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Thomas Mueller
 Appalachian State University, muellerts@appstate.edu

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Tumultuous Times in NASCAR: Antitrust Implications for Drivers and Teams

Thomas Mueller

Department of Communication, Appalachian State University

Abstract

The National Association of Stock Car Auto Racing (NASCAR) is experiencing a decline in fans, TV viewers and sponsorship revenues. The current state of the sport has motivated drivers and teams to create organizations that may lead to collective bargaining attempts. Collective bargaining is governed by federal antitrust law. This rhetorical analysis presents legal case studies in NASCAR’s prior attempts to manage sanctioning of national championship racing events, which led to restraint of trade and antitrust litigation. Implications for the future actions of facilities, drivers, teams and sanctioning bodies can be tested through the definition of antitrust and fair competition in the marketplace.

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Introduction

The predominant stock-bodied auto racing sport in the United States is the National Association of Stock Car Auto Racing (NASCAR). It was created in 1948 by patriarch Bill France, Sr. and remains a private business entity controlled by France family members (Lapin Jr. & Morris, 2000). NASCAR competition found its roots in the framework of men and machines, racing in the face of danger. Some early NASCAR racers honed their driving skills transporting moonshine during the prohibition era (Shackleford, 1999).

It has been argued that confrontation is paramount as part of NASCAR’s entertainment appeal (Cote, 2014). In the 1979 Daytona 500, Cale Yarborough instigated a fist fight with Bobby and Donnie Allison. The altercation was televised and greatly increased interest in the sport. Today, top NASCAR drivers are regularly involved in on-track conflicts, where tempers flare, crews join into the skirmish, and TV ratings surge.

One such recent conflict occurred when Toyota driver Matt Kenseth rammed Ford driver Joey Logano out of contention at the November, 2015 NASCAR Sprint Cup event in Martinsville, Virginia. The initial feud began when Logano tapped Kenseth’s car and spun Kenseth out of contention at a prior NASCAR event in Kansas. Kenseth stated his fan base had greatly increased since he used aggressive tactics in the Logano incident (King, 2016). Confrontations and conflict represent machismo
actions, where retaliation is expected by the majority of fans.

NASCAR remains cautious as it adjudicates the behavior of its constituents. Driver actions, sponsor relations, team rule infractions and event facility expectations must all be carefully managed. In prosperous economic periods, NASCAR held more latitude in decision making. However, in today’s marketplace, the benevolent dictatorship model – built through NASCAR patriarchs “Big” Bill France and Bill France, Jr. – has shifted. Current NASCAR CEO Brian France is interacting with a more conciliatory nature. Stakeholders are seen as partners and open discussion is encouraged (James, 2015).

The new business paradigm introduced by France is essential. Increasing costs of entertainment, the fragmentation of entertainment opportunities, and declines in the current U.S. economy have affected consumer engagement in live sporting events, college football being one example (Solomon, 2014). This scenario has also created a downward trend in NASCAR business activities. France has indicated that key racing facilities in this sport are experiencing declining attendance. In 2005, NASCAR averaged 129,722 per event. NASCAR last reported fan statistics in 2012, when the average fan attendance per event had declined to 97,722 (Richards, 2014).

Another area of concern is a reduction in fans who view races on television. Despite the fact NASCAR has signed an $8.2 billion TV contract with Fox and NBC (Bianchi, 2014) it has succumbed to a five to 15 percent reduction in viewership in 2014 (Paulsen, 2014).

What might be considered the most critical challenge to NASCAR is a reduction in sponsorship activity. Large, multi-car teams sometimes cannibalize each other’s sponsors, as fewer opportunities exist (Bianchi, 2014). Branches of the armed forces such as the National Guard have opted out of the sport, based on low recruitment response from NASCAR-related promotions. The Army, Navy, Marines and Coast Guard have also opted to discontinue sponsorships (Vanden Brook, 2014). Other major supporters including Office Depot, United Parcel Service, and auto manufacturer Dodge have also exited (Bauerlein, 2012).

The sport’s top female driver, Danica Patrick, lost web domain giant GoDaddy. In the current economic environment, even top drivers find it difficult to secure full-time sponsors. It costs $16 million to $18 million to sponsor a complete race season (James, 2015). Teams are forced to dissect the 36-race series into fragmented sponsorship packages.

Lack of sponsorship has prompted progressive changes. Team co-owner Rob Kauffman has announced his departure from Michael Waltrip Racing, forcing the demise of that organization. Kauffman stated his cash infusions had been keeping Waltrip’s team at the race track. The organization lost sponsor NAPA after attempting to manipulate the end result of a race event at Richmond International Raceway (Pockrass, 2013). Kauffman will divert his investment into the Chip Ganassi racing team where sponsorship funding is in place for the two car organization.

Kauffman believes the current business model in NASCAR racing is not commercially viable (Pennell, 2015). He is the founding member and newly elected chairman of the Race Team Alliance (RTA), which has been formed to represent a collective voice for the top nine racing teams in NASCAR. According to Kauffman, the RTA has been formed to develop strategy that raises the sport’s popularity and to identify innovative marketing concepts that serve NASCAR stakeholders (Gluck, 2015).

Kauffman insists that the alliance is not a union, but rather a group of business owners attempting to identify better efficiencies in racing. The team alliance secured additional financial assistance from NASCAR in the form
of franchising. According to Kauffman, the new franchise plan features a charter system where existing teams gain franchise rights, which include the right to compete and also an equity-transfer plan if teams choose to transition ownership (Stern, 2015). Some media sources indicate NASCAR is considering a formal relationship with the Race Team Alliance, where member teams would be awarded some level of permanent value (Jensen, 2015). The term “franchise” has yet to be used, but a discussion of “future qualification” has been part of the current dialog (Bromberg, 2015).

In addition to teams, top NASCAR drivers orchestrated a representative group, entitled the Drivers’ Council. Drivers initially appointed during the summer of 2015 were Jeff Gordon, Dale Earnhardt Jr., Kevin Harvick, Kyle Larson, Joey Logano, Tony Stewart and Denny Hamlin were appointed as representatives (Bianchi, 2015). It was reported that NASCAR had involvement in the formation of the council. This proved to be an unusual move, as past history indicates NASCAR did not, and would not, tolerate group negotiations or the formation of any entity that might indicate union activities. Decades prior, NASCAR boss Bill France, Sr. suspended any driver who tried to unionize. The sanctioning body mandated one-on-one communication.

There is important legal precedent regarding professional sport as related to collective bargaining, unions and antitrust law. Antitrust is described as illegal activity that promotes anti-competitive behavior. Within the sports industry, unions that represent competitors are called players associations. The associations negotiate employment contracts collectively, negotiating collective bargaining agreements. Baseball, football, basketball and hockey have all endured legal battles based on antitrust and player issues. The Supreme Court has ruled that baseball has a unique exemption from antitrust law, but that is not the case for other professional leagues (“Antitrust labor issues in sports,” n.d.).

**NASCAR and the Antitrust Marketplace**

It could be argued that the NASCAR organizational may be in flux. Stakeholders want to assure their investments hold value and several factions believe a group voice will form the best option when communicating with the sanctioning body. NASCAR’s newfound openness to group negotiation tactics looks to be an orchestrated, preemptive approach to avoid future litigation. When the RTA was announced, NASCAR indicated all communication with NASCAR and ISC must be accomplished through representative attorneys. NASCAR officials would not directly communicate with RTA members. NASCAR stated that the players in NASCAR knew their roles and that business would be conducted in its usual manner (Pockrass, 2014).

An attempt by NASCAR to control the marketplace might come under the scrutiny of laws that protect against restraint of trade, which is part of antitrust legislation. Restraint of trade can be argued when a party believes it has incurred an economic injury related to competition in the marketplace, price control or fixing, monopolistic practices or “tortious” interference that negatively affects doing business (“What is ‘restraint of trade’?,” n.d.).

The purpose of antitrust legislation is to allow fair competition, with goods and services available to consumers at competitive prices. In Hawaii v. Standard Oil Company, the United States Supreme Court stated that strong business depends on compliance with antitrust legislation. Antitrust laws were first adopted through the Sherman Act of 1890, which was later amended by the Clayton Antitrust Act of 1914 and the Robinson-Patman Act of 1936 (“Cohen Milstein Antitrust,” n.d.).
The Sherman Act expanded common law principles into a federal law. Section 1 of the Act prohibits contracts, combinations and conspiracies in restraint of trade, and governs the existence of conspiracy among franchise owners or league officials. Section 2 prohibits monopolization and attempts to monopolize. In the context of motorsport, Section 2 applies to ordinary business transactions and all areas of league conduct (Modric, 2003). Section 3 of the act extended the Section 1 provisions to U.S. territories and the District of Columbia.

Section 4 of the Clayton Act allows any person who believes they are injured in business or property, based on antitrust actions, can sue. The Clayton Act offers provisions for private actions for violations of the Sherman Act. The United States Supreme Court has identified seven factors that must be used to determine burden of proof regarding antitrust: 1) Whether the action caused the plaintiff injury; 2) whether the defendants intended to cause the plaintiff injury; 3) whether the plaintiff’s injuries were related to antitrust law; 4) whether the injury was direct or indirect; 5) whether there exists an identifiable class of victims; 6) whether the plaintiff’s damages are speculative; and 7) whether permitting the plaintiff to sue would create a risk of duplicate recoveries or a complex damage apportionment (Modric, 2003).

To further clarify potential proceedings, the Robinson-Patman Act prohibits discrimination among customers through predatory pricing (i.e. the cost of entry for a team or event into the sport). It also disallows mergers, acquisitions or takeovers that substantially reduce competition in the marketplace (“Legal Dictionary - Law.com,” n.d.).

Blarcom-Gupko (1997) posited that while a special exemption has been afforded Major League Baseball from the Sherman Antitrust Act, other professional sports are not afforded this immunity. In the realm of motorsports, competition on and off the track is necessary for an open market and an antitrust-free environment, but the definition of markets is difficult to define.

**Antitrust Litigation and NASCAR**

In order to better understand how the federal Sherman Antitrust act plays out in a NASCAR context, one needs to revisit litigation that pitted NASCAR against stockholders of one of its most prominent promoters, then later a dispute between NASCAR and a major racing facility. A NASCAR antitrust case was filed in 2002 when Francis Ferko, a shareholder of Speedway Motorsports, Inc., (SMI) filed a lawsuit against NASCAR, International Speedway Corporation and SMI. Ferko alleged that NASCAR had reneged on a commitment to award Texas Motor Speedway – a track owned by SMI - a second Nextel Cup event. Ferko alleged antitrust implications based on NASCAR’s relationship with International Speedway Corporation and its related race tracks.

The Ferko case was settled out of court. It was later reported that NASCAR presented a solution that appeased the plaintiff and offered a more balanced approach to the distribution of races. ISC held two race dates for Darlington Raceway on the NASCAR series schedule. The schedule was reduced to one date at Darlington, with the other date assigned to ISC’s facility in Phoenix. ISC also sold Rockingham Motor Speedway to SMI. NASCAR allowed SMI to move the Nextel Cup sanction from Rockingham to a second date at the Texas facility (Blarcom-Gupko, 2006).

Several years later, a similar case alleged antitrust activities as part of event race sanctions in the Nextel Cup (now entitled Sprint Cup) Series. Kentucky Speedway, a 68,600 seat facility in Sparta, had hosted a NASCAR Busch Series auto race since 2000 and had attracted sell-out crowds. The track wished to expand its seating to 100,000 and asked NASCAR to
sanction a premier Nextel Cup Series race event at its facility (“Kentucky Speedway LLC v. National Association of Stock Car Auto Racing Inc.,” 2009). Kentucky did not attain the sanction and claimed it was due to collusion between NASCAR and International Speedway Corporation (ISC). It claimed the two entities were restricting events, which eliminates other independent tracks that are qualified to host such events. It was suggested that NASCAR and ISC held an “incestuous” relationship. Top NASCAR officials are key stockholders in the publicly-held ISC (Hinton, 2002).

Kentucky Speedway filed suit in the U.S. District Court for the Eastern District of Kentucky in 2005 and alleged that NASCAR and ISC violated sections I and II of the Sherman Act. The suit asked for $400 million in damages and an injunction to require NASCAR to utilize a competitive bidding process for the assignment of races (Blarcom-Gupko, 2006).

NASCAR’s position was notably more militant than what is being reported regarding its current position among drivers and teams. At that time, senior NASCAR official Bill France, Sr. stated the plaintiff was “whining” and “crying wolf” and “that’s the America we know and love” (“USATODAY.com - Kentucky Speedway sues NASCAR,” 2005).

NASCAR filed a motion to change the venue for the lawsuit to a Florida federal court, arguing that Kentucky Speedway agreed to litigate all disputes in the U.S. Middle District of Florida when it signed 11 different contracts with NASCAR from 1999 to 2005 (“Kentucky Speedway LLC v. National Association of Stock Car Auto Racing Inc.,” 2009). Court documents stated that ISC and NASCAR believe the Kentucky Speedway allegations were expressions of “bitterness” against what they deemed a more successful promoter, namely International Speedway Corporation (ISC owns Daytona International Speedway, among other top facilities, and has France family members as major stockholders). The motion to change venues was denied by the court.

A long period of discovery ensued and in October of 2006 the court denied Kentucky Speedway’s motion to compel NASCAR to produce highly confidential financial documents. Kentucky Speedway requested financials on the compensation package for NASCAR president Mike Helton, as well as income statements, balance sheets and operating statements from NASCAR and its affiliated entities. NASCAR had previously provided profit and expense information relating to the Nextel Cup Series.

In response, co-defendant ISC accused Kentucky Speedway of engaging in a deliberate strategy to increase the burden of time and related legal fees. ISC reported it had spent over $3 million to date in discovery costs. ISC based its accusation on a comment made by a Kentucky Speedway banker, who stated that if the discovery phase was developed over a long period of time, it was more likely ISC and NASCAR would make an offer to purchase the Kentucky track (“Kentucky Speedway LLC v. National Association of Stock Car Auto Racing Inc.,” 2009).

In June of 2007, Kentucky Speedway and NASCAR entered into mediation in an effort to settle the $400 million lawsuit prior to the March 8, 2008 trial date. Kentucky Speedway had dropped its initial demand for a Nextel Cup date and was now asking that the France family relinquish control of either International Speedway Corporation (ISC) or NASCAR, as well as demanding that ISC be forced to sell a minimum of eight (8) of its 12 Nextel Cup race facilities (Moody, 2007). The mediation failed, then NASCAR and ISC filed a joint motion for summary judgment. U.S. District Judge William Bertelsman dismissed the two-year-old lawsuit, stating that the Kentucky racing facility had failed to pass the “Daubert Test” that is necessary to create a legal definition of a relevant product market.
The Daubert Test originated from the U.S. Supreme Court case Daubert v. Merrell Dow Pharmaceuticals, 509 U.S. 579 (1993). A Daubert Test requires the demonstration of a testable theory, peer review of that theory, the reliability and error rate of the testing procedure and general acceptance by the scientific community. The relevant market is defined as a market in which one or more goods compete.

Kentucky Speedway needed to make a case that its facility could be deemed a substitute good within the relevant market. An expert witness for Kentucky Speedway presented information to define the relevant market, but it was deemed that the presentation did not pass the Daubert criteria. In this instance, the expert testimony provided was not deemed to be acceptable, as related to how Kentucky Speedway was a valid substitute. NASCAR successfully argued that Kentucky Speedway did not provide examples from other sports and other means of entertainment (Kentucky Speedway vs. NASCAR, 2008 U.S. Dist. LEXIS 1076).

Kentucky Speedway formally appealed the dismissal and filed notice in mid-January, 2008, with the U.S. 6th Circuit Court of Appeals (“Kentucky Speedway appeals ruling dismissing NASCAR lawsuit - USA TODAY.com,” n.d.). Then on May 22, 2008, Speedway Motorsports Inc., a conglomerate that owns seven facilities that host NASCAR Sprint Cup events, announced it had agreed to purchase Kentucky Speedway (Smith, 2008). SMI had set a prior precedent in moving a Sprint Cup date from one of its facilities to another. Bruton Smith, Chairman of SMI, eventually transferred a date to the Kentucky track for the 2011 Sprint Cup season (Graves, 2010).

The Kentucky case might have been diffused, had it been the only antitrust accusation brought against NASCAR. The Ferko antitrust case, then the Kentucky Speedway dispute, raised a collective consciousness regarding alleged monopolistic practices by NASCAR, SMI and ISC. Future activity in event sanctions, team franchise, and collective agreements with drivers will raise a keen awareness among the legal community.

Implications for Future Actions

NASCAR holds a unique characteristic, that of being a private, family-owned business entity. NASCAR family business owners are also major stockholders in ISC, which in a legal context, can create the possibility of non-competitive behavior among race event sanctioning. The system NASCAR created worked well for decades, when constituents remained content with their respective portion of the sport’s revenue stream. Competitors operated with a high sense of community spirit and NASCAR teams many times acted as one family. This sense of community may have prevented some individuals from breaking from the NASCAR fraternity and taking action against the sanctioning body. Other participants might experience pressure from sponsors and wish to settle disputes outside of court. Yet others may have feared NASCAR and remained quiet (Modric, 2003).

The current reduction in NASCAR fans, sponsors and TV viewers has ushered in a new era with more assertive profiles among the sport’s constituents. Reduced revenues for all stakeholders has prompted team and driver group collaborations, in hopes of innovative structural change of the sport’s financial model. With both drivers and teams organizing collective bargaining efforts, it may once again be necessary to revisit the framework of antitrust activity. If the relevant product market (stock car racing) and submarket (NASCAR’s top-tier racing championships) are legally defined, restraint of trade could be argued where substitution of goods (new teams, new drivers,
alternative tracks) are deemed appropriate by the courts.

How will antitrust tests affect teams that seek special qualifications for exclusive rights to compete in the sport? Are drivers who are not part of the Drivers’ Council at a disadvantage within the NASCAR political process? When the Drivers’ Council was initially formed, multi-time NASCAR champion Jimmie Johnson was not included. He stated “I missed that memo…I don’t think I was invited to that meeting” (Olmstead, n.d.). Within collective bargaining actions, what advantages exist for competitors who are collected within the Driver’s Council, and those who are not? Would drivers not included in the council represent a “substitute good” as defined by antitrust law? If so, would they be entitled to Driver’s Council advantages in the sport, or would they self-negotiate?

The United States Supreme Court states that strong competition retains health and vigor through compliance with antitrust legislation. The Robinson-Patman Act further protects those who want to enter a specific market, by prohibiting discrimination among customers. It also searches for, and protects, entrants who believe discrimination has lessened competition.

It should be stated that the historical success of stock car racing can be attributed in part to the equitable environment NASCAR has developed. NASCAR has attempted to create parity among competitors through its sanctioning, rules and enforcement. Sponsors demand value and the geographic markets currently sanctioned by NASCAR assures that active consumers converge on each strategically placed event. However, future actions may challenge the NASCAR definition of equity. Facility and team owners, as well as collective driver groups may choose to put NASCAR under an antitrust lens. Those actions and subsequent legal proceedings could upset the somewhat fragile balance of competitors, teams, events, locations and dates.

Former arguments used in antitrust litigation related to national championship event sanctions may no longer be relevant. The sport is operating in a depressed economy and few, if any, facility owners are in queue for sanction approval. NASCAR sponsors are more discriminatory in spending on all levels and the prior solvency of events and teams is no longer guaranteed. The Race Team Alliance may present a collective position for select existing teams. However, new emerging teams could be determined by the courts to be competent substitutes, operating under the spirit of strong competition. Also, emerging teams may not be part of the RTA franchise negotiation process, but it would surely be possible to compete if funding sources exist (unless RTA negotiates a blocked point of entry for non-franchised teams).

Motorsport is a business built on tough, resilient competitors. Conflicts among sanctioning bodies, drivers, team owners, sponsors and track owners will continue. Antitrust disputes and collective group demands can create negative publicity that can affect TV partnerships and negatively impact corporate support. However, it has been reported that collective bargaining is beneficial in other professional sports leagues. The collective process creates a foundation for how the league will operate, and how stakeholders are treated both while competing, and after they retire or exit the sport (Forgues, 2012).

It is suggested NASCAR continues to engage discussions with factions in the sport, working to create viable, long term outcomes. For example, NASCAR recently committed to 23 tracks that host Spring Cup events, ensuring five-year sanctioning agreements (“NASCAR reaches 5-year sanctioning agreements with tracks,” 2015).

Attempts should be made to handle disputes privately through mediation and arbitration. When conflicts are resolved as expediently as
possible, NASCAR can continue to develop a more coordinated effort that attracts fans and sponsors, fortifying the sport during difficult times.

References


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