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Speed Demons

Dennis Macchio and Robert Lutz turned their love of racing into a business that teaches other enthusiasts how to roar around tracks.

Auto racing is one of the fastest-growing spectator sports in the world. Whether on grand prix circuits or high-speed ovals, the appeal of roaring engines and spinning wheels has moved far beyond the gearheads. With this boom has come an increased interest in schools to teach fans how to drive.

Want to run a racing school? There isn't big money in it: Dennis Macchio, an economics consultant, bought a school a few years ago that earned \$200,000 last year on \$1.8 million revenue. Macchio's annual compensation is in the low six figures—far less than the \$1 million or so he made at his firm. Robert Lutz started his own school in 1999; last year it made a \$200,000 profit on \$3.3 million in revenues. Thus far he has spent \$7 million on the venture. He takes no salary and pays his fiancée, Heather McEntire, just \$26,000 a year to be director of sales.

The thrill of racing is a big reason for getting into the business: Macchio used to race full time in the 1980s (he still does, part time), and Lutz was the 1987 Northeastern (U.S.) go-cart champion. Still, for these peel-out pedagogues, the biggest kick is watching their students' enthusiasm. Lutz, who managed raceways for others before going it on his own, rhapsodizes about "the looks on the faces of my students when they climb out of the cars."

It's not all excitement; this calling has plenty of humdrum business problems. Take over an existing racing school and you may well find that it has been running on empty. When Macchio, now 48, bought Bertil Roos Racing School (www.racenow.com) in Blakeslee, Pennsylvania, for \$500,000 in 1999, he got 13 Formula 2000 cars valued at \$25,000 each, the Roos Racing name and its clientele plus six test cars. The Roos school was founded in 1975 and is well respected within the racing community. Derrike Cope, a winner of the Daytona 500, and Michael Andretti, a runner-up in the Indianapolis 500, had trained there.

But Roos, who was a Formula One racer, was no businessman, and with only 1,800 students a year the school struggled to turn a profit. He had done very little marketing—most students came in by word of mouth. Macchio immediately pumped up the ad budget from 4% of revenues to 30%. To attract drivers with professional ambitions, he ran ads in such auto magazines as *Sports Car* and *Champ Car*. For the broader market, he went to publications that included the *New York Times* and *Maxim* and to cable TV's ESPN2.

And he expanded the Roos school from its Pennsylvania headquarters near Nazareth and Pocono raceways to two other tracks (which he also rents) in Texas and Virginia. In 2000 the Roos school had bulked up to 2,600 students. Macchio targets the serious driver, someone who wants to know



Lutz, by contrast, shows that a less serious approach can work. His school is a sort of high-adventure park, complete with a concession stand that sells T-shirts carrying his logo. Lutz, 31, caters to the hobbyist, the person who wants to go very fast but doesn't dream of the victory wave of a checkered flag.

As Macchio realized, Lutz knows that marketing counts. He has a licensing agreement to use the name of Championship Auto Racing Teams, the sanctioning body for the world's fastest open-wheel cars. His CART Driving 101 (www.driving101.com) started out at the Las Vegas Motor Speedway and, to widen distribution, now runs courses in Illinois, California and Texas. The school also raked in some additional business—and scored a marketing coup—by renting out instructors and cars for the movie *Driven*.

Obviously, safety is a major concern at a school where students can get their cars up to 300kph. Lutz carries \$10 million in liability insurance, which costs him \$100,000 a year. A fatality, he knows, might wreck his school. Of the 6,000 students that have gone through Driving 101, ten have spun cars around, and five have hit the outside concrete wall. (Most serious injury: a broken leg.)

Lutz had a novel idea about how to control safety: a lead-follow program. In other driving schools, students find their own way around the track; Lutz's instructors lead students at a distance of six car lengths. This policy allows instructors to control speed and forces students to drive in the correct racing line. Robby Gordon, an Indy racer, was enlisted to help design and test the program.

To limit distractions in the cockpit, Lutz leaves out dashboard gauges. "We want students to constantly focus on what they're doing on the track, not to worry about how many RPMs they're running," says Lutz. "If you follow in the correct driving line, speed will come." He's right. At California Speedway's 3.2-kilometer oval in Fontana, this reporter hit 296kph on the backstraight while following Lutz's car by 30 meters.

As we've seen, none of this is cheap. Fortunately, Macchio had his lucrative consulting practice. Lutz made millions by starting a racing school in 1993 using the slower stock cars, in partnership with Richard Petty, celebrated as the victor of 200 Winston Cup races. Leo Hindery, a onetime CEO of Global Crossing, bought Lutz out for undisclosed millions in 1997—allowing Lutz to move into open-wheel cars on his own.

The customers are there. After all, as Lutz says: "There are a lot more race fans than racecar drivers."

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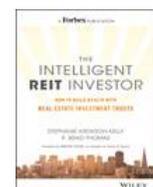
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