Ethan Cox
8/6/17
ECON 136

Case Study: Cooper Tire and Rubber Company

Cooper Tire and Rubber Company faces strong pressures from direct competitors within the replacement tire industry. Cooper is one of six companies selling replacement tires for lightweight vehicles in the United States and one of the twelve leading sellers worldwide. There is little product differentiation within the industry as customers want only a few types at any given time, and companies typically emulate whatever type of tires are selling well at a given time. When people had less disposable income during the 2008 recession demand for fuel efficient tires grew, so firms began to produce their brand of fuel efficient tires. Little differentiation in the market means customers can buy from any producer in the tire replacement market, and there is little cost in switching brands. Little differentiation between the products sold by many different companies with the replacement tire industry increases the pressure each firm faces from intra-industry competition. The force that weakens the pressure competitive rivals face is rapidly growing demand. The number of cars bought by consumers and the number of years these cars last have both increased over time, causing the demand for replacement tires to increase. Demand increasing within the market lowers the competition between sellers since there are more sales to be had, and each sale has less importance. The forces strengthening the competition between suppliers are much stronger than those that weaken it, so this is a high strength force.

New entrants into the replacement tires market represent a strong force on existing suppliers like Cooper. New entrants face few barriers to entry, only needing to obtain the production inputs and factories needed to produce tires. Existing firms can do little to block potential entrants since demand is exceedingly strong and it is difficult to lock buyers into existing brands of tires. Strong demand within the market incentivizes new firms to enter since there is excellent potential for profit with relatively small risk. The threat from new entrants also comes from existing firms entering different geographical markets. Existing firms expanding into new geographical markets represents an extremely strong force on firms already in said geographical market since the only barriers to entry these new competitors face are tariffs, which are easily avoided. Cooper felt the pressure of this force as Asian and European firms entered the United States replacement tire market. In 2013 only 2 of the top 12 selling firms in the U.S. replacement tire market were based in America, compared to 6 of 12 a decade prior. Cooper Tire and Rubber Company being a smaller firm, faced stronger pressure from expanding firms than their larger U.S. based competitors.

There is no competition from sellers of substitute products. Vehicles cannot run without tires, and the only possible substitute for lightweight vehicles tires would be heavyweight vehicle tires. Heavyweight vehicle tires, such as those found on 18 wheelers, would not fit lightweight passenger vehicles. Heavyweight vehicle tire producers would have to enter the lightweight vehicle tire market to compete, and thus are not selling a substitute product. There is no threat from the sellers of substitutable products since there are no substitutable products for lightweight vehicle replacement tires.

The pressure faced by Cooper Tire and Rubber Company from suppliers bargaining power is moderate, but volatile. Over 200 raw materials are used in the manufacturing of tires, and as of now, alternative synthetic options are not relatively available increasing suppliers bargaining power. To increase their bargaining power, Cooper opened an office in Singapore in 1993 so they could purchase natural resources in bulk directly from suppliers. This increased the number of sources Cooper could purchase input materials from, decreasing the bargaining power suppliers had from strong to moderate. Supplier bargaining power is volatile because the availability of raw materials can change at any time if suppliers decide to shift production to a different raw material. In 2012 natural rubber availability for replacement tire producers like

Cooper dropped as farms in Malaysia shifted production towards palm oil, and demand grew in China. Limited supply gave suppliers increased bargaining power causing prices to skyrocket, though they eventually returned to normal when supply increased later that year. Volatility in the availability and prices of raw materials is driving Cooper to look for synthetic alternatives. There has already been a significant increase in the usage of synthetic rubber in tire production and this is expected to increase moving forward. When synthetic materials are able to replace raw materials as inputs in tire production firms like Cooper will face significant weaker pressure from suppliers bargaining power.

Most sellers in the replacement tire market face strong pressures from buyer's bargaining power because they sell sets of tires to individual customers, a segment of the market where there is great competition. While individual buyers have little bargaining power, access to many different brands of tires with little differentiation gives them strong bargaining power. To decrease competition, mass merchants and store chains have begun selling many different brands of tires out of one storefront. This gives them control of the merchandise in their area, reducing the number of options buyers can purchase from. While this decreases the power buyers have when purchasing from a mass merchant, it also decreases the bargaining power each mass merchant has in obtaining it's product, as tire manufacturers could just open their own retail chains destroying mass merchants business model. Selling to only mass merchants, store chains, and wholesalers means Cooper Tire and Rubber faces weaker pressure from buyer bargaining power.

Cooper has a decent standing in the market. As a small firm in a market with strong competition and little differentiation it should be difficult to make a profit. Cooper decreases the competition they face by selling directly to mass merchants, store chains, and wholesalers. Attacking a different part of the replacement tire market means Cooper faces less Competition than they would selling directly to individual customers decreasing the bargaining power their buyer's have. Cooper, along with most other firms, are trying to create synthetic materials to replace the raw materials used as inputs in making tires. If Cooper is able to do this before other firms it would drastically decrease the bargaining power their suppliers have, increasing Coopers competitive standing within the market. New entrants into Cooper's segment of the replacement tire market could threaten Cooper's future success since they have a relatively small portion of the market. Overall, Cooper has developed a smart strategy to counteract the pressures they face from the market, and are in a good place to make profits in the future.