



# MARKET INFLUENCERS



## The **10** PEOPLE, PRODUCTS, ISSUES & THINGS That We Think Will Have a Major Impact on This Industry During the Coming Year.

Sometimes we're right, sometimes we're dead wrong, and sometimes we're really out there, but over the past eight years Market Influencers has become the best read, most referenced and most discussed part of our annual Sourcebook.

TIRE REVIEW's annual review of Market Influencers – now in its ninth year – looks at the 10 people, products, issues and things that we think will have a major impact on this business over the coming year. It's all about the movers and shakers that will shape our industry over the coming 12 months.

TIRE REVIEW's Market Influencers was the first to point out the impact of China and its growing tire industry, the first to recognize the upward pressure raw material 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.

Some of those making the 2008 list are past "winners" – some many times over – and others are entirely new. 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 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. SCHAEFFLER GROUP

In the course of two months, this little bearing maker took down one of the world's largest automotive and tire companies. And where it goes from here is anyone's guess, but Schaeffler Group is now a player in the global tire mart – if only a little bit. The deal Conti was able to strike appears to sit the Schaeffler family in the corner for the next four years, preventing them from gaining a majority stake or parsing off any parts of Conti. Come August 2012, well, we will see. Schaeffler may have grown tired of it all by then and simply cash out. But until that date, speculation will continue to waft, Schaeffler's every stock transaction will be analyzed and possible suitors for Conti's tire biz will be floated. Some see Schaeffler's involvement as a positive, and that the Schaeffler's family wealth is enough that they won't go into debt owning even a 51% stake in debt-heavy Conti. It was debt from its Seimens VDO deal (and a downturn in the automotive market), after all, that exposed Conti as a takeover target. Hard-nosed Conti CEO Manfred Wennemer fought to the end, and it cost him his job.

**Lingering Questions:** *What one thing is not like the others: automotive bearings, automotive components, tires? Is Schaeffler all-in, or is it just looking to use Conti to boost its OE position? If this David can take down the Conti Goliath, who could be next?*

### 2. OIL

Black gold. Texas Tea. The biggest political and societal hot potato in memory – and the root of all that is economically evil in the world right now. Oil, the center of our universe, spiraled unchecked to as high as \$145 a barrel earlier this year before coming back to a high orbit of \$110 at the close of August. And that was after 2007 when Big Oil posted record profit marks. Pump prices rose 33.4% between July 2007 and a year later. Diesel went through an entirely different roof. Besides driving drivers off the road, the impact of astronomical oil prices on everything from consumer goods to food to other aspects of our fragile economic engine was both profound and frightening. It isn't about our dependence on foreign oil, it's our dependence on oil, period. Plastics, rubber, cloth, packaging, food – pick something and oil is deeply involved. While barrel prices fell in late summer heading into election season, there is no reason to believe the upward trend will abate or that prices will roll back to even marginally reasonable levels. That means continued tire manufacturing cost pressure and price hikes to pass along to drivers who aren't driving all that much anymore.

**Lingering Questions:** *Hey, what's a little \$33 billion in annual net-net profit among friends, right George? With oilman T. Boone Pickens pimping wind power now, should I get a whirly-gig to power my car? How much would Jed Clampett be worth in 2008 dollars? Enough to own Beverly Hills? Or just all of California?*



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## 3. IT'S STILL THE (GLOBAL) ECONOMY

Recession. Inflation. Profiteering. Consumer prices. Big oil. Bank failures. Housing declines. Unemployment. Stock markets. Exchange rates. Floating loans. Dwindling wages. Credit crisis. Bankruptcies. Trade deficits. National debt. Zero growth. Nothing is going well for our tidy little global economy, and there is not enough space here to analyze all of the factors. So we'll focus on one bit that has certain impact on you: the credit crunch. You may have already felt the pinch. Certainly your customers have. Banks and other institutions are reluctant to lend much to small business these days, what with all of the small biz failures. So getting a loan – or even a decent interest rate – is tough and getting tougher. As of late August some 117 banks were on the FDIC's "problem" watch list and 11 failed completely. Your tire and service customers, already slammed from all sides, are seeing their credit card rates jump, and are reluctant to whip out the plastic to pay for goods and services. The short-term view isn't good. Europe, which was enjoying life earlier this year, is now facing tough times. Asia? China has lifted off the accelerator, and things remain tight in Japan and South Korea. Long-term view? Who knows.

**Lingering Questions:** Haven't those "strong headwinds" turned into Class 5 hurricanes? With the housing market so soft, isn't it a great time to buy in SoCal? Any chance we can get Nero to play another song before he leaves office? Have you been making payroll with your Visa card? Or do you prefer Discover so you can get money back?

## 4. CONSUMERS

Who'll bring this industry to its knees faster? Mr. & Mrs. John Q. Public, that's who. And we've already seen the first wave of change. Carpooling and public transport are up. Individualism, miles traveled and vacations are down. Inflation and reduced personal income mean people are running out of gas more often because they are putting off buying gas. No, really! With the prices of everything else rising faster than real wages – despite our fabulous "stimulus" checks – drivers are also putting off tire buys or are going with used tires just to get by. Translation: at-the-counter retail tire sales will finish the year off around 7%-8% minimum vs. last year. Vehicle service will also be off – even on little things like oil changes – leading the aftermarket people to a lot of hand-wringing over growing "underperformed" (or is it "unperformed"?) maintenance. Hyper-miling drivers have even hit muni budgets: slowing drivers mean fewer revenue-generating speeding tickets. Cycles and scooters seem to be the only hot growth tire segments. The big question is this: Will these tight-squeeze times have a profound long-term impact on American consumerism, much like the Great Depression had on our grandparents?

**Lingering Questions:** Any chance we can get those free money checks from the government every year? They didn't really cost us anything, did they? If I carpool to the bus stop, can I get double carbon credits? If you're Tony Stewart and you're stuck behind a slow-driving hyper-miler, do you A) save more fuel by drafting, or B) bump the Prius off into the wall?

## 6. CHINA

Seems the high-speed train that was China's economy is now crawling into the station. Rising overhead costs, inflation, reduced consumer spending, flattened car sales, tightened export markets, currency adjustments – things that would make other countries panic – are helping the government to keep things in check lest China flame-out like the Olympic Games closing ceremonies (Jimmy Page guitar lip-synching? Sacrilege!). The government has applied the brakes to China's economic speedster while it tries to rein in corruption and get its key industries more properly aligned with the ways of the Western world. Doesn't mean it's all over for the Big Red Machine, but China may be losing its tiremaking mojo. Higher wages, increased raw material and transportation costs and other factors (like unnecessary duties) are dinging China's big cost advantage, forcing some makers to turn to (get this) "higher value radial tires." The potential for a shakeout could be a blessing; thinning the tiremaker herd over there cannot hurt, to be sure, and the result will be a stronger, more adaptable, more globally savvy industry. China is still the biggest panda in the woods; it recognizes its shortcomings and it will be back.

**Lingering Questions:** What's a down year for the Chinese tire industry? (When output is up only 12%.) What can you do with a country where more Chinese watched the Beijing Olympic opening ceremonies than Americans have watched the last 15 Super Bowls combined? Is basking in the Olympic afterglow considered sloth or a new way to tan?

## 5. INDIAN TIREMAKERS

Here's irony: India's tiremakers are complaining about the low price of Chinese imports! And they want dumping duties, just like us! All kidding aside, India – with a stout 7.9% growth rate – is the new China, only with a better leg-up on technology. Apollo Tyres is spreading its wings everywhere, building new plants at home and somewhere in eastern Europe. JK Tyre bought Mexico's Tornel, giving it a decent foothold in North America while it adds capacity at home. BKT (Balkrishna Tyres) is adding capacity and has been quietly looking for expanded distribution. Market leader MRF is building another plant. Since India's home demand isn't that hot yet, where are all of those tires going? And Indian tire companies are reporting positive results, even with tight raw material supplies and tighter margins. Despite some civil unrest and infrastructure issues, India stands ready, willing and able to jump right in and pick up the low-cost tire – radial or bias – slack. India's Big Four have money and aspirations and they don't appear to be afraid to use them.

**Lingering Questions:** Wonder if any of India's biggies are looking at "other" opportunities over here? If you buy a Land Rover, can you get a Tata Nano for free? For that matter, if you buy a set of tires can you get a Nano for free? If you buy a Tata Nano, is there room for an iPod Nano? What, there is no Nano?



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## 7. THE ELECTION

That 800-pound gorilla sitting quietly in the corner? It's that crazy election thing we have every, what, four years is it? Well, the 2008 trip to the polls could have a profound impact on our industry. Yes, there is that new president thing (and all of its historic implications) but the more important races are for Congress, where the Dems are just a couple of lawn chairs away from gaining full control in the Senate. Maybe then Nancy P. will quit kvetching about how the Senate Dems haven't accomplished anything (Well, they haven't, but still...).

Despite who wins in November, none of anyone's worst nightmares may come to pass. Change (good or bad) will come in dribs and drabs. Yes, taxes will probably go up (we do have that little multi-trillion dollar deficit to deal with) for certain sectors, but some of that may be offset by reduced military spending when (and if) the Iraq war winds down. Business (like the tire industry) may see more safety-related regulations and maybe some protection for importers. And we may get an actual energy policy for the first time ever! That could bring new opportunities (and certainly challenges) for every facet of the tire biz.

**Lingering Questions:** *What do they do with all of those TV pundits between elections? Freeze them? Like in a teenager's room, things are such a mess right now, where does one start? Did you get a tire gauge bump from this summer's Obama-McCain energy policy spat? With help like that, who knows where we can go!*

## 8. SMALL CARS

Stop with the "clown car" comments. Small compacts and micro-cars – like the ever so cute Smart car – may be our tire and service future. While Detroit wants to convince us that pickups and SUVs are gas sippers – and they've been hammering on that delusion a lot lately – budget-strapped Americans prefer eating to owning a land yacht. So those big dollar (or is that "high value"?) tires may become ancient history, and you could be staring at order screens full of small dollar 13-, 14- and 15-inch SKUs. Plus, the great American trade-down will throw tire replacement cycles all out of whack, just like 2006's incentive-driven new car sales burst. The car makers are getting the worst of it; slow moving (and quite troubled) Big 3 are being forced to change their profit structure from big-buck "Detroit iron" to tighter margin small cars. Ouch! Not that any auto company is doing all that well, but it appears the European marques, which have faced ridiculous fuel prices at home for decades, have the advantage here.

**Lingering Questions:** *Did you know that Mercedes has its own version of the Smart? The Mercedes badge is almost bigger than the car! Why does stumbling, bumbling GM think anyone will wait two years for its all-electric Volt? Will GM even make it that long? If GM and Ford merged, would you get uninspired design with marginally improved quality or uninspired design with zero quality?*

## 9. TRUCKING FALTERS

Things are gonna get worse before they get better, warns the American Trucking Associations, even though YTD-July goods hauled were actually up 3.6% vs. 2007. Slight late summer declines in diesel prices have helped, but the economic climate has taken down some familiar (and large) fleets – Alvan Motor Freight for one. Dozens have been victimized by fuel costs and the growing inability fleets have to recoup those costs. The medium truck tire market counted on some relief in 2009 once another round of EPA-engine-reg forced truck pre-buys hit. Seems now that cash-strapped fleets will play the cards they have through next year – bad for OE and potentially bad for the replacement side. Not that things are all good in 2008: OE tire shipments will be off 12%, says RMA, and the replacement market will be off 3.5% vs. last year. It wasn't that long ago that fleets faced a tire shortage. Remember?

**Lingering Questions:** *If more fleets shut down, will that solve the driver shortage crisis? Since Americans and Canadians depend on the trucking industry for our very survival, think the governments might do some things to help out?*



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## 10. BRIDGESTONE CORP.

Just cruising right along, attaching itself to high-profile events at every turn. They have the NFL and the Super Bowl halftime show. They cornered the open-wheel market with F1 and Indy Car. They have some major league baseball and a little golf. Hell, they even have hockey. Hockey! They are enjoying the fruits of their labors with high sales everywhere in the world and decent profits despite battling raw material and energy costs. They have the products and technology that make retail sales easy, and they have a highly loyal cadre of independent dealers. They have solid management teams in Tokyo, Europe and here in North America, and relationships with the right people in the right places to make things happen. Fully recovered after being pushed to the edge by that little recall thingy eight years ago, Bridgestone is now, by any measure, the world's biggest tire and rubber company. So, what could go wrong? Well, as we know, a lot of things. Just ask Conti. But that's being really pessimistic. Right now, all is well. As long as it doesn't get a big head, all will stay that way.

**Lingering Questions:** Just how many Americans even remember the recall? For that matter, how many remember who won the Civil War? Is it me or is that Magic Rings commercial a little over the top? Do you root for the car or Richard Simmons?



## 07 INFLUENCER SCORECARD SO HOW DID WE DO?

### 1) China Inc. complete

Still incomplete. China's tire industry will continue to grow and evolve. Dumping duties just a speed bump, we think. **A**

### 2) Economy Blues

Frankly this was a real softball. It's a lot harder to figure out how to get out of this mess. **A++**

### 3) Being Green

What have you done to reduce your carbon footprint? Us? We're expanding on the Web. **A+++**

### 4) iMedia

OK, we overestimated a little. So it's not even close right now. But you just wait and see! **D-**

### 5) India's Tire Industry

With Chinese makers feeling the cost pinch and companies like Apollo and JK on the move, India is now relevant. **B+**

### 6) Imported Tires

NHTSA still hasn't tightened quality rules on imported tires. Of course it took six years to sort out the TREAD Act. **A+ for us, F for NHTSA**

### 7) North American Retreading

Medium truck retreading had a decent year. Now there's talk of a passenger retreading revival. **B+**

### 8) Right to Repair

Will it or won't it? Years in the offing and still no closer to reality. Guess it's not that important. **D**

### 9) Used Tires

Never liked the idea, but with home budgets tight, consumers sure do. Maybe this shoulda been on the 2008 list. **A+**

### 10) Russian Tyremakers

Amtel-Vredestein succumbs and joins Sibur Russian Tires. One less player, still a huge freakin' mess. **D+**