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9B18M115

The Mario Andretti Family: Building the next generation

Thomas Maier, PhD wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.

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Following the Indy 500 race on May 28, 2017, Michael Andretti, Andretti Autosport’s chief executive officer (CEO), knelt down to the ground and kissed the bricks embedded in the Indy 500 asphalt track surface he had conquered for the fifth time. As team owner and second-generation race-car driver, Michael thought back to his 2017 win at the Indy 500 race with long-time engine sponsor, Honda Motor Company, Ltd. (Honda).

In the afterglow of his Andretti Autosport Indy 500 team win, Michael contemplated his upcoming primary engine sponsorship decision to either remain with Honda or switch to the Chevrolet Division of General Motors Company (Chevy). The decision involved capitalizing on his recent string of victories to capture more favourable financial terms and leverage key resources for his firm’s future. He felt the collaboration with Honda had been successful, but with the contract expiring at the end of the season, Michael wondered: How could the Andretti family legacy, spanning three generations of race-car drivers, be sustained in the future, and in particular what engine sponsor would be the best to partner with?

Engine manufacturing sponsorship was a critical element in auto racing. Engine manufacturers conducted research and development experiments to generate car horsepower. They also provided computer engineers, manufactured parts, and the electronics necessary to support the annual racing seasons. Typically, engine sponsors provided two sets of engines per car per season. Engine sponsorship costs could be upward of $750,000–$1 million[[1]](#footnote-1) per car per season.

The Indy Racing League (IndyCar) racing series sponsorships came in many shapes and forms. For instance, the overall racing league title sponsorship rights could be as high as $20 million per season, which gave both media time and exposure to sponsors in addition to trackside activation and client engagement opportunities.[[2]](#footnote-2) With respect to the Andretti Autosport engine sponsorship alone, according to Michael Andretti, “The racing business is highly volatile with high financial stakes given the cost to run an IndyCar race car alone for the season topping $6.5 million per year without the driver salary. That means a constant focus on all sponsorship relationships and constantly generating value for our sponsors through victory.”

The Andretti family

The Andrettis’ racing family shared a common drive to win, relished every chance to compete against the best, and exhibited a passion for sustaining their family legacy well into the future. Inherent in the Andretti family motto was an emphasis on perseverance, versatility, and team performance.

The Andretti family story began in the picturesque northern Italian town of Montona. Michael’s father, Mario, who was the patriarch of the family, and his twin brother, Aldo, were born in Italy in 1940 (see Exhibit 1). Their father was a farmer who worked diligently day by day to provide for his family, perfectly caring for his crops inch by inch.

After World War II ended, as part of the political settlement, the residents of Northern Italian border towns and the Andretti family found themselves in a refugee camp run by communist Yugoslavia. The Andretti family lived with 5,000 people in the refugee camp, sharing a large room with about 25 other families. Each of the family’s quarters were separated from the next by blankets. While living in the refugee camp, Mario and Aldo struck up a friendship with two local villagers who owned a parking garage nearby. In 1954, the local villagers who owned the garage invited the twins to go to Monza with them to watch the Italian Grand Prix. Mario was only 14 years old, but he went to that race and the die was cast. He wanted to be a racer and wanted to some day race in the Italian Grand Prix in Monza.

In manic pursuit of his goal, he worked hard, striving to be the most versatile racer he could be. He transcended the sport of racing across the globe, setting in motion several rare and invaluable talents: driving knowledge, name recognition, versatility, and a winning capability for Andretti generations to come.

Mario Andretti’s accomplishments as a racer were one of a kind. He was known throughout the world as the only racer to have achieved victory in three different leagues—the Daytona 500, the Indy 500, and the Formula 1 European championships—driving three different styles of race cars (i.e., stock cars, sports cars, and sprint cars). All told, he won more than 111 races in his nearly 50-year career. He noted: “I learned very early in life that adaptability is key. People who adapt are those who survive. Resilience is also critical. And that quality, resilience, there are lots of things that go into that. Some of it is genetic. Some of that is how you were raised. You have to accept change, adapt to it, and deal with pitfalls. . . . And mostly not look back.”

For traditionalist and family patriarch Mario Andretti, building a brand and generational legacy came in part from telling a signature story of winning and persevering through many obstacles while also creating a participatory environment for race fans—which may be the reason for his global popularity and social media influence today. It was not just the winning that made Mario a champion; it was the way he did it. Mario retired from active driving at the end of 1994 at the age of 54, and became a successful businessman off the track. The Andretti brand had global reach, spanning multiple social media channels and garnering more influential fan engagement opportunism than ever before. However, Mario Andretti noted:

There were many tragedies. And some people wonder how race teams (or businesses) that suffered misfortune continued. When is something so devastating that you fold up? Maybe walking away from your business—or stepping out of the cockpit—is an option. But what you have to realize is that some circumstances are out of your control. Maybe the equipment fails you. Or it’s something else. Like it or not, you are going to have some good days and some bad days.

Mario and his wife Dee Ann had three children, Michael, Jeff, and Barbra. Mario’s son Michael led the next-generation family of racers under the banner of Andretti Autosport. Michael was raised in a different era from that of his father, Mario. Michael, as a member of the baby-boomer generation (born between 1946 and 1964), was part of a generation raised to be more optimistic about life’s opportunities. As a generation, baby boomers came from mostly two-parent households. During the post-war era, economic expansion in both the services and the manufacturing economic sectors stimulated company loyalty grounded in lifetime employment in an organizational hierarchy. Baby boomers were known to value longevity and hierarchy in the organizational setting.[[3]](#footnote-3)

Mario’s second-generation son, Michael, had a storied driving career, with 42 victories in IndyCar racing before retiring as a driver to become team owner and CEO of Andretti Autosport. He drove IndyCar race cars for 19 years, and was a fearless and aggressive driver, unafraid of pushing his car to the limits. His Andretti Autosport enterprise boasted four IndyCar Series championships (2004, 2005, 2007, and 2012), two Indy Lights titles (2008 and 2009), and one U. S. F2000 National Championship (2010). Most importantly, as a team owner, Michael had won the Indianapolis 500 five times. Following the 2017 Indy 500 team Andretti victory, Michael competitively pronounced his goal and his newest benchmark for success as being centred on achieving the greatest number of Indy 500 victories as a team owner.

Mario’s grandson, Marco, was a member of the millennial generation, and differed from both traditionalists and baby boomers. Millennials were born after 1980 into the current high-tech revolution. They were considered fast learners, impatient, and the most technologically sophisticated of all the generational cohorts.[[4]](#footnote-4) As a third-generation driver, with 12 seasons in IndyCar race cars, Marco had two wins (in 2006 and 2011). He was named the 2006 Indianapolis 500 and IndyCar Series rookie of the year to match similar honours and recognition as received by his legendary grandfather, Mario; his uncle, Jeff Andretti; and his father, Michael.

The Global Race Car Industry

Similar to other professional sports teams, auto racing entailed financial factors that could influence the success and failure of an organization. As with other sports, the racing business model was based on fan engagement, product sponsorship, marketing, and promotion. Learning from his father Mario, Michael was careful to recognize the volatility of racing and the importance of growing the Andretti brand through concentric diversification across multiple racing disciplines. For Michael, the value creation associated with a winning brand paved the way for company sponsorships that would feed the enterprise growth. To that end, winning to attract sponsorship was the key to sustaining the race team enterprise and the Andretti legacy. More importantly, securing the right engine sponsor had a lot to do with winning.

For his family’s racing legacy, Michael put everything he had into his race team. It was a high-stakes manoeuvre for the aspiring Andretti Autosport team CEO. As such, the pressure he felt as a team owner differed from the pressure he had experienced as a driver. As a driver, he said, “I just went all out in the car because I had something to prove with the pressure of the Andretti name, [but] as a team owner I have responsibilities to multiple stakeholder groups.”

Throughout his racing career, Mario had set the stage and standard for the family’s versatility and risk taking. He helped create rare and competitive intangible resources for Michael’s Andretti Autosport brand to generate deeper sustained competitive advantages (SCAs) through product depth with key co-branding partnerships across multiple race-car disciplines (e.g., Global Rallycross, Indy Lights, Indy Formula E, and IndyCar series). In particular, Michael’s Formula E championship series entries with the Steinbrenner family provided a unique opportunity to expand the Andretti Autosport brand into future market opportunities with electric cars.

Michael and his Andretti Autosport enterprise generated several tangible resources, including real estate assets in the form of a state-of-the-art race shop in Indianapolis that spanned more than 65,000 square feet[[5]](#footnote-5) and included a fabrication point for car assembly, race preparation bays to accommodate 15 cars, a pit lane practice pad, administrative offices and suites, and a substantial packaging and unloading platform for logistical support activities (see Exhibit 2).

Branding and Sponsorship Strategy

In 2017’s global economy, the impact of social media could not be underestimated—social media was highly valued by corporations that sought to advertise their brands. The clout and impressions made with potential consumers motivated sponsors to seek opportunities to promote their brands. Auto racing marketers capitalized on user-generated content, live video feeds, and fan engagement activities to raise the IndyCar series’ social profile and attract more sponsors to the television audience.

The value proposition for sponsors was based on engaging in a solid relationship of trust and winning that could add an emotional connection to their brand. The benefits associated with race-car sponsorship included (1) enhancing the company image and developing the consumer attitude; (2) growing sales; (3) increasing product visibility and generating positive publicity; (4) providing differentiation from competitors; and (5) enhancing business, consumer, and employee relations.[[6]](#footnote-6)

For instance, Bridgestone America’s Firestone brand appeared in world-class motorsports events across the globe, and Bridgestone America provided the official tires for the IndyCar series. Firestone recognized the importance of its Mario Andretti partnership and deployed Mario at dealer events in North America and public events in Tokyo to drive fan engagement. While it was obvious that Mario would rather be racing against today’s top drivers, he remained strongly driven by business interests. He lent his name and reputation as a product performance spokesperson to help engage race fans and build customer contact lists in the sport of racing to keep the Andretti name relevant to consumers.

The IndyCar series and famed Indy 500 race together provided incredible exposure for race sponsors. In addition to the 300,000 attendees who attended the 2017 running of the Indy 500 event, the worldwide television audience reached a total of 6.5 million peak viewers. Additionally, the social media reach and exposure for race sponsors increased 16 per cent year over year by generating more than 1 million followers across multiple platforms. In the days and weeks leading up to the 101st running of the Indy 500, the series increased its social media footprint by 11.3 per cent overall.[[7]](#footnote-7) Mario noted: “As for how we choose the brands to work with it’s all about a win–win situation rooted in a common interest. If we are winners, obviously we get more exposure, and exposure is what the brands really want, and they want to be proud of that.”

The Andretti legacy further enhanced its SCA by building brand equity with other entertainers and sports superstars. For example, Lady Gaga’s two-seat ride with Mario, before the highly watched 100th anniversary running of the Indy 500, brought along her 67 million Twitter followers; and a pre-race ride along with Mario in Long Beach, California, with National Football League Superbowl champion, the New England Patriots’ wide receiver Julian Edelman, generated 996,000 new followers for the Andretti brand.

For sponsors and brand promoters, the value of driving fan engagement could be benchmarked against the amount of content shared by users across all aggregated networks and analyzed against key advertising expenses and product awareness campaigns by sponsors. A software tool capable of doing so was called KLOUT.[[8]](#footnote-8) The KLOUT components for the automobile industry pitted major car brands against one another to determine their reach, number of followers, and mentions across multiple social media channels. Higher activity levels yielded a better following and potential impact for brand placement and sponsorship.

Exhibit 3 illustrates the lift and impact of the Andretti Autosport Indy 500 victory with key sponsor and engine manufacturer Honda. The KLOUT components for social media influence reflected a significant lift for Honda compared with rival engine manufacturers. In the lead up to the 2017 Indy 500 race, the key areas of active audiences and mentions on social media for Honda experienced a 400 per cent and 354 per cent positive lift, respectively, compared with the week of Indy 500, with race results reflecting a victory for Andretti, Honda, and driver Takuma Sato.

A Challenging Road Ahead

As the next-generation Andretti, Michael, with his Andretti Autosport team, faced the team’s most pressing concern: sustaining the future of the enterprise, which depended on raising significant sponsorship money every year to sustain the business. According to Michael, “The racing business is a high-cost, low-margin business.” Each IndyCar race car complete with an engine lease, support equipment, crash damages, gears, paint, body chassis, tires, and telemetry could cost upward of $6.5 million per season to field. Michael’s IndyCar team alone fielded four cars, requiring an operating budget, without driver salaries, to be upward of $26 million–$30 million for the season. The details associated with engine sponsorship included two distinct areas: engine specifications and engine financial sponsorship support. The potential engine deal with Honda had wide-ranging ramifications, given the expectation of carrying two engines per car, per race across a 17-race IndyCar season (see Exhibit 4).

For Andretti, that meant significant reflection on the best opportunity for continuing to sustain an SCA over his competitors through both tangible and intangible factors associated with engine sponsorship. Engine sponsorship intangible factors and financial components associated with both engine brands under consideration (Honda and Chevy) included the following:

* Maintaining continuity with current technical racing operations and engine performance.
* Accessing unique manufacturer technical research and engine development resources.
* Financial underwriting for the upcoming season (four open-wheel Indy cars plus two more open-wheel cars for the Indy 500 race) $750,000–$1 million per engine per car.
* In-season engine and technology support services and parts supply.
* Race day engineering talent and support services.
* Co-brand recognition race team sponsorship.
* Team owner/driver appearance fees.
* Logistical car(s) vehicle support for in-season non-racing team use.
* Driver salary underwriting ($500,000–$1 million plus) per season.

The IndyCar league series always reflected fierce competition between Honda and Chevy engine manufacturers. Although Michael had significant success winning the Indy 500, he was well aware that engine manufacturer Honda had not won an IndyCar manufacturers’ title since Chevy’s return for the 2012 season, and there was only one Honda-powered drivers’ champion in 2013. With the forthcoming aerodynamic body changes becoming standardized for all IndyCar race cars going forward, Allen Miller of Honda Performance Development, noted, “It [came] down to engines—their power, torque and drivability—and the differences that teams [could] make with the limited amount of adjustments available to them.”[[9]](#footnote-9)

Exhibit 1: Andretti Family Tree

Source: Company files; field observations.

Exhibit 2: Andretti autosport’s intangible and tangible resources

|  |  |
| --- | --- |
| **Intangible Resources** | **Tangible Resources** |
| Business Knowledge | Race Cars (multi-discipline) |
| Driving Experience | Race Shop |
| Reputation | Transportation Logistics |
| Brand Recognition | Financial Assets |
| Team-Organizational Process | Petroleum Outlets/Distribution |
| Versatility | Real Estate |

Source: Company files; field observations.

Exhibit 3: Social media influencer scores and the Indy 500 Effect

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Brand** | **Followers** | **Active Audience** | **% Change** | **Mentions** | **% Change** |
| Chevy | 940,000 | 1,300 | –15 | 1,800 | –5 |
| Honda | 850,000 | 8,300\* | 400 | 10,000\* | 354 |
| Mercedes | 1,900,000 | 5,800 | –24 | 9,500 | 72 |
| Ferrari | 330,000 | 3,100 | 3 | 5,500 | 2 |
| Porsche | 1,500 | 2,200 | 0 | 3,000 | 0 |

Note: \* = number-one rank; Percentage change refers to the percentage change from the previous year.

Source: “Social Impact Ranking–Automotive.” Klout, June 15, 2017, accessed October, 2017, https://klout.com/impact-ranking/automotive.

Exhibit 4: Engine Specification and Financial Criteria (IN US$)

|  |  |  |
| --- | --- | --- |
| **Criteria** | **Honda** | **Chevy** |
| Per engine cost | $750,000–$1,500,000 (negotiable) | $750,000–$1,500,000 (negotiable) |
| Estimated season engine cost | $7,500,000–$15,000,000 (negotiable) | $7,500,000–$15,000,000 (negotiable) |
| Engine size | 2.2-litre twin-turbo V6 | 2.2-litre twin-turbo V6 |
| Designed/built | In Southern California by Honda Performance Development | In England by Ilmor Engineering |
| Andretti car engine requirements | Minimum six cars (including Indy 500) | Minimum six cars (including Indy 500) |
| Engine speed | 12,000 RPM | 12,000 RPM |
| Engine service life | 2,500–2,850 miles | 2,500–2,850 miles |
| Pistons | Forged aluminum alloy | Billet aluminum |
| Throttle system | “Drive by wire” electronic throttle control system | Electric control |

Note: RPM = revolutions per minute; 1 mile = 1.609 kilometres.

Source: Marshall Pruett, “Inside the Engines that Power Indy Car,” *Road and Track Magazine*, March 28, 2014, accessed May, 2017, www.roadandtrack.com/motorsports/news/a7477/inside-indycar-engines-2014/.

1. All currency amounts are in U.S. dollars unless otherwise indicated. [↑](#footnote-ref-1)
2. Adam Stern, “IndyCar Seeks $10M–$15M Yearly from Next Title Sponsor,” *Sports Business Journal*, January 15, 2018, accessed January 15, 2018, www.sportsbusinessdaily.com/Journal/Issues/2018/01/15/Marketing-and-Sponsorship/Indy Car.aspx. [↑](#footnote-ref-2)
3. Dogan Gursoy, Thomas Maier, and Christina Chi, “Generational Differences: An Examination of Work Values and Generational Gaps in the Hospitality Workforce,” *International Journal of Hospitality Management* 27, no. 3 (September 2008): 448–458. [↑](#footnote-ref-3)
4. Ron Zemke, Claire Raines, and Bob Filipczak, *Generations at Work:* Managing the Clash of Boomers, Gen Xers, and GenYers in the Workplace (New York, NY: American Management Association, 2013), 1–300. [↑](#footnote-ref-4)
5. 1 square foot = 0.092 square metres. [↑](#footnote-ref-5)
6. Jay Barney, “Firm Resources and Sustained Competitive Advantages,” *Journal of Management* 17, no. 1 (1991): 99–120. [↑](#footnote-ref-6)
7. Gabrial Loewenberg. “The Alonso Effect: Did IndyCar Gain Followers on Social Media?,” May 30, 2017, accessed October 22, 2017, www.thedrive.com/accelerator/10774/the-alonso-effect-did-indycar-gain-followers-on-social-media. [↑](#footnote-ref-7)
8. “Social Impact Ranking–Automotive,” Klout, June 15, 2017, accessed September 15, 2017, https://klout.com/impact-ranking/automotive. [↑](#footnote-ref-8)
9. David Malsher, “How the 2018 IndyCar Changes the Game for Engine Manufacturers,” Motorsport.com, November 20, 2017, accessed November 12, 2017, www.motorsport.com/indycar/news/the-challenges-facing-indycar-engine-manufacturers-in-2018-980926/. [↑](#footnote-ref-9)