

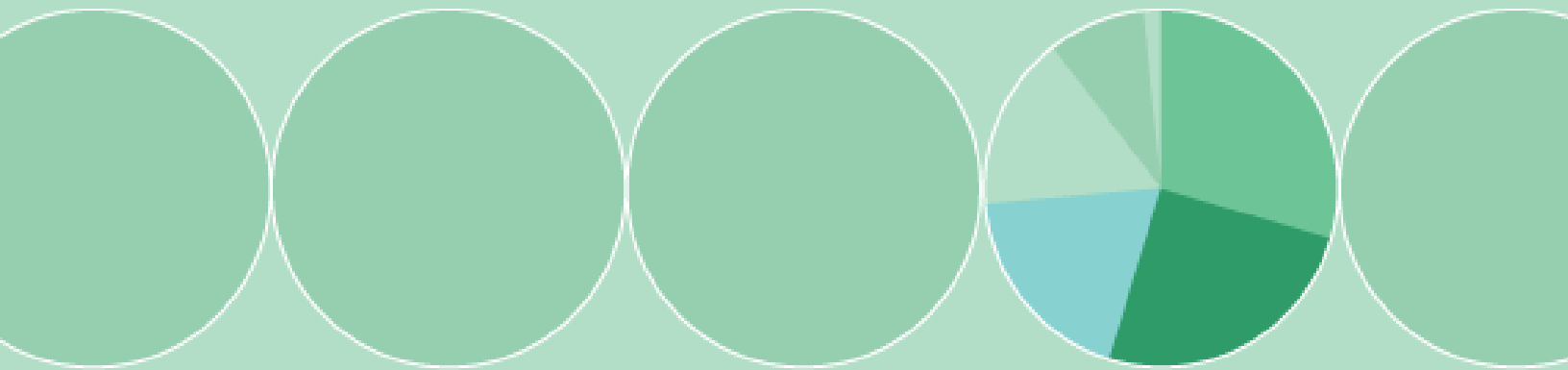


WHERE KNOWLEDGE IS POWER

IBISWorld Industry Report

January 13 2010

Tire Wholesaling in the US: 42113

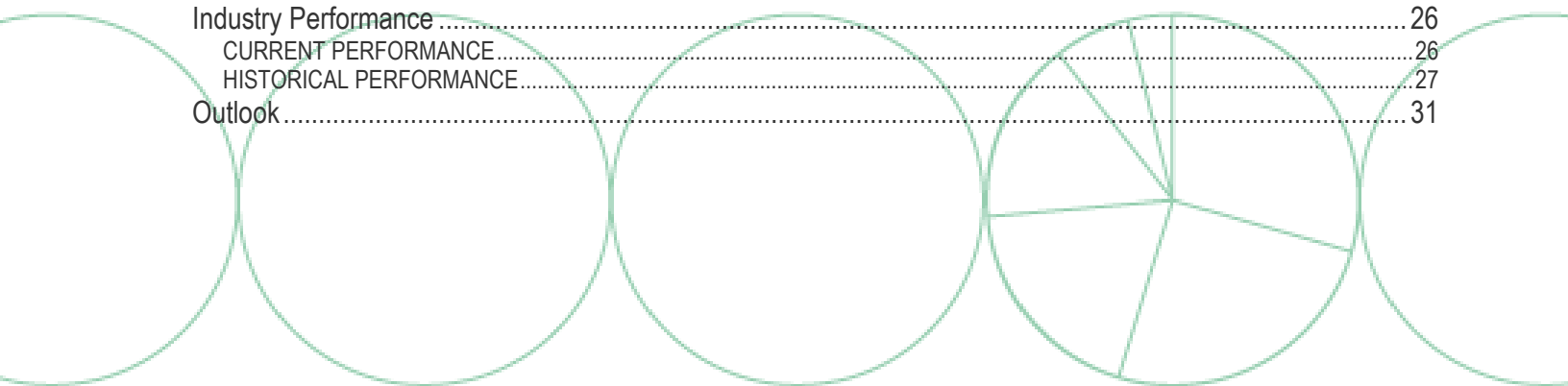


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Industry Definition

Tire dealers wholesale a broad range of both new and used tires and tubes for automobiles, trucks, heavy machinery and motorcycles. Companies in this industry also wholesale repair materials for tires and tubes. Products are sourced from domestic and foreign manufacturers and typically sold to retail tire centers, automotive repair workshops, automakers and large retail chains such as Walmart.

ACTIVITIES (PRODUCTS AND SERVICES)

The primary activities of this industry are:

- Motor vehicle tires and tubes wholesaling
- Tire and tube repair materials wholesaling
- Used tire (except scrap) wholesaling

The major products and services in this industry are:

- Passenger and light truck - flag brands
- Passenger and light truck - private label
- Passenger and light truck - house brands
- Medium and heavy truck tires
- Specialty and other tires

SIMILAR INDUSTRIES

Industry:  42111 - Automobile Wholesaling in the US

Description: Wholesalers of new and used motor vehicles


Industry:  42112 - Auto Parts Wholesaling in the US


Description: Wholesalers of motor vehicle supplies and new motor vehicle parts

Industry:  42114 - Used Car Parts Wholesaling in the US

Description: Wholesalers of used motor vehicle parts


DEMAND & SUPPLY INDUSTRIES


 32621 - Tire Manufacturing in the US

 33611a - Car & Automobile Manufacturing in the US

 33611b - Light Truck & Sport Utility Vehicle Manufacturing in the US

 33612 - Truck & Bus Manufacturing in the US

 33641a - Aircraft, Engine & Parts Manufacturing in the US

 33641b - Guided Missile & Space Vehicle Manufacturing in the US

Key Statistics

INFLATION ADJUSTED (CONSTANT) PRICES

| | 2006 | 2007 | 2008 | 2009 | 2010 | |
|--------------------------|----------|-----------|-----------|-----------|-----------|---------|
| Industry Revenue | *24,961 | *26,291.5 | *24,004.6 | *21,402.5 | *23,274.3 | \$Mil |
| Industry Gross Product | *2,168 | *2,195.6 | *2,016.4 | *1,755 | *1,885.2 | \$Mil |
| Number of Establishments | *2,288 | *2,330 | *2,219 | *2,045 | *2,200 | Units |
| Number of Enterprises | *625 | *635 | *603 | *554 | *595 | Units |
| Employment | *33,195 | *32,243 | *30,178 | *27,608 | *29,920 | Persons |
| Exports | -- | -- | -- | -- | -- | |
| Imports | -- | -- | -- | -- | -- | |
| Total Wages | *1,444.2 | *1,459.4 | *1,392.2 | *1,241.3 | *1,326.6 | \$Mil |
| Domestic Demand | NC | NC | NC | NC | NC | \$Mil |
| Shipments | *313 | *315 | *293 | *280 | n/a | Million |

REAL GROWTH

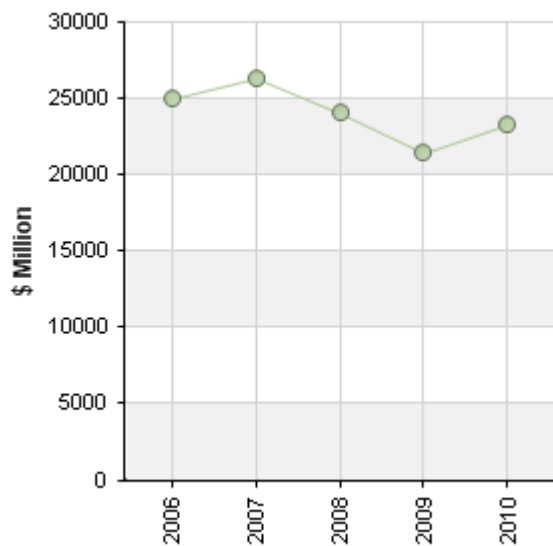
| | 2006 | 2007 | 2008 | 2009 | 2010 | |
|--------------------------|-------|-------|-------|--------|------|---|
| Industry Revenue | *-0.3 | *5.3 | *-8.7 | *-10.8 | *8.7 | % |
| Industry Gross Product | *-2.4 | *1.3 | *-8.2 | *-13.0 | *7.4 | % |
| Number of Establishments | *-0.7 | *1.8 | *-4.8 | *-7.8 | *7.6 | % |
| Number of Enterprises | *-1.1 | *1.6 | *-5.0 | *-8.1 | *7.4 | % |
| Employment | *3.8 | *-2.9 | *-6.4 | *-8.5 | *8.4 | % |
| Exports | NC | NC | NC | NC | NC | % |
| Imports | NC | NC | NC | NC | NC | % |
| Total Wages | *-0.1 | *1.1 | *-4.6 | *-10.8 | *6.9 | % |
| Domestic Demand | NC | NC | NC | NC | NC | % |

RATIO TABLE

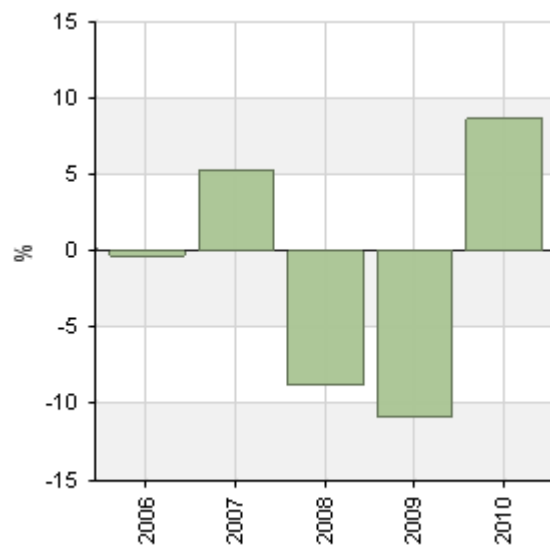
| | 2006 | 2007 | 2008 | 2009 | 2010 | |
|-------------------------------------|-------|-------|------|-------|-------|-------|
| Imports share of Domestic Demand | NC | NC | NC | NC | NC | % |
| Exports Share of Revenue | NC | NC | NC | NC | NC | % |
| Average Revenue per Employee | *0.75 | *0.82 | *0.8 | *0.78 | *0.78 | \$Mil |
| Wages and Salaries Share of Revenue | *5.79 | *5.55 | *5.8 | *5.8 | *5.7 | % |

GRAPHS

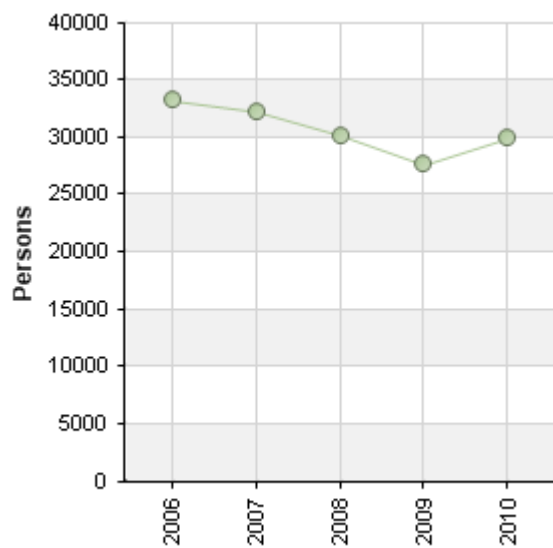
Revenue



Revenue Growth Rate



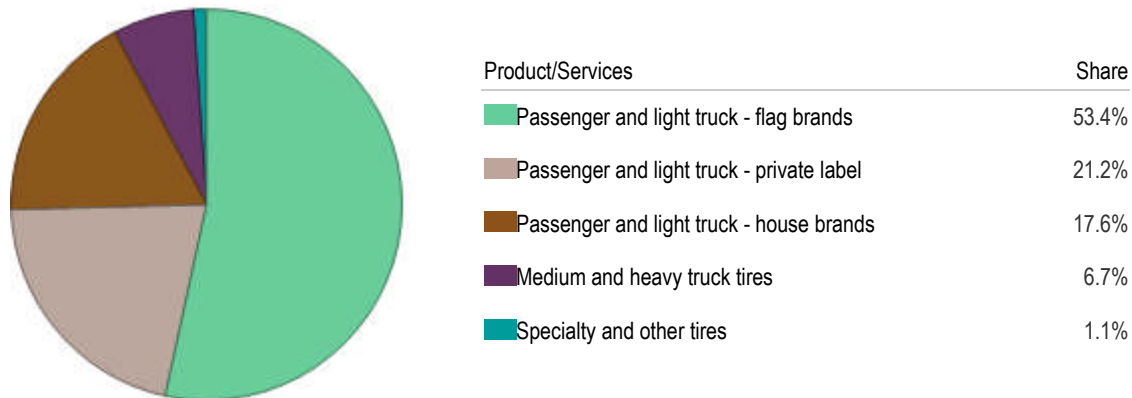
Employment



Note: Unless specified, an asterisk (*) associated with a number in a table indicates an IBISWorld estimate and references to dollars are to US dollars.

Segmentation

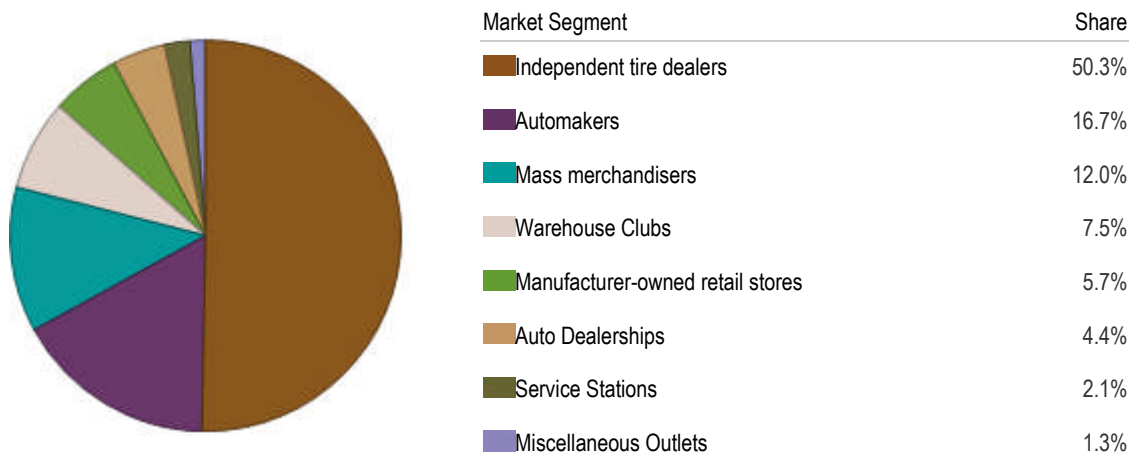
PRODUCTS AND SERVICE SEGMENTATION



The majority of products are tires and tubes for: passenger vehicles, light trucks, medium/heavy trucks, and speciality tires for use in a wide variety of applications including farm and off-the-road vehicles. About 80.6% of tires sold by this industry are for passenger vehicles, 11.6% are for light trucks, with 6.7% being used in heavy/medium trucks and the rest (1.1%) is for speciality vehicles. The demand for light truck tires has suffered over the past five years as consumers have shifted from gas-guzzling vehicles to fuel-efficient cars. Heavy-duty truck tire sales have also been dismal, due to plummeting freight volumes, which have left the trucking sector in tatters.

Passenger and light truck tires can further be segmented, depending on the type of branding of the tire, namely: flag, house and private-label brands. Flag brands are premium tires made by and marketed as major tire manufacturers such as Goodyear, Bridgestone and Michelin. House brands are made by major tire manufacturers but marketed under a less well-known brand. As these branded tires are not marketed as aggressively, they are not as expensive as flag brands. Private-label brands are made by tire manufacturers exclusively for and marketed by independent tire wholesale distributors or retailers. Flag brands are the most popular tire wholesaled by this industry as they are the most favored tire of automakers. House brands are particularly popular in the automotive aftermarket for their low cost. Private-label brands are the second most popular passenger and light truck vehicle tire wholesaled by this industry. Sales of this type of tire have increased as manufacturers reduce their supply of tires directly to small independent dealers. Instead manufacturers supply these tires to independent wholesalers who have the ability to distribute to a large number of dealers with greater efficiency.

MAJOR MARKET SEGMENTS



In the US, replacement tires represent 83.3% of total tire sales, with sales to original equipment manufacturers (OEMs) representing the remaining 16.7%. This share of the wholesale tire market mirrors that of other major developed countries.

Independent tire retailers are the largest market in this industry. This share is high as there are a large number and low concentration of independent tire dealers in the US. Automotive manufacturers account for 16.7% of Tire Wholesaling industry revenue. This share tends to remain relatively stable given that there will always be a healthy demand for new vehicles. However, manufacturers have been in strife over the past five years, and have seen their market share decline along with auto production.

Mass merchandisers, which includes big companies such as Wal-Mart and Sears have been losing market share over the past five years, possibly due to the growing popularity of other channels such as Warehouse clubs. Warehouse clubs include companies such as Costco, which retail to the public on a bulk-buying term. The number of warehouse clubs in the US is growing rapidly, creating competition and headache for mass merchandisers. Given that Costco and similar companies sell in bulk, tire prices there tend to be cheaper.

Manufacturer-owned retail stores are essential in ensuring that major tire manufacturers have an exclusive retail outlet for their products. However, their share has come under pressure from independent retailers, which tend to be more efficient tire distributors. The auto dealers market was growing fast prior to the recession. In 2009, the market will lose share due to GM and Chrysler (as well as other automakers) terminating a large amount of dealerships in order to survive.

Service stations and other miscellaneous outlets (such as auto parts stores and auto mechanics) typically account for a very small part of the market. They have all suffered over the past five years due to soaring gasoline prices and more recently, due to the global financial crisis.

INDUSTRY CONCENTRATION

This industry is highly concentrated

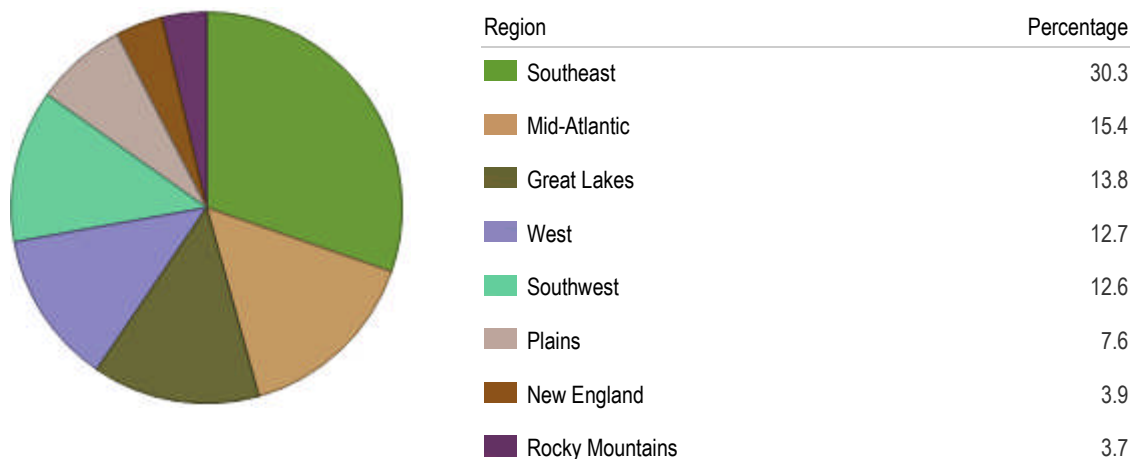
The industry's four largest major players are, in descending order of magnitude: Goodyear (26.2%), Bridgestone (23.0%), Michelin (10.2%) and Cooper Tire & Rubber Company (9.1%). Together these four industry players account for an estimated 68.5% of total industry sales revenue. IBISWorld estimates that 60.0% of establishments within this industry employ less than 10 people.

The industry has always had a high level concentration level and is expected to continue to operate at such a level in future years as incumbent firms have a significant brand advantage and low-to-medium profit levels provide little incentive for outside firms to challenge.

GEOGRAPHIC SPREAD

Year: 2009

Industry Establishments



Note: "Far West" and "Mid East" have been changed to "West" and "Mid-Atlantic," respectively, in some parts of this report

The Tire Wholesaling industry is concentrated in the Southeast region. IBISWorld estimates that in 2009, this region will represent 30.3% of all tire wholesaling establishments and approximately 25% of the US population. This region is home to TBC Corporation, one of America's largest tire and tube wholesalers, which is based in Tennessee.

The West region will account for 12.7% of tire wholesaling establishments in the US. IBISWorld estimates that California is home to about 16.5 million automobiles as well as some of the largest seaports in the US. The Great Lakes region will account for an estimated 13.8% of tire wholesaling establishments. The Great Lakes is home to major automotive players such as General Motors and Ford and is a renowned automotive manufacturing hub. Major tire manufacturer and wholesaler, Cooper Tire & Rubber Company, is based in Ohio, which is found in the Great Lakes.

The Mid-Atlantic region will account for 15.4% of tire wholesaling establishments. The region represents approximately 16.2% of the American population. IBISWorld estimates that New York is home to about 9.3 million automobiles and the largest seaport in the US. The Southwest region will account for 12.6% of tire wholesaling establishments.

Market Characteristics

MARKET SIZE

Tire wholesalers have not been very lucky over the past five years. Firstly, they had to deal with erratic rubber prices, which affected the price of tires. Most wholesalers were able to pass on some of the increase in the price of tires onto retailers, but this was not enough to keep profitability from falling. Then, the price of gasoline soared, which meant drivers were more likely to keep their cars in their garage for longer periods. The average number of miles driven suffered, the wear and tear on existing tires declined and replacement sales of tires did not fare too well.

That was not the end of the woes of wholesalers. In 2008, the global financial crisis tore through the US economy and created the perfect storm scenario for a recession. Job losses mounted, households lost confidence in their finances and car sales crashed. Dismal car sales had a flow-on effect on domestic motor vehicle manufacturing, which plummeted, taking a large proportion of original equipment tire demand with it. Consumers also postponed any unnecessary expenditure – and replacement sales suffered. IBISWorld believes that revenue of the Tire Wholesaling industry will decrease by 0.5% annually over the five years to 2009 to \$21.40 billion.

The US economy is tipped to recover in the next five years, which will support the need for new cars, motor vehicle production, as well as replacement demand for tires. As income grows again, the number of miles driven will also improve. IBISWorld believes that industry revenue will rise by 5.7% annually over the five years to 2014 to \$28.2 billion. However, replacement demand will face road blocks. Advancement in technology will prolong the life of tires, which will require less frequent replacement. Gas prices are expected to soar again, which could potentially hurt driving habits.

LINKAGES

Demand Linkages

☰ 33611a - Car & Automobile Manufacturing in the US

Demand for passenger vehicle and light truck tires.

☰ 33611b - Light Truck & Sport Utility Vehicle Manufacturing in the US

Demand for passenger vehicle and light truck tires.

☰ 33612 - Truck & Bus Manufacturing in the US

Demand for Heavy Duty Truck tires.

☰ 33641a - Aircraft, Engine & Parts Manufacturing in the US

Demand for Airplane tires.

☰ 33641b - Guided Missile & Space Vehicle Manufacturing in the US

Demand for Airplane tires.

Supply Linkages

☰ 32621 - Tire Manufacturing in the US

Supply of tires.

DEMAND DETERMINANTS

The Tire Wholesaling industry supplies both automakers (original equipment) and the automotive parts aftermarket (replacement tires).

Demand for tires from automakers is determined by:

The demand for motor vehicles - The demand for motor vehicles is impacted by motor vehicle price, consumer sentiment, population growth, the strength of the labor market and household disposable income. A change in one or more of these factors will lead to a change in vehicle demand and hence the demand for tires from automakers.

Interest rates - An increase in the interest rate will reduce household disposable income and increase the interest commitment to vehicles purchased on finance. This will have a negative impact on vehicle demand and will reduce the number of tires demanded by automakers.

Vehicle affordability - As vehicle affordability improves, vehicle demand increases, which positively impacts both the demand for tires from automakers and also the demand for tires from the automotive parts aftermarket.

Demand for tires in the tire replacement market is determined by:

The reliability and quality of the stock of tires in use - A technological advance in tire reliability will reduce the frequency of tire replacement, thereby impacting the demand for tires from aftermarket participants.

Changes in the level of consumer disposable income - An increase in consumer disposable income often leads to increased consumer expenditure. Tire upgrades are more likely to occur when consumer disposable income has been increased. This may lead to consumers going from ordinary road tires to the more expensive radial tires, increasing the demand for tires at the wholesale level.

Weather conditions - automobiles operating in colder regions of the US often require snow tires as well as summer tires. Some automobiles use "four season" tires, which tend to wear out at a faster rate.

DOMESTIC AND INTERNATIONAL MARKETS

Domestic and International Markets Exports

Exports in this industry are low

Exports in this industry are steady

Domestic and International Markets Imports

Imports in this industry are low

Imports in this industry are steady

Domestic and International Markets Analysis

The value of imports and exports exchanged in this industry is accounted for at the manufacturing level.

IBISWorld estimates that exports within the Tire Manufacturing will fall by 9.1% in 2009. In the same year, exports will account for an estimated 19.1% of industry revenue. The Netherlands and Australia will be the two fastest growing export markets.

IBISWorld estimates that imports within the Tire Manufacturing industry will fall by 0.8% in 2009 and will account for an estimated 56.5% of domestic demand, compared to 31.9% in 2004. China and Thailand will be the fastest growing origins.

BASIS OF COMPETITION

Competition in this industry is medium
Competition in this industry is steady

There is a medium level of competition within the Tire Wholesaling industry due to: a high concentration of major player industry share, a low level of product differentiation (most firms wholesale similar products); and a high level of competition in downstream markets. External competition stems from used parts such as retreads. Competition from these products has declined in recent years due to safety concerns relating to the use of these cheaper substitutes.

Firms within the industry compete on various factors. The most significant ones are discussed. Major automotive manufacturers have sustained heavy financial losses in recent years and have subsequently cut costs to improve profitability. As part of their cost cutting measures they have put price pressure on major tire industry wholesalers, which supply original equipment on new motor vehicles.

In addition to lower prices, vehicle manufacturers also seek to limit the number of their suppliers, increasing the need for tire wholesalers to supply tire products that suit all makes and models of automobile. Customer service is another important basis of competition, especially during periods of economic decline.

LIFE CYCLE

Life Cycle Stage

The life cycle stage is mature

Life Cycle Reasons

- Industry value is forecast to decline in the ten years to 2009
- Innovation is mainly through internet distribution channels
- Cheaper imported tires are being introduced in the market

Life Cycle Analysis

The value added of this industry is expected to fall by 0.1% annually over the ten years to 2009, while GDP is forecast to grow. The relatively negative performance of the industry will mainly be due to volatile rubber prices, which creates uncertainty within profit levels of tire wholesalers.

Innovation within the industry is focused upon enhancing existing delivery channels rather than creating new ones. For example, using the internet as a delivery channel will be a key feature in the next five years. The issue with that though is that manufacturers could also come up with the same idea. Retailers will then be able to access products directly, thereby

bypassing the wholesaler. IBISWorld believes that wholesaler bypass will limit growth in the next five years, although use of the internet will have an overall positive effect on the industry.

The industry's four major players established their market dominance through the acquisition of small wholesale distributors. Cost cutting regimes by automakers has increased the level of price competition within the tire wholesaling industry. With a rise in imported tires from low-cost countries such as China though, many small wholesalers have been able to compete on price. This has led to a few new entrants over the past five years, and this trend will continue in the future. Establishment numbers are forecast to rise by 0.8% annually over the ten years to 2009.

Industry Conditions

BARRIERS TO ENTRY

Barriers to entry in this industry are low
These barriers are steady

There are no licensing requirements, government regulations or resource constraints that are significant enough to prevent firms from entering the Tire Wholesaling industry. The costs of establishing distribution facilities and sourcing skilled labor to sell tires may deter some firms from entering the industry. The cost of competing with other firms that are significantly entrenched in downstream markets may also hinder some firms from entering the industry.

TAXATION

There are no taxation issues specific to this industry. The wholesale consumption of tires and tubes, however, may be affected by changes in the level of sales tax applied at the retail level. Like most other industries, the following taxes are applicable to the Tire Wholesaling industry: payroll, property, excise and income taxes.

INDUSTRY ASSISTANCE

The level of Industry Assistance is none
The trend of Industry Assistance is steady

There are no specific tariffs for this industry

There is no specific protection afforded to this wholesaling industry. Tariffs are applicable to a range of goods supplied by this industry. Tariff rates on these goods range from 3% to 10% of their value. Tariffs applied to products wholesaled by this industry do not affect overall industry sales revenue. They merely increase the throughput of domestically manufactured products at the wholesale level.

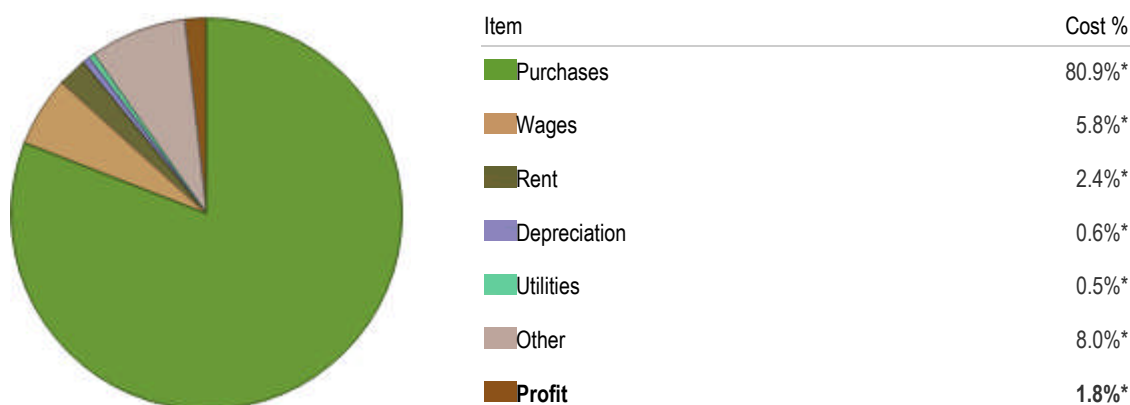
REGULATION AND DEREGULATION

The level of Regulation is light
The trend of Regulation is steady

There are no industry specific regulations. Industry operators should ensure that they comply with regulations covering the storage and transport of goods and occupational health and safety.

COST STRUCTURE

Year: 2009



The purchase of products for resale is the largest expense for operators. This cost category consists of goods purchased from vendors (domestic or international) for resale to other corporations. Products in this category include tires and tubes. In 2009, IBISWorld estimates that purchases will account for 80.1% of an average firm's revenue. Natural rubber prices increased substantially over the five years to 2008, although they are forecast to decline in 2009. The price of tires has been growing over the past five years.

Some wholesalers have been able to pass on the price hike completely, but most have only been able to offset the hike partially. Profitability has suffered for this reason over the past five years. Returns in this industry are typically low, otherwise retailers would bypass wholesalers and purchase directly from manufacturers. Tire wholesalers have also been trying to weather the downturn by keeping wage costs in check. The number of employees is expected to fall in 2009, and wages as a percentage of revenue will stay the same as 2008 at 5.8%. In other words, wholesalers will be partly successful in keeping labor costs in check.

Many industry operators rent rather than own their distribution facilities. In 2009, rent is estimated to account for 2.4% of an average firm's revenue. Other expenditure includes freight, marketing and insurance expenditure. The Tire Wholesaling industry spends heavily on freight to meet the fluctuating needs of aftermarket retailers. Higher oil prices increase the cost of freighting tires.

CAPITAL AND LABOR INTENSITY

The level of Capital Intensity is low

- Wages account for a greater proportion of revenue than capital expenditure
- The wholesale function is heavily reliant upon labor

The ratio of labor to capital is used to determine the amount of labor used for every unit of capital within this industry. It is an indicator of the capital-labor mix typically used within the Tire Wholesaling industry in the US. Wage costs are used as a proxy for labor while depreciation is used as a proxy for capital.

IBISWorld estimates that in 2009, the depreciation to wage cost ratio for the Tire Wholesaling industry will be approximately 1:9.7. This indicates that for every dollar absorbed by depreciation, \$9.70 is allocated towards labor costs. This is classified as a low level of capital intensity.

Capital intensity is low in the Tire Wholesaling industry for several reasons. The primary function of the wholesaling industry is to get the product into the market. The movement of tires involves taking orders, transportation and storage, tasks which by their nature are labor intensive.

The main capital expenditure made by the industry is towards buildings for tire storage and purchases of forklift and other lifting machinery, which are used to move tires around the warehouse and into transport vehicles. With regard to buildings, many companies are now leasing storage facilities rather than purchase the building outright, which has further decreased the capital intensity of this industry.

TECHNOLOGY AND SYSTEMS

The level of Technology Change is medium

Technological developments in the wholesaling industry have largely centered on the computerized automation of inventory control. A fully automated inventory control system records inventories, picks products, determines minimum order quantities, assesses customer credit ratings, generates invoices and payment advices and can produce real time reports.

There has been an increase in the utilization of electronic ordering and information delivery systems, including the ability to transact over the internet. This has a significant impact on the cost efficiency of the wholesale distribution model. For example, distributors are now working to establish a more seamless supply chain in which the orders of end-users flow immediately from reseller web sites to distributor logistics centers in closest proximity to the order destination.

While the expansion of internet commerce provides an alternative cost-effective method for wholesalers to provide services to customers, this technology can also provide manufacturers with an avenue for internalizing the wholesaling and retail functions.

INDUSTRY VOLATILITY

The level of volatility is medium

Volatility in this industry has been rising over the past five years due to erratic rubber and tire prices. Constantly fluctuating and unpredictable prices have inflated financials and made it difficult for companies to forecast sales revenue. To make things worse, the recession and turmoil in the automotive manufacturing sector led to a decline in tire shipments, further aggravating uncertainty in the industry. These volatile factors were partially offset by a generally long-term stable aftermarket. The replacement (aftermarket) market accounts for the majority of sales in this industry. As a result, volatility is medium.

GLOBALIZATION

The level of Globalization is medium

The trend of Globalization is steady

The industry's four major players, in descending order of magnitude, are Goodyear, Bridgestone, Michelin and Cooper Tire & Rubber. Of these four major players, Michelin and Bridgestone are foreign owned, accounting for an estimated 33.2% of industry sales revenue, which infers a medium level of globalization.

Bridgestone operates tire plants in Mexico, Argentina, and Brazil. Goodyear operate tire plants in Canada, Belgium, France, Germany, Luxembourg, Poland, Slovenia, Turkey, UK, Morocco, Brazil, Colombia, Peru, Venezuela, China, India, Indonesia, Japan, Malaysia, New Zealand, Philippines, Taiwan, Thailand and Australia. Cooper Tire and Rubber also operates a tire plant in England.

Key Factors

KEY SENSITIVITIES

The key sensitivities affecting the performance of the Tire Wholesaling industry include:

Domestic Price - Gasoline (Retail)

Description: The domestic retail price of gasoline - historical and forecast data and analysis

The price of gas has always been important to the automotive industry, as it represents a significant part of the running costs of a vehicle. Over the five years to 2009, the retail price of gasoline will grow by 5.8% annually, which combined with declining disposable income, will lead consumers to think twice about their fuel consumption. They will demand smaller and more fuel-efficient vehicles and will also be driving less in order to save on fuel costs. This will negatively affect demand, particularly for replacement tires and original equipment demand from domestic manufacturers.

Downstream Demand - Motor Vehicle Manufacturing in the US

Description: Downstream demand for the industry's products.

Tire wholesalers supply tires and tubes to automakers. The domestic automobile and light truck manufacturing industries are major users of original equipment produced by this industry. Conditions in the automobile and light truck manufacturing industries have been abysmal so far in 2009, with production crashing and two of the Big Three automakers having filed for bankruptcy protection. They (GM and Chrysler) have since exited bankruptcy, mostly with the help of the Government.

Motor Vehicle Use - Average miles driven per vehicle

Description: The level of motor vehicle use.

The level of motor vehicle usage affects the wear and tear of existing tires. As vehicle usage increases, so does the likelihood of a tire needing to be replaced, boosting the demand for tire wholesalers. Due to high gasoline prices, the number of miles driven has been falling. Even though the price of gasoline fell sharply in the second half of 2008, drivers were still anxious about their finances due to the recession.

Per Capita Disposable Income

Description: The level of and/or movements in real per capita disposable income.

When disposable income grows, households are more likely to spend more time on the road, which leads to a rise in the wear and tear of tires. Good economic conditions are also conducive to households buying new vehicles, which leads to an increase in the demand for original equipment tires and ultimately expands the vehicle fleet. Income has been rising over the past five years, although expenditure is expected to be sluggish in 2009 due to the recession and low consumer confidence.

Total Motor Vehicle Registrations

Description: The number of motor vehicle registrations - percentage change - historical and forecast data and analysis

Growth in vehicle registrations is indicative of an expanding vehicle fleet. As the vehicle fleet expands, demand for replacement tires increases. The rise in the vehicle fleet will be slow or even negative in 2009, as households put off purchasing big-item items such as cars. The fleet will recover once the economy gets back on its feet and drivers feel confident enough about their finances to start purchasing new vehicles.

KEY SUCCESS FACTORS

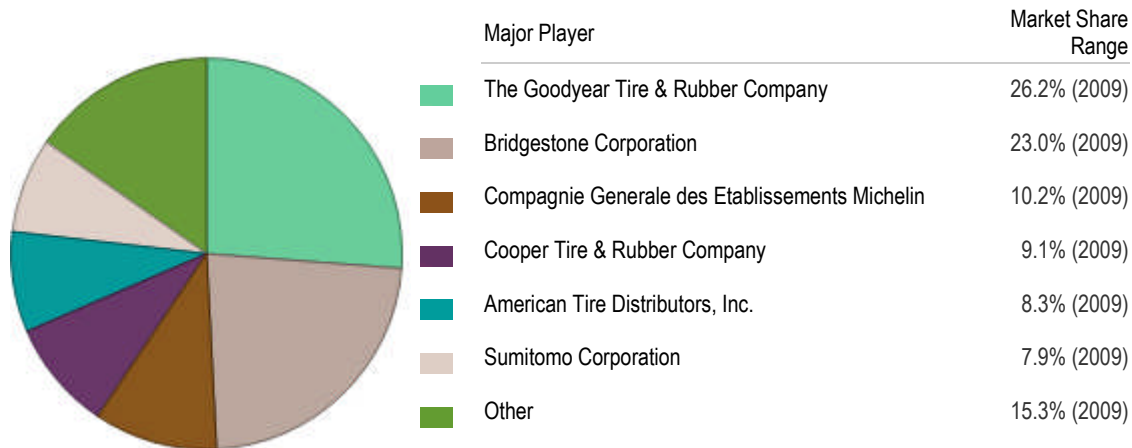
The key success factors in the Tire Wholesaling industry are:

- **Upstream vertical integration (ownership links)**
Four of the industries major players are vertically integrated manufacturer/wholesalers who dominate the industry because of their size and ability to control the cost of their product.
- **Establishment of brand names**
In order to develop customer loyalty, tire manufacturer/wholesalers need to establish brand names, which are recognizable to the market as being associated with durability and reliability at a reasonable cost.
- **Having contacts within key markets**
It is important for tire wholesalers to have strong relationships with mass merchandisers to ensure that their product receives appropriate market exposure.
- **Prompt delivery to market**
Tires can be replaced rapidly causing tire dealers' stock of tires to be eroded at a fast rate. It is important that wholesale distributors can deliver tires promptly to tire dealers so that low tire stocks do not interrupt the service they provide.
- **Having a loyal customer base**
Vertically integrated tire wholesalers aim to build a reputation that will positively distinguish their products in the marketplace.
- **Ability to control stock on hand**
Managing wholesale inventory levels are essential in ensuring that customer orders can be fulfilled and that stock on hand is not oversupplied.

Key Competitors

MAJOR PLAYERS

Market Share



PLAYER PERFORMANCE

The Goodyear Tire & Rubber Company

Brand/Trading Name(s): Dunlop

Market Share: 26.2%

Goodyear Tire Company was originally established in Akron, Ohio in 1898. The company began manufacturing tires in Canada in 1910, expanding into Argentina, Australia and the Dutch East Indies over the next two decades. During the 1930s, Goodyear acquired tire maker Kelly-Springfield and began producing tires from synthetic rubber. The company continued to grow post-WWII as the automobile became a more popular form of transport.

During the 1980s, Goodyear introduced all-weather radial tires and divested the company's non-core business units raising \$1.7 billion. During the 1990s the tire industry hit hard times as recession, overcapacity, and price-cutting reduced revenues. In 1991, Goodyear began wholesaling tires outside of its dealer network, selling to mass merchandisers such as Wal-Mart, K-Mart and Sears. In 1995, Goodyear began wholesaling tires to 860 Penske Auto Centers and 300 Montgomery Ward auto centers.

Today, Goodyear is one of the largest tire wholesalers in the US. The company sells to 940 specialist retail stores in the US, in addition to mass merchandisers such as Wal-Mart. The company supplies tires to the replacement parts market and to motor vehicle manufacturers. Goodyear wholesales tires under its own 'flag brand' name, as well as under the Dunlop brand name.

Not a good year

Goodyear's performance in 2008 was similar to that of the industry. Sales declined due to lower demand brought about by the recession, as well as dismal motor vehicle production. Sales of tires from the North American segment (which includes sales to the US and Canada, but does not include export sales to other geographical segments) decreased by 12.5%.

The tire segment observed a net loss. Over the five years to 2008, sales of tires in the North American segment dropped by 6.8% annually to 71.1 million units.

Yet, revenue over the same period of time grew by 2.3% annually. This was mainly due to the company's ability to offset the decline in demand through higher prices. Increasing tire prices were however also caused by rising rubber prices, and this put upward pressure on costs. The volatile changes in rubber prices explain Goodyear's inability to keep profitability stable over the five year period.

The Goodyear Tire & Rubber Company - financial performance

| Year | Million Dollars Revenue | % change Growth | Million Dollars Operating Income |
|------|-------------------------|-----------------|----------------------------------|
| 2003 | 7194 | 0.7 | -103 |
| 2004 | 8569 | 19.1 | 74 |
| 2005 | 9091 | 6.1 | 167 |
| 2006 | 9089 | 0.0 | -233 |
| 2007 | 8862 | -2.5 | 139 |
| 2008 | 8255 | -6.8 | -156 |

Source: Annual Report

Bridgestone Corporation

Market Share: 23.0%

Established in 1931 in Japan, Bridgestone is one of the world's largest manufacturer/distributors of tires. In the decade prior to WWII, the company began producing tires for automobiles and airplanes. While the company lost all of its overseas plants post-WWII, its Japanese plants survived unscathed. After collaborating with rival Goodyear to import badly need technical equipment, Bridgestone began producing bicycles in the 1946. During the 1950s and 1960s, Bridgestone began manufacturing nylon tires and radials. During the 1970s the company benefited from the rapid growth in Japanese auto parts.

In 1988, Bridgestone acquired tire maker Firestone for \$2.6 billion, paying a price 26 times Firestone's earnings despite the company being dropped as a supplier to General Motors. The acquisition of Firestone gave Bridgestone greater exposure to the US market resulting in the company selling more tires through mass-market retailers. During the 1990s, Bridgestone expanded its distribution to Brazil, Indonesia, Mexico, Thailand, China and South Korea. In 1992, Bridgestone renamed its 1550 North American MasterCare auto service centers "Tire Zone at Firestone" to improve distribution. In the US, Bridgestone have had numerous industrial relations problems peaking in 1995 when the company hired 2300 permanent replacement workers during a plant strike.

Today Bridgestone is one of the world's largest tire makers, producing and distributing tires for automobiles, large trucks, heavy equipment, and aircraft. Approximately 20% of its sales come from non-tire products such as building materials (roof tiles), sporting goods (golf balls), industrial rubber products (conveyor belts and automotive hoses), and marine components (oil booms and fish-breeding reservoirs).

Good performance

Over the five years to 2008, Bridgestone's revenue rose by 10.7% annually. Net income fell by 33.3% annually, although the majority of the decline was recorded in 2008. All things considered, Bridgestone performed better than the economy and its major rival, Goodyear. This was due to strong commercial tire sales, particularly the ECOPIA brand. These tires

have reduced rolling resistance, which increases fuel economy, contributing to a reduction in fleet operating costs for commercial customers. Acquisitions also contributed to revenue growth. In 2007, Bridgestone acquired Bandag, a manufacturer of precured tread rubber used for retreading tires.

The company is not immune to the recession though. In 2009, sales will worsen, revenue will continue to fall. Bridgestone expects to record a net loss during the year.

Bridgestone - financial performance

| Year | Million Dollars Revenue | % change Growth | Million Dollars Net Income | % change Growth | Units Employees |
|------|-------------------------|-----------------|----------------------------|-----------------|-----------------|
| 2003 | 21511.7 | N/C | 871.2 | N/C | N/A |
| 2004 | 23439.4 | 9 | 1110.1 | 27.4 | 113699 |
| 2005 | 22794.7 | -2.8 | 1531.3 | 37.9 | N/A |
| 2006 | 25379.1 | 11.3 | 2097.9 | 37.0 | N/A |
| 2007 | 31192.3 | 22.9 | 1210.9 | -42.3 | N/A |
| 2008 | 35785.5 | 14.7 | 115.2 | -90.5 | 137195 |

Source: hoovers.com

Compagnie Generale des Etablissements Michelin

Brand/Trading Name(s): Uniroyal

Market Share: 10.2%

Compagnie Generale des Etablissements Michelin (Michelin) was established in France in 1889. The company was the first to make detachable, air-filled bicycle tires. In the early 1900s, Michelin expanded, opening an office in London and production facilities in Italy and New Jersey in the US. During the 1930s, Michelin developed tubeless tires (1930), treads (1934) and modern low-profile tires (1937). The onset of the Great Depression caused Michelin to close its US plant and take a share in Citroen, which was later converted into a minority stake in Peugeot as payment for the supply of tires.

In 1946, Michelin patented radial tires. During the 1950s, the company focused on expanding throughout Europe and due to the popularity of radial tires, the company had expanded worldwide by the end of the 1960s. In 1975, Michelin returned to manufacturing in the US, opening a plant in South Carolina. Between 1960 and 1990, Michelin bought a plant every nine months, in a rapid expansion campaign. In the early 1980s and 1990's the company struggled due to poor economic conditions. In 1990, Michelin acquired Uniroyal Goodrich for \$1.5 billion, solidifying the company's position in the US, the world's largest auto parts market. In response to its poor performance, the company restructured, cutting around 30,000 jobs and deciding to focus upon only nine product lines.

Today, Michelin is the third largest tire wholesaler in the US. Its 36,000 products include tires for cars, trucks, motorcycles, planes and agricultural vehicles. Michelin also makes wheels, inner tubes and steel cables used in radial tires, as well as road maps, travel guides and navigational CD-ROMs.

Michelin's performance over the past five years was relatively positive. Revenue rose by 6.8% annually, while net profit grew by 7.9% annually. This was however mainly due to favorable exchange rate fluctuations. The US dollar depreciated over the period, which positively affected revenue. Still, even without the benefits of a weak dollar, Michelin was able to offset the decline in demand for light truck and car tires by expanding into other activities. Other activities include the supply of specialty tires (such as earthmoving, agricultural, aircraft and two-wheel), as well as road maps and travel guides. Non-tire wholesaling activities are not included in this industry though. The company was still hit by the recession though, and the profit margin fell from 5.7% in 2005 to 2.2% in 2008.

Michelin - financial performance

| Year | Million Dollars Revenue | % change Growth | Million Dollars Net Income | % change Growth |
|------|-------------------------|-----------------|----------------------------|-----------------|
| 2003 | 17395.8 | N/C | 359.9 | N/C |
| 2004 | 18719.3 | 7.6 | 813.6 | 126.1 |
| 2005 | 19401.5 | 3.6 | 1106.3 | 36.0 |
| 2006 | 20581.9 | 6.1 | 719.8 | -34.9 |
| 2007 | 23120.3 | 12.3 | 1058.2 | 47.0 |
| 2008 | 24141.8 | 4.4 | 525.3 | -50.4 |

Source: Annual Report

Cooper Tire & Rubber Company

Market Share: 9.1%

The Cooper Tire & Rubber Company was established in 1946 as an independent tire distributor to the retail aftermarket in the US. The company was established upon the basis that it would not open its own sales outlets - a policy continued to this day that has earned the company sales and loyalty from retailers and private-brand customers. In 1960, Cooper went public as growth in car sales fuelled a greater demand for tires, increasing the company's need for capital to satisfy this demand. In 1974, Cooper began producing and distributing its first radial tires.

During the 1980s, a fall in demand caused many tire manufacturer/wholesalers to exit the market. Cooper capitalized upon this trend by acquiring plants and modernizing them for about a third of the cost of building a new one. Cooper also enhanced their research and distribution facilities during this time. By the mid 1980s, the company could warehouse more than 3 million tires and by the end of the 1980s, Cooper's stock was 68 times its 1980 level. In 1991, Cooper's reached the billion dollar sales mark with the company recording industry high margins of 33%.

Today, Cooper Tire & Rubber makes and distributes rubber products for the transportation industry. The company is divided into two segments: automotive and tires. The Tire segment produces automobile, truck and motorcycle tires and inner tubes primarily for sale in the replacement market to independent dealers, wholesale distributors and large retail chains in the United States. The segment does not sell directly to end users, and does not manufacture tires for sale to the automobile original equipment manufacturers ("OEMs").

Similar story

Cooper Tire & Rubber's financial performance over the past five years was similar to that of Goodyear. Revenue of the North American tire segment rose by 4.9% annually, while net income was volatile from year-to-year. In 2008, revenue fell due to crashing tire demand brought about by the recession, and the company recorded net losses. Profitability has suffered over the past five years due to an uncertain operating environment caused by the competitive landscape. High energy costs and rubber prices also affected margins. Revenue growth was supported by higher pricing which offset lower sales volumes during the period.

Cooper Tire & Rubber Company - financial performance

| Year | Million Dollars Revenue | % change Growth | Million Dollars Operating Income |
|------|-------------------------|-----------------|----------------------------------|
| 2002 | 1604.5 | N/C | 122.4 |
| 2003 | 1682.6 | 4.9 | 76.8 |

| | | | |
|------|--------|------|--------|
| 2004 | 1862.9 | 10.7 | 64 |
| 2005 | 1954.7 | 4.9 | 31.5 |
| 2006 | 1995.2 | 2.1 | -39.5 |
| 2007 | 2209.8 | 10.8 | 119.4 |
| 2008 | 2142.1 | -3.1 | -174.1 |

Source: Annual Report

American Tire Distributors, Inc.

Market Share: 8.3%

American Tire Distributors Holdings Inc, formerly Heafner Tire Group, Inc., is one of the largest independent suppliers of tires to the replacement tire market in the US. The company operates 102 distribution centers and carries brands of major tire manufacturers including: Bridgestone, Continental, Goodyear and Michelin. Additionally, American Tire Distributors are a significant independent distributor of aftermarket wheels, accessories and automotive service equipment.

Story of mergers and restructuring

In 1999, the company changed its name from The J.H. Heafner Company, Inc. to Heafner Tire Group, Inc. In 2000, Heafner Tire Group acquired Haas Tire Company and the distribution operations of Merchant's, Inc, known as American Tire Distributors. On 30 May 2002, the company again changed its name, from Heafner Tire Group, Inc. to American Tire Distributors, Inc. During 2002, American Tire has sold 130 Winston Tire Centers on the West Coast and about 30 T.O. Haas Tire outlets to focus on national distribution.

During 2004, the company acquired the wholesale business of North Carolina-based distributor "Target Tire, Inc." and "Big State Tire Supply". Prior to acquisition, Target Tire operated 11 distributions centers in Georgia, the Carolinas, Tennessee, and Virginia, and Big State operated nine distribution centers under the name of Texas Market Tire, Inc. in Albuquerque (NM), Oklahoma City (OK), Amarillo, Carrolton, Lubbock, McAllen, San Angelo, San Marcos and Tyler (TX).

On 29 August 2005, American Tire Distributors acquired Utah-based "Wholesale Tire Distributors, Inc." which includes the businesses of "Wholesale Tire Distributors of Wyoming, Inc." and "Wholesale Tire Distributors of Idaho, Inc." Prior to this acquisition, Wholesales Tire Distributors, Inc. serviced an estimated 2700 customers from three distributions centers in Salt Lake City (Utah), Casper (Wyoming), and Boise (Idaho). In January 2006, the company acquired Silver State Tire and in July, the company acquired Samaritan Tire.

In March 2005, Investcorp bought American Tire distributors and formed American Tire Distributors Holdings. In 2006, the new company acquired Silver State Tire Company and Golden State Tire Distributors as well as Samaritan Wholesale Tire Company. In 2007, they bought Jim Paris Tire City of Montebello, Inc. 6H-Homann, LLC and Homann Tire. In 2008, American Tire acquired Remington Tire Distributors, Inc., d/b/a Gray's Wholesale Tire Distributors and Am-Pac Tire Dist., Inc. It comes as no surprise that revenue grew by 11.2% annually over the four years to 2008. The majority of the growth was due to the acquisitions already mentioned. Financial data relates to the new company, American Tire Distributors Holdings, with 2004 including data brought over from the old company. American Tire's net profit was volatile over the period due to the amount of restructuring and mergers going on.

American Tire - financial performance

| Year | Million Dollars Revenue | % change Growth | Million Dollars Net Income |
|------|-------------------------|-----------------|----------------------------|
| 2004 | 1282.1 | N/C | 25.0 |
| 2005 | 1505.2 | 17.4 | -15.9 |
| 2006 | 1576.0 | 4.7 | -4.6 |
| 2007 | 1877.5 | 19.1 | 1.4 |
| 2008 | 1960.8 | 4.4 | 9.7 |

Source: Annual Report

Sumitomo Corporation

Market Share: 7.9%

The Sumitomo Corporation participates in the Tire Wholesaling industry through its subsidiary TBC Corporation. Sumitomo Corporation of America acquired TBC Corporation in late 2005.

TBC Corporation

Originally established as Cordovan Associates in 1956, the company changed its name to the Tire & Battery Corporation (TBC) in 1958. In 1983, TBC went public, officially becoming TBC Inc. Poor sales during the late 1980s and early 1990s caused the company to focus upon tire distribution solely. In order to exert greater control over the marketing of its tires, TBC entered retailing, acquiring Big O Tires for \$55 million in 1996. Big O Tires were established in the 1930s and was considered a market leader in tire retailing at the time of TBC's acquisition.

Today, TBC Inc. is the largest private brand tire distributor in the US, wholesaling tires to both its own Big O Tires subsidiary and independent tire distributors. These distributors operate under written distributor agreements with the company and resell the company's products to retailers or through retail outlets primarily consisting of independent tire dealers. The wholesale business operates a total of 30 warehouse distribution centers, all of which are located in the United States. The company sells its tires under the following brand names: Big O, Cordovan, Multi-Mile, Vanderbilt/Turbo-Tech and Sigma. The company also distributes tires under other brands for automobile, truck, sport utility vehicle, farm, industrial, recreational and other applications.

TBC's revenue rose by an estimated 12.8% annually over the five years to 2007 (latest available). Being a privately-owned subsidiary, financial data for the company is limited. However, IBISWorld believes that TBC's performance was similar to that of the industry as a whole. Some of the rise in revenue was the result of acquisitions and price hikes. During 2003, TBC acquired tire retailer, NTW stores, Inc.

TBC Corporation - financial performance

| Year | Million Dollars Revenue | % change Growth | Million Dollars Net Income |
|------|-------------------------|-----------------|----------------------------|
| 2001 | 1009.3 | N/C | 21.0 |
| 2002 | 1109.7 | 9.9 | 27.4 |
| 2003 | 1318.5 | 18.8 | 33.4 |
| 2004 | 1855.4 | 40.7 | 37.6 |
| 2005 | 1961.2 | 5.7 | N/A |
| 2006 | 2001.4 | 2.0 | N/A |

| | | | |
|------|--------|-----|-----|
| 2007 | 2027.4 | 1.3 | N/A |
|------|--------|-----|-----|

Source: hoovers.com

OTHER PLAYERS

The remaining players are generally smaller wholesalers, who each account for less than 5% of the market. The larger ones of those typically have revenue of between \$250 million and \$800 million and are generally private subsidiaries of bigger corporations. At the other end of the spectrum, there are a number of privately-owned, small wholesalers generating less than \$30 million in sales per year.

Myers Tire Supply and Carlisle Tire & Wheel are two of the most significant other players in this industry. Myers Tire Supply is based in Akron, Ohio and is the private subsidiary of Myer Industries Inc, a manufacturer of polymer products. The company wholesales tires and tubes through 35 warehouses. It supplies most of the major brands of tires. Myers Tire Supply's revenue is about \$780 million and will generate an estimated 3.0% of market share in 2009.

Carlisle Tire & Wheel is based in Carlisle, Pennsylvania and Aiken, South Carolina. The company's origins date back to the 1910s, when the Carlisle Tire and Rubber Company was created. Today, the business manufactures and wholesales speciality tires and wheels, including products for use in all-terrain vehicles as well as lawn and garden equipment. Revenue is about \$640 million and the company will generate an estimated 1.5% of market share in 2009.

Industry Performance

CURRENT PERFORMANCE

Tire wholesalers are key assets in keeping the wheels of the automotive sector turning. Over the past five years, tire wholesalers have had to battle perilous conditions such as skyrocketing gasoline and rubber prices. It was not an easy period for the automotive sector as a whole. Just when things were starting to look up, the global financial crisis and subsequent recession took the US by storm, leaving households, businesses and the Western world economy in tatters. It comes as no surprise that revenue of tire wholesalers is forecast to decline by 0.5% annually to \$21.40 billion over the five years to 2009. What is surprising however, is by how little revenue is expected to fall compared to the rest of the automotive sector.

Companies in the Tire Wholesaling industry were not as lucky as the numbers seem to imply. Revenue over the past five years has been inflated by above-average increases in the price of rubber, which was passed on by tire manufacturers. Retail tire prices have also been on the rise over the period, which meant that wholesalers were able to pass on some of the price hikes from manufacturers to retailers. They were unable to pass on all of it though and profitability fell throughout the period. IBISWorld believes that the profit margin of tire wholesalers will decline from an estimated 2.5% in 2005 to 1.8% in 2009.

Rubbing it in

Had it not been for rising tire prices, revenue would have fallen by a larger extent than it did. Prior to the recession, tire demand was already in trouble. Gasoline prices were soaring and households were driving fewer miles in order to save on fuel costs. This led to a reduction in the wear and tear of tires, which limited demand from the replacement market. The replacement tire market has generated the majority of the industry's growth over the past five years and in 2009, replacement tires are expected to account for 85% of total tire shipments in this industry. While the demand for passenger and truck replacement tires is year-round, passenger replacement tire sales are generally strongest during the second and third quarters of the year. Winter tires are sold principally in the months from August through November.

Things were even worse in the original equipment market as US automakers were struggling to cope with crashing demand for gas-guzzling vehicles. Domestic motor vehicle manufacturers are historically known for making fuel-inefficient vehicles. Over the past five years, consumers have been demanding more environmentally-friendly vehicles, which are often imported. As a result, domestic motor vehicle production has been dismal, and this negatively affected the demand for original equipment tires. Original equipment tires are tires sold to motor vehicle manufacturers, mainly for use in the assembly of new vehicles. The number of motor vehicles made domestically will fall by an estimated 12.0% annually over the five years to 2009, while tire ships will decline by 2.6% annually over the same period of time.

Then the global financial crisis occurred and made everything worse. Abysmal consumer confidence and rising job losses meant that households kept on driving less, even when the price of gasoline fell in the second half of 2008. The average number of miles driven decreased in 2008 and is forecast to keep on a downward trend in 2009 due to low household income. As mentioned, when fewer miles are driven, the wear and tear on tires is minimized, which hinders replacement demand. Consumers' lack of optimism also hurts demand for replacement and original equipment tires. Households will be doing everything in their power in 2009 to survive the recession. This will include tightening budgets, including postponing unnecessary repairs and maintenance, as well as putting off purchasing new vehicles. New motor vehicle sales are expected to decline by 29% in 2009, while motor vehicle production will drop by an expected 27.7%. IBISWorld believes that during the year, original equipment light truck tire shipments will suffer the most, followed by heavy truck tire shipments.

OEM woes

Original equipment (OE) demand is demand from motor vehicle manufacturers such as General Motors, Ford and Chrysler (known as the Big Three – the three US motor vehicle manufacturers). Sales to automakers are lowest during the months prior to model changeovers and during assembly plant shutdowns. These typically result in slower sales volumes during July, August and December. In 2009, Chrysler and GM filed for bankruptcy protection after being unable to prove to the US Government that they were viable. They emerged from the filing a month later, saved by the Government and various other parties such as Italian automaker, Fiat, and the United Auto Workers union. Both companies are still restructuring and one of the consequences will be lower production in 2009. Chrysler completely suspended production during its bankruptcy protection. IBISWorld believes that the majority of OE tires are sold to domestic car makers rather than exported. This will spell trouble for original equipment tire wholesalers during the year given the precarious nature of the US automotive manufacturing sector in 2009.

Unlike the automotive parts market which offers a wide range of products and is highly fragmented, the Tire Wholesaling industry is dominated by a handful of players who distribute relatively similar products. The industry's top four major players combined account for an estimated 68.5% of industry revenue. Wholesalers that specialize in the sale of original equipment will bear the brunt of the global financial crisis. Those who wholesale high performance tires will also suffer as those tires carry a price premium, particularly in the aftermarket. In order to manoeuvre their companies out of the recession, tire wholesalers will see some casualties. IBISWorld believes that the number of establishments will decline by 1.2% annually over the five years to 2009. Employment levels will also fall, as wholesalers will use redundancy as a way to minimize costs during the recession.

HISTORICAL PERFORMANCE

Vulcanization enables the properties of rubber to be changed to give it certain qualities such as strength, elasticity and resistance to solvents while rendering it impervious to moderate heat and cold. Charles Goodyear perfected the vulcanization process in 1839, enabling the production of tires for use in transportation. In 1913, the Quick Detachable tire and the Universal Rim were invented, revolutionizing the usage of tires. The wholesale tire industry expanded as the growth of the interstate road system in the post-war years increased the number of vehicles on the road. The 1970s brought the radial tire into widespread use. Radials had been around since the late 1940s, but the manufacturing process had not been cheap or easy enough to be practical until this time. The development of longer lasting tires combined with a recession in the early 1980's led to an oversupply of tires. This tire glut led to rapid downsizing in the industry as competitors exited the tire business.

Recession, overcapacity, and price-cutting in 1990 led to hard times for tire wholesalers. IBISWorld estimates that the industry experienced an average annualized rate of revenue growth of just 0.5% from 1992 to 1996. In 1996, IBISWorld estimates that industry sales revenue declined by 0.8% to \$24.2 billion after declining by 1.8% in 1995. Low GDP and income growth reduced automobile production and the demand for auto parts in the aftermarket.

Real industry growth of 3.4% in 1999 can largely be attributed to a 9.9% increase in personal consumption expenditure on automotive parts and a 14.4% increase in downstream demand for vehicle manufacturing. With around 75% of industry revenue generated from the automotive parts aftermarket, the strong growth in automotive parts expenditure had a material impact on industry revenue growth. To a lesser extent, record industry revenue was also driven by an increase in the vehicle fleet size. This impressive industry performance mirrored strong United States real GDP growth of 4.5% in that same year.

In 2001, real Tire Wholesaling industry revenue decreased by 7.5%. The decline in industry revenue came as motor vehicle production continued to fall, reducing demand for tires from original equipment manufacturers. The fall in motor vehicle production reflected lower consumer sentiment after \$4 trillion had been wiped from the U.S. stock market, with the attacks on September 11 consolidating fears of a lengthy recession. Corporate cost cutting also led to mass lay-offs, which pushed the unemployment rate 0.7 percentage points higher to 4.7%. A major impact of a higher unemployment rate and lower consumer sentiment is reflected in lower discretionary maintenance, as consumers reduced the frequency of vehicle maintenance and reduced the value spent on tires, thereby decreasing Wholesale Tire and Tube industry revenue.

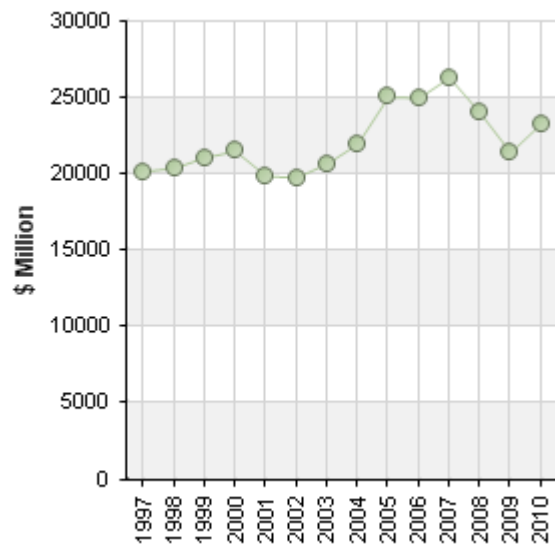
In 2002, Tire Wholesaling industry revenue fell by a significant 0.6%. The steep decline in revenue reflected the continued fallout from the events of 2001 and the unemployment rate climbing to 5.85 from 4.7% in 2001. Although the prime rate continued to fall, consumers remained cautious towards discretionary spending on replacement tires. Major industry players reported weaker consumer demand in the tire replacement market but stronger demand from automakers. With wholesale tire demand from automakers accounting for around 25% of industry revenue, the 5.6% increase in motor vehicle production was not enough to offset the fall in the tire replacement market, subsequently resulting in lower industry revenue. With the prevailing economic conditions pointing towards lower vehicle demand, union agreements between major manufacturers such as General Motors, Ford and Daimler Chrysler made reducing vehicle supply financially prohibitive. Consequently, production levels were maintained and attractive incentives on new motor vehicles were issued to stimulate demand. Incentives became prevalent and resulted in automotive sales being pushed rather than pulled. Without incentives on new vehicles, wholesale tire demand from automakers would have declined in 2002, which would have magnified the reduction in Tire Wholesaling industry revenue.

Wholesale Tire and Tube industry revenue achieved real growth of 4.6% in 2003. The marginal increase in industry revenue can be attributed to improving consumer sentiment throughout the year and falling interest rates. These factors led to an increase in replacement tire purchases and some industry participants even managed to pass on price increases, stimulating industry revenue even further. Offsetting these positive stimuli was an unemployment rate that continued to climb, reaching 6% for the year. Although consumer confidence tracked higher throughout the year, particularly after hostilities in Iraq 'officially' ended, it still remained below the long term average limiting consumer consumption.

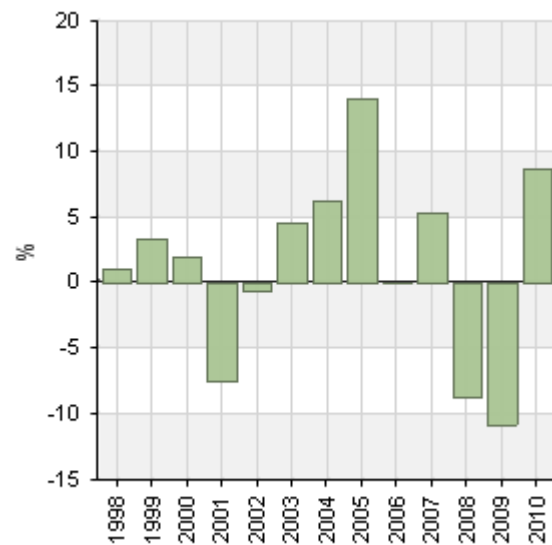
Revenue (constant prices)

| | Revenue \$ Million | Growth % |
|------|--------------------|----------|
| 1997 | 20,160.9 | N/A |
| 1998 | 20,379.9 | 1.1 |
| 1999 | 21,069.2 | 3.4 |
| 2000 | 21,489.8 | 2.0 |
| 2001 | 19,869.0 | -7.5 |
| 2002 | 19,753.4 | -0.6 |
| 2003 | 20,665.7 | 4.6 |
| 2004 | 21,953.3 | 6.2 |
| 2005 | 25,039.7 | 14.1 |
| 2006 | 24,961.0 | -0.3 |
| 2007 | 26,291.5 | 5.3 |
| 2008 | 24,004.6 | -8.7 |
| 2009 | 21,402.5 | -10.8 |
| 2010 | 23,274.3 | 8.7 |

Revenue



Revenue Growth Rate

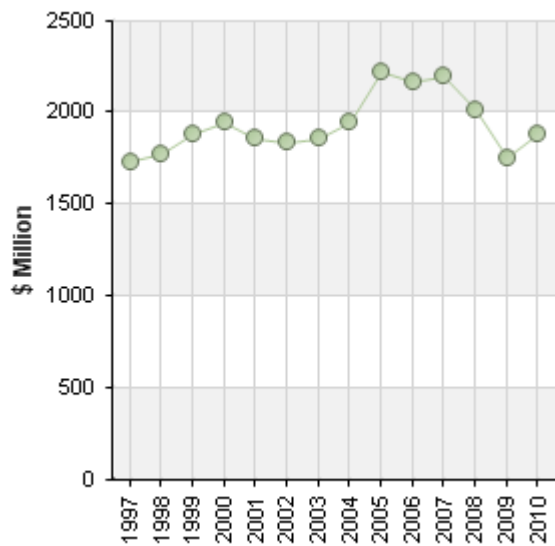


Gross Product (constant prices)

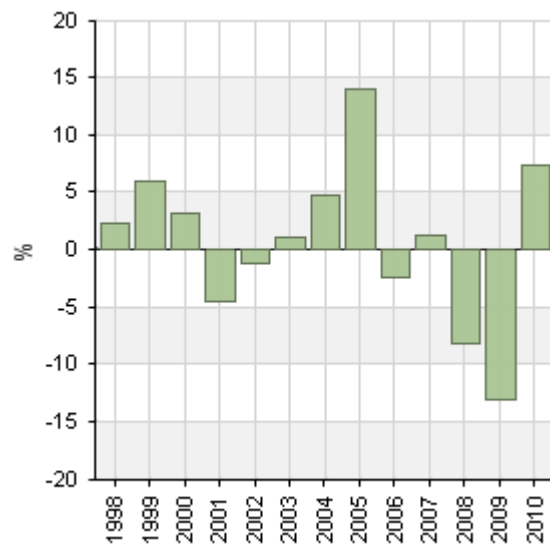
| | Gross Product \$ Million | Growth % |
|------|--------------------------|----------|
| 1997 | 1,733.8 | N/A |
| 1998 | 1,775.1 | 2.4 |
| 1999 | 1,883.7 | 6.1 |
| 2000 | 1,945.1 | 3.3 |
| 2001 | 1,857.8 | -4.5 |
| 2002 | 1,835.1 | -1.2 |

| | | |
|------|---------|-------|
| 2003 | 1,857.5 | 1.2 |
| 2004 | 1,946.5 | 4.8 |
| 2005 | 2,221.9 | 14.1 |
| 2006 | 2,168.0 | -2.4 |
| 2007 | 2,195.6 | 1.3 |
| 2008 | 2,016.4 | -8.2 |
| 2009 | 1,755.0 | -13.0 |
| 2010 | 1,885.2 | 7.4 |

Gross Product



Gross Product Growth Rate

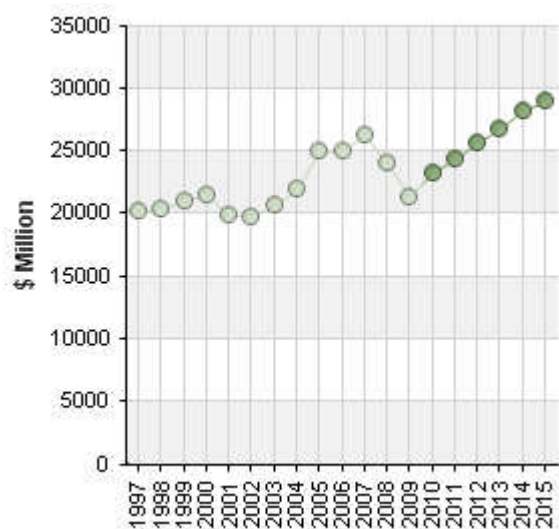


Outlook

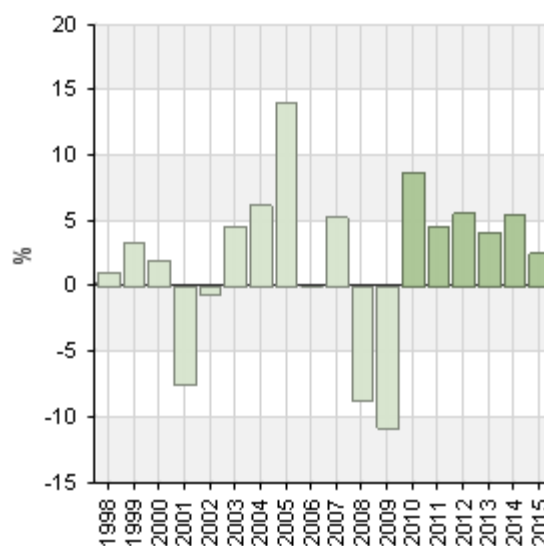
Revenue (constant prices)

| | Revenue \$ Million | Growth % |
|------|--------------------|----------|
| 2010 | 23,274.3 | 8.7 |
| 2011 | 24,328.6 | 4.5 |
| 2012 | 25,697.1 | 5.6 |
| 2013 | 26,761.4 | 4.1 |
| 2014 | 28,232.5 | 5.5 |
| 2015 | 28,945.7 | 2.5 |

Revenue



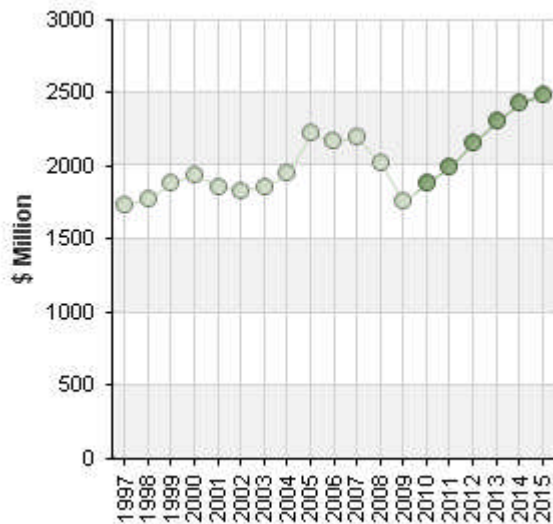
Revenue Growth Rate



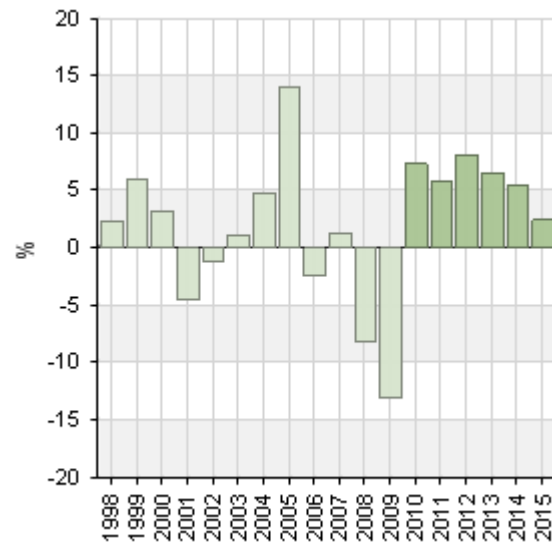
Gross Product (constant prices)

| | Gross Product \$ Million | Growth % |
|------|--------------------------|----------|
| 2010 | 1,885.2 | 7.4 |
| 2011 | 1,994.9 | 5.8 |
| 2012 | 2,158.6 | 8.2 |
| 2013 | 2,301.5 | 6.6 |
| 2014 | 2,428.0 | 5.5 |
| 2015 | 2,489.3 | 2.5 |

Gross Product



Gross Product Growth Rate



Replacement tires have driven the Tire Wholesaling industry over the past five years and will continue to be a major demand market over the five years to 2014. Replacement demand depends largely on disposable income, economic conditions and vehicle usage. The good news for tire wholesalers is that all three are expected to provide positive results for this industry in the next five years. IBISWorld believes that industry revenue will rise by 5.7% annually over the outlook period to \$28.2 billion.

As the US economy recovers, job losses will peak and households will be more optimistic about the future. Pent-up demand due to postponed expenditure during the recession will ensure demand for replacement tires, as well as the demand for new vehicles. Both factors will be favorable for tire wholesalers. Rising car sales will back growth of the motor vehicle fleet, which will have a positive effect on tire demand. Furthermore, recovering car sales will benefit motor vehicle manufacturers, and domestic production of cars and light trucks is forecast to improve over the next five years.

Higher income will also drive households back to their old vehicle usage habits. The average number of miles driven will increase, which will promote the wear and tear of existing tires. Driving habits will however be hindered by gas prices, which are expected to soar to new heights during the five years to 2014. The number of miles driven will not fall though, as consumers will switch to more fuel-efficient vehicles in the future, in order to alleviate the impact of fuel prices on their budgets.

Caution ahead

Tire wholesalers should not be complacent about demand in the next five years just because the economy is expected to recover. Car sales will rise, but domestic motor vehicle manufacturers will be on a long road to recovery. Automakers will be more cautious about inventory levels in the future, which will lead to slow, rapid than rapid growth post recession. Import penetration will continue to be an issue in the future, although domestic car manufacturers are working night and day to produce fuel-efficient cars, having learnt from their errant ways.

While the OE equipment market will face the challenge of a tentative return to health within automotive manufacturing industries, the replacement market will come face-to-face with the downside of technology. Advances in technology will prolong the life of tires, which will reduce wear and tear, thereby lengthening the replacement cycle.

Shipments from low-cost countries are expected to increase in the next five years, particularly from China. According to Modern Tire Dealer, Chinese imports of tires accounted for 19.3% of all tire shipments in 2008, rising from 14.4% in 2006. A larger proportion of shipments from low-cost countries will moderate the price of tires over the next five years. Furthermore, wholesalers who are also importers are more likely to gain market share over the period, particularly if they import from China. IBISWorld believes that the number of establishments in this industry will grow by 2.0% annually over the five years to 2014.

The number of enterprises will rise at a slower rate than establishments in the next five years, mainly because large players will gain market share to the detriment of smaller ones. Large wholesalers will open more chains once they grab additional market power. This will also lead to higher profitability within the industry. In the next five years, the industry will be divided into: large manufacturers who primarily supply automakers; and small independent wholesalers who supply mass merchandisers.

With increased internet penetration, the depth and content of tire wholesaler websites are expected to increase. This will improve the information available to consumers, providing wholesalers with an alternative medium to drive industry volume even further and also to differentiate their products. Wholesale industry participants also run the increased risk of retailers going direct to the manufacturer to cut out the middleman. This shift could be facilitated by the internet or higher prices from wholesalers.