

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 past 11 years, TIRE REVIEW editors have brought attention to the companies, people, issues, products and circumstances that we think will have a significant impact on the North American tire market in the coming year.

Sometimes right on and sometimes dead wrong, but always enlightening, TIRE REVIEW's annual Market Influencers has become THE 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 downward 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 ramifications of the global economic meltdown. And there are a number of new entries that we think will have a profound impact on our industry. Plus, we'll take a look back at last year's list to see how well our predictions fared. (all in all, we didn't do too badly!)

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

Whether you agree or disagree, we'd love to hear your take on Market Influencers. E-mails (jsmith@babcox.com) or phone calls (330-670-1234 ext. 298) are always welcome. And if you have some candidates for next year's list, please pass them along.

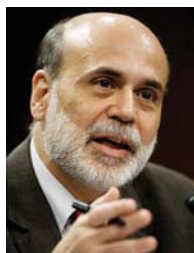
1 jobs/unemployment



The government says unemployment is hovering around 9.5%. That's a pretty broad use of the word "around." The jobless rate for 16-19-year-olds has reached 26%, and American colleges just turned out millions of gainfully unemployed graduates. Not to mention the millions of unemployed the government chooses not to count. No, the real number is still more like 18% overall. Older, out-of-work workers have few alternatives and many have run through their allotted 90 weeks of unemployment checks. Recent grads – as with the class of 2009 – find themselves taking underpaid "internships" or low-wage hourly gigs just to pay the bills. Those young people have votes and may prove to be a deciding factor come the next two Novembers. Continuing high unemployment is dispiriting, frustrating and is a huge drag on our recovery. And it's crushing the confidence of the 82% who still have jobs, resulting in tight household budgets that push down on an already rough economy. The long-term outlook is for the job market to not reach pre-meltdown levels until 2015, two years longer than economists were predicting just last year. Until this gets sorted out, nothing else in the economy really matters.

Lingering Questions: *How many college loans will get defaulted on? How many tires can you sell to someone with no money? Will the light at the end of the tunnel come with vacation and bennies? If I insulate my box with leftover resumes, can I take an energy improvement tax deduction?*

2 the recovery: 'unusually uncertain'



Seems like economic news has become bipolar. One day manufacturing is up and companies are starting to spend, and the next day brings thousands of layoffs and further contraction. In the very same business section on June 2, a newspaper noted that construction spending was up, and that Hewlett-Packard was icing 9,000 employees and there was massive fret over the meltdown in Europe. Consumer confidence is up; no, it's down. Retail sales are up; no, consumers are cutting back again. Businesses are hiring (albeit slowly); no, they're not. We're headed for a double-dip recession; no, we're not. So what are we to believe? And is the mix of good/bad economic news making things worse? GDP growth has slowed from 5% in the final quarter of last year to 3.7% in 2010's first period and to a predicted 2.4% for the second stanza. Fed chairman Ben Bernanke calls the economic outlook "unusually uncertain." The only thing that seems usually certain is that no one seems to have an answer.

Lingering Questions: *Is that sniggering we're hearing from Canada, where smarter banking regs and brighter governance shielded that country from serious declines? If the Fed chief doesn't know, how can anyone feel comfortable? Does anybody have a damn answer?*

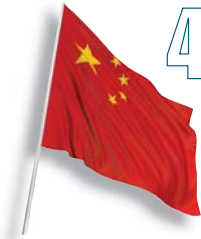
3 tire pricing



One part raw materials-driven and one part segment adjustment, we haven't seen this much tire price activity – or negative reaction – in years. And according to those tire companies we've spoken with, it's far from over. Hey, it's not nearly as bad as a few years ago when uber-high raw materials costs – not to mention mega labor, benefit and energy costs – had tire makers dropping the price increase needle three or four times in a single year. But raising prices in a tight market, where tire sales remain flat – in the red in some parts of the country – has more than a few dealers (and consumers) seeing red. Dealers are complaining (bitterly) that price increases – out of control, according to some – coupled with painfully low fill rates are killing their business. Already wafer-thin profit margins are pressed even harder by tire makers trying to make up for down business and rising raw materials, but unable to fulfill orders. One consumer who bought tires in late 2009 paid 24% more for the same make/model/size tires less than a year later. Really. Dealers are losing sales, or (worse for the majors) having to move customers to lower-tier products.

Lingering Questions: *Is there a middle ground where manufacturer, dealer and consumer can make a fair profit? Or did we all stop caring? Is it possible to price a product out of a "value proposition"?*

4 tire tariff



So what have we learned one year after the Obama Administration imposed a punitive 35% added tariff on China-made consumer tires? Where there's a will for low-cost product, there's someone willing to step up. Even as the added tariff helped slash imports from China by 14.42 million tires (Oct. 2009-June 2010), Indonesia, Thailand, Taiwan and South Korea boosted their U.S.-bound consumer tire exports by 11.31 million units; the remaining 3.11 million tires were absorbed by other countries or disappeared due to the economy. Yes, the big news of 2009 turned out to be much ado about very little. Sure, the tiered three-year tariff scared away some lesser Chinese brands and sources, and private branders were nicked, but the tariff increase did little more than give bigger established brands a reason to hike prices on premium lines. No matter how the USW wants to paint things, the low-end product pipeline got filled, and not a single brick was laid, tire mold moved or job added in the process. Sept. 26 brings a 5% drop in the tariff, so Chinese tire importers will get a little back. You can bet when the economy revs back up, China will be back in the game.

Lingering Questions: *Any bets as to what will happen when the entire tariff comes off the books in 2012? How 'bout all them new tire plants we built, Leo? When a Chinese maker wants to build a plant here, will the USW dare try to organize it?*

5 hankook

Not too many years ago, Hankook was considered a nice little brand. Not too big, not too small, and with price-point products that fit many product screens. Hankook was the little engine that could, provided the hill wasn't too steep or the load too heavy. A few key management changes later – both in South Korea and here – a series of smart investments, greater focus on dealers, growth in OE and a near complete turnover in its product offering (consumer and commercial), and Hankook is now a global powerhouse poised to meet its oft-stated goal of being a top five tire maker by 2012. U.S. sales could reach \$1 billion this year despite the recession; even in a down 2009, sales were up for Hankook Tire America at \$840 million, and the company projects continued strong growth in coming years. Brand recognition, bolstered by priced-right products its dealers enjoy selling, continues to grow. And with a new slate of products in hand, its medium truck tire efforts are picking up steam. With plants in South Korea, China and Hungary, Hankook has steady supply for North America, though a plant on this continent may soon be in the offing. All looks good for the little engine that did.



Lingering Questions: *Can they keep up the momentum? Does Hankook need a North American plant? Can we start calling Hankook a 'tire company' instead of a 'South Korean tire company'?*

6 atd

The 400-pound gorilla in the back of the room will soon be the 800-pound gorilla at the front table. Since October 2008, American Tire Distributors has been on a roll, buying out Remington Tire's Texas and Oklahoma business, followed by the \$75



million purchase of Am-Pac Tire Distributors and its 24 distribution centers in California and the southwest, plus the 300-store Tire Pros marketing group and Am-Pac's private brands. TPG Capital's \$1.3 billion purchase of ATD in June opened the capital door, money that has already gone into new DCs in the virgin territories of Ohio and Indiana and an expansion in South Dakota. With 86 DCs in 38 states, ATD is far from done. The new owner's aggressive strategy will push ATD into a number of all-new markets over the next few years. Oh, and let's not forget its online consumer efforts with tirebuyer.com, a program that has exceeded expectations, according to ATD folks. Sure, many dealers complain about doing business with ATD, even when it is the only wholesaler in town. No business is perfect, and what dealer doesn't complain about a supplier? Bottom line: ATD is already the world's largest independent tire wholesaler – and it is only going to get bigger.

Lingering Questions: *With its fast-growing Tire Pros in overdrive, just when will ACCC and ATD part ways? Is there danger in being too big? Will ATD step up its dealer relations efforts? What will ATD growth mean to smaller wholesalers?*

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7 consumer-isn't

Despite all manner of dollars-off deals, consumers are keeping greenbacks in their wallets. Retail spending – the biggest driver in the U.S. economy – isn't what it used to be, and may never return to pre-recession levels. Even Christmas in July – for real, including Christmas décor – and “Back to School” sales haven't made a dent. How bad is it? Walmart – synonymous with “low prices” – saw 2Q same-store sales drop 1.8%, owing to a falloff in buyers. Economists now predict a 2011 retail climate of just 3% improvement over this year – and 2010 hasn't been all that hot. After a “strong” first half with 3.5% retail sales growth, the back half of 2010 will fall off to a seasonally adjusted 2.7% growth. While consumers default on home and car loans, they line up in droves for the latest Apple iPhone 4 and other tech gadgets. Welcome to “The New Abnormal,” where consumers tighten the purse strings and cut spending on food, clothes, tires and other “necessities” only to splurge on big vacations and bigger TVs.



Lingering Questions: *Anyone know how to balance a 42-inch 3D LCD HD TV? Just where do you put the weights? When credit is so tight, just how do we afford this stuff? How many miles can you go after the Check Engine light comes on?*

8 monro muffler brake

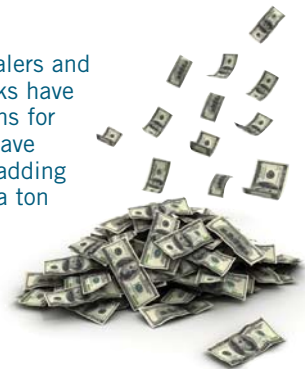


What can you say about a chain that adds 110 stores over the last 12 months, many from the five independent dealers it bought out? Over the last five years, Monro Muffler Brake has become a formidable foe in the tire field. Its “Black Gold” program is gaining serious momentum and will roll out to more of Monro's 785 stores nationwide. For the second quarter, MMB boosted earnings 40.4% to \$13.2 million year-over-year on a 23.6% jump in sales to \$158.2 million. Same store tire sales rose 7% in the second quarter, and the tire category was the second fastest gainer among MMB's offered services. Top management makes no bones about its desire to Pac-Man its way through our industry by buying up more independents. Guess if you want to grow your tire business, the fastest way is to own the best tire retailers. Gulp!

Lingering Questions: *Can MMB and its chain store brothers take over the entire U.S. tire market? Is that really where we want to go? Could this chain store soon be America's largest independent tire dealer?*

9 cash flow is king

With banks tightening their icy grip on the vault door, small businesses (i.e., tire dealers and rereaders) have to pay much closer attention to cash flow. Even as some larger banks have loosened their lending standards, smaller banks remain cautious about business loans for expansion/improvement and credit lines for day-to-day operations. Business assets have become harder to value and new banking regulations are still being sorted through, adding to the difficulty in lining up bank backing. It's gotten to the point where one needs a ton of unencumbered cash even to be considered a loan candidate. Huh? Growth – even survival – will be more a function of self-reliance rather than your friendly banker. The only logical thing to do is hoard dollars, and push as much of the top-line down to the bottom-line as possible.



Lingering Questions: *If banks will happily hold your money, why won't they gladly lend theirs? Do you have Jimmy Stewart-“It's a Wonderful Life” flashbacks? With ultra-low interest rates and increasing fees, are banks pricing themselves out of business? If so, what will replace them?*

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10 truck tire market



2009 was a horrible year for the entire medium truck market, and that followed a terrible 2008 and a dodgy 2007. Things have picked up a bit in 2010; equipment makers are seeing a slight but consistent rise in new tractor and trailer sales, and on an overall basis replacement tire sales are up. After inventory was burned off late last year (and fill rates suffered), tiremakers are back to pumping out product. Retreaders are running full out to meet demand as trucking fleets seek out lower cost alternatives. Third- and even fourth-tier brands are gaining sales. But everything is tied to freight – how much, how often, how fast – and right now there are no promises. The jagged line that is our economy looks more like a seismic reading than a growth curve. As manufacturing rebounds slowly, retail sales continue to sputter, making it difficult (at best) to state whether any increased freight movement is an uptick or a trend. After falling by 5.82 million tires since January 2008, the truck tire market needs it to be a trend.

Lingering Questions: Does it count if the uptick in freight comes from moving new truck tires? If you're up 10% over last year, is that positive or negative?

2009 influencers scorecard

Just how good were our predictions?

1. Imported Tires

The tariff came, panic set in, then everyone calmed down and got to work. More an inconvenience than a problem. **A**

2. Tire Fuel Efficiency

By the time NHTSA quits screwing around, consumers won't care anymore. Drawn out "rulemaking" has left us bored to tears. **B**

3. Our New Economy

Really hate to say it, but we nailed this one. There is no normal. All we want now is hope. Just a little hope. **A++**

4. Un-Employment

Usually things improve over time. Not the job scene. More folks out of work now than a year ago. Bad, bad, bad. **A++**

5. Joe the New Consumer

It's more like Joe the Schizo Consumer now. Cut corners on essentials, then make senseless, outsized buys. **A-**

6. Swine Flu

OK, so the pandemic didn't come. Good for us. Bad for a boatload of smarty pants "experts" who had us all in a dither over nothing. **F-**

7. Apollo Tires

They're coming. Really. After they're done with Europe. Really. Just being very patient right now. Really. **C**

8. Social Media

Jury is still out on this "phenomenon." Twitter twits and Facebook fumbles slowed the momentum. Oh, wait, is that too many characte... **C-**

9. iPhone

Didn't see the iPad coming. Or the hot new Android. Talk about game-changers. Technology is expanding everyone's reach – from sellers to buyers. **A+**

10. Conti/Schaeffler

Heroes. Lost. 24. The Hills. Gosh, we miss those shows, and we miss all of the industry drama. Fun while it lasted. **C**