NASCAR Sponsorship: Who is the Real Winner?
An event study proposal

A thesis submitted to the Miami University
Honors Program in partial fulfillment of the
requirements for University Honors with Distinction

by

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May 2006
Oxford, Ohio

ABSTRACT

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This paper investigates the costs and benefits of NASCAR sponsorship. Sports sponsorship is increasing in popularity as marketers attempt to build more personal relationships with their consumers. These sponsorships range from athlete endorsements to the sponsorship of an event or physical venue. These types of sponsorships have a number of costs and benefits, as reviewed in this paper, and the individual firm must use its discretion whether sports sponsorship coincides with its marketing goals. NASCAR, a sport that has experienced a recent boom in popularity, is one of the most lucrative sponsorship venues in professional sports. NASCAR, which began as a single race in 1936, now claims seventy-five million fans and over one hundred FORTUNE 500 companies as sponsors. NASCAR offers a wide variety of sponsorship opportunities, such as driver sponsorship, event sponsorship, track signage, and a number of other options. This paper investigates the fan base at which these marketing messages are directed. Research of NASCAR fans indicates that these fans are typically more brand loyal than the average consumer. NASCAR fans exhibit particular loyalty to NASCAR sponsors that financially support the auto racing sport. The paper further explains who composes the NASCAR fan base and how NASCAR looks to expand into additional markets. Finally, the paper relates this information regarding NASCAR fans as consumers to the ultimate goal of a firm: increase shareholder value. Consequently, the paper proposes the use of an event study to measure the impact of NASCAR sponsorship upon stock price of sponsoring companies.

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Acknowledgements

I would like to thank the following people for their guidance and support throughout the writing process:

Dr. Timothy Greenlee- Much gratitude for your patience and encouragement throughout the months of research and writing. I greatly appreciate your dedication from inception to completion. There were many times I hit mental blocks and other obstacles, and you helped me work through them. Your knowledge and brainstorming skills were an asset throughout. Thank you for your constant support.

Dr. Yvette Harman- Thank you for sharing your time and expertise in the development of this paper. I appreciate all your insights, enthusiasm and guidance as well as editorial skills during the revision process.

Ms. Jan Taylor- Thank you for all your support throughout the years, from the marketing intro class to the final thesis and all the European countries in between. Words cannot express how grateful I am for laughs, cries and every other antic I might bring to you during office hours.

My family- Thank you for bearing with me during the days of NASCAR. This whole experience would not be possible without your love and support.

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Introduction

"TV ratings are soaring. Corporate money is flowing. And the crowds just keep getting bigger." (O'Keefe and Schlosser 49). It's not the NBA, NHL, MLB or even the NFL. Welcome to the world of NASCAR, a sport that captivates both fans and corporate America alike. NASCAR (National Association for Stock Car Auto Racing) claims one-third of American adults as fans and over one hundred Fortune 500 companies as sponsors (O'Keefe and Schlosser 51-2). Professional sports have served as effective promotional vehicles for companies for years, ranging from athlete endorsements to the coveted Superbowl commercials. NASCAR certainly epitomizes this combination of sport and sponsorship. The market research firm PSB named NASCAR as America's #2 brand in 2005, behind only BlackBerry and ahead of Google and iPod, boasting over $2.1 billion in retail sales of NASCAR-branded products last year alone (O'Keefe and Schlosser 51). With so much attention surrounding the sport and economics of NASCAR, companies hope to capitalize on the marketing opportunities that lie around every turn of the race track.

But why NASCAR? Why did NASCAR have more corporate sponsors than any other sport, generating $1.5 billion in corporate sponsorship revenue in 2005? The NFL sat a distant second with a mere $445 million in sponsorship (O'Keefe and Schlosser 51). This drastic discrepancy suggests that companies see great potential in the power of NASCAR sponsorship and the fans NASCAR reaches. These fans appear ready to spend, with the sales of NASCAR-branded products increasing over 250% in the past decade and $2.1 billion in sales last year alone (O'Keefe and Schlosser 51). With rising numbers such as these, a company might ask itself “Where do I sign up?” Yet there is a question that most likely precedes this: “How much does it cost?”

Companies must examine NASCAR sponsorship fully to determine if it is a profitable investment for their businesses. This paper investigates the costs and benefits of NASCAR sponsorship that companies might consider in their analyses. This paper provides a general overview of the economic aspects of sports sponsorships; then, more specifically, focuses on NASCAR: its history, its present state, and the economics of NASCAR sponsorship. These economics include the types of sponsorships as well as the costs associated with the sponsorship. This background information paints the diverse picture of NASCAR fans: who are sponsors reaching with their advertising messages and why do they want to reach these fans? Finally, this paper concludes by proposing a future event study to determine if NASCAR sponsorship translates into profits for sponsors. Financially, a firm’s number one goal is to increase profitability. If NASCAR sponsorship appears to increase the value of the firm, marketers will seriously consider this option and perpetuate the growth of NASCAR as a sport and a brand.

I. Background: General Sports Sponsorship

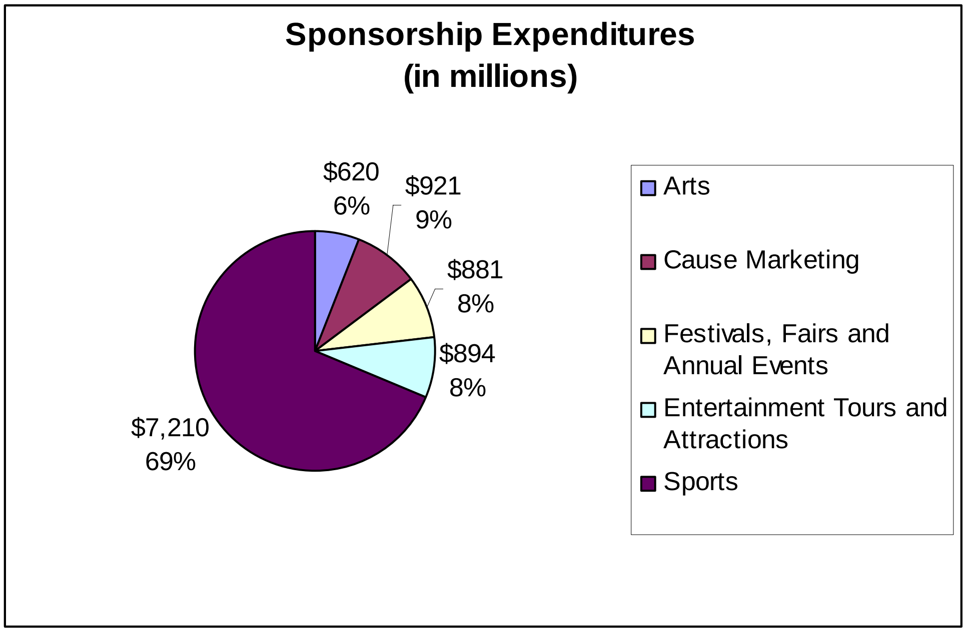
Sports sponsorship is a marketing phenomenon that provides a unique opportunity for both the corporation and the sport to maximize a business relationship. Both the sports organization sponsored as well as the sponsoring company seek to receive benefits from the partnership. This expectation of mutual benefits sought through a sponsorship is best explained by the exchange theory. The exchange theory has two essential parts. First, the sports organization and the business must have resources that have value for the other party in order to facilitate an exchange (Crompton and Howard 434). For example, corporate sponsors offer financial support and the sporting event provides the company with product exposure (Crompton and Howard 434). Secondly, the participants in the exchange will ask themselves two questions: "What's in it for me?" and "How much will it cost me?" (Crompton and Howard 434). Businesses are seeking a fair exchange in which the benefits received are comparable to those that were expected as well as comparable to those benefits received by other sponsors (Crompton and Howard 434). Both parties are looking for lucrative investments that will maximize the benefits received from their efforts.

According to Kevin Mason, PhD. at Arkansas Tech University, the goal of any corporate sponsorship is to "change the entire attitude resulting in positive behaviors" (qtd. in Mason 32). This goal has two parts. First, marketers must understand how the attitudes of consumers are formed. Then, using this knowledge, marketers attempt to understand how to change these attitudes (Mason 32). Sports sponsorship is just one of the many avenues available to marketers in order to reach consumers and influence their attitudes and, consequently, their purchasing decisions. Sponsorships can typically be classified into two general categories: field sponsorship and televised broadcast sponsorship (Mason 33). Field sponsorship includes the placement of a logo at the physical venue of the event. The downside of this on-site sponsorship is the presence of numerous other sponsors that can detract from a company's logo (Mason 33). A company's message might be less effective when the audience is bombarded with competing messages. An example of field sponsorship is the signage around the racetracks at a NASCAR event. The second category, televised broadcast sponsorship, offers companies a great deal of media publicity and the ability to reach a large audience. In addition to television stations paying millions of dollars to the broadcast rights of sporting events, companies pay additional money to sponsor the broadcast itself or portions of a broadcast. An example of broadcast sponsorship is Bank of America's deal to become the lead sponsor of the "Countdown to Green", a NASCAR pre-race show airing on NBC and TNT (Nowell 36). Another popular method of sports sponsorship is stadium naming rights. Currently, companies have collectively invested nearly $4 billion in naming rights affiliated with stadiums and arenas in connection with professional sports in the United States This is compared to a mere $25 million prior to 1988 (Boyer et. al). Examples of such sponsorships include Wrigley Field in Chicago and Great American Ball Park in Cincinnati.

Sports sponsorships have features that make them more appealing than standard mass advertising. Professional sports have grown in size and popularity, with the NFL, MLB, NBA and NHL expanding from a total of 103 franchises in 1989 to 123 in 2001

(Crompton and Howard 24). Furthermore, sports are experiencing globalization, which mirrors the trend of the economy (Crompton and Howard 26). The globalization of sports makes it an ideal avenue for reaching a wider variety of consumers both demographically and geographically. Finally, sports are different from other mass marketing efforts because they offer a human bond with consumers. Many fans have an emotional connection with sports and identify with the successes and failures of their favorite athletes and teams (Crompton and Howard 181). This connection and sense of intimacy helps marketers build relationships with consumers based on a common interest in the sport. Consequently, the two parties interact on a more personal level. Sports sponsorship has great potential for companies and has increased immensely over the past few decades in the marketing world. Sponsorship spending in North America was a mere $1.35 billion in 1987 and boomed to over $10.5 billion in 2003 (Crompton and Howard 436). In 2002, sports was the leading category for sponsorship expenditures with 69% (Crompton and Howard 437).

Table 1: Sponsorship Expenditures



Based on statistics from Crompton, John L. and Dennis Howard. Financing in Sport: 2nd Edition (p437)

Sports are becoming an increasingly attractive option for marketers for a variety of reasons. The U.S. culture, for example, perpetuates the success of sports marketing because of its emphasis on entertainment, accomplishment, and competition (Mason 32). Sponsorships are usually viewed by consumers in a more positive light versus most advertising. Consumers realize that some of their favorite events would not be feasible without the financial support of the sponsors. In this way, the consumers are less sensitive to the advertising and brand exposure efforts by sponsoring companies since these sponsors are actively supporting the sporting event (Mason 33). This helps bridge the gap between marketers and their consumers. According to Ann Hurley Baker, director of motor sports and licensing for ChevronTexaco, "Sponsorship marketing provides the opportunity to communicate an offer to the fan that ties their passion to your product." (qtd. in Lemasters "Sponsorship in NASCAR"). By sponsoring a fan's favorite sport, the company is taking steps towards better understanding the interests and lifestyles of that consumer. This personal relationship formed between the company and the consumer serves as the foundation for future brand loyalty.

Benefits

Dennis Howard and John Crompton, in their text, Financing Sport, cite five categories in which businesses look to receive benefits through their sponsorships (Crompton and Howard 433). Howard and Crompton define these five factors as follows (454):

1) *Increased Awareness*: A business has the opportunity to create awareness of new products as well as increase the awareness of an existing product (Howard and Crompton). One way to measure this benefit is through pre and post-event surveys (Corbett and Lekush 21). For example, Nextel Communications is the title sponsor for the NASCAR racing series, exposing the name to approximately 75 million fans during the ten-month season.

2) *Image enhancement:* A company has a great deal of potential to create, reinforce or change images through sponsorship. A new product image can be created or a successful image of an existing product is reinforced. A sponsorship can also work towards improving a negative image of an existing product. Image enhancement also extends to other parts of the company, such as building pride among existing employees and boosting recruitment potential (Howard and Crompton). This benefit can also be measured by pre and post-event surveys

(Corbett and Lekush 21). In the case of NASCAR, the sponsorship of the title racing series by Winston (now the NEXTEL Cup Series) connected the tobacco company with auto racing and sport. This affiliation connected Winston with the excitement and positive image of athletics, rather than the negative public opinion often associated with tobacco companies.

3) *Demonstration platform*: Events provide a venue to present products and services (Howard and Crompton). One way to measure this sponsorship objective is through event attendance figures. (Corbett and Lekush 21). These figures enable a company to quantify their efforts and approximate how many people were exposed to their product or service. Tissot, a Swiss watch company, will showcase its products during the 2006 NASCAR season when it becomes the official timekeeper and official watch of NASCAR.

4) *Hospitality Opportunities:* Building relationships is essential in the business world. A company's presence at events provides the chance to bond with customers, distributors, and employees through personal interaction (Howard and Crompton). The UAW-GM Quality 500 Race at Lowe's Motor Speedway will become the Bank of America 500 in October 2006 (Nowell 36). The bank hopes to have as many employees as possible at the venue in order to meet customers and potential customers as well as hand out information regarding its services. This personal interaction with consumers can build strong relationships for future business or strengthen current ties. One way to measure the effectiveness of this

interaction is by the number of orders received in the future based on contacts and interaction at the event (Corbett and Lekush 21).

5) *Product Trial or Sales Opportunities*: A product's visibility at an event creates avenues for future sales. These avenues are created through trials, give-aways, coupons, contests, and point-of-purchase displays. On-site sales are also possible at certain events. For example, past NASCAR sponsor PopSecret set up microwave ovens at the entrances of races to distribute samples of its popcorn (Crompton and Howard 467). There are a variety of ways to measure this goal. Actual sales, coupons redeemed, samples given out, and the number of responses to a specific contest can all quantify the effectiveness of the firm's efforts (Corbett and Lekush 21).

Issues with Sponsorship

Although there are several benefits to corporate sponsorship, companies must be wary of possible negative effects as well. The balance theory, originally introduced by consumer psychologists Eagly and Chaiken, claims that people tend to prefer balance and order in their lives (Dalakas and Levin 91). Consequently, people will tend to favor things associated with what they already like and tend to dislike things that are associated with things they already dislike (Dalakas and Levin 91). This balance concept plays a role in the success of a team or sports sponsorship. If a fan strongly likes a sports team or athlete, they are more inclined to like the sponsor associated with that team. On the other hand, if a fan strongly dislikes a sports team, they are more likely to develop negative attitudes towards that sponsor (Dalakas and Levin 91). This is especially pertinent to

NASCAR, where fans feel strong affiliations with their favorite drivers. Likewise, NASCAR fans are also aware of drivers they do not like and have the potential to form negative opinions about the sponsors of their least favorite drivers (Dalakas and Levin 91). Dalakas and Levin hypothesized that fans would have unfavorable attitudes towards the sponsors of drivers they didn't like (91). They tested this hypothesis in a variety of ways. First, they investigated the participants' awareness of the sponsors of the drivers they dislike. Eighty-three percent of fans could correctly identify the primary sponsor of their least favorite driver (Dalakas and Levin 94). A fan might find this information of value so they can avoid purchasing that company's product or services. Furthermore, fans were asked "How likely are you to purchase and use products from a company that sponsors drivers you dislike?" (Dalakas and Levin 94). The scale ranged from 1-10, which 1=extremely unlikely and 10=extremely likely. The average response was a 4.3, indicating that fans are relatively unlikely to purchase products from the company sponsoring their least favorite driver (Dalakas and Levin 94). This research demonstrates how the emotional ties fans feel with a favorite driver influence their purchasing decisions. Just as a fan's dedication to a certain driver can positively impact the sponsor, a fan's distaste for a certain driver can negatively impact the sponsor of that car.

Crompton and Howard investigated potential problems and summarized five primary risks to sponsorship. They are as follows (Crompton and Howard 469-473):

1) *Risk of poor presentation of an event*: A poorly executed event reflects negatively upon the event itself as well as those companies and sponsors affiliated with its performance (Howard and Crompton). For example, a disorganized

athletic tournament with inadequate facilities reflects poorly upon the sponsoring company, which puts its name on the final product.

2) *Risk of poor performance at an event:* This risk focuses on the poor performance of a team or individual participating in the event rather than the event as a whole (Howard and Crompton). For example, if a race car driver continually loses, fans might associate the sponsoring product as inferior or a "loser." Jarrod Moses, CEO of Alliance, a Grey Global Group agency specializing in entertainment sponsorship and development, commented on the impact of a losing driver:

> "I would say it does not injure a brand in any way if a car is in an accident or burning. But if it's a losing car, that's much more detrimental to a brand…If a car stalls or loses, it's seen in a worse light…because people equate crashing and burning with pushing the limits." (qtd. in Chura et. al).

3) *Disreputable behavior at an event:* Scandal of a sponsored event or individual/team can negatively impact the sponsoring company. The corruption of steroid usage by athletes or rowdy crowds at a sporting event can be detrimental to the image of a sponsoring company.

4) *Community backlash from overcommercialization:* Community backlash is most common if a sponsor's products are viewed as inappropriate for the venue or are a threat to public welfare. This concern is especially pertinent to the use of tobacco and alcohol products in certain situations, such as high school sporting events or other sponsored events that younger fans partake in or view (Howard and Crompton). In the example of NASCAR, the use of Winston, a major

tobacco company, as a sponsor could potentially create negative attitudes for families with younger children.

5) *Liability risk:* Dangerous events, such as extreme sports, also utilize sponsorships. Previously, there was an association of sponsors with accidents or other unfortunate happenings connected with the inherent risk of the sport. However, more recently, sponsoring companies have less legal liability in this aspect since their relationship with the event is based on the promotion of the product, not the event itself (Howard and Crompton). NASCAR has faced a number of deaths, notably Dale Earnhardt during the 2001 season. This image of danger and death casts a darker image upon the sport and consequently its sponsors. Ardy Arani, managing director at sports marketing firm Championship Group/Atlanta, says he includes a "disaster-scenario plan" for his clients in the event a driver is injured or otherwise unable to race (Chura et. al 4-6). While sponsors cannot directly change rules or regulations in NASCAR, they can prepare themselves as well as put pressure on NASCAR officials to increase safety (Chura et. al).

Clearly sponsorship has both positive and negative aspects, and the individual company must carefully weigh the costs and benefits to make the best decision possible.

II. NASCAR

Brief History

In March 1936, Daytona City sponsored a 250-mile stock car race for anyone who wanted to participate. The winner of the race, Milt Marion, took first place and $1700 prize (Battle 56). Among the twenty-seven drivers was Bill France, an auto mechanic driven by his passion for cars and racing. The National Association of Stock Car Auto Racing, more commonly referred to as NASCAR, was formally created on December 14, 1947 (Menzer 62). NASCAR was the product of thirty-five men in Daytona Beach, Florida led by Big Bill France (Menzer 62). The first official NASCAR race, which would eventually evolve into the famous Winston Cup Series (Nextel Cup Series), was held on June 19, 1949 (Menzer 71). Big Bill required all racers to drive "strictly stock" cars, meaning American-made cars that were in no way modified to give the drivers an unfair advantage (Menzer 72). Basically, drivers would use their own personal cars to race so that the average American could relate to the sport and drivers. This requirement also leveled the playing field and put more emphasis on the talents of the individual driver. France devised a point system to determine the NASCAR racing champion. He also created a fund in which 7.5% of each race's monetary prize was deposited. This fund was then divided among the leading drivers at the end of the season (Menzer 68). France soon incorporated NASCAR and made it a racing sanctioning body (Battle 56). He then founded the International Speedway Corporation, or ISC, which operates the Daytona International Speedway as well as Talladega, Alabama Superspeedway (Battle 56).

This tradition of good sportsmanship and quality racing continued with his son, Bill Jr. Bill Jr. inherited the dynasty in 1972 and introduced a set of new contenders to auto racing- the sponsors (O'Keefe and Schlosser 54). Big Bill's other son, Jim, became executive vice president and secretary of NASCAR as well as president of ISC (Battle 56). Big Bill constantly strived to make the sports about the skills of the driver, not the technology of the car, and this spirit is still alive in the races today. Cars are inspected before every race to ensure fairness in the race. The following are mandatory racing guidelines intended to maintain the integrity of the race: carburetors are used versus fuel injection; gasoline is hand-poured at pit stops; standards exist with regards to gas, tires, weight, and even spoilers (Battle 56). Bill Jr.'s son, Brian France, took primary control of the NASCAR dynasty in 2003 and has already left his mark on the sport (O'Keefe and Schlosser 54). In 2003, 13 million fans attended 2,200 NASCAR races, with the largest events drawing up to 186,000 spectators (Amato, Peters and Shao 71). Seventeen of the twenty most-attended sporting events in 2002 were NASCAR races, and the Website www.nascar.com is visited around 400,000 each day (Molla 60). The most popular motorsports events include NASCAR NEXTEL Cup, NASCAR Busch and NASCAR Craftsman Truck series ("Motorsports").

Present Day

The Automobile Competition Committee of the United States (ACCUS) consists of eight members, one of the most prominent being NASCAR. NASCAR is now one of the fastest-growing sports in America, reigning as the second-most watched sport on television behind professional football (O'Keefe and Schlosser 51). Over 350 million viewers watched NASCAR NEXTEL Cup and NASCAR Busch series televised events in 2004 (“Motorsports”). Approximately 85% of the 2004 stock racing revenues were a result of NASCAR-sanctioned events (“Motorsports”). There are now over 1,000 races at tracks in 38 states (O’Keefe and Schlosser 52).

NASCAR is also trying to shed its image of Southern white males as their fan base. NASCAR recently started the NASCAR Diversity Internship Program in efforts to draw minorities to careers in motorsports (Beta Gamma Sigma 12). NASCAR also supports other related programs that encourage the diversification of the racing fan base. “Drive for Diversity”, for example, is a program that develops minority drivers on regional race circuits (Smith B1). Another program, the Youth Speed Rally, hosts pre-race events to attract minority fans. In early 2005, the Youth Speed Rally brought rapper Bow Wow and hip-hop stars for a free concert the day before the Auto Club 500 race in Fontana, California. The following day, Nextel then arranged to transport one hundred mostly African American students to the race (Smith B1). The NASCAR College Tour is a major effort between NASCAR and Coca-Cola to promote motorsports at Historically Black Colleges and Universities as well as Hispanic Serving Institutions (Beta Gamma Sigma 12). Unfortunately, their Southern fan base is not always accepting of these new fans. Numerous fans display Confederate flags on their own vehicles when parked at races, and websites exist that sell unauthorized merchandise combining the Confederate flag with the NASCAR name (Smith B1). NASCAR, however, recognizes this issue and continues to combat this negative image.

NASCAR recently implemented a new points system in determining the winner of the NEXTEL Cup Championship. The new points system, implemented in 2004, is commonly referred to as the "26-10" plan. After the first 26 races of the season, the top ten drivers are determined. These drivers, as well as anyone within 400 points of the leader, then compete in the final ten races for the championship. Everyone is eligible to race in the ten events; however, only the top drivers are eligible to win the championship (Thomaselli). This new plan elicited strong opinions from many corporate sponsors that fear their drivers will not be contenders in the final ten events. Numerous companies may contemplate re-evaluating their sponsorship deals after the first 26 races to see if continuing with the rest of the season would be beneficial (Thomaselli). This example demonstrates decisions within the sport that affect both the drivers and the sponsors that fund their seasons.

III. NASCAR Sponsorship

Types

NASCAR sponsorship can take various forms depending on the objectives of the individual companies. The forms include: team sponsorship, driver endorsements, official sponsor status, event title sponsorship, and track signage.

NASCAR Team Sponsorships

NASCAR monopolizes the sports industry with respect to corporate sponsorship. The sport currently has more Fortune 500 companies participating in sponsorships than any other sport. Last year corporate sponsorship revenue totaled $1.5 billion. This more than doubles the NFL, with $445 million, or Major League Baseball, which had $340 million. NASCAR also has one hundred six FORTUNE 500 companies as sponsors, which is more than any other sport (O'Keefe and Schlosser 52). There are a variety of ways for corporations to sponsor NASCAR, namely with a team or directly with NASCAR. Team sponsorship is one of the most commonly highlighted forms of sponsorship. Global strategy consulting firm, Edgar, Dunn & Company determined three main benefits of team sponsorship during its NASCAR brand study. These benefits include unparalleled brand power, high profile sports property and involvement in a sport where sponsors are held in esteem by millions of fans (Corbett and Lekush 19).

There are two types of team sponsorship: primary and associate (Corbett and Lekush 19). The primary sponsor has the largest logo visibility, typically found on the hood and sides. This sponsor also is identified with the driver of the car (Corbett and Lekush 19). The costs of primary team sponsorship in the 2004 ranged from $8 million to $20 million (Ryan 54). Associate sponsors' locations of logos are less prominent and less expensive than those of primary. The locations and quantity of these logos are determined by the team owner (Corbett and Lekush 19). The cost for associate team sponsors in 2004 ranged from $500,000 to $5 million (Ryan 55). In order to defray the sponsorship costs, many companies "swap" sponsors on a race-by-race basis (Lemasters "Shared sponsors"). This idea originated years ago when associate sponsors sometimes served in the place of primary sponsors for a race or two. An example of this type of deal is Bobby Labonte, who rotates among Interstate Batteries, Wellbutrin or a major motion picture, such as Madagascar (Lemasters "Shared sponsors"). This type of agreement increases the number of visible sponsors while simultaneously decreasing costs for companies that might not have the resources to be primary sponsors all season.

Driver Endorsements

The driver is a significant asset in this form of sponsorship. According to Pat Guilbert, vice president of sponsorships and events for UPS explains,

> "If you do a deal with a team, the value is with the driver. There's certainly other aspects you have to activate, and we do, but more of us are beginning to realize that the driver should be a significant platform in the activation campaign." (qtd. in Warfield "Time is Money" 18).

The driver plays an essential role in the primary sponsorships of companies. The sponsorship responsibilities of a driver can vary greatly dependent upon the company. Typical activities expected of drivers include appearances at hospitality tents at races, question-and-answer sessions with fans, autographs, and opportunities for one-on-one interaction with fans and company employees (Warfield "Time is Money" 18). Top drivers are working just as hard off the track as they are on the track. The top 20 Nextel

Cup drivers, on average, are making between 50 and 70 appearances per year for their sponsors in addition to thirty-eight racing weekends (Warfield "Time is Money" 18). Consequently, the top drivers are forced to divide their efforts and attention between the sport and the business aspects. Below are some of the drivers competing in the Nextel Cup Series during the 2006 season (see Appendix I for full listing).

Table 2: Examples of 2006 Nextel Cup Series Drivers

Driver	Car	Make	Sponsor	2005 Finish
Kurt Busch	2	Dodge	Miller Lite	10th
Dale Earnhardt Jr.	8	Chevrolet	Budweiser	19th
Carl Edwards	99	Ford	Office Depot	3rd
Jeff Gordon	24	Chevrolet	DuPont	11th
Dale Jarrett	88	Ford	UPS	15th
Jimmie Johnson	48	Chevrolet	Lowe's	5th
Travis Kvapil	32	Chevrolet	Tide-Downy	33rd
Mark Martin	6	Ford	AAA	4th
Elliott Sadler	38	Ford	M&M's	13th
Tony Stewart	20	Chevrolet	The Home Depot	1st

2006 Nextel Cup Series Drivers from NASCAR.com

Some drivers and fans raise concerns that this commercialization of the sport causes drivers to lose focus on races and the sport itself. However, drivers recognize that compliance with sponsors is essential to their success on the track. Elliot Sadler, driver of No. 38 Ford admits, "I know if I didn't have them, I wouldn't be racing on Sunday.

You have to understand that you have to give the sponsor the time that they deserve." (qtd. in Warfield "Time is Money" 20). Clearly, the sponsor and the driver receive mutual benefits from their partnership and must be respectful of each other.

As NASCAR increases in popularity, drivers have entered a new realm of advertising: the personal endorsement. Rod Moskowitz, manager of Motorsports Management International, approximated that personal service contracts can range from $150,000-$500,000 annually, with a few contracts exceeding $1 million (Warfield "Time is Money" 20). With personal endorsements, prize money and royalties from merchandise, top-level drivers are making up to $10 million a year (Warfield "Time is Money" 18). Yet amid all the riches to be found in NASCAR marketing, drivers must be worried about over committing themselves in terms of endorsements and sponsorships. A driver who spreads himself over too many promotional opportunities may find himself or herself in conflict with his or her supporting companies. Eric Pinkham, director of motorsports for Newell Rubbermaid, addresses this conflict:

> "For some drivers, perhaps a greater focus on their team's primary sponsors and less on personal service arrangements would benefit everyone. More time for the race team and the brands on the hood of the car and less for the company that provides you with free sunglasses." (qtd. in Warfield "Time is Money" 20).

However, not all sports marketers share this same concern. Steve Lauletta, president of sports marketing agency The Radiate Group, feels drivers typically respect their duties and obligations to their sponsors. "From a sponsor's standpoint, I don't think they see a problem. They've agreed to be provided X and they expect, and get, X." (qtd. in Warfield "Time is Money" 20). With the increasing commercialization of the sport, drivers must be aware of their business and athletic schedules, making sure not to jeopardize the team or the sport in the name of business.

Official Sponsor Status

This level of sponsorship gives a company category-exclusive rights to the use of the NASCAR name and logo in advertising and promotion. The company can create a logo including the company name as well as the NASCAR logo in addition to a racing-themed tagline to best utilize the partnership. In 2002, UPS boasted the title "the Official Express Delivery Company of NASCAR". It set up a Trackside Service program to ship to and from all Winston Cup Series teams. This initiative generated 80 corporate sales leads for UPS (The Brand-Building Power 26).

NASCAR Event Title Sponsorships

NASCAR event sponsorship provides a number of various promotional opportunities for a company. The event itself is named after a company or its product, which by itself creates brand awareness. Furthermore, the event serves as entertainment for millions of fans through attendance, television, or other forms of media. At the event, the product can receive immense exposure through sampling, demonstration, or other product promotion activities (The Brand-Building Power 28).

Trackside Signage

Trackside promotion is highly visible during race events. This includes billboards, scoreboard, front stretch pit and guard wall signs (The Brand-Building Power 28). However, like field signage, these messages can often get lost amid the numerous messages bombarding the track.

Role of the Media

Television and other forms of media have propelled NASCAR popularity in the United States and increased the public exposure of this sport. Television gradually discovered the NASCAR phenomena and contributed to the overall growth of the sport during the 1980s and 90s (O'Keefe and Schlosser 54). Today NASCAR is televised weekly in over 150 countries around the world (Beta Gamma Sigma 13). Previous to 2000, NASCAR broadcast rights were negotiated by each track (Heilemann). In November 1999, NASCAR reached an eight-year agreement with Fox and FX cable network for the events of the first half of the season. The final two years of the contract were at NASCAR's discretion ("Motorsports"). Another contract was signed for six years with NBC Sports and Turner Sports for broadcasting rights, specifically the events of the second half of the season. The NASCAR NEXTEL Cup and NASCAR Busch series events at Daytona would alternate between NBC and Fox annually. This contract went into effect for the 2001 season ("Motorsports."). The NASCAR events on Fox attracted an average of 9.6 million viewers, while NBC and Turner Sports attracted 8.1 million and 6.2 million respectively. The total viewing audience is up about 7% over the previous year (Fatsis and Flint B3).

In December of 2005, NASCAR announced new television contracts that would increase the sport's annual television income by 40% (Fatsis and Flint B3). These new contracts, effective in 2007, divide the racing season among four channels: ESPN, ABC, Fox, and Turner Sports, also known as TNT. ESPN and ABC will pay $270 million a year, Fox will pay $208 million and year, and Turner will pay between $80-$85 million a year. All together the contracts total about $4.5 billion over the course of the eight years. This compares to the $2.4 billion received over six years on the previous contracts (Fatsis and Flint B3). Fox will air the first 13 races of the season and have exclusive rights to the Daytona 500. TNT will show the next six races, and ESPN and ABC will split the final 17, with ABC will air the Nextel Cup year-end playoff (Fatsis and Flint B3). NBC was not a part of the new contracts because of its involvement with the NFL, which currently holds the number one position ahead of NASCAR (Fatsis and Flint B3). Although this mega deal looks financially beneficial to NASCAR, the fans will also receive positive effects of the new arrangements. According to Chicago Tribune writer Ed Hinton, “From the fans’ perspective, the season will be more simplified and consistent…Essentially not a wheel will turn in racing- practice or qualifying- without being aired live somewhere on cable or satellite” (qtd in Civils). This availability to fans is all part of the NASCAR appeal and provides opportunities to increase visibility to potential fans.

Sponsorship Example 1: Nextel

In June 2003, Nextel Communications signed a deal to replace Winston as the title sponsor (Amato, Peters and Shao 72). This sponsorship will cost Nextel an estimated $750 million from 2004 to 2014 (Heilemann). R.J Reynolds, the parent company of Winston, paid approximately $30 million per year during its 32 years of sponsorship (Amato, Peters and Shao 72). This sponsorship change is an effort to target a younger audience, an opportunity that previously hampered by the restrictions R.J Reynolds faced in advertising to youths (Amato, Peters and Shao 72). Thus far, Nextel CEO Tim Donahue feels the investment was well worth it. He claims, “Our penetration among avid NASCAR fans nearly doubled last year, and we attribute 50 million calls made as a direct results of the sponsorship. It's exceeded all our expectations." (qtd. in Heilemann). Nextel has also opened the door for new corporate sponsors who might have been hesitant to participate when the sport was most commonly associated with tobacco products. Nextel has set the pace for other technology companies to follow the trend with sponsorships, especially since technology companies tend to have large marketing budgets ("Motorsports"). This sponsorship decision is another example of NASCAR's evolution to cater to a changing and growing audience.

Sponsorship Example II: Bank of America

Bank of America, the top U.S. bank in sports sponsorships and marketing, signed a sponsorship deal with NASCAR in November 2005 (Nowell). The UAW-GM Quality 500 Race at Lowe's Motor Speedway will become the Bank of America 500 in October 2006. The bank plans to reach two segments of people with this investment: affluent customers seeking investment advice and truck drivers interested in mortgages (Nowell). The Bank of America will also make its presence known at four other tracks owned by Speedway Motorsports, Inc: Las Vegas, San Francisco, Atlanta and Fort Worth, Texas (Nowell). The bank hopes to maximize its sponsorship with large billboards, Bank of America ATMs, and numerous bank employees equipped with literature on the bank's offerings. In a separate deal, the bank will also be the lead sponsor of the Countdown to Green pre-race show on NBC and TNT (Nowell). NASCAR joins the bank's resume of other sponsored events, including golf, pro football and the Olympics. According to the IEG sponsorship report, the Bank of America spent $80 million on sports sponsorships in

2004 (Nowell). To put this in perspective, JPMorgan Chase & Co. spent about $45 million and Wachovia spent about $30 million (Nowell).

Sponsorship Example III: Prilosec OTC

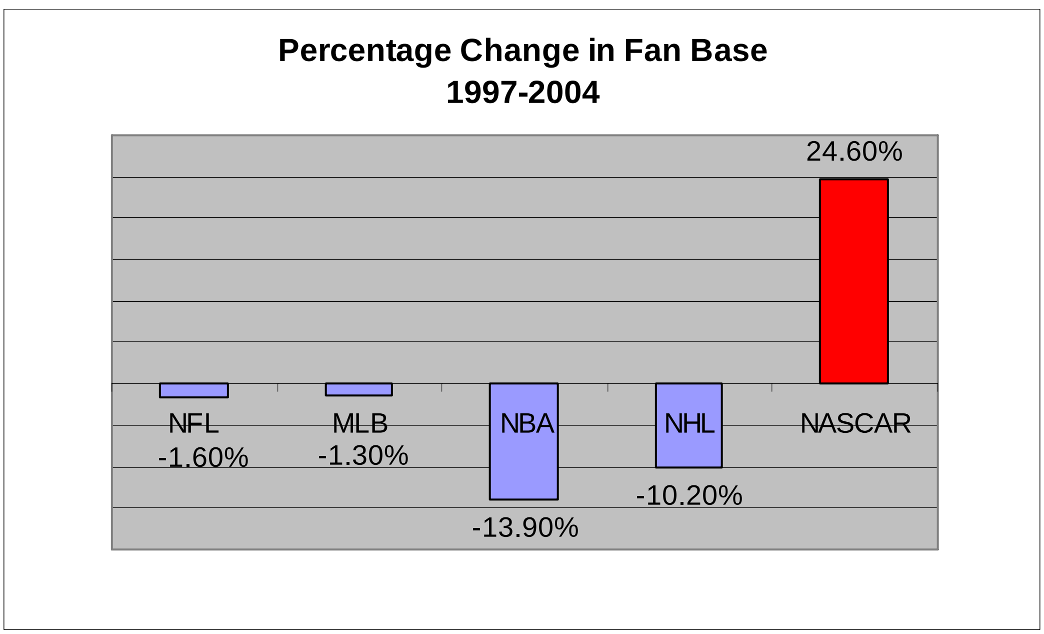
In February 2006, Procter & Gamble's Prilosec OTC announced new sponsorship deals with NASCAR and Richard Childress Racing's No. 31 Nextel Cup team (Warfield "Fast Relief"). Prilosec OTC is the third P&G brand to enter NASCAR sponsorship, along with Tide and Old Spice. Prilosec OTC plans to activate its NASCAR sponsorship by holding a sweepstakes later this year called "Victory of a Lifetime." This contest will offer fans the chance to win a grand-prize package that, among other prizes, includes an authentic Cup Series car, VIP travel and access to 20 races in 2007 and behind-the-scenes access to RCR. As part of the two-year deal, which sources hint at costing in the range of seven figures, Prilosec OTC receives the right to use NASCAR in its marketing efforts. Although Prilosec will serve as an associate sponsor of RCR's No. 31 Chevrolet and driver Jeff Burton, the deal also includes a one-race primary sponsorship each season. This race will include space on Burton's firesuit and a lower rear quarterpanel of the vehicle. The deal is designed to run through 2007, renewable with the rest of P&G's brands. After the completion of the P&G merger with Gillette Co., the company became one of NASCAR's largest sponsors. Gillette brands involved with NASCAR include Gillette, Duracell and Oral B (Warfield "Fast Relief").

IV. Fan Base

Fan Demographics

NASCAR claims about 75 million fans worldwide. Forty million of these fans claim to spend eight hours or more watching, reading or otherwise updating themselves about NASCAR races every week (Heilemann). Unlike the trend of decreasing fan bases in other professional sports, NASCAR's fan base increased by 24.6% between 1997 and 2004 (O'Keefe and Schlosser 56). From 2000-2004, the number of NASCAR viewers increased by 36% (Heilemann). This compares with the NFL, which has experienced a 7% loss of viewers as well as the NBA, which has suffered a 30% loss (Heilemann).

Table 3: Percentage Change in Fan Base



"America's Fastest Growing Sport." FORTUNE September 2005: 56.

There are numerous misconceptions about the NASCAR fan base, such as most fans are southern white males (Amato, Peters and Shao 71), However, in reality, the fan base consists of 60% male and 40% female (Corbett and Lekush 17). Similarly, of the seventy-five million fans, approximately 42% earn over $50,000 a year (Heilemann). Retail sales of NASCAR reflect this middle- to upper-income bracket. Last year the licensed retail sales of NASCAR-branded products totaled $2.1 billion, as compared to $1.3 billion in 2000 (O'Keefe and Schlosser 51).

NASCAR continually looks to increase the diversity of its fan base. Bill Chipp observes, "NASCAR is not just for the good ol' boys anymore, although they are still there." (qtd. in Nowell). Between 1999 and 2002, the number of Hispanic fans increased by 23%. Similarly, the number of African American fans increased by 29% ("Motorsports"). According to a 2004 survey by ESPN, 9.2% of NASCAR's seventy-million fans are African Americans (Smith B1). This trend towards more diversity in the fan base provides more opportunities for marketers to reach consumers. Additionally, 78% of NASCAR fans are age 18-53, which is a valuable demographic group in the eyes of sponsors (Beta Gamma Sigma 13). With an increasing depth and breadth of NASCAR fans, sponsorship becomes more appealing to more companies. The following charts paint a snapshot of the demographics of NASCAR, according to a 2003 NASCAR publication (The Brand-Building Power 12).

Table 4: Family and NASCAR

	U.S. Population	NASCAR Fans	Index
% of families with kids under 18	36%	40%	111

Chart from The Brand-Building Power of a NASCAR Sponsorship. New York: NASCAR Marketing, 2003

NASCAR attracts a relatively large number of families with children under 18. Therefore, family-oriented products and services should investigate NASCAR advertising opportunities.

Table 5: Age Distribution

Age	U.S. Population	NASCAR Fans	Index
18-34	32%	32%	100
35-44	21%	26%	124
45+	47%	43%	91

Chart from The Brand-Building Power of a NASCAR Sponsorship. New York: NASCAR Marketing, 2003

NASCAR attracts a relatively large number of fans age 35-44, making it an attractive promotional vehicle for companies interested in this target market. NASCAR would be a less than optimal venue for companies targeting consumers over age 45 since there are relatively less NASCAR fans in this age category.

Table 6: Income Distribution

Income	U.S Population	NASCAR Fans	Index
$30,000-50,000	22%	29%	132
$50,000-75,000	18%	22%	122
$75,000-100,000	12%	12%	100
$100,000+	9%	8%	89

Chart from The Brand-Building Power of a NASCAR Sponsorship. New York: NASCAR Marketing, 2003

A larger proportion of NASCAR fans fall in either the $30,000-50,000 or the $50,000-70,000 income brackets, indicating that a majority (51%) NASCAR fans have disposable income that makes them an appealing target for marketers.

Table 7: Regional Distribution

Region	U.S Population	NASCAR Fans	Index
Northeast	20%	20%	100
Midwest	23%	24%	104
South	35%	38%	109
West	21%	19%	90

Chart from The Brand-Building Power of a NASCAR Sponsorship. New York: NASCAR Marketing, 2003

These data suggests that products and services targeted to people in the South will be more successful since NASCAR has the largest proportion of fans residing in this region.

MediaMark Anaylsis

MediaMark provides in-depth data about a single sample in four major areas: demographics, lifestyle, product usage and media channels, such as television and radio. These data are beneficial to marketers because it provides insight about targeting consumers, brand loyalty, and promotional opportunities. The specific data inform marketers of who is using their products and how to target these people, particularly through utilization of media channels. This knowledge enables marketers to more efficiently utilize their resources to reach consumers. This information is published by Mediamark Research, Inc, a leader in providing syndicated data and research. The sample size consists of over 26,000 adults and has new respondents every six months. Respondents for the single samples are selected from the contiguous 48 states. Addresses are randomly selected, and fieldworkers conduct interviews to ensure a diverse sample. Two different methods are used to gather information from the selected sample participants: face-to-face interviews and a questionnaire booklet to be filled out by the participant post-interview (MediaMark Research).

The following graphs are from Mediamark in regards to auto racing fans. The data provided is explained below.

Total '000: gives the total number people in thousands falling into that specific category. The first column, first line in the graph entitled, "Auto Racing- NASCAR Less than once a month" indicates that there were 27,556,000 adults ages 18-24.

Proj '000: indicates there were 762,000 adults age 18-24 who attended a NASCAR event less than once a month, projecting the survey results to reflect the total population in the first column. **Pct Across:** Out of adults 18-34, 2.8% attended a NASCAR event less than once a month. This number is calculated by dividing the Pro ‘000 value by the Total ‘000 value (27556/762).

Pct Down: Out of all the people who attended a NASCAR event less than once a month, 11.5% are age 18-24.

Index: Index is the measure of likeliness for a particular demographic group, with 100 being average. In the first row, the index 89 indicates that people who attended NASCAR less than once a month are 11% less likely than the general population to be age 18-24.

Below are selected excerpts from four MediaMark data sets. These statistics describe five groups of adults who have above average index numbers. Refer to Appendix 1 for the complete tables.

Table 8 Attend NASCAR Less than Once a Month Fall 2004

Fall 2004 Product: Leisure/Sports
Sports Events - Attend
Auto racing - NASCAR Less than once a month
Total Adults

	Total '000	Proj '000	Pct Across	Pct Down	Index
Age 35-44	44230	1928	4.4	29	140
Men 18-34	33429	1363	4.1	20.5	131
ESPN	56564	2803	5	42.1	159
Sports Illustrated	20055	950	4.7	14.3	152
Classic Rock	24484	1283	5.2	19.3	168

Adults who watch ESPN are 59% more likely, and people who read Sports Illustrated are 52% more likely while people who listen to Classic Rock are 68% more likely to attend a NASCAR event less than once a month.

Table 9: Attend NASCAR One or More Times a Month, Fall 2004

Fall 2004 Product: Leisure/Sports Sports Events - Attend Auto racing - NASCAR One or more times a month Total Adults		Total '000	Proj '000	Pct Across	Pct Down	Index
Men 18-34		33429	591	1.8	26.2	168
MTV	*	34188	494	1.4	22	137
Maxim	*	13018	207	1.6	9.2	151
Sports	*	9620	146	1.5	6.5	144
TV Avg 1/2 hr aud - Mon-Fri 11:30P-1A	*	27404	468	1.7	20.8	162

* Denotes sample size is less than 50.

These groups are more likely than the general population to attend a NASCAR event more than once a month. Therefore, companies that want to promote their products and services to these groups might find on-site sponsorship, such as track signage and product demonstrations, especially effective.

Table 10: Watch NASCAR on TV Less then Once a Month, Fall 2004

Fall 2004 Product: Leisure/Sports Sports Events - Watch On Tv Auto racing - NASCAR Less than once a month Total Adults	Total '000	Proj '000	Pct Across	Pct Down	Index
Age 18-24	27556	1726	6.3	16.8	130
ESPN	56564	3602	6.4	35	132
Maxim	13018	964	7.4	9.4	154
Sports	9620	711	7.4	6.9	153
TV Avg 1/2 hr aud-Mon-Fri 11:30P-1A	27404	1493	5.4	14.5	113

These groups are more likely than the general population to watch NASCAR on television less than once a month. This suggests that television sponsorship might not be the optimal sponsorship vehicle for their product or service.

Table 11: Watch NASCAR on TV One or More Times a Month, Fall 2004

	Fall 2004 Product: Leisure/Sports Sports Events - Watch On Tv Auto racing - NASCAR One or more times a month Total Adults				
	Total '000	**Proj '000**	**Pct Across**	**Pct Down**	**Index**
Age 35-44	44230	6961	15.7	23.7	114
Men 18-34	33429	5683	17	19.3	123
ESPN	56564	11131	19.7	37.9	143
Sports Illustrated	20055	3773	18.8	12.8	137
Classic Rock	24484	5217	21.3	17.7	155

Adults age 35-44, specifically men 18-43, adults who watch ESPN, adults who read Sports Illustrated and those adults who listen to Classic Rock are more likely than the general population to watch a NASCAR event on television one or more times a month. These data indicate that those companies interested in targeting these groups would be particularly interested in television sponsorship of NASCAR events.

Fan Loyalty

A 2001 brand study by NASCAR indicates that NASCAR sponsorship does influence fans, and they reciprocate with brand loyalty to sponsors' products and services. Fans know which companies sponsor their favorite drivers and make that association when they are purchasing goods and services. NASCAR fans are 94% more likely to have positive feelings about NASCAR sponsors (Beta Gamma Sigma 13). This convincing statistic supports the hypothesis that fans' loyalty and enthusiasm for the sport has the potential to influence other aspects of their lives. According to the study, 72% of NASCAR fans would almost always or would frequently choose a NASCAR-associated brand over other brands (Corbett and Lekush 18). Similarly, fans are three times more likely to purchase the products and services of sponsors (Beta Gamma Sigma 13). Furthermore, 46% of fans say they would purchase a NASCAR-associated brand costing as much as 10% more over a less expensive brand that is not associated with NASCAR. Eighty-nine percent of fans perceive a company's product as "quality" when the NASCAR logo is associated with that company (Corbett and Lekush 18). Fifty-seven percent of NASCAR fans trust sponsors' brands more than their competitors who do not sponsor NASCAR (Amato, Peters and Shao 71), and 90% of fans would recommend a sponsor's product to a friend (Beta Gamma Sigma 13). These statistics provide evidence that fans do pay attention to what company supports their sport and act upon these preferences. According to UPS spokesperson, Susan Rosenberg,

> "The difference between NASCAR and other ball-and-stick type sports is that fans see a direct connection to the viability of the sport based on sponsors. With a sponsor on the car, that team is going to have better engines, more cars, more testing and put more into their program. That translates into fan loyalty." (qtd. in Clark, Cornwell and Pruitt 2004).

Larry DeGaris, director of James Madison University's Center for Sports Sponsorship investigated the effectiveness of NASCAR sponsorship upon the minds of fans. According to his study, 93% of fans said that corporate sponsors are "very important" to NASCAR. Seventy-six percent of fans agreed that, without corporate sponsors, "there would be no NASCAR" (DeGaris). Furthermore, 83% of fans say they "like" corporate sponsorship of NASCAR (Culbertson). DeGaris' study further suggests that sponsors do have the power to influence fans: Forty-seven percent of NASCAR fans agreed that they like a sponsor's brand because it sponsors NASCAR (2005).

Additionally, 51% of fans agreed that they felt like they were contributing to the sport when they buy a NASCAR sponsor's product (Culbertson). However, only 17% of fans feel they receive special benefits from NASCAR sponsors, such as discounts (Culbertson). Clearly, fans are taking note of what companies sponsor their favorite sport, and there are even more opportunities for corporate sponsors to make personal connections with the fans.

A number of companies and products have experienced the impact of fan loyalty upon activating their sponsorships. M&Ms, "The Chocolate of NASCAR Fans," used on-package promotion, monthly ads in *NASCAR Winston Cup Scene,* and a program called "Turn Packs into Points." (The Brand-Building Power 26). The contest received over 40,000 sweepstakes entries and over one million packages redeemed for incentives. Furthermore, the campaign's website received over 1.8 million hits from almost 700,000 different visitors (The Brand-Building Power 26). This type of participation suggests that fans are active and aware consumers who are willing to support NASCAR sponsors.

NASCAR and its sponsors are aware of the fact that their fans often feel like they do not receive special discounts or other opportunities to reward their loyalty. In March of 2005, Stoneacre Partners, a developer of customer loyalty programs, announced the start of NASCAR RacePoints. This free program allows participants to earn points when they purchase goods and services from participating NASCAR sponsors. MBNA America Bank, N.A. issues the official licensed NASCAR VISA credit card, and any purchase made with this credit card results in RacePoints as well ("NASCAR RacePoints"). The NASCAR points catalog offers participants four categories of rewards to redeem their points: Access & Experiences; Collectibles & Memorabilia; Apparel; and Merchandise ("NASCAR RacePoints"). Participants of the program are excited at the new opportunity to build relationships with loyal fans. Sam Bass, President of Sam Bass Illustration & Design explains:

> "I am very excited to partner with NASCAR RacePoints to be part of the exclusive rewards catalog. As a longtime fan of the sport, I look forward to creating and developing unique artwork for NASCAR RacePoints that offer compelling rewards for the passionate NASCAR fan." (qtd. in "NASCAR RacePoints").

These programs foster positive relationships between fans, who feel rewarded for their loyalty, and sponsors, who are receiving more advertising and increased sales.

The loyalty of fans suggests that NASCAR has numerous opportunities for companies to build profitable relationships with the sport and its fans. Companies would ultimately like to capitalize on this loyalty and see a profitable return on sponsorship investments, including an increase in the value of the firm itself. An event study would enable a firm to quantify the impact of NASCAR sponsorship upon its stock price and assist in evaluating the overall effect of sponsorship upon the value of the firm.

V. Event Study

Methodology

An event study measures the impact of a certain event on the value of a firm (MacKinlay 13). This impact is measured by observing the stock prices of the company over a short period of time surrounding the event. The first step in the event study methodology is selecting the event followed by the period of time over which the stock prices will be observed. This period typically includes time before and after the event in order to compare the pre-event returns with the returns after the occurrence of the event. In this case, the event to observe is a NASCAR race. The next step is selecting the firms which will be observed for the given period of time. For this event study, firms involved in NASCAR sponsorship will be observed. Criteria are formulated to determine the inclusion and exclusion of certain firms, such as market capitalization and specific industries (MacKinlay 15). Once the type of firm is determined, potential biases that might affect the outcomes can be identified. An example of such a bias is external factors or events that affect the industry as a whole. Confounding events, which are events that occur around or at the same time of the event under observation, can affect the individual firm. This type of event, such as an earnings announcement, makes it difficult to differentiate the impacts of the confounding event versus the event in the study.

The measurement of an event's impact requires two sets of returns: the abnormal return and the normal return. The abnormal return is the actual ex post return of the stock over the observed time period minus the normal return of the stock over that same time period (MacKinlay 15). The normal return is the expected return for that time period without the event occurring. The abnormal return for firm í and event date τ is calculated as follows:

$$AR_{i\tau} = R_{i\tau} - E(R_{i\tau}|X_\tau)$$

where $AR_{i\tau}$ is the abnormal return

$R_{i\tau}$ is the actual return

$E(R_{i\tau}|X_\tau)$ is the normal return for the time period τ

X_τ is the conditioning information for the normal return model (MacKinlay 15)

There are two types of return models for measuring the normal return of a specific security. The constant mean return model is where X_τ is constant and assumes that the mean return of a stock is constant throughout. The constant mean return model is as follows:

$$R_{i\tau} = \mu_i + \zeta_{i\tau}$$

$$E(\zeta_{i\tau}) = 0 \qquad var(\zeta_{i\tau}) = \sigma^2_{\zeta i}$$

where $R_{i\tau}$ is the period-*t* return on security *i* with an expectation of zero and variance $\sigma^2_{\zeta i}$. This is considered the simplest model, although Brown and Warner (1980,1985) found it often yields results similar to more complex models (MacKinlay 17).

The second type of return model for measuring the normal return is the market model, which relates the return of a security to the return of the market portfolio. In the market model, X_τ is the market return. This market model assumes a stable linear relationship between the market return and the security return (MacKinlay 18). The market model is as follows:

$$R_{i\tau} = \alpha_i + \beta_i R_{mt} + \varepsilon_{i\tau}$$

$$E(\varepsilon_{i\tau} = 0) \qquad var(\varepsilon_{i\tau}) = \sigma^2 \varepsilon_\tau$$

where $R_{i\tau}$ a is the period-*t* returns on security *i*. R_{mt} is the period-*t* returns on the market portfolio, and $\varepsilon_{i\tau}$ is the zero mean disturbance term. α_i, β_i, and $\sigma^2\varepsilon_\tau$ are the parameters of the market model (MacKinlay 18). The market model is sometimes considered better than the constant mean model because it removes the portion of the return that is related to variation in the market's return. By removing this, the variance of the abnormal return is reduced (MacKinlay 18).

A few concerns arise when conducting an event study. First, the sampling interval can influence the results of the study. Research indicates that using a shorter sampling interval amplifies the results of an event study (MacKinlay 34). The availability of data will most likely dictate the sampling interval. Stock prices fluctuate numerous times throughout a trading day; however, the benefits of intervals less than one day are not clear at this point in time (MacKinlay 34).

Another concern is the event-day uncertainty. In the case of NASCAR, the race date and the outcome of the race is relatively certain. However, other events that may serve as the subject of an event study might have uncertainty surrounding their exact date. An event study observes if the market reflects news of a certain event. If an event is published in a newspaper on a Tuesday morning, for example, there is no guarantee the market was not informed the previous day. This concern is typically mitigated by expanding the window of the event study by one day prior to and one day after the event (MacKinlay 35).

A third concern is the nonsychronous, or nontrading, bias. This occurs when stock prices are recorded at irregular intervals. For example, daily prices in event studies are typically based on closing prices and assume that these prices are equally spaced at 24-hour intervals. However, closing prices are not necessarily determined at the same time everyday, which cause a bias in the moment of return (MacKinlay 35).

Previous Event Study Findings

In 2004, Pruitt, Cornwell and Clark analyzed the impact of NASCAR sponsorship announcements on the stock prices of sponsoring firms. They employed one variation of the event-study methodology, the Scholes-Williams standardized cross-sectional market model. Among their conclusions, the study found statistically significant increases in stock prices between 1995 and 2001 at the time twenty-four primary NASCAR sponsorships announced their sponsorship and activated (Clark, Cornwell, and Pruitt 2001). The average NASCAR sponsor experienced an increase in shareholder wealth of over $300 million, net of anticipated costs of sponsorship. Companies directly involved with the consumer automotive industry experienced a $500 million increase (Clark, Cornwell, and Pruitt 2001).

VI. Proposal

NASCAR has a wide variety of opportunities for companies, and an event study can assist in identifying sponsorship investments that will increase the value of a firm. One aspect of the primary sponsorship deal is the prominent association with the driver and car. Does a winning driver have more impact on stock price versus a losing driver? Does the sponsor of a losing driver experience a negative impact on stock price? These factors might indicate the importance of a company selecting a skilled driver and potentially paying more money versus selecting whatever driver might need primary sponsorship at the time. The movement of the winning company's stock price compared to the stock price of a company sponsoring a losing driver might suggest whether the victory influenced the stock price above and beyond the sponsorship alone. For example, Tony Stewart, sponsored by The Home Depot, finished in first place in the 2005 Nextel Cup Series. Jimmie Johnson, sponsored by Lowe's, finished in fifth place. Did The Home Depot experience a greater impact in stock price?

Another event study would compare the effectiveness of sponsorship by identifying and tracking the sponsoring companies' competitors in the market that do not sponsor NASCAR. Comparing the movement of stock prices of the competitors further suggest the impact of NASCAR sponsorship. However, if the movements of the stock prices are similar, the sponsoring company should reflect upon the effectiveness of the sponsorship. Another challenge to this event study is identifying a company's competitors. One possible option is to select the company with the largest market share as the competitor. If the sponsor is has the largest market share, the next company with the next largest share could be used for comparison. For example, Brent Sherman is sponsored by Serta. The event study might identify Serta's major competitor in mattress sales and compare the change in stock prices following a NASCAR event in which Sherman competes.

NASCAR sponsorship is continually growing in popularity as well as complexity, with the different types and even co-sponsor options. Individual event studies can evaluate each of these options to indicate its impact of company profitability. The overall question is "Will the benefits of this investment outweigh the costs?" Event studies can aid in answering this question by comparing the stocks prices of companies that have various sponsorships, such as official NASCAR status, primary sponsor, track sponsor or an event sponsor, to name a few.

VII. Conclusion

Sports sponsorship is a unique marketing opportunity that provides companies the opportunity to relate with consumers on a more personal basis. Sports sponsorships grow in quantity and variety as professional sports continue to increase in popularity. Therefore, it comes as no surprise that NASCAR, one of the fastest growing sports in America, abounds in sponsorship opportunities. NASCAR is a powerhouse for sports and commerce, claiming seventy-five million fans and over a hundred Fortune 500 company sponsors. Research indicates that these fans are receptive to sponsors and understand their importance in the success of their favorite drivers. Consequently, statistics show that NASCAR fans reward these sponsors with brand loyalty and increased purchases. By examining the demographics of fans and types of sponsorships available, companies can decide whether NASCAR is the appropriate venue for their marketing. Furthermore, current sponsors can evaluate the profitability of their sponsorships by conducting event studies. An event study indicates the impact of a NASCAR event or some aspect of the event upon the stock price of a sponsoring company. By conducting event studies based on different factors, such as the type of sponsorship or the performance of the driver, companies obtain quantitative data that suggest the level of success of the sponsorship. If these event studies indicate that stock price can be positively affected by NASCAR sponsorship, the sport will continue its current trend of growth among both fans and corporate America.

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Appendix 1

Table 1: 2006 Nextel Cup Series Drivers

Driver	Car	Make	Sponsor
Barret, Stanton	95	Chevrolet	hairofdog.com
Biffle, Greg	16	Ford	Subway/ Nat'l Guard/ Little League
Blaney, Dave	22	Dodge	Caterpillar
Blount, Chad	92	Chevrolet	Fox Collision Centers
Bowyer, Clint*	07	Chevrolet	Jack Daniel's Texas Pride
Burton, Jeff	31	Chevrolet	Cingular Wireless
Busch, Kurt	2	Dodge	Miller Lite
Busch, Kyle	5	Chevrolet	Kellogg's/Delphi
Chaffin, Chad	34	Chevrolet	Holiday Inn DFW Airport West
Cope, Derrick	74	Dodge	myguardian911.com
Earnhardt, Dale Jr.	8	Chevrolet	Budweiser
Edwards, Carl	99	Ford	Office Depot
Garvey, Mike	151	Chevrolet	Marathon American Spirit Motor
Gordon, Robby	7	Chevrolet	Jim Beam Black
Gordon, Jeff	24	Chevrolet	DuPont
Green, Jeff	66	Chevrolet	Best Buy/SanDisk
Hamlin, Denny*	11	Chevrolet	FedEx Express
Harvick, Kevin	29	Chevrolet	Reese's Caramel Cup

Jarrett, Dale	88	Ford	UPS
Johnson, Jimmie	48	Chevrolet	Lowe’s
Kahne, Kasey	9	Dodge	Dodge Dealers/ UAW
Kenseth, Matt	17	Ford	Carhartt
Kvapil, Travis	32	Chevrolet	Tide-Downy
Labonte, Bobby	43	Dodge	Cheerios/Betty Crocker
Lepage, Kevin	61	Ford	RoadLoans.com
Marlin, Sterling	14	Chevrolet	CENTRIX Auto Finance
Martin, Mark	6	Ford	AAA
Mayfield, Jeremy	19	Dodge	Dodge Dealers/ UAW
McMurray, Jamie	26	Ford	Crown Royal
Mears, Casey	42	Dodge	Texaco/ Havoline
Nemechek, Joe	01	Chevrolet	U.S. Army
Newman, Ryan	12	Dodge	ALLTEL
Petty, Kyle	45	Dodge	Schwan’s Home Service
Raines, Tony	96	Chevrolet	DLP HDTV
Riggs, Scott	10	Dodge	Stanley Tools/ Valvoline
Sadler, Elliott	38	Ford	M&M’s
Sadler, Hermie	00	Chevrolet	Aaron’s/TNA Wrestling
Schrader, Ken	21	Ford	Motorcraft Genuine Parts
Shepherd, Morgan	89	Dodge	Victory in Jesus/ Dutch Quality Stone

Sherman, Brent	49	Dodge	Serta
Skinner, Mike	37	Dodge	R&J Racing
Sorenson, Reed*	41	Dodge	Target
Stewart, Tony	20	Chevrolet	The Home Depot
Stremme, David*	40	Dodge	Coors Lights
Treux, Martin Jr.*	1	Chevrolet	Bass Pro Shops/ Tracker
Vickers, Brian	25	Chevrolet	GMAC
Wallace, Kenny	178	Chevrolet	Furniture Row Racing
Waltrip, Michael	55	Dodge	NAPAR Auto Parts
Wimmer, Scott	4	Chevrolet	AERO Exhaust
Yeley, J.J.	18	Chevrolet	Interstate Batteries

* denotes Rookie driver

Appendix 2: MediaMark Reports

Table 2: Attend NASCAR Less than Once a Month (Fall 2004)

	Fall 2004 Product: Leisure/Sports Sports Events - Attend Auto racing - NASCAR Less than once a month Total Adults Total '000	Proj '000	Pct Across	Pct Down	Index
Age 18-24	27556	762	2.8	11.5	89
Age 25-34	39380	1465	3.7	22	119
Age 35-44	44230	1928	4.4	29	140
Age 45-54	40387	1416	3.5	21.3	112
Adults 18-34	66936	2227	3.3	33.5	107
Adults 18-49	132670	4931	3.7	74.1	119
Men 18-34	33429	1363	4.1	20.5	131
Women 18-34	33507	864	2.6	13	83
ABC Family Channel	45137	1647	3.6	24.8	117
E! (Entertainment Television)	32817	1249	3.8	18.8	122
ESPN	56564	2803	5	42.1	159
MTV	34188	1534	4.5	23.1	144
Cosmopolitan	16517	427	2.6	6.4	83
Maxim	13018	569	4.4	8.6	140
Sports Illustrated	20055	950	4.7	14.3	152
Classic Rock	24484	1283	5.2	19.3	168
Sports	9620	333	3.5	5	111
TV Avg 1/2 hr aud - Mon-Fri 9A-4P	27150	719	2.6	10.8	85
TV Avg 1/2 hr aud - Mon-Fri 4-7:30P	55641	1496	2.7	22.5	86
TV Avg 1/2 hr aud - Mon-Fri 11:30P-1A	27404	958	3.5	14.4	112
TV Avg 1/2 hr aud - Sat/Sun 7A-1P	22180	776	3.5	11.7	112
TV Avg 1/2 hr aud - Sat/Sun 1-6P	42895	1583	3.7	23.8	118

* Denotes sample size is less than 50.

Table 3: Attend NASCAR One or More Times a Month (Fall 2004)

Fall 2004 Product: Leisure/Sports
Sports Events - Attend
Auto racing - NASCAR One or more times a month
Total Adults

		Total '000	Proj '000	Pct Across	Pct Down	Index
Age 18-24	*	27556	364	1.3	16.2	125
Age 25-34		39380	567	1.4	25.2	136
Age 35-44	*	44230	402	0.9	17.9	86
Age 45-54	*	40387	473	1.2	21	111
Adults 18-34		66936	931	1.4	41.4	132
Adults 18-49		132670	1597	1.2	70.9	114
Men 18-34		33429	591	1.8	26.2	168
Women 18-34	*	33507	340	1	15.1	96
ABC Family Channel	*	45137	498	1.1	22.1	105
E! (Entertainment Television)	*	32817	379	1.2	16.8	109
ESPN		56564	814	1.4	36.2	136
MTV	*	34188	494	1.4	22	137
Cosmopolitan	*	16517	125	0.8	5.6	72
Maxim	*	13018	207	1.6	9.2	151
Sports Illustrated	*	20055	278	1.4	12.3	131
Classic Rock	*	24484	382	1.6	17	148
Sports	*	9620	146	1.5	6.5	144
TV Avg 1/2 hr aud - Mon-Fri 9A-4P	*	27150	377	1.4	16.8	132
TV Avg 1/2 hr aud - Mon-Fri 4-7:30P		55641	848	1.5	37.7	144
TV Avg 1/2 hr aud - Mon-Fri 11:30P-1A	*	27404	468	1.7	20.8	162
TV Avg 1/2 hr aud - Sat/Sun 7A-1P	*	22180	342	1.5	15.2	146
TV Avg 1/2 hr aud - Sat/Sun 1-6P		42895	681	1.6	30.3	151

* Denotes sample size is less than 50.

Table 4: Watch NASCAR on TV Less then Once a Month (Fall 2004)

Fall 2004 Product: Leisure/Sports
Sports Events - Watch On Tv
Auto racing - NASCAR Less than once a month
Total Adults

	Total '000	Proj '000	Pct Across	Pct Down	Index
Age 18-24	27556	1726	6.3	16.8	130
Age 25-34	39380	2225	5.6	21.6	117
Age 35-44	44230	2282	5.2	22.2	107
Age 45-54	40387	2127	5.3	20.7	109
Adults 18-34	66936	3950	5.9	38.4	123
Adults 18-49	132670	7238	5.5	70.4	113
Men 18-34	33429	1976	5.9	19.2	123
Women 18-34	33507	1975	5.9	19.2	122
ABC Family Channel	45137	2096	4.6	20.4	96
E! (Entertainment Television)	32817	1866	5.7	18.2	118
ESPN	56564	3602	6.4	35	132
MTV	34188	1973	5.8	19.2	120
Cosmopolitan	16517	811	4.9	7.9	102
Maxim	13018	964	7.4	9.4	154
Sports Illustrated	20055	1285	6.4	12.5	133
Classic Rock	24484	1729	7.1	16.8	147
Sports	9620	711	7.4	6.9	153
TV Avg 1/2 hr aud - Mon-Fri 9A-4P	27150	1066	3.9	10.4	81
TV Avg 1/2 hr aud - Mon-Fri 4-7:30P	55641	2149	3.9	20.9	80
TV Avg 1/2 hr aud - Mon-Fri 11:30P-1A	27404	1493	5.4	14.5	113
TV Avg 1/2 hr aud - Sat/Sun 7A-1P	22180	935	4.2	9.1	88
TV Avg 1/2 hr aud - Sat/Sun 1-6P	42895	1953	4.6	19	94

* Denotes sample size is less than 50.

Table 5: Watch NASCAR on TV One or More Times a Month (Fall 2004)

Fall 2004 Product: Leisure/Sports
Sports Events - Watch On Tv
Auto racing - NASCAR One or more times a month
Total Adults

	Total '000	Proj '000	Pct Across	Pct Down	Index
Age 18-24	27556	3419	12.4	11.6	90
Age 25-34	39380	5121	13	17.4	94
Age 35-44	44230	6961	15.7	23.7	114
Age 45-54	40387	6233	15.4	21.2	112
Adults 18-34	66936	8539	12.8	29	93
Adults 18-49	132670	19170	14.4	65.2	105
Men 18-34	33429	5683	17	19.3	123
Women 18-34	33507	2856	8.5	9.7	62
ABC Family Channel	45137	6670	14.8	22.7	107
E! (Entertainment Television)	32817	4675	14.2	15.9	103
ESPN	56564	11131	19.7	37.9	143
MTV	34188	4886	14.3	16.6	104
Cosmopolitan	16517	1710	10.4	5.8	75
Maxim	13018	2285	17.5	7.8	127
Sports Illustrated	20055	3773	18.8	12.8	137
Classic Rock	24484	5217	21.3	17.7	155
Sports	9620	1615	16.8	5.5	122
TV Avg 1/2 hr aud - Mon-Fri 9A-4P	27150	4214	15.5	14.3	113
TV Avg 1/2 hr aud - Mon-Fri 4-7:30P	55641	8215	14.8	27.9	107
TV Avg 1/2 hr aud - Mon-Fri 11:30P-1A	27404	4283	15.6	14.6	113
TV Avg 1/2 hr aud - Sat/Sun 7A-1P	22180	3712	16.7	12.6	122
TV Avg 1/2 hr aud - Sat/Sun 1-6P	42895	7768	18.1	26.4	131

* Denotes sample size is less than 50.