

# Market Influencers

## The 10 people, products, issues & things That We Think Will Have a Major Impact on This Industry During the Coming Year.

For the last 10 years, TIRE REVIEW editors have shined a clear spotlight on the issues, people, companies and products we think will have a significant impact on the North American tire market in the coming year. Sometimes we've been right, sometimes we've been dead wrong, and sometimes we have really been out there – but for the past decade TIRE REVIEW's annual Market Influencers has become the best read, most referenced and most discussed part of our annual Sourcebook.

TIRE REVIEW's Market Influencers was the first to recognize the impact of China and its growing tire industry, the first to point out the upward pressure raw materials costs would place on dealers, the first to reveal the real impact of this nation's economic mess, the first to discuss hybrid vehicles, globalization, trade unions, super wide tires, capacity issues and much more.

As you will quickly see, this year's Market Influencers is weighted heavily on issues related to the global economic meltdown and its potential ramifications. And there are a number of new entries that we think will have a prolific impact on our industry. Plus, we'll take a look back at last year's list to see how well our predictions fared. Hint: We had a pretty good year!

This is a purely subjective list, determined by the editors from a list of suggestions gathered over the past year. TIRE REVIEW's editor makes the final selection.

Agree? Disagree? Whichever side you are on, we'd love to hear your take on Market Influencers. Letters, e-mails or phone calls are always welcome. And if you have some candidates for next year's list, please pass them along.

### 1. Imported Tires

The Obama Administration has weighed down imported China-made passenger tires with a heavy added duty. For the next three years, Chinese-produced tires – regardless of the name on the sidewall – will be hit with an additional 35% tariff the first year, 30% the second and 25% the third. At this writing, it is too early to consider all of the ramifications, but there are some key questions to ponder: How will this impact the few private branders we have left? What other options will emerge to meet the low-price end of the product screen? Overall, what will this do to tire pricing? Can makers in India, Indonesia, Mexico and elsewhere gear up fast enough to nudge China out of the U.S. market? How will this impact the major players, all of which have plants in China? What kind of retaliation can U.S. consumers, dealers and producers expect? And how far reaching will that retaliation go? This issue is a long way from playing out, so stay tuned – and stay informed.

**Lingering Questions:** As the total cost – labor, materials, logistics and disruptions – gap between China-produced goods and those made elsewhere (even the U.S.) closes, will China see massive shrinkage in its manufacturing economy? Just when will the USW discover that there is a whole world outside of its union halls?

### 2. Tire Fuel Efficiency

By the end of this year, we should know how NHTSA will test and grade tires for fuel efficiency, and how it intends to “educate” consumers on the program, the new labeling scheme and how they can get the most out of their tires. Right now, NHTSA has suggested a pretty full-color label and a grade plan that would allow buyers to make direct comparisons from brand to brand and model to model. And a lame consumer education plan that makes the telegraph look effective. Never mind that, it's the testing and grading that we need to consider. If a system with true one-to-one comparisons can be created, what will that do to pricing, tire buying habits, product availability, dealer and tiremaker profitability, promotion, etc.? Fuel efficiency (cost savings) is a consumer demand. Of the top 10 new vehicles bought under Cash for Clunkers, only two were SUVs – the FWD Ford Escape hybrid and the gas-sipping Honda CR-V. The rest were Corollas and Fits and Elantras, oh my! After years of watching wheel diameters expand like a middle-aged man's waistline, personal transportation has signed on with Slim-Fast. But that crash diet may come with a huge price.

**Lingering Questions:** Unless they crawl around in your stockroom, how would a consumer even see the new labels? Are you going to leave them on your display tires? Will your techs be instructed to leave them on? If people can't afford expensive fuel-efficient tires anyway, isn't this all a bit of a waste?



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## 3. Our New Economy

Good news. Economists feel the worst is over and that the U.S. economy is on the rebound! As are those in Europe and Asia! And consumer confidence is inching up (albeit slowly). Bad news: there will be some deep scars that will change business – supply and demand – for years to come. Businesses and consumers are frightened and frazzled. Sharp decreases in retail activity here and abroad over the last 24 months challenge the survival of retailers and their suppliers. The vicious circle comes around to further job losses, more fear and on and on. From all that we have seen, read and heard, things will never be the same. And certainly business as we once knew it has changed. Problem is, it will take some time before anyone understands the “new economy,” so recovery will be more about stumbling than sprouting. For now, forget any notion of “normal.” There is no more “normal.”

**Lingering Questions:** If the recession is really over, how come we don't feel better? With 91 U.S. banks now closed, how long before the FDIC runs out of money? Will we even have money?

## 4. Un-Employment

There are signs of renewal in our economy, but the improvements have come despite massive double-digit unemployment – and the threat it can grow higher. “But the government says unemployment is only 9.5%,” you say? True, unless you count those who don't show up on the radar screen, like recent high school and college grads struggling for that first job. Then the number is more like 14%. It is a “recovery without jobs,” and it is silly to assume that we'll return to pre-2008 employment levels anytime soon. Over the last two years, job openings have collapsed 50%; as of July there were 6.05 unemployed people for every available open job. Recent productivity figures show that because companies have learned to do more with less, we could well see our economic engine steaming down the tracks minus a lot of passengers. Then it will take a considerable game-changer to bring enough good paying jobs to pull unemployment back to the sub-5% range. High unemployment and fewer jobs mean seriously lowered expectations – and a lot less disposable income for things like tires.

**Lingering Questions:** Is there an app for finding a job? Will social media become the new want ads? Will all of these tech marvels effectively reduce the need for workers?

## 5. Joe The New Consumer

Foreclosures continue at their record pace. Household spending is down and savings is way up. Fact is, families aren't saving for a rainy day, they're fearing a Biblical downpour. Thankfully, inflation rates have held steady even as payroll levels continue to decline. Wages and salaries fell 4.7% in the 12 months through June, and what pay hikes there were ranged between 2% and 3%, the lowest level in decades. Baby Boomers, a 79-million-strong consumer segment whose buying habits powered the economy for the last two decades, withdrew so completely in the wake of last year's meltdown that analysts say their conversion from free-spending to miserly could thwart our hoped-for rebound. Other consumer segments – smaller and younger – cannot possibly make up the difference. Credit card issuers have tightened qualifications, raised rates and fired millions of cardholders. Housing is still flat as a pancake, so equity-based credit has fallen off. Without readily available credit, consumer purchases have fallen sharply, especially with big-ticket items. There is hope, even as buyers have become more frugal, more value-driven. But they don't seek out value, they expect you to bring it to them. The “new frugality” is a fact of life (at least for now).

**Lingering Questions:** Could this holiday season be the darkest for retailers since the 1930s? Are you in a position to deliver “value” and not just a low price? How will this affect your ability to retain customers? Or will they hop from store to store based on “value?”

## 6. Swine Flu

While we've been distracted by other major news, the H1N1 virus – better known as swine flu – has been sitting quietly in the background. As we enter the “flu season,” experts are now worried. Very worried. Estimates now say that some two million Americans could end up hospitalized and as many as 90,000 people will die from N1H1 this coming flu season. That means the odds are favorable that someone you know will be gravely affected. Global demand for swine flu vaccines has crushed production capacity, creating huge delays. Canada ordered enough double doses for its entire population, while the U.S. is scrambling to cover between 30% and 78%. Heavy production isn't even slated to start until October. So, what does this mean? Federal officials admit that the virus will likely spread faster now that schools are back in session, and workplaces – especially retailers – are as bad as schools for transmitting the virus. They are warning employers to prepare for a widespread outbreak and resultant absenteeism, and suggest that employees be cross-trained so that “vital functions” are covered. As if retail sales were bad enough, consumers afraid to leave their homes won't help.

**Lingering Questions:** All kidding aside, this could be dangerously serious and we advise that you take precautions – for the benefit of your staff, families and yourself. New entertainment option for customer waiting area: the new Elmo video on combating swine flu. “Come on! Wash your hands with Elmo. Wash, wash, wash!”

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## 7. Apollo Tyre

Separating itself from the herd, Apollo Tyre has not only become the leading Indian tiremaker, it has fast become a global force to be reckoned with. Over the past few years, Apollo has added a number of new home-country plants, bought and turned around the ailing Dunlop Tyres in southern Africa, landed key OE slots in India and Europe, and upgraded its entire operation to have a more global approach. Earlier this year it landed its crown jewel – buying Vredestein from its bankrupt Russian owner, giving Apollo immediate access to advanced tire technology, a foothold in Europe and the potential for faster expansion into North America. While Apollo says it has no immediate plans for a foray to these shores, its opportunities here got a huge boost with the new Chinese tires tariff scheme. And to meet its goal of being a Top 6 global tiremaker by 2013, it must reach North America soon. With a pretty clean balance sheet, a habit of setting “audacious goals” and highly driven management and R&D teams, it may not be long.

**Lingering Questions:** Just how “audacious” will Apollo be in entering the North American market? Is there another distressed sale like Dunlop Tyres or Vredestein to be had? How quickly can it become a true world-class tiremaker?

## 8. Social Media

Facebook, LinkedIn, Twitter. It all seems a bit silly until you really look at the sheer numbers and massive impact social media has had – and will continue to have – on lifestyles, communication and business. Major corporations now spend millions building Facebook and Twitter communities, and leverage them as an extension of branding, customer service and promotion. Smaller companies – like some forward-thinking tire dealers – have stepped in to build their own online communities, extending valuable customer relationships and finding new buyers. As newspapers, direct mail and phone books fade as primary ways to reach consumers, social peer-oriented media will fill the resulting vacuum as a key means to reach potential buyers. Some observers say users will tire of today’s social media tools, but experience says they will gravitate to the “next big thing” quickly. The method doesn’t matter because social media is here to stay.

**Lingering Questions:** Can our old tire dogs learn these new tricks? Will we be replacing our IT folks with high school-age tweeters?

## 9. iPhone

Yes, there’s an app for that. And that. Oh, and that and that and that. Two years ago we said the iPhone could change the retail world. We were right, but even our crystal ball didn’t see this whole app thing taking off. We thought retailers would simply catch nearby shoppers with automated instant messages and coupons. Apple’s app system changed the game. Big time. Want to order Dunkin’ Donuts? There’s an app. Restaurant? App. Auto insurance claim? App. Tire store? Yep, there’s an app for that, too. Before long, all tiremakers will have one, and many large distributors, as well. The iPhone and all of its shirt-pocket sized competitors have become defacto micro-computers with nearly all of the features of a PC combined with unmatched portability. It’s a TV, a movie theater, a jukebox, a cell phone, a word processor, a GPS and an Internet device all rolled into one. They are powerful little machines that will change the face of communications and the consumer-store interaction of retailing as we know it. If you get the chance, you better get on board.

**Lingering Questions:** Will there be an app for us? What happens when you mix total portability with social media?



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## 10. Conti/Schaeffler

After last year's performance, could this soap opera get any better? Why, yes! This group is burning through cash, newsprint and CEOs like nothing! Now that Schaeffler has wrestled full control of Conti and has its folks in charge, expect things to change. If the global economy hadn't been so awful, Conti's tire operations may well have been sold off by now. That's worth keeping an eye on. And if Schaeffler holds on to the tire business, will the tire side get the same attention and investment as before? Things were starting to really shape up for Conti before this hell storm kicked in last spring. The "integrated system" approach tying tires to other wheel-end and vehicle systems was paying dividends. And that success is what attracted Schaeffler's affection to begin with. The resulting corporate suit distractions, though, have knocked it a bit off its game.

**Lingering Questions:** Can Conti/Schaeffler manage to stay off this list in 2010? Is it true that the over/under on new CEOs by September 2010 is three? Is it vying to become a reality show subject for Fox?

## 08 Influencer Scorecard So how did we do?

### 1. Schaeffler Group

We're still watching this dramedy with breathless anticipation! **A**

### 2. Oil

Yeah, it mattered. Until October. Then everyone fretted Wall Street. **C**

### 3. Global Economy

Massive world-wide meltdown. Who'da thought? **A++**

### 4. Consumers

Miles driven went down and stayed down. And are still down. **A+**

### 5. Indian Tiremakers

Their time in N.A. may be coming soon. But not in 2009. **C**

### 6. China

Big Red Machine staggered, but tiremakers are still pressing ahead. For now. **B**

### 7. The Election

Everything changed, but nothing really changed. Guess it's more of the same. **D**

### 8. Small Cars

Scoff if you will, but Americans canned gas-guzzlers in droves and downsized. **A+**

### 9. Trucking Falters

The economy drove it into the ground, and isn't letting up. **B**

### 10. Bridgestone Corp.

Every tiremaker took it on the chin last year, but Bridgestone stayed on top. **A+**