch and Donington and proximity to other circuits, then customer responses do not support any prestige effect.

Although these competitive interactions between circuits are complex, depending exactly where circuits and spectators are located relative to one another, these effects can be unpicked by econometric analysis of customer data. Analysis of such data for both Brands Hatch and Silverstone clearly rejected the proposition that there is a distinct group of prestigious circuits. The impact of proximity to other circuits on the proportion of customers attending Silverstone was as significant as the impact of proximity to Donington and Brands Hatch. Similar results were obtained for Brands Hatch.

The Competition Commission found these arguments convincing and concluded that the notion of distinct prestigious circuits was not sustainable. This is an excellent demonstration of how the type of data companies now routinely collect to understand and manage their customers better can be analysed to yield statistically robust conclusions about market definition. Whilst many companies might think their products are prestigious, only their customers' behaviour can tell us how different they really are.

*DotEcon acted as adviser to Octagon in the Competition Commission inquiry.*



## Contributors



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Dr. Dan Maldoom is a Partner and co-founder of DotEcon Ltd. He is an academic economist and a business consultant who specialises in quantitative economics, game theory and economic modelling in the areas of competition economics, market design and business strategy.

## About DotEcon

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We integrate rigorous theoretical economics with a thorough understanding of market realities to provide reliable, practicable and concise advice. Our consultants draw on a wide range of specialist skills including econometric analysis, economic and financial modelling, and the development of bespoke software tools.