



Countries, companies, concepts, corporate chiefs, congressional action and cockamamie ideas – all play significant roles in the tire industry. But which, or rather who, are the real influencers?

Yes, it's time once again for TIRE REVIEW's annual review of Market Influencers – the people, products, issues and factors that we think will greatly impact the tire industry during the coming year. Sometimes we're right; sometimes we're wrong. But over the past five years, Market Influencers has become the best read, most referenced and most discussed TIRE REVIEW feature.

Opinionated, cutting and based in fact, we strive to make our list of Market Influencers enlightening, educational and entertaining. Some of those making the 2004 list are past winners, while others are entirely new entries. And, we also take a look back at last year's list to see how well our predictions fared.

There is no science involved in developing this purely subjective list, and no surveys or polls were taken. Candidates for the 2004 Market Influencers list were suggested by the TIRE REVIEW staff, culled from general or industry-specific events or offered by people in the industry. TIRE REVIEW's editor makes the final selection.

Agree? Disagree? Doubled over in laughter? 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 Price Increases** – They've been sticking, and sticking pretty well over the past two years, thank you. We'll see three rounds of hikes in 2004 – four from a few tiremakers – and probably another three (at least) in 2005. The rate of tire price increases, though, still lags well behind that of raw material costs, so don't expect pricing to level off until that gap closes – and tire manufacturers get a bit healthier. The good news, though, is that the days of raising prices 3% one day then giving back 5% the next appear to be over. Dealers are discovering that they can, indeed, sell at "higher" prices, and that higher prices mean greater profit. Buyers may squirm a little, but if they need tires, what choice do they have? Big boxers and discount houses are still going to have a price advantage, but dealers hold all the cards when it comes to service. And just wait until Wal-Mart has to start dealing with TPMS. With replacement shipments increasing over the next few years, it's time to make some hay, guys.

**Lingering Questions:** *When will we – not the consumer – decide what a tire should cost? What will tiremakers do to close the gap between independents and non-dealer channel pricing? Or are we all just sticking our heads in the sand?*

**2 Raw Materials** – What happens when the cost of raw materials increases at a faster rate than the price of finished goods? Nothing good, we're sure, but that's about where this industry is right now. Oil prices are up 40% this year alone and nearly hit a record-smashing \$50 per barrel earlier this month. Hot-rolled steel is \$650 a ton, up 300% from 2001. Natural rubber and carbon black prices have also gone through the roof. It is estimated that raw material cost increases will ding tiremakers almost \$1 billion for 2004. As we all know, China is a big reason for the run up. For the first half of 2004, fully 33% of Malaysia's total natural rubber output was exported to China – and that 133,000 tons was only one-tenth of China's NR appetite. Automakers and component producers are also feeling the wrath of ultra-high steel, oil and rubber prices. Expect custom wheel prices to shoot up going into next year, too.

**Lingering Questions:** *Will we see serious tire shortages soon? Placed your shock absorber orders yet? With all the new capacity coming on-stream around the world, can raw material producers keep up?*

**3 USWA** – Both sides claimed "victory" when the union held Goodyear over a barrel to gain its last contract, but only one side really won. The union tried to tie Michelin to the same cask but failed. And it's still trying the same with Bridgestone/Firestone; officially, the two sides haven't talked since last October. Spread thin by its ever-widening scope, all the highly militant USWA has seemed to do for tire industry workers is bend reality. Read a copy of one of the Bridgestone/Firestone plant locals' newsletters, and the headline says it all: "Special Wartime Edition." Check out Internet message boards during the Goodyear negotiations. Many (not all) USWA members have little sense of business dynamics, and even less about what they



# ?

should be doing to preserve the jobs they have. Does any company want to pay \$20-plus per hour for a union employee when cheaper, faster and less militant options exist? Heck no! Are we happy about the job drain in this country? Heck

no! But the reality is that unions are more about finger pointing than fixing. Forcing companies to keep under-productive, high-cost plants open just to guarantee union jobs hurts employer and employee. And holding a proverbial gun to the head of a

struggling company is extremely short sighted. 2006 will be an interesting year, folks. Back in the day, unions served a great purpose protecting American workers. Those days are long past, and maybe workers now need to be protected from their unions.

**Lingering Questions:** *As long as the honchos in Pittsburgh get paid, do they really care what's going on? Will the tire industry even have a union in five years? Can't they get past the whole "big-corporations-are-evil" thing?*

# Tiny Stuff?

## GOJO® HITACTILE™ GLOVES

➤ Tough, lightweight glove with superior dexterity and comfort. Pick up nuts, bolts, tiny stuff.

© 2004 GOJO Industries, Inc. All rights reserved.



Circle 6 for Reader Service

For availability visit  
[www.GOJO.com](http://www.GOJO.com)

# GOJO

GOJO® GLOVES WORK GREAT

**4** **China** – Our August article about China clearly illustrated China's significant impact on the U.S. and global tire markets, so there's not much point in belaboring the obvious. It's a little harder to get Chinese-made tires these days, though, as domestic consumption has gone through the roof, restricting shipments to trade partners in other parts of the world. Count yourself as lucky if you're getting your orders in 90 days. As supplies constrict and shipping costs increase, some U.S. importers are starting to eye other countries as potential resources. Expect to see more tiremaker announcements of new plants and plant expansions in China, however, because it will take a lot more tires to feed the hungry tiger. One billion Chinese can't be wrong, and they love the whole consumerism thing. Getting tires into the hands of those consumers is another issue altogether. It seems only large companies with connections are getting real financial help from the state; the little guy has to go through unofficial channels.

**Lingering Questions:** *Will Tire Kingdom have 1,000 stores in China by mid-2005? Will "4 For 655 Yuan" really work there? Do you think having a "bank" charge Chinese entrepreneurs 20% plus bribes is too high an interest rate?*





**5 Cooper** – The small-town tiremaker has always conjured up thoughts of dealer-friendly; good, but not remarkable, products; solid and reliable; honest and fair. Well, it's still all of those things, and now a lot more. After drastically upgrading its high performance line, it's upgraded its brand image with motorsports and by reaching out to a younger audience. It found a home for its Avon brand and rationalized some of its other lines. Once solid financials are now exceptionally strong. Unit sales jumped so much that Cooper had to go offshore for broadline and medium truck product, and it is building a joint venture plant with Kenda in China to help increase capacity. And in a bold stroke, Cooper dumped fully 50% of its total revenue when it sold its profitable Cooper-Standard Automotive unit earlier this month for \$1.17 billion – with plans to reinvest the proceeds back into its core business. Few would place that heavy a bet on the tire biz, but Tom Datilo and his team are. Don't bet against them.

**Lingering Questions:** Do the sale proceeds go to reduce debt, or is Cooper thinking about an acquisition? How big a tire player does it want to be? How much will it change trying to get there?

**6 Non-Dealer Competition** – Back for another go 'round on our list, this group – Pep Boys, Midas, Precision Tune and car dealers – wants your customers. And in some cases, YOU are the ones feeding them! Seems everyone wants to be in the tire business, if only to pull themselves out of a financial funk. Pep Boys hopes its sales of Continental, General, Michelin, Goodyear and Hankook tires will help straighten out its lousy balance sheet. Goodyear and Michelin claim Pep Boys is getting its tires through unknown third parties. Come on, guys, even Deputy Dog could figure that one out. Precision Tune's buying all of its tires from Manny, Moe and Jack. Bridgestone/Firestone is using its dealers to feed Midas shops. While car dealers often source from local dealers, Michelin has a formal program with Ford. Why are dealers so willing to let others steal a finite customer base and undermine their market positions? How do you build stronger relationships with your customers when you help the enemy? Tire companies don't seem to care, as long as unit sales are attached. Some dealers are very passionate about this issue. Just not enough.

**Lingering Questions:** At the risk of repeating ourselves, if this industry continues to eat its own, how long before no one's left? Do you get the shakes when your tire supplier asks you to be its "business partner?" What would happen if you stopped doing business with everyone who was trying to do you in? Do tires go in the same aisle as baked goods or with canned vegetables?

**7 Hybrids** – Thanks to high gas prices, light truck/SUV sales are dipping. But gas prices aren't the only thing driving American consumers to consider hybrid-powered cars. First off, they are not a major inconvenience; popular hybrid systems combine traditional gas engines with self-recharging batteries. Second, they aren't wallet busters; Toyota's Prius comes in at a tidy \$20,800, and the four-door sedan delivers 55 mpg. And, third, unlike some past non-conventional cars, today's hybrids don't look any different than any other car or, in the case of Ford's hybrid Escape, a small SUV. The fact that Toyota can't get them to the U.S. fast enough – it sold out its 47,000-car allocation and is begging for more – shows that hybrids are probably more than a passing fad. With our patriotic desire to become less reliant on Middle East oil, and our technical fascination with alternative fuel vehicles, American dealers may see a swift shift from gas-guzzling 16-, 17- and 18-inch sizes to more mpg-friendly 13s and 14s. Regardless, get ready to deal with hybrids.

**Lingering Questions:** Are you ready for the Smart Car invasion? If Ford couldn't get the original Escape out of the plant before it was recalled four times, will the hybrid version be more recall efficient? If I attach a sail to an old AMC Pacer, do I qualify for tax credits?

**8 Goodyear** – A perfect five for five making this list, but this time, it's for good reasons. Goodyear posted its first corporate profit in years when it racked up a \$25 million plus for the second quarter of this year. The long-ailing North American Tire group even hit black numbers, despite reduced unit sales and marketshare. Its new Assurance line has sold like hotcakes. Accounting snafus appear to be old news. Dealer relations, while far from perfect, have improved. It continues to rationalize its OE business. Goodyear stock got above \$10...and stayed there. And now, Goodyear promises to pump up its well-neglected Dunlop brand and is planning multiple product launches in the coming weeks. Though things in Akron are looking better, the forest is deep. Billions in debt must be erased, as must its restrictive financing arrangement. Both are holding back much-needed capital improvements. Even if it wanted to, Goodyear doesn't have the juice to build new plants in low-cost Eastern Europe or China. Some still feel that, despite pulling its profitable chemical division off the market, Goodyear will need to unload portions of its business in order to reduce its mountainous debt. Capacity rationalization will have to wait until 2006 when it gets to negotiate a union contract without duress. After the red-hot Assurance line, the rest of Goodyear's portfolio looks, well, tired. And while attention is trained on Dunlop, Kelly dealers are wondering when it will be their turn.

**Lingering Questions:** So, what about Kelly dealers? After Assurance, what's next? Is Goodyear using Simon Cowell to choose its promised USWA board member?



?

**9 Gas Prices** – Yes, \$40-plus crude prices certainly contributed, but the real pump price driver is U.S. refinery capacity. Refineries can't keep up with demand, and demand

didn't slow even when gas hit the \$2-per-gallon mark. Making matters worse: refinery operations aren't interested in expanding capacity, so high prices will likely become the norm. Summer vacation numbers aren't in yet, but expect to see a

decrease in miles traveled. That means tires aren't getting worn out as quickly. High gas prices are hurting dealers in other ways – wholesale deliveries and shuttle service for retail customers now cost a lot more. High gas costs are having another major impact – consumers are moving away from SUVs. One recent survey showed that, in the past year, 37% of SUV owners have traded for a car, minivan or crossover – including hybrids. Consumers may go more fuel efficient, but demand isn't expected to drop that much. Granted, gas is still cheaper here than most anywhere else, but those 20-cent-per-gallon overnight swings in pump prices are really getting to folks. Can you say "gouging?"

**Lingering Questions:** *Anyone still got a 1973 Datsun in the garage? Maybe it's just me, but didn't pump prices drop just before the GOP convention, then jump back up again the day after? If anyone wants to stock up on P155/80R13s for those econoboxes, we know where to get them for \$7.50 a piece.*

# Bad Vibes?

## GOJO® MAXIMPACT™ GLOVES

▶ Getting too much vibration out of your impact tool or airgun? Always! But with our patented gel palm insert, you'll lose some of that sting 'cause these gloves really absorb the shock & impact.



© 2004 GOJO Industries, Inc. All rights reserved.

Circle 8 for Reader Service

For availability visit  
[www.GOJO.com](http://www.GOJO.com)

**GOJO**

GOJO® GLOVES WORK GREAT

**10 Globalization of the Tire Industry** – The world has gotten a lot smaller in recent years, what with the Internet and all. Ideas and technology developed in one country can be shared around the world in mere seconds. The tire world also keeps getting smaller as tire companies seek out new (lower cost) places to make tires and different (high volume) places to sell them. As a result, tires made to the highest quality standards are being produced in third-world countries for pennies on the dollar. Joint ventures and technology sharing have vastly improved brands some of you never even heard of five years ago. China was the industry's golden goose until internal growth swallowed local production previously earmarked for other parts of the globe. Eyes are now on India, Malaysia, Indonesia and Eastern Europe as hot spots for the next wave of low-cost/high-return manufac-





turing bases. And India's recent economic growth makes it a prime candidate for tire sales.

**Lingering Questions:** *So, how long will it be before no tires are produced in North America? If tiremakers are looking overseas for production, what will that mean to tire plant automation? How will these fast-rising tire companies play on the world stage?*

**11 Super Wides** – You laughed when super wide truck tires made this list back in 2001. But guess what? They're here to stay. When Michelin launched its X-One in November 2000, others poo-pooed the concept, then claimed they had their versions "in development." Well, after nearly four competition-free years, Bib is getting company. Bridgestone/Firestone finally brought its Greatec to North America. Goodyear, which displayed a super wide at the 2003 WTE, will finally launch its version in 2005. Continental, which in early 2002 said it would begin testing its super wide later that year, now says it will be two more years before it's ready. Others are "considering" or testing their versions. Meanwhile, Michelin is readying some new models. Dozens of fleets – large and small – have made the switch, and all of those we've talked to love their pudgy tires.

**Lingering Questions:** *What will our next bold prediction be? Mmmmm...how about the Cubs winning the World Series? Gosh, ya got something for a shoulder cramp?*

**12 TREAD Act** – When a panicked Congress passed the TREAD Act back in 2000, the centerpiece of the law was supposed to be tougher tire testing standards. Four years later, we're still waiting for the final version of FMVSS 139, and NHTSA doesn't seem to be in much of a hurry. Oh, and NHTSA also promised we'll see a final rule on its TPMS regs this fall. All we got was yet another proposal, so don't look for final, final, final TPMS regs in your lifetimes. While we don't argue the idea that it's better to have a good law than a fast one, the inane foot dragging is not what Congress had in mind. Nor is it helping tiremakers and dealers who want to know what the rules of the game are going to be. Dealers, especially, want to know what they need to know to handle TPMSs. Will it be one system or two? Direct, indirect or both? And what guarantees will NHTSA make so that independent dealers will have a fair and equal chance to service these systems? Wake me when it's finally over.

**Lingering Questions:** *Don't think we need Right To Repair legislation? Wait until you start dealing with OE tire pressure monitoring systems. Are NHTSA staffers paid by the word or by the day? Where is Wild Billy Tauzin when you need him?*

**13 TBC** – Well, TBC slowed down a little since last September...it only bought Sears' NTB chain and announced its ambitious goal for 1,000 company-owned retail stores. It now has 600 Tire Kingdom locations (By the time you finish reading this, it will have 607.) and doesn't hesitate to jump into any market area regardless of the competition or market disruption its low-ball pricing causes. Plus, it has 570 franchised Big O centers already and is looking east for more. In terms of its distribution business, dealer customers are buying from and competing with TBC. Its solid, on-paper results make TBC an investor darling, so it probably isn't too troubled by all that. History shows, though, that those companies that close in on that 1,000-store marker don't do so well.

**Lingering Questions:** *Is TBC really interested in anything else but being in the tire retailing business? How long can TBC continue to be its customers' worst competitor? What's left for TBC to buy? Will the industry be reduced to Wal-Mart, Sears and TK?*

**14 Consumers** – What do they really know about tires? Do they even care? Based on the results of various studies, industry – or should we say, individual – consumer education programs have had little impact. Of course, you can't expect much when you expect people to go find the information. Tires are still well under- or over-inflated, but no one's worried. National Tire Safety Week hasn't built much momentum and won't be any more effective than its budget. Besides the obvious post-recall responsibility thing, why is this important? Because the less consumers know about tires, the less they think tires are all that important. The persistence of tire sales at non-dealer locations – Wal-Mart, Pep Boys, your local Ford dealer – shows consumers really don't care where they get their tires, as long as it's cheap and quick. Newer generations of tire buyers are more brand-involved but less brand-loyal than their parents. Online tire and custom wheel purchases are growing by leaps and bounds, especially for larger sizes, because the younger crowd doesn't see tire dealers as effective sources – for information or products. You only get out of something what you are willing to put into it, right? **Lingering Questions:** *Does anyone still remember when there were local hardware stores? Any independent record stores near you? How about an appliance store? Shouldn't dealers expect a bit more than a whisper and a prayer? Don't they deserve better?*





**15.** **CTNA** – After favorable first-half results, Continental AG became the stock analysts' favorite across the pond. What's not to like about a 21% jump in EBIT, especially if the tire side grew? Here in little old America, though, things ain't that rosy. Sources say Continental Tire North America rang up losses of between \$150 and \$175 million for 2003, its third straight year of high negative earnings. It has all but closed its Mayfield, Ky., plant and is eyeing other ways to reduce costs. When Martien de Louw took over as president nearly two years ago, he said the challenges there "will require a great deal of attention and deserve our highest priority." With that, CTNA announced plans to build significant capacity in Brazil and Malaysia to service this continent. It signed a major distribution deal in direct competition with some of its wholesale dealers, and about 1,000 retail locations are carrying its products. And it now sells direct to Pep Boys, again in direct competition with its dealers. de Louw says CTNA will be in the black in 2005 and will boost its marketshare here by 2% over the next few years.

**Lingering Questions:** Will CTNA make de Louw's FY2005 deadline to be profitable? How long can it afford to alienate its dealers? Has it really been 18 years already since Conti bought General? Who do you think is more patient: a Goodyear shareholder or Conti upper management?

**16.** **Russia** – Russia should've been the China of the 1990s. Shockingly, rampant corruption, brutal politics, the omnipresent Russian Mafia, a poor economic base and endless civil unrest killed its chances to become an industrial powerhouse. But with its sheer mass, the country that gave us Alexander the Great may give us Consumerism the Great – if it can sort out all of its pesky problems. Vlad Putin has put his muscle toward that end, but recent terrorist acts by Chechen rebels threaten to unravel progress. Russia's economy has turned positive, despite its internal oil crisis, growing at a 6.5% clip in each of the last five years. As one expert said, Russians have no culture of saving or investing – as soon as they get money, they spend it. More and more of its 144 million people want to enjoy the good life. And what says "good life" better than a new ride, even if it was built in Russia? Anticipating the need for increased car output, Russia's economic development ministry is considering lowering import tariffs on automotive components from 10% to 3%. Still, it's Russia, and it is a long way from well.

**Lingering Questions:** Is it Czar Putin or Tsar Putin? With all the uncertainty, will we be repeating this same item in 2014? As Putin centralizes power, how long will it be before the Russian people revolt? Do they watch "The Sopranos" over there? What's Russian for "bling-bling?"

**17.** **Nitrogen Inflation** – What could be better than a product that adds driver peace of mind, enhances customer relationships and makes money? In our book, nothing. After decades of fits and starts, and buoyed by this year's insanely high gas and diesel prices and consumer desire never to think about tire care, nitrogen inflation systems became the hot ticket in 2004. Thousands of these units were bought and installed, and dealers started charging consumers anywhere between \$2.50 and \$12 per tire for the magic gas. Even Costco jumped in and armed all of its outlets with nitrogen inflation. The market remains wide open. Most dealers have thought about adding nitrogen systems but are hesitant to make the investment. And the entire commercial trucking industry, always starved for practical ways to save money, has hardly been tapped.

**Lingering Questions:** If you can earn back the cost of a \$5,000 inflation system over a couple of months, what's stopping you? Even if it's marginal science – which it isn't – don't you think your customers would value the added "safety" of nitrogen inflation, which would ultimately enhance your position in their minds?

**18.** **Affinity and Marketing Groups** – Well more than half of independent tire distribution in North America now belongs to one of these groups, and some dealers belong to more than one. Marketing groups are still looking for more members, but the number of available "quality" dealers – the stable, consistent retailers these groups cherish – has dwindled. Now it's like trying to find a prom date the day before the dance. Don't get us wrong: These groups are a huge help to dealers, especially smaller guys with limited resources. And we all need independent dealers to prosper. But we also need lots of strong independent dealers, so can these groups find ways to help those businesses that aren't making the "quality" cut today? Affinity and marketing groups are the way of life now, and they have done more than imagined to keep the big-box wolves at bay. Here's hoping they can do more.

**Lingering Questions:** Once the exception and now the rule, have these groups become less significant because everyone either has or belongs to one? Are we close to seeing affinity/marketing groups actually owning locations?





**19 U.S. Tire Trade Deficit** – Through October 2003, the tire trade deficit – the difference between imports and exports – was up 23.4% overall vs. 2002, to a historic \$2.43 billion! The deficit in passenger tire trade alone was \$1.14 billion, according to the government. Even without the Commerce Department's timely report, recent years have seen more in than out. China, South Korea and Japan lead the charge, but reduced Chinese exports and higher shipping rates this year should reduce the differential in 2004. The high cost of producing tires here contributes mightily to the trade deficit, and that isn't good news for domestic tire plants. We're so convinced that customers won't pay one dollar more for a tire that we'll literally go to the ends of the earth to find a better deal. But can U.S. tire companies, distributors and dealers become too reliant on offshore production? Sure, especially since things like dockworker strikes, natural disasters, weather-related catastrophes and stratospheric shipping rates can happen at any time.

**Lingering Questions:** *Anyone have an extra "Akron: The Rubber Capital of the World" button? Is the USWA looking to organize overseas?*

**20 Coalition for a Level Playing Field** – Okay, this feisty group of small auto parts jobbers failed in its price discrimination suit against big-parts retailers. After laying low for a few months, the Coalition is now going after the parts manufacturers with the same claim – that mega-retailers are getting price breaks above and beyond traditional volume discounts. Frankly, we were surprised the Coalition went after the retailers anyway. Regardless, much like smaller retailers in so many other industries over the years, they're going to have a hard time proving their claims. Heck, how many times have we heard this in the tire industry? Does it happen in real life? [Insert your personal opinion here.] While we like rooting for the underdog, this poor dog has a hard road ahead.

**Lingering Questions:** *If the Coalition succeeds, which tire company flinches first? Do the big parts retailers get entirely different water pumps than the ones the small guys get?*

## 2003 Market Influencers Scorecard

- The Economy** – Corporate bottom lines looked a little brighter. But the unemployed are hardly impressed. **Grade: A+**
- Goodyear** – Finally turned a profit last quarter. Big problems – like huge debt – remain. **Grade: A+**
- Checkoff Program** – TIA tried to take the bull by the horns and got gored. Great chance for change lost – maybe. No guts, no glory. **Grade: Incomplete**
- CTNA** – No, there really isn't a quick fix. 2005 is just around the corner. **Grade: B+**
- China** – Ranked too low because it grew faster than expected. **Grade: A**
- Overcapacity** – Even with the loss of two plants, N.A. still has too much capacity. **Grade: A**
- TREAD Act** – Like a bad penny, this one won't go away. But nothing happened last year. **Grade: D**
- USWA/Labor Unions** – Do they get it yet? Heck, no. Their idea of the future is 10 minutes from now. It's all about the Benjamins. **Grade: A**
- TBC Corp.** – Okay, who didn't think TBC would jump all over NTB? Anybody? **Grade: A**
- Larry Morgan** – Despite checkoff setback, he still accomplished a lot. **Grade: A**
- Asbestos Lawsuits** – Thanks to Congress, there is no relief in sight. **Grade: C**
- Raw Material Costs** – Boy, did we underestimate this one. **Grades: A+ for mention, F- for ranking**
- Underfunded Pension Programs** – While the retired shudder, major corporations now want to do away with pensions all together. **Grade: C**
- Tire Plant Automation** – We'll see this just as soon as Cubs or Red Sox win it all. Sure. **Grade: D**
- Dealer Competition** – Dealers are still thwacking each other, but business has picked up. **Grade: A-**
- Insurance** – Rates flattened a bit, and dealers found ways to reduce premiums. **You get an A+ for effort!**
- Coalition for a Level Playing Field** – First suit failed, but small parts retailers aren't done yet. **Grade: B+**
- Trains** – Overwhelmed by freight orders and taxed by internal snafus, the railroads just haven't responded very well. **Grade: B-**
- E-Registration** – Maybe we reach a little far, but look at all the Web registration options now. **Grade: B**
- Pay On Scan** – Okay, we thought this was gonna be bigger. It wasn't. Sorry. **Grade: F**