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 dozen years, Tire Review has shone a bright light on the companies, people, issues and products that we think will have a significant impact on the North American tire market in the coming year.

Always entertaining and enlightening, Tire Review's annual Market Influencers may not always be right, but it is THE most referenced and discussed part of our annual Sourcebook.

As you'll see, the 2011 edition of Market Influencers is another drive down Bad Economy Lane, with side visits to Distribution Drive, Tire Pricing Place and Natural Disaster Boulevard. And we take another look back at last year's list to see how well our predictions fared.

Plus, we reached out to members of our Advisory Board to get the dealer's eye view of what they think will influence the tire market moving forward. This is one very astute group!

Market Influencers is a purely subjective exercise, with the items determined by the editors and by those dealers participating on our Advisory Board.

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 THE NEVER-ENDING TIRE PRICE INCREASE

As of Sept. 15, by our count, there have been 89 unique, individual tire price increases announced for the U.S. and Canada in 2011. Because of a continuing lack of transparency in some quarters, there may have been a couple others slipped in there. But 89? We only had 76 in 2010 and 87 for all of 2008, and we thought those were a lot. Yes, NR prices have been an issue what with weather problems, heavy demand from China and India, and greedy cartels. But since February, NR prices have trailed off. Oil has been all over the map, but nowhere near the $140/barrel mark we saw a few years ago. So, where's the fire (especially with subpar fill rates)? On the flip side, every tiremaker reported decent – if not better – net profits for 2010 and the first half of this year. Hmmm. And contrary to opinions, there has been no "flight to premium tires" driving supply or pricing; we hear there may be a glut of "premium" tires sitting in warehouses while demand is stronger for lower-end (often imported) consumer and medium truck tires. With buyers reeling from stressed disposable income and deferring big-ticket items, maybe it's time to help dealers out a little.

***Lingering Questions:* Does anyone working on Wall Street even drive a car? So who are they trying to impress? Remember when we had only 15 price hikes in 2009? Can you really raise prices 10% on something a dealer has only have a 50% chance of getting?**

2 OPTIMISTICALLY PESSIMISTIC AMERICA

Some people just can't find a job. Advanced degree-holders are now flogging furniture. Some on the dole plan to stay there until a better offer comes along. Thousands line up at every job fair, and thousands more roll out of bed whenever they like. On the other side, small biz owners complain they can't find even moderately qualified candidates for the few open jobs there are. And Big Biz, busy posting higher revenues and greater profits, is so skittish it isn't hiring at all. Don't even mention a housing market where refrigerator boxes sell faster (and often for more) than existing homes. Quoting the New York Times: "Economies have a strong self-reinforcing nature. When people are optimistic, they spend, which begets hiring and then more spending. When people are anxious, they pull back, which leads to a cycle of hiring freezes and further anxiety that often lasts for months." We can't seem to gain any traction because bad news has become institutionalized. Problem is, most of those with waning confidence have jobs and aren't trying to sell a house. The drag down is dragging everything – and everybody – down. Pessimistic consumers don't buy things like tires, especially at today's prices.

***Lingering Questions:* Is it too late to drag out FDR's "Fear Itself" speech just one more time? How about a "90 Days if You Find a Job" financing deal for tires? Corporations: Does sitting on that much cash make your butt hurt? How does a 9.1% unemployment rate translate into tax dollars? Wages aren't keeping pace with inflation, are they?**

3 DOUBLE DIP RECESSION, ANYONE?

We loved the first one so much we decided to go for two! According to the Sept. 7 New York Times, we have a 50% chance of getting there. In fact, we already may have arrived. "The chances that we are in something that is going to feel like a recession are close to 100%," said Joshua Shapiro of MFR Inc., the best economic forecaster of recent times. Whether we're technically in a "recession" is up to the academics, but if it looks like a goat and smells like a goat... Most economists have not given up, even as the rate of economic growth is being described as "stall speed." The growth rate slowdown probably means another round of "it'll get worse before it gets better." Ugh! Trouble in Europe coupled with government and consumer debt, job and housing market issues, and a White House and Congress that can't get it together make for a hard row to hoe. Defying gravity is possible if consumer spending on houses and big-ticket items ticks up and gas prices stay put. Not to rub salt in it, but Morgan Stanley cut its estimate for China's growth next year to 8.7% from 9%.

Lingering Questions: ***Anyone else remember the ending to "Thelma and Louise"? Does it help that as a group, the top economic forecasters have failed to predict every recession since the 1970s? What happens if Europe goes down, too? Does the Bank of Shanghai charge ATM fees? The second half was supposed to be better, right? Do the one in six Americans now living below the poverty level even care how many recessions there have been?***

4 THE OIL PRICE PUSH DOWN

They're up. They're down. No, they're up again. Whoops, down they fall. Aren't we tired of Wall Street controlling the price of everything? Especially oil? In 2009, analysts (and us) thought gas prices would stay around $2.50 a gallon. Last year we were convinced they would remain level at around $2.85. Earlier this year, some smarty-pants analysts were calling for $100-per-barrel oil prices and a return to $4-plus per gallon gas prices. Enough already. The free market is all well and good, but perhaps we need some greater control over things like fuel and utilities. Help can't come too soon: Goldman Sachs' 2012 forecast for Brent crude averages $130 a barrel. On the bright side, volatility in the Middle East earlier this year didn't translate into volatile oil prices. If anything, oil stayed down even as governments across northern Africa flipped and our own weather flopped. With everything so interconnected, anything that puts more cost pressure on families – and reduces tire and service sales – hurts. So we need oil to stay in that $75-$85 per barrel range.

Lingering Questions: ***With $4 a gallon gas, how do the gainfully unemployed get to no job? Do you see a 2012 full of staycations and public transit? If "miles driven" falls off the map again, do tire dealers switch to selling shoes and bus tickets? Doesn't Canada have a bunch of oil?***

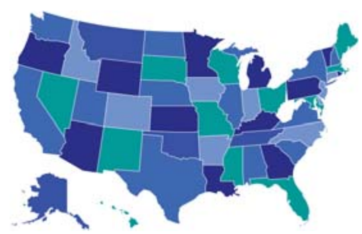
5 D.C. MAYHEM & THE IMPACT

No, it's not a new rap group, and they're hardly entertaining…unless you like family reunions where everyone hates each other – loudly and often. Our Dysfunctional Government enjoys historically low approval ratings – a belly-scratching 14% for the Hatfields on Capitol Hill and 44% up the street at the McCoys' White House. Sadly, it's not even an issue of civil public discourse; there are some deep-seated institutional problems that are causing what we'd hope are otherwise rational, normal people to go absolutely bonkers once they get sworn in. It's not a Democrat/Republican thing (although having an actual third and fourth option isn't a bad idea), it's not a liberal/conservative thing, and it's not a special interests thing. It's everything. When we most need someone to believe in, the lack of real leadership from anyone anywhere is leading us nowhere. We need bold, we need decisive and we need it now. Business needs to feel confident in government, and Americans want to feel confident in their leaders.

Lingering Questions: ***For as low as Congress' approval rating is today, will anyone remember come Election Day? Will there be any viable candidates to choose from? I mean, people with a real platform and not shouting points? Anyone else think the post-downgrade probe of Standard & Poor's was just sour grapes?***

6 WHOLESALE DISTRIBUTION SHAKEUP

Last year we shined the spotlight on America's 800-pound tire gorilla. This year it's the rest of the wholesale distribution segment, where we think the earth is about to move and the landscape change considerably. While retail dealers have options outside of the family when they want to get out, wholesalers for the most part keep it in the family. In looking at the map, there are some potential consolidation deals on the horizon that may not involve the initials A-T-D. And that's not a bad thing. Big is OK, as long as it is manageable and doesn't



collapse under its own weight, and the folks in Huntersville have a grasp on that. That's not to say ATD is done growing, or that it won't have a major say in how regional consolidations go down. From a regional perspective, though, having fewer but stronger localized distributors can improve pricing, service and selection, and add to wholesaler-based marketing groups. There is no need to panic, but one should keep one's eyes and ears open.

Lingering Questions: ***How will potential consolidations impact marketing groups? Is there a serious ATD contender lurking out there? Could another distributor-driven franchise option come from consolidations?***

7 CHAINS GET AGGRESSIVE

Pep Boys, Monro, Midas. Whether they try to buy their way in or try for organic growth, they all want to be in the tire business. Problem is, as big of a threat as they are, none of the Big 3 chains is enjoying much tire success. Midas (1,500 locations) recently announced it would "explore and evaluate a range of strategic and financial alternatives" to boost its value, including a sale or merger. Pep Boys (700 locations) continues to struggle with tires even as same-store sales improved. Monro (802 stores) reported increased sales for its most recent quarter, but tire sales came up a meager 2%. Regardless, the chains want to get bigger and both Pep Boys and Monro have fattened up by buying out independents. In the past year, Pep Boys took 85 Big 10 Tire stores in the south, and Monro Muffler Brake bought the 24-store New Jersey-based Vespia Tire Centers. Midas has picked up a tire store here and there, but seems to have more pressing issues. Even as mass merchants are distracted and car dealers remain disinterested, independent tire dealers don't need any more pressure right now.

***Lingering Questions:** Is there a better retirement plan for independents than selling to a chain? Can't we keep some of this in the family? Aren't CVS and Walgreens next up for the tiremakers' "on every street corner" strategy? Wonder who might want Midas?*

8 CHINESE TIREMAKERS: COMING TO AMERICA

It was, in fact, inevitable. Time, technology and central government control weeded out the weak, and now the strongest Chinese tire companies are looking at bricks-and-mortar beyond their own shoreline. Over the last seven or so years, Double Coin has been a consistent player in North America, and next year CMA will augment its medium truck and OTR offering with Warrior-brand consumer tires. Aeolus Tyre is leveraging a "green" focus to strengthen its position in Europe and North America. And now Triangle, China's largest tiremaker by revenue, is opening an R&D facility and sales office in the heart of our industry – Akron. Just as the British, French, Germans, Japanese and South Koreans before them, China-based tiremakers are taking stronger roles in North America – and this is just the beginning. How much longer do you think it will be before the first shovel of dirt is turned for the first Chinese tire plant on these shores? Five years? Three? Talk about your unintended consequences!

***Lingering Questions:** Tariff? What tariff? Do you really think there will be a "price war" once the Obama Tariff lapses – if it even lapses? Will the USW come knocking on the door of the first Chinese tiremaker plant here? How do you say, "We were just kidding" in Mandarin?*

9 JAPAN: AFTER EFFECTS & THE REBOUND

Anyone watching TV on the morning of Mar. 11 will never forget what they witnessed. The massive earthquake and following tsunami that hit northeastern Japan killed tens of thousands and left more than a million homeless. On Mar. 12, a country already struggling with decades-old economic issues faced trillions in rebuilding costs. And that was before the still-ongoing nuclear plant meltdown, the full impact of which we don't understand. Most (but not all) tire plants in Japan got through the events with little damage, faring better than most carmakers. But tire stores and drivers in those areas directly impacted weren't so lucky. Complicating matters were broken links in the domestic supply chain, not to mention miles and miles of lost roadways and continuing brownouts as the country gets its power grid back in order. Tiremaking was slowed, but like the rest of the country it will get back on track. But for the extremely insular Japanese, recovery may take generations.

***Lingering Questions:** What did nuclear experts know and when did they know it? If raw materials are exposed, don't the finished goods also carry radiation? Will the low-key Yoshihiko Noda succeed as prime minister where combative predecessor Naoto Kan failed? Can Noda pull together his splintered party and the openly hostile opposition party? Jeez, where have we heard that before?*

10 THE RE-SHAPING OF WALMART

Hard to believe we'd ever be talking about Walmart in this fashion, but it appears a fundamental change is afoot at America's "low price paradise." The recognized price-shopper mecca has been struggling of late, with frighteningly lower YoY same-store sales and tighter profits. No, Walmart is not going out of business, but more is changing than just its logo. With U.S. store traffic numbers flagging – down 2.6% between February and June – Walmart discovered that low-income shoppers are as fickle as a Macy's customer. The retailer tried to stop the bleeding by bringing back thousands of popular products and returning to a "low price" ad theme. That didn't work because customers found that Walmart didn't always have the lowest prices, always. Now Walmart is turning to the Interwebs and social media in an effort to improve its hipness factor and woo those not pre-disposed to shop at Walmart. Still, the retailer's main target remains those who "believe they are still living in a recession," as one analyst put it. "They simply have, and will continue to have, less to spend."

***Lingering Questions:* Is Walmart's Vudu the low-price alternative for those who think Netflix costs too much? Are you still hearing rumors that Walmart might bail on tires and service? Will bringing back layaway bring increased holiday sales for Sam Walton's baby? Can you get two pairs of jeans, some folding chairs and a set of Michelins on layaway?**

2010 SCORECARD

After all is said and done, the proof is in the performance, right? So just how did we do with our prognostication in 2010?

1. JOBS/UNEMPLOYMENT
Yes, this Influencer was low hanging fruit. Anyone would have put this at the top of their list. But who else but us will point that out? **A+**

2. THE RECOVERY – "UNUSUALLY UNCERTAIN"
Not only was it unusually uncertain, it was unusually quiet. Oh, the recovery isn't here yet? That explains everything! **B**

3. TIRE PRICING
2010 was a busy year for price increases, and then came 2011. Someone is on a bonus program, aren't they? **A+**

4. TIRE TARIFF
Turned into a major yawn fest, mostly because of the endless stream of price increases. The additional 35% in the first year of the China tariff wasn't so bad now, was it? **D+**

5. HANKOOK
Yes, being in the Top 5 globally is fully within reach, just as long as Hankook doesn't get ahead of itself. **A**

6. ATD
Adding new warehouses in virgin territory, and its dealer program continues to grow. Now we have to see how the next act plays out. **B**

7. CONSUMER-ISN'T
Another can't miss! Promise we'll work harder. But hey, if we really want to boost tire sales, maybe we need to look at QVC, HSN and that Sky Mall thing . **C**

8. MONRO MUFFLER BRAKE
The chain store segment has been largely ignored, but dealers need to pay attention now. No, really. **B**

9. CASH FLOW IS KING
Borrowing did tighten up last year, but consumer credit problems were a bigger issue than business borrowing. **C-**

10. TRUCK TIRE MARKET
Thank goodness we have something positive to talk about. If it weren't for trucking and mining, we'd be staring at nothing but flat sales charts. But how long will this last? **B**

MARKET INFLUENCERS

2011 SOURCEBOOK

We asked members of the Tire Review Advisory Board for their lists of the TOP MARKET INFLUENCERS they see. Here's what they had to say:

1 WOMEN IN THE TIRE BUSINESS: We are seeing more women in leadership positions, at least with dealers and distributors. When will the manufacturers catch on to that talent pool? There was a study done by Anita Woolley from Carnegie Mellon University and Thomas Malone from MIT (awoolley@cmu.edu and malone@mit.edu), published in the June 2011 Harvard Business Review, that found a group's collective intelligence rises as the number of women in the group increases. We could all use a higher collective intelligence.

2 TIRE PRICES: Did the manufacturers go too high? Have they gone high enough? The standard explanation is the high cost of raw materials, but it is not that simple. If the price is too high, then consumers will buy less, which would lower demand and increase supply. The worst thing that could happen is if the manufacturers lower their price – if the retailers or distributors have any inventory at all that they bought at higher prices. I just hope that the manufacturers do a better job at forecasting than they have in the past. Maybe they could use a higher collective intelligence.

3 CONSOLIDATION OF DEALERS/DISTRIBUTORS: ATD is the big one, but there are a number of large regional distributors that have aggressive plans for growth, as well as large retailers like Monro and Pep Boys that plan to grow.

4 CAR DEALERS: It is official – car dealers are in the tire business. They get better at it year after year. As the business gets more technical, they are keeping up as well as the best retailers. I look for their tire business to continue to grow for many years to come.

5 THE ECONOMY: The true wild card. I would just be guessing if I tried to predict the economy or pricing from the manufacturer. I do know that if you include more women, you have an aggressive plan for growth, and you increase your Internet presence, you will be better off.

6 THE INTERNET: Internet sales are increasing, including tires. You need a presence on the Internet, and it needs to be a focus on the future. Yes, someone still needs to install the tires, but there are dealers that are both selling tires on the Internet and installing them right now. If there isn't one in your community, there will be.

Jon Schadl
National Sales Manager
K+M Tire
Delphos, OH

1 CONSUMER SPENDING: To give an indication of consumer confidence in the marketplace.

2 FUEL PRICES/ENERGY: This always has an impact on retail spending, especially in the vehicle tire and service business.

3 NEW CAR SALES: This measurement also has an effect on tire and service sales.

4 COMMODITY PRICES: A big factor for ag-related sales and a measure of the heath of the farmer.

5 TECHNOLOGY IN ADVERTISING: New ways to advertise and promote affordably with a high level of impact, such as text message advertising.

Mark Griffin
President
Tandem Tire American Car Care Centers
Dubuque, IA

1 $4 A GALLON GAS: I don't think Washington realizes what a $4 gallon does to Joe Average. If you don't think a guy making $13.11 an hour isn't very much affected by this price, you are wrong. He is either not driving his car or maybe his family isn't going out to dinner, buying the kids clothes or doing that auto repair or tire replacement that he needs.

2 HOUSING MARKET: June was the worst housing market in Massachusetts in 14 years. If those builders aren't working, they aren't buying tires.

3 TIRE PRICING – PART A: Trading down in a market that is already off 5.3% is painful at best.

4 TIRE PRICING – PART B: What can you charge a consumer for a tire that costs you $200-plus dollars? There is tremendous push back by our clients, whether they are driving a Fiat or a Ferrari.

5 COSTS: The cost of goods sold is up, profit margins are down and SKUs are off the charts.

6 REAL UNEMPLOYMENT: The real numbers mean 10%-plus of American people don't have jobs. Maybe that is why the industry will be off 10 million units this year.

Barry Steinberg
Owner
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Boston, MA