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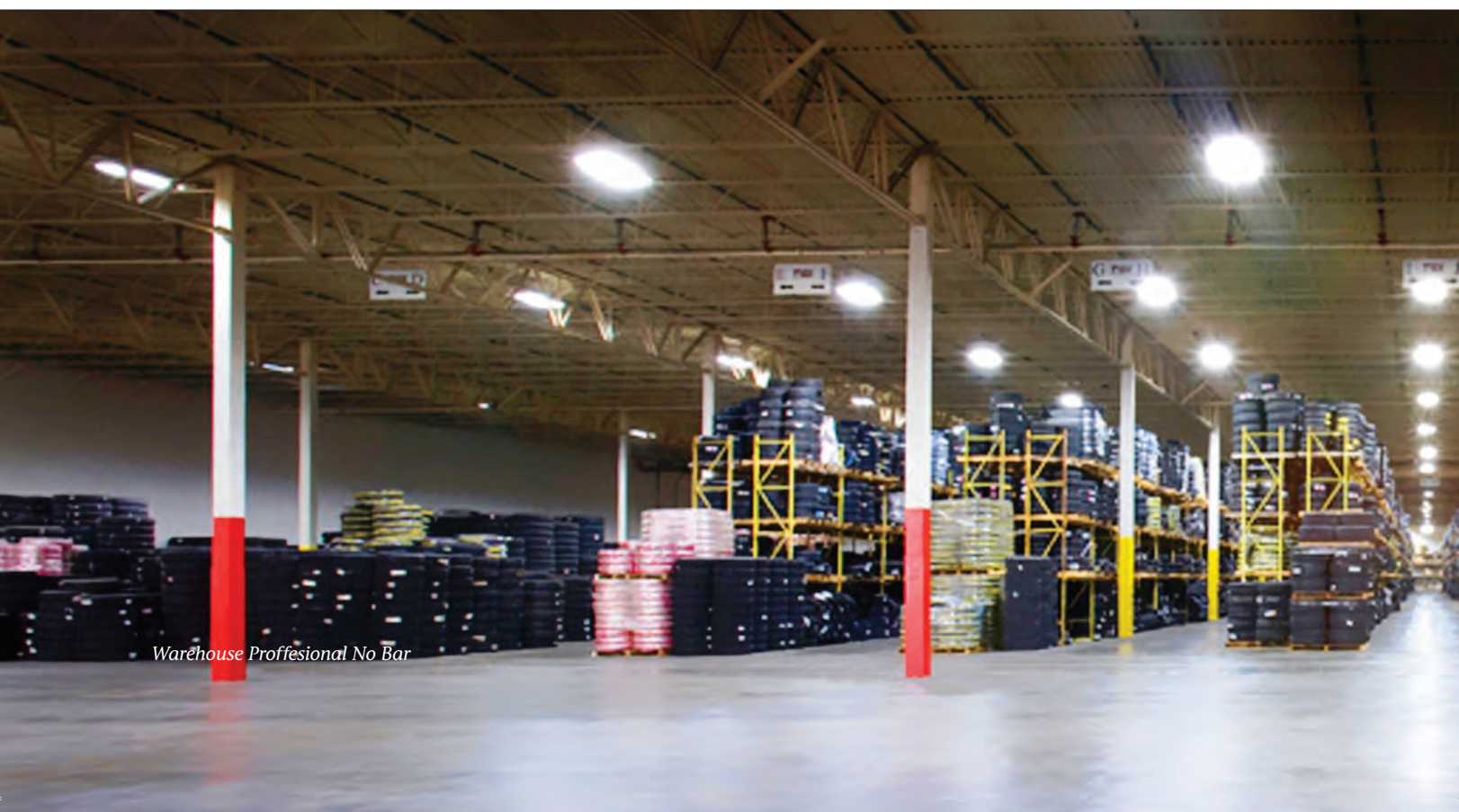
THE US WHOLESALE TIRE MARKET **CHALLENGES FACING TRADITIONAL BUSINESS MODEL**

Wholesale tire marketing scenario in the US is undergoing significant changes of late, posing challenges to the traditional models of wholesale business. The advent of

online sales is the ultimate disrupter of the traditional wholesale system. However, if you manage your cost, provide reliable service, sell good products and stand behind them and, above all, nurture your relationship with the customer, you

will find success

Today's wholesale tire market is certainly not what it used to be! The factors impacting the traditional wholesale tire distribution model are so many that it is hard to decide where to start. Some of



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these changes have been slow in coming and started many years ago, while other factors have come into play recently and are much more threatening and quicker in development. What is certain is that the combination of all these factors has created a challenging

market for today's independent wholesale tire distributor. Let's take an in-depth look at the dynamics in question.

Size proliferation

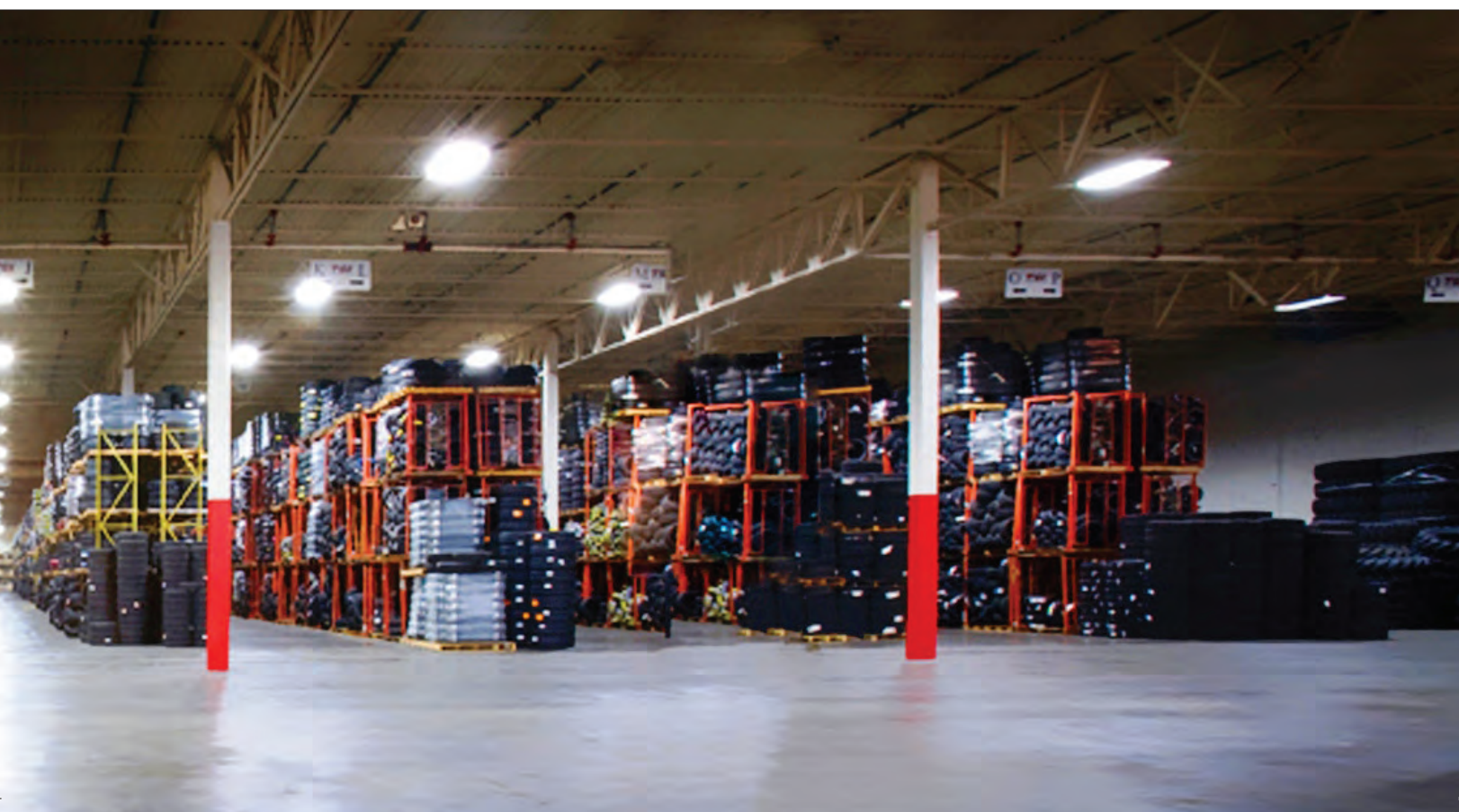
Today's tire wholesaler has to inventory more sizes and brands

than ever before as no single manufacturer has all the sizes and patterns you need to supply according to the market demands. Also, the manufacturers who do have the majority of the sizes don't necessarily have the competitive pricing needed on all items; so you must carry multiple brands in multiple tiers. Ultimately, you must offer your customer Good, Better, Best alternatives in order to truly bring value to the market and keep your customers competitive and in the game.

Carrying such a large array of product requires larger warehousing facilities outfitted with modern warehousing equipment. From material handling equipment to proper racking systems, you must find what works best according to your warehouse characteristics. Continual investment in computer software and hardware as well as employee training and education are other critical success factors that cannot be overlooked.

On-time delivery

As much as 60% of the US markets retail outlets are still considered "mom and pop", that is to say, they are truly independent, single-store locations that purchase multiple brands and are not affiliated with any one major tire manufacturer. These smaller retail stores are





usually limited in space and capital, making it a challenge to inventory the large number of sizes and patterns necessary to service today's tire market.

In the 1980's, 80% of the Passenger and Light Truck tire market comprised approximately 20 sizes, today 80% of the market comprises more than 70 sizes, making the retailer dependent on multiple daily deliveries to be able to satisfy their needs. This has put a tremendous burden on the wholesaler who now has to stock not only more sizes and brands to fill the demand but also invest in more trucks and manpower, all the while maintaining a competitive cost structure. A tall task, to say the least!

Fleet tracking and route optimization software is a must in order to properly monitor your deliveries and maximize efficiencies as well as keep your customers informed of their delivery status. This is just one more value-added benefit your customer essentially requires in today's competitive

market place. Technology is a great equalizer and you cannot ignore its importance for growth and enhanced customer service.

Direct competition from manufacturers

As markets have evolved, so has the manufacturers' approach in the market place. Manufacturers are no longer predominantly dependent on their wholesale distributors. Today, all major manufacturers have direct dealer marketing programs that allow them to ensure that their marketing funds, special price incentives etc. reach their intended targets -- the consumer. This structure integrates the manufacturers into the supply chain more than ever and allows them to effect sales of their products through their direct marketing efforts. Manufacturers are also directly supplying any and all retailers that are large enough to buy in volume and expanding their own company owned retail stores. (Bridgestone and Goodyear). We are now also seeing manufacturers enter the online retail arena, most

notably Goodyear (USA) in 2016, and Michelin (Europe) in 2017.

These factors, coupled with consumer's access to prices established by the larger retail chains and manufacturers on the Internet and print media, serve to establish a ceiling on the retail prices independent operators can charge. This, in turn, puts pressure on the wholesaler and has caused a continual erosion of margin on Tier 1 and Tier 2 brands and, by default, has allowed tier 3 alternatives to firmly establish themselves in the marketplace since this is the one area independent retailers and wholesalers can still maximize their margin through their own marketing efforts.

Loss of exclusive territories

Tier 1 and Tier 2 manufacturers, for the most part, are no longer giving market exclusivity to their wholesalers. Today, you see multiple wholesalers covering the same territory





with the same brands, and this has put tremendous pressure on the wholesaler, often selling out at razor-thin margins in order to service their customers' needs. This

is not healthy for any of the parties involved, but I don't see this trend reversing any time soon.

Online tire sales and commoditization of industry

Here comes the ultimate disrupter -- online tire sales. This is the fastest growing segment in the industry. There are various players who have entered into this arena including tire manufacturers, both directly under their company banner (Goodyear) and through the acquisition of existing online platforms (Michelin Europe). There are the more traditional players such as Tire Rack, the largest online player of USA. They have a traditional business model with warehouses fulfilling online orders from existing inventory.

Then you have the newest players, the ones with the greatest potential to disrupt traditional distribution models -- Delticom (Europe/USA), SimpleTire (USA) and Amazon. These companies' online platforms get fed their inventory from a multitude of wholesalers around the country and they simply match the buyer with the best cost/supplier, never having the carrying cost of any inventory or even a receivable since they are being paid

via credit card instantly. Limited overhead, positive cash flow and the advantage to buy from the best-cost source every time, thereby maximizing profitability. Can things be any better than that!

Tier 3 overcapacity and price instability

As I mentioned previously, wholesalers must have an entry level option to offer your customers; today's entry level tire manufacturers (mostly based in Asia) are producing quality products at an incredibly low price point, truly providing value. Obviously, some of the manufacturers have been affected by anti-dumping duties; but there are still many countries in Asia that only pay a minimal duty coming into the US. The issue with this segment, known as Tier 3 or Tier 4, is that there is no cost discipline and it is quite volatile and reactive to fluctuations in raw material cost, freight cost, etc.

There is also over capacity and this is another factor that influences costing. So, while wholesalers are usually able to make better margins on these entry level tires, they must be vigilant and in tune with the market to make sure they do not get caught with too much inventory if there is a downturn in costing or too little if there is a spike. Pricing fluctuates on an order-to-order basis for the most part and delivery times fluctuate from 60 to 120 days. Buyer beware!

Having been born into the business and with my family's roots in the industry dating back to the 1940's, I remain optimistic that, if you manage your cost, provide reliable service, sell good products and stand behind them and, above all, nurture your relationship with the customer, you will find success.

You must be forward-thinking and reactive to the market as well. Your employees must be constantly trained and educated on the importance of making the customer happy. Whether that customer is interacting with a delivery driver or is coming to your facility to pick up an order, service them with a smile and respect. Our customers' needs still rule the day. The Customer is King! Happy Selling! ■

