# TGI exec: Slumping Lat/Am market is not sustainable in the long term

Tire Group International L.L.C. photo

Delgado

**By Kathy McCarron**

*Tire Business staff*

*MIAMI*—The current economic slump in Latin America combined with a glut of imported tires is creating market conditions that cannot be sustainable for the long term, according to Orlando Delgado, chief operating officer of Tire Group International L.L.C. (TGI).

Miami-based TGI distributes tires from a number of Chinese manufacturers, as well as several private brands, to every country in Latin America and the Caribbean, except Cuba.

"There is so much capacity and so much production coming out of Asia right now that it's deflating prices," Mr. Delgado said. "It's keeping prices down and—coupled with the cost of raw materials being…at very low figures—just further compounds the problem.

"What's going on in the Latin American market is very similar to what I'm assuming is going on in other regions throughout the world, in that, a vast majority of the supply that is going into our respective regions is in fact coming out of Asia and predominantly out of China," he added.

"From a macroeconomic prospective, most of the countries in Latin America, at least the larger ones, are dependent on oil exports. So with oil at record lows and with the U.S. dollar appreciating in international markets, governments don't have the

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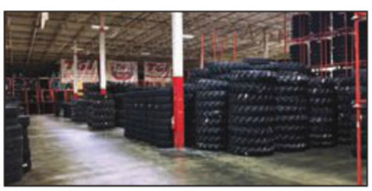
funds they had before in order to establish certain works within the countries, infrastructure works, those are put on hold.

"And then that exact same tire that you were selling for $40 now, due to devaluations that are going on in each one of these markets throughout Latin America, it's costing them significantly more. So it's almost a perfect storm of macroeconomics factors as well as industry-specific factors."

TGI coordinates mostly factory-direct containerload shipments from China to its customers. The small amount of Chinese products it does import into the U.S. are stored at its Miami warehouse, where they in turn are exported in parcels to Latin American and Caribbean customers that need smaller quantities.



Tire Group International L.L.C. photo

**TGI International L.L.C. uses its warehouse in Miami to deliver parcel shipments of tires to customers in Latin America.**

In addition to representing some major tire brands in Latin America, TGI markets its own private label tire lines—Astro, Cosmo, Orion, Duramas and Industar—with offerings ranging from passenger to OTR sizes.

The distributor sells to about 80 countries worldwide.

"We will sell in other regions but our forte continues to be Latin America and the Caribbean," Mr. Delgado said. "Sales this year more or less are in line with where we were last year, but it's still quite a challenge in all the international markets, quite frankly."

In Latin America, "the way that pricing is right now and capacity is right now, it's just not sustainable long term," he added. He gave the example of a commodity-sized truck tire that cost $199 about five years ago is now selling for $92.

"It's just not sustainable business. How can you make money selling a truck tire for $92? It just doesn't make sense…. This can't continue much longer."

All the countries are in a slump, with some faring better than others, he said.

"Mexico, specifically due to the (currency) devaluation, it's almost off limits. It's extremely difficult to be able to promote any product within Mexico. Brazil is another country right now that is extremely difficult to sell anything in due to some of the economic challenges that they're facing."

He noted that Brazil and Mexico represent more than 60 percent of the Latin American/Caribbean population and GDP, which means 60 percent of the entire market is struggling economically. He said the smaller countries are impacted by a trickle-down effect as well.

"Latin America right now is, in fact, quite a challenge," Mr. Delgado said.

"What we're trying to do, as best as possible, is making sure that we negotiate the best possible prices out of China so that we are competitive in the market and trying to diversify our portfolio by selling other categories as well.

"But in the meantime it's just trying to wait out the storm as best as we possibly can because the industry right now—again, with excess capacity and low prices—that cannot be sustainable long term. It's going to have to come to the point where there's going to have to be some consolidation of manufacturers out of China in order to find that better balance between supply and demand—because right now the tables are tilting in favor of supply that there is significantly more supply than there is demand for tires throughout the international markets."

Mr. Delgado said that with so much uncertainty in the market, consumers in Latin America are focusing more on a price point rather than an actual brand or a tier of product.

"Retailers, quite frankly, are the only ones that are benefitting from this because it's a lowest price point product, which at the end of the day drives a little more consumer foot traffic to their stores. However the same thing still holds true, if they were buying a tire for $50 and selling it for $60, nowadays they're buying that same tire for $40 and selling it for $50. Their revenue has probably decreased a little bit, but they should be making it up a little bit more in volume," he said.

TGI has been preparing itself for an eventual turnaround in the Latin American market, he said.

"We're trying to launch some of our private label products where we're not going to be competing with somebody down the street selling the exact same brand tire…. We're going to try to further establish our private label products and really put some marketing efforts behind them. Because this cannot be sustainable, even short to medium term, so we're investing in our private label products to better position ourselves in the Latin American market when in fact the market corrects itself."

He said TGI also is trying to solidify its distribution market in south Florida and looking at other opportunities to distribute tires in the U.S.

As far as exporting costs to Latin America, Mr. Delgado said that free trade agreements among Latin American countries, Asian countries and the U.S. provide standard duties for importers across the board.

"However what we've seen over the last couple of years are a significant amount of anti-dumping duties and countervailing duties that are imposed in Latin America, specifically for Chinese branded products," he said, noting that while the tariffs may not be high, anti-dumping duties can essentially make Chinese value-priced tires cost as much as premium tires.

"The antidumping duty is what's really making it difficult for the Chinese to move product into Latin American countries."

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