? MARKET INFLUENCERS

Many companies, countries, legislation, associations and individuals play a role in this big old industry. The question is: Which ones are the real movers and shakers, the Market Influencers?

It's time once again for Tire Review's annual review of Market Influencers – the people, products, issues and things that we think will have a major impact on 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.

This year's list of Market Influencers features a unique confluence of interrelated issues that we think will bring change to the industry over the coming 12 months.

The list itself also underwent a well-timed change this year, dropping from its previous 20 items to a slimmer, more digestible 10 Market Influencers. So it is now that much harder to reach infamy.

Some of those making the 2005 list are past winners, and others are entirely new entries. As an added bonus, we'll take a look back at last year's list to see how well our predictions fared.

This is a purely subjective list, determined by the editors from a lengthy list of suggestions gathered over the past year. 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-mail messages or phone calls are always welcome. And, if you have some candidates for next year's list, please pass them along.

1) The Economy

The macro-economy is growing steadily, say the experts, despite natural disasters, the oil crisis, war and a skittish stock market. It is the micro-economy – Mr. & Mrs. Joe D. Consumer – that stands to deal tire dealers and tiremakers a real body blow. Despite glowing government reports, things are not all that well. Consumers are carrying monstrous debt loads, and experts are confident that personal bankruptcies and mortgage defaults will hit all-time highs this year. And, that real estate bubble is about to burst big time. Inflation has become a major problem, especially when it comes to vital goods and services. As we pointed out in August, consumer prices since 2002 have lept 8% (not counting the recent run-up in gas and heating fuel prices). Gasoline alone is up at least 80%. Staples like bread (10%), meat (18%) and milk (14%) are household budget killers. Electricity is up 11%. And we all know what has happened with insurance and state and local taxes. Yet pay raises for 80% of America's workforce increased a paltry 2.7% on average over the same period. The other 20% have seen the same-old-same-old 3-4%, still below inflation's march. A recent poll showed that 53% of Americans say their wages have fallen behind the cost of living. And the government itself said 12.7% of all Americans now live below poverty level, up 1.1 million people since 2003. Plus, the fallout from Hurricane Katrina remains unknown. Despite the "happy days are here again" rhetoric, things are pretty bad in the trenches.

Lingering Questions: *If you squeeze an American's wallet and nothing comes out, does he have to go Chapter 7 or 13? Have, Have-NOT, to-MAY-toe, to-MAH-to?*

2) Gas/Diesel Prices

Aside from the frightful post-Katrina price gouging – $6 a gallon in Atlanta and D.C.? – you can expect fuel prices to remain unseasonably high, well, forever. Why? Cause we Americans have proved to the oil companies that nothing will slow us down. $3 a gallon didn't even cause a blip on miles traveled. Heavily medicated after their boneheaded incentive wars blasted profits out of the water, the Big Three remain oddly committed to house-sized SUVs (and hideous vehicle styling). Undeterred, Americans took advantage of the suicidal employee pricing incentives, turned their backs on monster trucks and snapped up small cars and hybrids – proving that we'll pay $3 a gallon as long as we can get more than 8 mpg out of it! Most analysts expect gas prices to settle at around $2.50 per gallon again before taking another jump – perhaps as high as $4.00 – this fall. Diesel will likely follow a similar track. We'll see who blinks first.

Lingering Questions: *Since we have a lot of it, is there a way to refine usable fuel from used deep fryer oil? Anyone in favor of a windfall profit tax on oil companies?*

3) Raw Material Costs

There really isn't much you can say about uncontrollable raw material costs. It's gotten so bad that even those in a position to control them cannot. The only "good news" is that steel prices stabilized as more processing capacity came on-stream. Costs on oil-based raw materials, like carbon black and synthetic rubber, will remain fluid as the per-barrel price ebbs and flows (and flows). NR growers remain vigilant in their pursuit of ghastly profits by controlling supply. Even though its exports have cooled, China is still making millions of tires and using up a large share of available raw material supplies. So, if we don't want to see further 5%-8% price hikes every quarter, what's a tiremaker to do? Well, the only parts of the manufacturing equation they can control are labor and facilities. Guess where that leads? Meanwhile, strapped consumers are creating heavy price competition in the market, forcing dealers to eat some of the manufacturer increases, cutting into their bottom lines. Everyone is gonna have to ride this out because there are no ready solutions…unless you like cardboard tires. Meanwhile, please quit beating each other up out there!

Lingering Questions: *Maybe we could make carbon black and synthetic rubber out of used deep fryer oil? Hey, how about some real low-mileage, all-white, all latex tires, just like the good old days? What ever happened to those little bushes in Texas that were once touted as a viable substitute for rubber trees?*

4) 2006 Labor Negotiations

Oh, 2006 is gonna be a blast on the labor negotiations front! Lots of entertainment for us observers, but no fun for the players. Goodyear's "No Strike, Pretty Please" contract comes to an end, as does Bridgestone/Firestone's barely year-old stop-gap pact. And the USW's other favorite partner, Continental Tire North America, will also be at the table. Goodyear will probably want to hasten its recovery with a far, far better union deal, particularly when it comes to production and legacy costs. With constant complaints about the high cost of its American tire plants, Conti may end up with more USW Locals than it has tire factories. And, after their bitter two-plus years at the table, who knows how BFNAT-USW Round III will go. The early betting line is that there will be a strike. It's anyone's guess which company(ies) will be targeted. First quarter 2006 results may well dictate the "winner." Surely, warehouses will start filling up. The highly charged Steelworkers try to solve all labor disputes with the same hammer. But the union has to face facts: It's a global industry, and if it is to save American tire jobs, the union is going to have to start giving back. A lot. Tire companies need to control costs, so uncontrollable raw material costs have the union pinned in a corner from which it cannot escape. But it will try.

Lingering Questions: *Since the contract is nearly expired, I guess the USW can forget about getting that seat on the Goodyear board? Will any negotiation between BFNAT and the USW ever go smoothly? How long does getting a lunch order together take during negotiations? What kind of spin do you think the union will put on plant closures? Will the fed-up tire company rank and file bolt the Steelworkers?*

5) Tire Fuel Efficiency/ Tire Aging Legislation

What's really old, goes round and round and hurts a lot of innocent people? Give up? Clueless loudmouths with no research who want tire aging regulations and tire fuel efficiency rules. Nothing like a "knowledgeable" politician (an oxymoron, perhaps?) or payoff-hungry lawyers to get folks all riled up. No need to recount the two nonsensical issues; we've wasted enough paper already. The regulatory waters appear calm now, if only because everyone's distracted by the war and natural disasters. But mid-terms are next year, so expect the tide to start roiling again as politicos look for ways to let constituents know they are on their side! These two tire issues, mark our words, will not go away until NHTSA or some higher power puts stakes in their proverbial hearts. Until then, dealers – as always – are on the front lines having to answer questions from nervous and confused consumers.

Lingering Questions: *If "knowledgeable politician" is an oxymoron, is a plain, everyday politician just a moron? Are you as tired of talking about politicians as we are? Who voted for these people? Oh, yeah, now I remember.*

6) Dealer Competition

As the economy goes, so go tire price wars among dealers – large and small. We're hearing more and more complaints about "highly competitive" pricing, especially by retailers with huge buying power. In fact, our Dealer Profile Study shows that "price competition" is tops on tire dealer concern lists. Well, at least we had a couple of peaceful years while tire pricing rationalized. Looming in the alleyway, though, are car dealers, who will gain more tire traction as we move closer to full-scale tire pressure monitoring system implementation and remain far away from proper Right to Repair legislation. Just wait until the first "You must get your tires rotated by the dealer" ads appear. Car dealers are not just taking the scraps from the table. They have elbowed their way right in front of that big old holiday turkey and have heaping platters of yams and stuffing in both hands! Strangely, tire dealers don't seem to be concerned.

Lingering Questions: *Is it too late to dis-invite NADA from participating in National Tire Safety Week? Remember that saying about keeping your friends close and your enemies closer? Hard to tell anymore, isn't it?*

7) Trucking Industry Growth

While it's easy to claim GDP is the main reason there has been a huge increase in trucking activity, the reality is fewer trucks and larger, smarter operators have been the keys to trucking's growth over the last 18 months. Stung by the harsh turndown after the last run-up, when fleets spent money like, well, drunken pirates, truck fleets (I'm sorry…logistics operations) are buying just enough equipment to get by. The good news is more and more fleets are outsourcing most of their tire operations to competent dealers. The bad news is that the supply of new radial medium truck tires remains tight. So tight that some OEMs are shipping new trucks and trailers out on retreads. EPA's 2007 diesel engine regs won't bring a rush on the OE side (There may be some strong sales post-2007.), but smart management, continued manufacturing gains and the anticipated demand caused by Hurricane Katrina recovery will make for a solid truck tire market for the next few years. Now if we could only boost capacity.

Lingering Questions: *So, with all these fabulous replacement sales opportunities, what exactly do you have to sell? Would truck and trailer makers rather use cheese wheels with that whine?*

8) China

Things have cooled off just a bit with China. It's still making as many tires as before, but the local market is absorbing more. New-car sales cooled off, as the government threw some cold water on its smoldering economy. Wages increased, smudging that "cheap labor" label. But never fear, economy-wise China is still rocketing from cute baby to wicked adulthood. And, that means that tire raw materials consumption will still be a problem, at least until its own internal supplies increase. What will be more interesting to watch is how that country's auto industry adjusts as new investment comes and the domestic market opens wider. The tire side, too, will be of interest, especially as outside investment, technology improvements and domestic distribution channels firm up. Make no mistake, China is a long-term force. So set a place at the table and sit down.

Lingering Questions: *Will China get Shanghaied by Eastern Europe's now cheaper labor? When will we stop using the word "cheap" every time we talk about China-produced tires?*

9) Ancient Infrastructure/Plant Closures

Creak. Groan. Whoosh. Moan. Urp! That's the sound of today's ultra-modern, 30-plus-year-old U.S. tire factory! This marvel of longevity accounts for the bulk of North America's tire capacity – and a major portion of tire manufacturer costs. Some 70% of all North American plants were built before the disco era, and though most have been upgraded with newer equipment, they remain relics when compared to their more modern counterparts. Here's an example: With just 900 employees, Bridgestone/Firestone's highly automated Aiken, S.C., plant turns 27.8 tires per worker per day. At its 33-year-old LaVergne, Tenn., facility, 1,750 employees produce just 11.4 tires per person per day! Not that the situation is necessarily better elsewhere on the map, but tiremakers have spent more time over the last decade bragging about their whiz-bang robotic tire production systems than they have actually installing them. Toyo and Bridgestone will have new automated North American factories working next year, but the bulk of the top-shelf technology is going to South America, Southeast Asia and China. Because necessary tire production capacity globally is a finite number, outmoded older plants will be replaced by the new ones. Can you guess where?

Lingering Questions: *Can you really be on strike if you don't have a plant to strike? Do you think they still have some old balloon tire molds around? Can this industry tell the difference between "crisis" and "reality?"*

10) Continental Tire North America

Continental Tire North America (CTNA) continues to perplex everyone – including Continental AG. Deutsche Bank says CTNA's 2004 losses were likely in the $250 million range, and 2005 will probably see another $125 million negative. Since 2001, CTNA has racked up a cool $750 million in losses. Analysts don't expect improvement next year. So much for profit deadlines. Down one plant already, CTNA cut production at its hometown Charlotte plant, even as the North American market remains strong. It's desperately looking for someone to buy its Bryan, Ohio, OTR plant. The only plant CTNA hasn't closed, cut or put on the block is its 32-year-old Mt. Vernon, Ill., factory. Dealers are tired of being told everything will get better only to see fill rates fall faster than *Gigli* and watching the revolving door that is CTNA's executive suite. When he became president, Martien de Louw called CTNA a "permanent loss maker" and vowed it would be in the black in '05 and boost share by 2%. Well, he got one of the three right. Now, there is some speculation across the pond that Hanover may just bag the whole thing. Who knows? The question is: Does Hanover?

Lingering Questions: *Will CTNA make it until Conti's South American and Malaysian plants come on-stream in 2007? Something's gotta give, but what? Is there a white knight out there somewhere?* X

2004 Influencer Scorecard

Price Increases –
Well, they stuck, didn't they? A

Raw Materials –
Still rubbing tiremakers and dealers raw. A++

USWA –
Lost a letter, gained 50 words, made no ground. B

China –
Remember, you saw it here first four years ago. A+

Cooper –
Somehow, we expected more. C

Non-Dealer Competition –
Apparently, we're still the only ones concerned. B-

Hybrids –
Okay, we tried. Detroit really helped! C

Goodyear –
Doing better, but still $5B in the hole. B+

Gas Prices –
Boy, did we rate this too low. Gulp! D+

Globalization of the Tire Industry –
Thank goodness it's round! A

Super Wides –
Okay, we admit it. Sorry, It won't happen again. F

TREAD Act –
We're still asking ourselves why, too. F- (as if that's possible)

TBC –
Again, we thought…ah, forget it. F

Consumers –
This is precisely why we cut it down to 10 Influencers. F

CTNA –
Made the list, but what did it influence? C

Russia –
Something's moving. Could it be? No, sorry, that was a rabbit. C

Nitrogen Inflation –
I won't use the term "hula-hoop," but….D+

Affinity/Marketing Groups –
And here we thought seriously about going with 15 Influencers. D-

U.S. Tire Trade Deficit –
We still like this one. But no one else cares. B+

Coalition for a Level Playing Field –
Ah, heck with it. We're sticking with 10!!! F---