

RETAIL/WHOLESALE TIRE DISTRIBUTION

Chart 10
U.S. PASSENGER TIRE RETAIL MARKET SHARE
(Based on retail sales)

Distribution channel	2008	2007
Independent tire dealers	60.0%	59.5%
Mass merchandisers	14.5%	15.0%
Warehouse clubs	9.0%	9.0%
Tire company-owned stores	7.0%	7.5%
Auto dealerships	5.5%	4.5%
Service stations	2.5%	3.0%
Miscellaneous outlets	1.5%	1.5%

With respect to the auto dealership channel, which has grown 120% since 2000 and grew 22% last year, independent tire dealers continue to dominate tire distribution at the retail (see Chart 10) and wholesale levels.

In 2008, they commanded 60% of the domestic retail passenger tire market, or 118.8 million tires. Thirty years ago, tire dealers represented 45% of the market.

When you take wholesaling into account, independent tire dealers have an even greater share, because they are the main suppliers to franchised auto dealers (often as part of an agreement between the vehicle manufacturers and the tire manufacturers) and service stations.

Consumer tire distribution channel market share

Channel	2008	2006	2004
Independent tire dealerships	75.0%	74.0%	72.5%
Tire company stores	8.5%	8.5%	8.5%
Miscellaneous	16.5%	17.5%	19.0%

“Miscellaneous” includes mass merchandisers, warehouse clubs, auto parts chains, oil companies/service stations and other outlets that may supply tires to a retail store, or are involved in the supply line from the tire manufacturers to the end user.

Before the bottom dropped out of the market in the last quarter, there already was a sign that independent tire retailers were suffering as a whole.

Nearly 47% of the dealers surveyed as part of *MTD*'s third-quarter “State of the Industry Survey” projected their tire sales, in dollars, would surpass their 2007 sales. In the 2007 survey, however, the number was almost 60%.

Auto dealerships, 5.5%

No tire distribution channel has grown faster in the last eight years than the auto dealerships. Car dealers sold 11 million replacement passenger tire units in 2008, the majority of those supplied by Dealer Tire LLC.

But the channel's growth may be affected more by the recession than any other channel. Coinciding with the decrease in vehicle production and sales was the decrease in franchised car dealerships.

At the start of 2008, there were 20,700 new car dealerships in the U.S. NADA estimates there were between 19,700 and 19,900 dealerships left standing entering the new year. It also projects a net decline of 900 more dealerships in 2009.

However, the drop in dealerships is misleading, according to NADA, because not all dealerships are created equal. “In 1988, there were 7,007 dealerships with sales of less than 150 new vehicles per year. Today, there are only 3,336 such stores.”

Ford sells tires not only at its dealerships, but also through its Quick Lane Tire & Auto Center network of close to 500 stores. The outlets sell OE brands such as Goodyear, Continental and Michelin.

Other distribution trends

Nokian Tyres plc has been adding stores very aggressively in the last two years. It runs 11 company-owned retail stores in New England and one wholesale outlet based in Colchester, Vt. Additional stores are planned; they will most likely be concentrated in the Snow Belt region, according to the company.

There are 2,729 company-owned retail stores in the U.S., down 2.5% from 2007. They account for 7% of the replacement passenger tire market.

Bridgestone Retail Operations LLC runs 2,047 retail stores under the following names: Firestone Complete Auto Care (1,481), Tires Plus (422), ExpertTire (98) and Wheel Works (46). It also operates 143 GCR commercial tire centers. Firestone Complete Auto Care outlets sell the Bridgestone, Firestone, Primewell and Lemans brands. ExpertTire also sells the Fuzion brand.

Goodyear's 671 stores include Goodyear Gemini outlets, Just Tires and Allied Discount Tires. Its Just Tires format has 122 stores strategically located in the following metropolitan areas: Chicago (31), Philadelphia (11), Los Angeles (51),

Chart 11
WAREHOUSE CLUB GROWTH

Since 2004, the number of warehouse clubs in the United States has increased by 14.3% (2% in 2008 vs. 2007). Costco Wholesale has grown the most, adding 73 stores in the last five years, an increase of 22.3%.

BJ's Wholesale (16.1%) and Sam's Club (9%) also have expanded.

Club	2008	2007	2006	2005	2004
Sam's Club	591	586	571	558	542
Costco Wholesale Corp.	400	385	355	346	327
BJ's Wholesale Club Inc.	180	176	160	160	155
Total	1,171	1,147	1,086	1,064	1,024



Pep Boys began 2009 with 3.9% fewer stores than it had one year ago.

Baltimore/Washington, D.C. (12), and Raleigh/Durham (17). They sell Goodyear, Dunlop, Republic, Pirelli, Firestone, Bridgestone, Continental, BFGoodrich, Michelin, Cooper and Kumho tires.

TCI Tire Centers, owned by Michelin North America, operates 126 commercial service outlets across the U.S. Its Small Tire Marketing Division distributes Michelin, BFGoodrich, Uniroyal, Yokohama, Hankook and Trivant brand passenger and light truck tires through 34 distribution centers.

Mass merchandisers lost ground to some of the other distribution channels in 2008. Wal-Mart Stores Inc. has close to 3,200 outlets selling tires, although most of those sales are concentrated in its approximately 2,435-store Tire & Lube Service Centers nationwide. Wal-Mart offers Goodyear, Michelin, BFGoodrich, Uniroyal and Douglas tires.

Sears Holdings Corp. owns 859 Sears Auto Centers. They sell the following brands, in order of SKUs offered: Goodyear, Michelin, Dunlop, BFGoodrich, Hankook, Continental, Falken, Firestone, Bridgestone, Uniroyal, Sumitomo, Kumho, WinterHandler and General. Sears also offers two co-branded products: the Michelin Weatherwise and Bridgestone Weatherforce.

Pep Boys-Manny, Moe & Jack is the largest tire-selling auto parts chain with 539 stores (down from 561 last year). The company favors its private brand offerings of Cornell, Futura and Definity, but also offers Hankook, Cooper and Goodyear.

Warehouse clubs increased their store count by 2%, to 1,171 (see Chart 11 on page 30), and held steady with a 9% share of the market.

According to a 2007 study by the publication *Warehouse Club Focus (WCF)*, the most important “attribute to a wholesale club buyer” was price/value — by a three-to-one vote. “Volume” was second at 14%.

WCF (www.warehouseclubfocus.com) research says the average gross margin store-wide at BJ’s Wholesale was 17% in 2007, followed by Sam’s Club at 15% (it has been trending upward steadily since 2005) and Costco Wholesale at 13%.

SALES AND PRICING

Chart 12
WORLD LEADERS IN NEW TIRE SALES
 (Fiscal year 2008; in billions of U.S. dollars)

Company	2008	2007
Bridgestone Corp.	\$24.8	\$23.1
Groupe Michelin	\$22.5	\$21.8
Goodyear Tire & Rubber Co.	\$19.2	\$18.3
Continental AG	\$9.4	\$8.8
Pirelli & Cie SpA	\$6.1	\$5.8
Sumitomo Rubber Industries Ltd.	\$4.3	\$4.0
Hankook Tire Co.	\$3.7	\$3.5
Cooper Tire & Rubber Co.	\$2.8	\$2.7
Kumho Tire Co. Inc.	\$2.0	\$2.1
Yokohama Rubber Co.*	\$3.7	\$3.7
Toyo Tire & Rubber Co. Ltd.*	\$ 2.4	\$1.57

U.S./CANADIAN LEADERS IN NEW TIRE SALES
 (Fiscal year 2008; in billions of U.S. dollars)

Company	2008	2007
Bridgestone Americas Tire Operations LLC	\$9.0	\$8.5
Goodyear	\$7.9	\$ 8.4
Michelin North America Inc.	\$7.2	\$7.1
Continental Tire North America Inc.	\$2.1	\$1.9
Cooper Tire	\$2.0	\$1.9
Hankook Tire America Corp.	\$.80	\$.74
Kumho Tire U.S.A. Inc.	\$.48	\$.50
Pirelli Tire North America	\$.40	\$.46
Toyo Tire Holdings of Americas Inc.*	\$.90	\$.90
Yokohama Tire Corp.*	\$.80	\$.74

* Fiscal year ended Mar. 31, 2008

Notes: Exchange rates for euros, yen and won were based on yearly averages. Groupe Michelin owns nearly 10% of Hankook Tire. Cooper sold its 10.71% stake in Kumho Tire Co. to Beacon Hill Master Ltd., a Cayman Islands-based investment firm, in August 2008.

Many tire manufacturers were able to take advantage of the exchange rate versus the U.S. dollar in 2008, and two companies, Continental and Bridgestone, benefited from major acquisitions. (Although it didn't affect its tire sales, Continental's purchase of Siemens VDO Automotive AG for 11.4 billion euros greatly increased its overall revenue in 2008.)

Year to year, Korean and European companies gained revenue thanks to the exchange rate. Japanese companies lost revenue.

At year's end, Bridgestone Corp. was the world leader with an estimated \$24.8 billion in new tire sales (see Chart 12). Groupe Michelin came in second with \$22.5 billion in global tires sales. However, Michelin was the most profitable tire manufacturer based on its net income-to-net sales ratio.

Goodyear finished third with an estimated \$19.2 billion in tire sales. In addition to the Big Three, Continental, Sumitomo and Cooper had positive income-to-sales ratios.

(Two companies that can't be compared to the others, especially this year, are Yokohama Rubber Co. and Toyo Tire & Rubber Co. Ltd., because their fiscal years end March 31. Their sales figures, however, are included in Chart 12 as well.)

Bridgestone Americas was the U.S. and Canadian leader in new tires. At \$9 billion, it outdistanced Goodyear (\$7.9 billion) and Michelin North America (\$7.2 billion). It should be noted, however, that companies with company-owned stores have the advantage of counting retail pricing on tires sold through their outlets. Goodyear has 671, while Bridgestone has 2,047. In addition, retreading revenue is included in the sales figures for Bridgestone, Goodyear and Michelin.

Average and advertised pricing

The average price of a replacement passenger tire increased 9% in 2008 compared to 2007. That's 17.2% in the last two years, and 23.8% in the last three.

Much of the increase can be attributed to a concerted effort to raise high-end tire margins, but even some commodity-type tire suppliers raised prices:

P205/65R15

	Major	LCR	Average
2008:	\$107.96	\$82.90	\$95.43
2007:	\$100.17	\$74.60	\$87.38
2006:	\$ 99.17	\$72.50	\$85.83

P195/75R14

	Major	LCR	Average
2008:	\$86.17	\$64.72	\$75.45
2007:	\$63.18	\$54.57	\$58.87
2006:	\$68.46	\$51.14	\$59.80

The P205/65R15 and P195/75R14 are not advertised on a consistent basis coast to coast, so we can't compare their average selling prices (shown above) with their advertised prices.

As a medium for tire advertising, newspapers are not what they once were. Our year-long study of tire ads across the country revealed that only five sizes with comparative price points are consistently listed in newspaper ads (see Chart 13).

Pricing for the ultimate loss leader, the P155/80R13, is a prime example. The size is only advertised as a low-cost radial, so its average price (\$28.78) does not reflect major brand pricing.

Prices for the P155/80R13 ranged from \$13.99 (an "economy radial" at an NTB outlet in Atlanta) to \$42.99 (a Primewell at a Firestone Complete Auto Care store in Cincinnati). Both tires featured 40,000-mile limited tread wear warranties.

In contrast, the P205/70R15 was only listed as a major brand in newspaper ads. Its average price was \$94.24.

Chart 13
AVERAGE RETAIL TIRE PRICES
 (as advertised, unless otherwise noted)

Size	Major brand	LCR
P225/60R16	\$105.49	\$76.99
P235/75R15	\$108.26	\$73.57
P195/65R15	\$80.77	\$63.22
P185/70R14	\$84.57	\$50.49
P175/70R13	\$48.54	\$37.65
Median retail tire selling prices		
P205/65R15	2008: \$91.95	2007: \$82.85
P195/75R14	2008: \$68.97	2007: \$59.31

COMMERCIAL

Consumer spending plummeted in 2008, which led to large decreases in tonnage, including a four-month period — July to October — during which tonnage fell 6.3%.

Truck tire shipments for 2008 reflect the dismal state of the market. Original equipment truck tire shipments were down 14% in 2008, while replacement shipments fell 7.2%.

The RMA projects less harsh declines in 2009, approximately 8% at OE and 2% at the replacement level.

During 2008, several truck tire manufacturers, most notably Bridgestone and Goodyear, curtailed production in response to lower demand.

In September, Bridgestone began taking steps to reduce production levels at its U.S.-based truck and bus tire plants. In December, Bridgestone Bandag Tire Solutions announced it was laying off 60 employees due to reduced demand.

Goodyear idled production at its Danville, Va., and Topeka, Kan., plants for two weeks in November and December.

Farm and OTR

There were some bright spots in the commercial tire segment during 2008, especially in the farm and OTR markets. Every farm tire category — replacement and OE, radial and bias — experienced double-digit shipment increases compared to 2007.

Domestic farm tire shipments

<i>Segment</i>	<i>2008</i>	<i>2007</i>	<i>% increase</i>
Rear, Repl.:	765,000	685,000	11.0%
Rear, OE:	805,000	670,000	20.1%
Small, Repl.:	1.4 mil.	1.27 mil.	10.2%
Small, OE:	420,000	350,000	20.0%

Radialization continued its slow but steady push into the rear farm tire market in the U.S. Radial replacement shipments were up 13.1%, and represented 28% of total replacement shipments.

Radial OE shipments were up 26%, and represented 42.2% of the total OE shipments. The farm tire market in Europe is much more radialized by comparison.

Farm tire manufacturers added considerable capacity in 2008 and will continue to ramp up production this year in anticipation of even greater demand for agricultural products. Titan International Inc. is boosting its capacity by 30% to 40%. Groupe Michelin is investing in its three farm tire plants in Europe.

Firestone is the brand share leader in the farm tire market. It holds the number one position in five of the six segments. Goodyear, at 46%, leads the way in radial rear OE farm tire shipments, and is second in the other categories. Titan is the third most popular brand.

Michelin, which competes only in the radial rear farm tire segment, will discontinue the



Every farm tire category experienced double-digit increases in 2008.

Chart 15
2008 MEDIUM/HEAVY TRUCK
TIRE BRAND SHARES*
(Based on 15.5 million units)

Brand	2008
Goodyear	20.5%
Michelin	19.5%
Bridgestone	18.5%
Firestone	7.0%
General	4.5%
Yokohama	4.5%
Toyo	4.0%
BFGoodrich	2.5%
Continental	2.5%
Hankook	2.5%
Sumitomo	2.5%
Dunlop	2.0%
Roadmaster	2.0%
Double Coin	1.5%
Hercules	1.5%
Kelly	1.5%
Kumho	1.5%
Dynatrac	1.0%
Gladiator	1.0%
Others	4.0%

* Because numbers are rounded to the nearest one-half percent, the total may not equal 100%. Brands must have at least 1% of the market in shipment numbers to be listed at 1%.

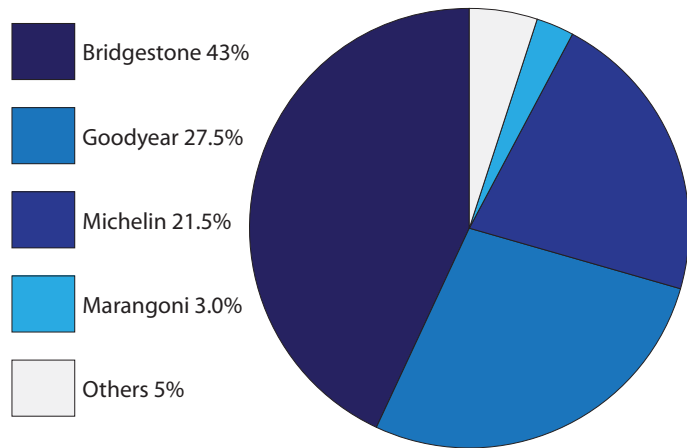
sale of its BFGoodrich farm tire line in the U.S. this year to concentrate on the Michelin brand.

In the OTR segment, supply of smaller sizes (most notably 25-inch tires) is rapidly catching up with demand due to the housing and construction market crash. "There is a prominent overstock of small bias and radial tires right now," says Gary Nash, director of OTR sales for Yokohama.

Although earthmover equipment sales remain flat, worldwide, most large (including 49-inch) and almost all giant (57- and 63-inch) OTR tire sizes remain in short supply.

OTR tire manufacturers are working hard to narrow the gap, however, by investing massive amounts of money in production. The giant OTR tire market also welcomed a new player, Titan, which built its first 63-inch tire last February.

Chart 14
2008 U.S. MARKET SHARE, RETREADED TRUCK TIRES



Retreading

An estimated 14.7 million retreaded medium and heavy truck tires were produced in the U.S. in 2008.

The average price of a truck tire retread went up 13.4% in 2008 compared to 2007 based on the retreaders surveyed by *MTD*. Retreaded truck tire sales (without casings) totaled \$2 billion.

Average selling prices, precure truck tire retreats
(without casings)

Size	2008	2007
295/75R22.5	\$135.43	\$118.80
11R22.5	\$135.91	\$120.28
11R24.5	\$140.67	\$124.49
285/75R24.5	\$140.16	\$120.83

Casing costs rose between 3% and 4%. The average truck tire casing cost the retreader \$62.45, broken out as follows: 295/75R22.5, \$55; 11R22.5, \$70.49; 11R24.5, \$71.05; and 285/75R24.5, \$49.43.

Bridgestone (Bandag), Goodyear and Michelin represent 92% of the truck tire retreading market in the U.S. (see Chart 14). They also own 70% of the replacement truck tire market with six brands: Goodyear, Michelin, Bridgestone, Firestone, BFGoodrich and Dunlop (see Chart 15). Michelin and Marangoni Tread North America Inc. gained truck tire retread market share.

The Tire Retread & Repair Information Bureau estimates there are close to 865 active retread plants in the U.S., down from 1,000 in 2003. The retreaders in *MTD*'s "Top 100 retreaders in the U.S." list represent 39% of those shops (336), but account for 83% of the truck tire retreats produced (46,975 truck tire retreats a day).

Twenty-seven of the top retreaders on the list retread OTR tires. Combined, they produced 683 OTR retreats per day.