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Goodyear: The Aquatred Launch (Condensed)

In January 1992, Barry Robbins, Goodyear's vice president of marketing for North American Tires, was contemplating the upcoming launch of the Aquatred, a new tire providing improved driving traction under wet conditions. The Aquatred would be positioned in the U.S. market as a replacement tire for passenger cars. Over recent years, the replacement tire market had matured and new channels had gained share, so Robbins needed to make sure Goodyear had the right product and the right timing to generate support from the company's traditional base of independent dealers. Despite a long and close relationship with those independent dealers, Goodyear was also weighing the risks and benefits of expanding the company's distribution channels. If new outlets were added, Robbins would also have to assess whether the new channel would sell the Aquatred.

Background

In 1991, Goodyear operated 41 plants in the United States, 43 plants in 25 other countries, six rubber plantations, and more than 2,000 distribution outlets worldwide. In fiscal year 1991, Goodyear earned net income of less than one percent on total revenues of $10.91 billion; the company had approximately 105,000 employees. Goodyear ranked third in worldwide sales of new tires behind Michelin and Bridgestone, respectively.

Low growth, declining prices and over-capacity in an environment of corporate consolidation characterized the U.S. tire industry. **Exhibit 1** lists the brand shares of U.S. retail sales for the largest tire manufacturers from 1975 to 1990. During this period, Michelin achieved large share gains in both the replacement and original equipment manufacturer (OEM) markets. Unlike other U.S. tire manufacturers, Goodyear had made large investments (over $1.5 billion) during the late 1970s to produce radials. The company also had a strong track record in launching innovative new products. For example, in 1981 Goodyear successfully launched the Eagle, the first radial tire offering high-speed traction for sports cars. On a typical radial, the cost of goods sold was 60% of the manufacturer's selling price, but the Eagle provided Goodyear and its dealers with higher percentage profit margins than standard radials.

In the early and mid-1980s, Goodyear made large investments in pipelines for natural gas and oil transmission. In 1986, Sir James Goldsmith attempted to take over Goodyear and was bought out by management after a highly emotional takeover battle, which greatly increased Goodyear's

Professor Samuel Chun prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. It is a condensed version of the case, Goodyear: The Aquatred Launch, HBS Case #594-106, prepared by Bruce Isaacson under the supervision of Professor John Quelch.

debt. Although 13% of the company's work force was furloughed between 1987 and 1991, in 1991 Goodyear was still spending $1 million per day on interest payments, and earnings were sluggish.

In June of 1991, Stanley G. Gault, retired chairman of Rubbermaid, became chairman of Goodyear. Gault had been a member of Goodyear's board of directors, and many hoped that he would bring the same marketing flair and new product skills that he had shown at Rubbermaid. Gault stated his goal at Goodyear:

> . . . to create a market-driven organization. That means to serve the customer and the ultimate user. People are wrong to think of tires as a commodity—that a tire is a tire is a tire. . . . Customers want safety—they want that car to stop. They want reliability.[1]

Gault installed his own management team, sold off assets that were not directly related to the tire business, and placed an increased priority on new product development.

The Market for Passenger Tires

The market for passenger tires could be segmented in three ways. One segmentation was based on the distinction between performance and broad-line tires. Performance tires were wider than broad-line tires, were more expensive, and provided better traction. Although performance tires could be replaced with broad-line tires, consumers rarely made this substitution because of the resulting decrease in handling and performance. Performance tires represented 25% of Goodyear's domestic unit sales, 30% of dollar sales, and an even higher percentage of profits.

The market could also be segmented based on replacement and OEM tires. Replacement tires were sold to individual consumers, while OEM tires were sold to car manufacturers. Car makers used volume purchases to negotiate substantial discounts on tires. In 1991, U.S. replacement tire sales were estimated at $8.6 billion (137 million units sold). In the United States, Goodyear's passenger tire division derived 65% of its revenues from replacement tires and 35% from OEM tires. Division revenues were $1.98 billion on sales of 39.1 million tires.

A third segmentation scheme was along brand classifications, which included major brands, minor brands, and private label. Major brands, which carried the name of a major tire manufacturer, accounted for 36% of unit sales in the replacement passenger tire market. Major brands had the highest recognition among consumers and included Goodyear, Firestone, Michelin, Bridgestone, Pirelli, and Goodrich. Minor brands represented 24% of unit sales and included tires made by smaller manufacturers as well as tires made by major manufacturers but sold under a different name. Minor brands included Sears, Dunlop, General, Kelly (a Goodyear subsidiary), Uniroyal, Cooper, Yokohama, and Toyo. Although minor, these brands were often well-recognized by consumers and included high-priced niche brands.

Sales of private label tires constituted the remaining 40% of the market. Many small manufacturers specialized in private label tires, while some larger manufacturers used excess capacity to service the private label market. Most private label tires carried names exclusive to a particular retailer, but others were available to any retailer. Private label manufacturers typically had only one distributor per territory, which gave the distributor some flexibility in pricing. In 1991, private label tires constituted 80% of the sales of Goodyear's wholly owned Kelly-Springfield subsidiary; the remaining 20% were sold under the Kelly brand. The average retail selling price of a

[1]Source: *Fortune*, July 15, 1991.

private label tire was 18% lower than the price of a comparable branded tire. Although sales of private label tires had grown, their average life remained slightly lower than the life of a branded tire.

Many of the attributes important to consumers when purchasing a tire were not apparent upon visual inspection. To certify product quality, some retailers added warranties to their tires. These warranties were paid for by the retailer and would typically guarantee the tire for 60,000 miles, with the value of the guarantee decreasing on a pro-rata basis over the life of the tire. Retailer warranties were particularly common on sales of private label tires.

In past years, Goodyear had produced two lines of private label tires: the All American and the Concorde. The Goodyear brand was not placed on these tires, providing Goodyear's independent dealers with low-priced lines to compete with other types of outlets. In 1991, Robbins replaced the All American and the Concorde with Goodyear-branded tires at comparable prices because market research showed that the non-branded lines cannibalized sales of branded tires. Although the sales of these two lines were relatively small, some analysts felt that discontinuing the All American and Concorde increased incentives for Goodyear's independent dealers to sell tires made by other manufacturers. Some independent dealers believed that consumers wanted to choose from a range of tires, and favored offering private brands to provide consumers with a reference point, which they argued would increase the sales of Goodyear tires.

Consumers in the Replacement Passenger Tire Market

Most consumers viewed tires as a "grudge purchase"—an expensive necessity to keep a vehicle in driving condition. The average time between purchases of tires was 2.5 years, but over half of all tire-buying consumers made their purchase the same day they became aware of their need for tires. Most tires were bought in pairs: 42% of consumer purchases involved two tires, 40% involved four tires, 16% involved one tire, and only 2% involved three tires. Purchases of sets of four tires accounted for 60% of all units sold. The percentage of consumers who did not know what brand of tire they planned to buy next rose to 53% in 1992 from 36% in 1982.

Generally, tire consumers could be broken down into quality-conscious buyers (18%), value-conscious buyers (23%) and price-focused buyers (59%). Whereas price-focused buyers treated tires as a commodity purchase, quality and value-conscious buyers placed greater weight on tire quality and performance attributes obtainable at a given price. Goodyear regularly surveyed car owners, asking about performance attributes considered when purchasing tires. The five most important tire attributes, in order from higher to lesser importance, were tread life, wet traction, handling, snow traction, and dry traction.

Across the segments, all consumers placed great importance on price when shopping for tires. A 1989 Goodyear survey had shown that with no other information available, consumers expected Goodyear's broad-line tires to be priced within a six-dollar range from the most expensive to the least expensive. The research also demonstrated that Goodyear's point-of-sale displays did little to alter consumers' expectations of retail prices.

It was estimated that three-fourths of all Goodyear tires sold in independent or company-owned outlets were sold on promotion, at an average discount of 25%. This discount was offered to the consumer in a number of ways, such as one free tire with the purchase of three tires, one tire for half price with the purchase of another tire at full price, or 25% off the price of selected tires. Experiments with everyday low pricing in the tire industry had been unsuccessful because price competition among dealers undermined attempts to set consistently low but fair prices. As one dealer explained, "Consumers expect to buy their tires on sale. We have created a price-conscious monster."

Wholesale Channels for Replacement Tires

Goodyear directly sold passenger tires to large chains and wholesalers, with no retail operations who resold their tires to car dealers, service stations, small independent dealers, and other secondary outlets. This accounted for 10% of Goodyear's factory sales. Another 40% went to large chains that both sold tires at retail and resold tires to other dealers or to secondary outlets. The remaining 50% went to small independent dealers who bought tires to resell in their own retail outlets and did not resell to other outlets. This breakdown was typical of the industry.

Retail Channels for Replacement Tires

Six major retail channels competed for market share in the U.S. replacement passenger tire market. (**Exhibit 2** shows each channel's market share, relative prices, and reliance on private label tires.) The six channels can be described as follows:

1. Garages/service stations: These were typically small, neighborhood outlets offering gasoline, tires, and auto services. Their share of the tire market had declined in recent years in favor of lower-cost, higher-volume outlets. Garages and service stations sold private label tires as well as branded tires to combat price pressure from larger outlets.

2. Small independent tire dealers: Small independent tire dealers operated one or two outlets, where they sold and installed tires and also offered auto services. Many small independent tire dealers started as single-brand outlets but over time added additional brands. Both small dealers and large independent tire chains derived an increasing portion of their revenues from private label tires.

3. Manufacturer-owned outlets: These outlets, owned and operated by the tire manufacturers, typically sold only one brand of tires and offered a range of auto services.

4. Warehouse clubs: Warehouse clubs operated large stores carrying categories as diverse as food, clothing, electronics, tires, and hardware. Warehouse clubs offered a limited brand selection, with the selection changing according to the deals their buyers could strike with vendors. Also, warehouse clubs offered minimal in-store service other than installation. Although warehouse clubs were a relatively new retail format, they were growing quickly due to their low prices.

5. Mass merchandisers: Mass merchandisers were retail chains that sold tires, performed auto services, and carried other types of merchandise. Mass merchandisers typically maintained a very wide brand selection. For example, Sears sold Michelin, Goodrich, Pirelli, Bridgestone, Yokohama, and its own Roadhandler brand.

6. Large tire chains: Also known as "multi-brand discounters," large tire chains typically had 30-100 outlets concentrated within a geographic region. These chains carried major brands of tires as well as private label, and tended to be low-priced, high-volume operations. In recent years, large tire chains gained share, often by acquiring smaller independent dealers.

In most markets, consumers could choose among these types of channels. As one independent dealer noted, "The tire manufacturer is not only our supplier but also our competitor through manufacturer-owned outlets. On top of that, we compete with the warehouse clubs, mass merchandisers, corner station, and who knows who else."

Goodyear's Distribution Structure

Goodyear did not sell tires in garages/service stations, warehouse clubs, or mass merchandisers; instead, the company relied on three types of outlets. Goodyear's 4,400 *small independent dealers* accounted for 50% of sales revenues, while the 1,047 *manufacturer-owned outlets* generated 30% of sales (the remainder of sales occurred primarily through franchised dealers and directly to government agencies). Goodyear was also testing a new retail format, *Just Tires*. Modeled after "quick lube" stores that offered fast oil changes without an appointment, *Just Tires* stores sold and installed tires but did not offer any other products or services. *Just Tires* stores provided consumers with guarantees covering speed and quality of installation.

Manufacturer-owned outlets could be opened or closed at the discretion of the manufacturer. During the 1970s, Goodyear opened as many as 200 outlets per year. By 1983, the company owned 1,300 outlets in the United States, but became concerned about the associated demands for capital and management attention. Despite Goodyear's efforts to site company-owned outlets in locations that would minimize competition with its independent dealers, complaints were common. Over time, Goodyear placed increasing emphasis on franchising new outlets and also converted some company-owned outlets into franchised and independent dealerships.

Only about 2,500 of Goodyear's small independent dealers were considered active in that they generated a consistent level of sales, maintained the major Goodyear retail displays, and offered the full line of Goodyear tires. A typical dealership required an owner investment of $100,000 and generated annual revenues of $1,000,000. Goodyear's independent outlets sold an average of 15.5 tires/day, including both Goodyear and other brands of tires, although most Goodyear dealers derived the majority of their sales from Goodyear tires. The average selling price of all tires sold by Goodyear's independent dealers was $75 per tire. Retail margins for independent dealers averaged 28% on Goodyear tires, 25% for dealers carrying other major brands, and 20% for private label tires. Average wholesale margins were 18% for private label tires and 14% for Goodyear tires.[2]

Monthly auto service sales for independent tire dealers averaged $38,100 per outlet. Most tire dealers changed oil, performed alignments, replaced shocks, fixed exhaust systems, and did minor engine work. Independent dealers derived, on average, 48% of their revenues from auto services in 1991, up from 26% in 1980. On average, 20% of service revenues came from tire-related work. Margins for independent dealers were 50% on service labor and 20%-25% on parts installed; 70% of service revenues were earned from labor, with the remaining 30% earned from parts.

The average number of tires installed per day at a typical independent dealer increased 13% from 1983 to 1991, but the average service dollars per outlet grew 92% during the same period. Not all dealers were pleased with their reliance on service revenues. As one dealer said, "To me it's an indictment of the industry that we cannot support ourselves on tire sales. We have to have that service to survive." Tires were an expensive purchase for most consumers, and independent dealers worried about the "sticker shock" resulting from service charges increasing the bill to the consumer.

Goodyear serviced independent dealers through the area sales manager, who made sure that dealer orders were placed properly, provided information about market trends, offered advice on operations, and handled complaints. Visits from area sales managers were very important to dealers. As one area sales manager noted, "You never get to the dealer enough. You could spend all day there and then the next day the guy would say, 'Gee, I have this problem today. Too bad you weren't around.'"

[2]These margins are estimated from several sources and may vary by region or time period.

Most complaints from independent dealers involved relatively minor billing problems, although complaints about competition from other channels or the location of company-owned outlets were also common. Issues that could not be handled by the area sales manager were referred to the district manager. The dealer council took up complaints common to many dealers. Goodyear had established ten regional councils to represent the views of Goodyear's independent dealers. Each regional council elected one dealer to Goodyear's national dealer council for passenger tires. Goodyear's top marketing and sales executives attended council meetings to answer questions, address complaints, or hear suggestions.

Independent dealers also set their own inventory policies. For many years Goodyear had protected its dealers by not selling Goodyear-branded tires in other outlets; in exchange, Goodyear dealers did not carry other brands. In 1989, 70% of Goodyear's independent dealers carried only Goodyear tires, while 30% stocked other brands. Typically, the other brands were not aggressively merchandised but used only as lower-priced alternatives to Goodyear. By 1991, estimates suggested that 50% of Goodyear's independent dealers sold only Goodyear tires, while the other 50% stocked at least one other brand. Among the latter, some aggressively merchandised other brands but Goodyear tires still generated 90% of the revenues for most independent dealers.

Independent dealers' concern for protecting their interests led the National Tire Dealers and Retreaders Association (NTDRA) to pass a bill of rights in 1992 (see **Exhibit 3**). NTDRA president Robert Gatzke said, "[T]his bill of rights clearly identifies certain rights which independent tire dealers have a right to expect from their tire suppliers."[3] The bill demanded that manufacturers respect the independent dealers' importance, consult independent dealers on key decisions, avoid placing company-owned outlets in competition with independent dealers, supply tires to independent dealers in a timely manner, and grant dealers the same pricing and programs given to high-volume outlets such as wholesale clubs and multi-brand discounters.

Although Goodyear claimed not to want its tires sold in low-priced outlets such as warehouse clubs, mass merchandisers, and auto supply stores, those outlets sporadically obtained Goodyear tires. The price-based ads and frequent discounting from those outlets angered Goodyear's independent dealers. One owner of two independent tire outlets said, "The mass merchandisers are eating up the distribution of our product. It could drive me out of the tire business."[4] Industry observers felt that the large tire chains that acted solely as wholesalers diverted tires to those outlets. As one analyst said, "There's a lot of big wholesalers who will sell to anybody."

Goodyear's options to stop the diversion were limited by legal restrictions that prohibited manufacturers from dictating either retail selling prices or to whom their tires could be resold. However, in December 1990, Goodyear sued two automotive chains: Tire America and Western Auto Supply. Sears owned both, and neither was an authorized Goodyear dealer. The suits charged that the Sears units were advertising Goodyear tires without maintaining enough inventory to meet demand. Consumers drawn to the store were allegedly switched to other brands in a "bait and switch" tactic. Goodyear also maintained that the chains were not authorized to use the Goodyear trademark in their advertising.

Competition

Goodyear regularly surveyed car owners to monitor their image of the major tire brands. In terms of brand perceptions Goodyear and Michelin were virtually even, but Michelin's image was

[3]Source: *Tire Business*, June 1992.

[4]*Wall Street Journal*, June 24, 1991, p. B1.

stronger among quality-conscious and value-conscious consumer segments, while Goodyear had a stronger image among the price-focused consumer segment (**Exhibit 4**).

In 1992, Michelin had fewer than 125 company-owned outlets, but Michelin tires were available through 7,000 dealers. Most of these were multi-brand large tire chains and sold Michelin as the prestige line in their product offerings. Michelin tires were also available in 95% of the 600 warehouse clubs in the United States, mass merchandisers such as Montgomery Ward and Sears, and a variety of gas and service stations. Michelin, Uniroyal, and Goodrich had recently combined their sales forces to allow their salespeople to sell all three brands.

Exhibit 5 presents a brand-switching matrix, showing loyalty by brand among consumers replacing passenger tires. Michelin owners were the most loyal, followed by Goodyear owners, but significant proportions of consumers who owned major brands replaced their tires with private label brands. Goodyear typically spent 9%-11% of sales on advertising and promotion, with 60% being spent on promotion. Among U.S. tire marketers, Goodyear's share of voice in television and magazine advertising was about 60%.

Goodyear's competitors were planning a wide range of campaigns for 1992. Both Bridgestone and Michelin were planning to introduce new tires with 80,000-mile warranties, while Uniroyal was introducing a new tire for light trucks. Under Michelin's ownership, BF Goodrich was focusing on the high performance market, while Goodyear's Kelly-Springfield subsidiary used advertising primarily to announce the low price of its tires.

The Aquatred Tire

In 1989, Goodyear began developing a new and exciting replacement market tire that would have a tangible, perceptible difference over existing models. Howard MacDonald, marketing manager for Passenger Tires, said, "We were looking for something that appearance-wise was different—something that a customer would walk into a showroom and tell from a distance that it was different."[5] The Aquatred was developed after comparing 10 different designs on performance and consumer preference. The deep groove down the center of the tire was dubbed the "Aquachannel." According to Goodyear, the Aquatred's tread design channeled water out from under the tire, reducing hydroplaning and improving traction in wet conditions.[6] Performance tests showed that in wet conditions, cars equipped with Aquatreds traveling at 55 miles per hour stopped in as much as two-car-lengths-less distance than similar cars equipped with conventional all-season radials. When 50% worn, the Aquatred maintained the same wet traction as a new all-season tire.

Goodyear planned to sell the Aquatred with a 60,000-mile warranty and to position the tire at the top of the broad-line segment. The last tire to promise increased wet traction to the broad-line segment was the Uniroyal Rain Tire in the early 1970s. The Aquatred was patented, but patent protection on tread designs was difficult to enforce. Continental Tire was known to be working on its own anti-hydroplaning tire, to be called the Aqua Contact, which could be launched in early 1993.

The Aquatred was test-marketed in a large metropolitan area. A Goodyear survey from the test market compared purchase behavior for Aquatred buyers with purchase behavior for buyers of the Invicta GS, Goodyear's most expensive broad-line tire. Compared with buyers of the Invicta GS, Aquatred buyers were more likely to replace competitors' tires, searched more extensively for

[5]Source: *Modern Tire Dealer*, March 1992.

[6]Hydroplaning occurs in wet conditions due to a layer of water forming between the tire and road, causing a momentary loss of traction.

information prior to purchase, were more likely to drive imported cars, and more often came to Goodyear outlets specifically for the Aquatred. **Exhibit 6** presents data gathered by a "mystery shopper," a Goodyear employee who shopped for tires at independent dealers without identifying his or her affiliation with Goodyear. Despite the uniformity of the company's literature and policies, there was variation in the presentation and pricing of the Aquatred by dealers in the test market.

Due to the long buying cycles of auto manufacturers, the Aquatred would not be available as original equipment, so all sales of the Aquatred would come through the replacement market. It was estimated that a full-scale launch would cost Goodyear about $21 million.

Managers at Goodyear still had two concerns about the launch. First, would Goodyear's dealers be receptive to a high-priced tire when the industry seemed to be turning toward long-life warranties and low-cost private labels? One dealer had said,

> I would be much more interested in a tire that went 80,000 miles than one that channels the rain out of the way. Even a 35,000-mile tire at a decent price point would be better. The Aquatred is a boutique tire, but where do we make our money as a dealer? Middle-of-the-road products.

Second was the channel itself. Goodyear management debated whether distribution should be expanded, and if so, what specific channels or retailers should be added. Expanding distribution could boost sales and prevent Goodyear OEM tires from being replaced by other brands in the replacement market. However, selling tires in lower-service outlets could erode the value of the Goodyear brand, cannibalize sales of existing outlets, and might cause dealers to take on additional lines of tires. Stanley Gault, Goodyear's new chairman, had expanded distribution at Rubbermaid, and many Goodyear dealers were concerned that he would do the same at Goodyear. As one dealer said, "Today, you can go to any store and get a Rubbermaid product, and the prices on Rubbermaid have dropped accordingly. We feel that Goodyear tires should not be that way."

If the decision was made to launch the Aquatred, there would be a variety of launch-related issues to settle. For example, given the wide range of tires sold by Goodyear, dealers would need advice regarding which customers would be likely to switch to Aquatreds. In the test markets, some dealers had tried to sell Aquatreds only to customers who drove newer cars or looked affluent. And if distribution was expanded, Goodyear would need to decide whether the new channel would receive the Aquatred.

In addition, Goodyear had to finalize pricing and promotional policies for the Aquatred. Goodyear hoped to price the Aquatred at a 10% premium over the Invicta GS, but the successful launch of the Tiempo in 1977 was partly attributed to a low retail price. Independent dealers in test markets had consistently asked for price promotions on the Aquatred. Robbins had turned down all such requests, but given the growing problem of tires diverted to unauthorized dealers, it was not clear that the tire could be kept out of channels that were prone to discounting and promotions.

Plans for the national launch were proceeding during an important period in Goodyear's history. Any change in distribution strategy would affect the launch, but the launch and the associated marketing programs would affect Goodyear's dealers. Stanley Gault was upbeat and saw the Aquatred as a product to revitalize Goodyear. Robbins, armed with consumer research, wanted to be sure that the consumer and the channel would agree.

Exhibit 1 Brand Shares of Unit Sales in the U.S. Passenger Tire Market

	1975	1980	1985	1990	1991
Replacement Market (includes larger brands only)					
Goodyear	14.0%	14.0%	15.5%	15.0%	15.0%
Michelin	2.5	7.0	8.0	8.5	8.5
Firestone	10.5	10.0	9.5	8.0	7.5
Sears	10.0	10.0	9.0	6.5	5.5
General	2.0	3.0	2.5	4.0	4.5
BF Goodrich	4.0	5.0	4.5	4.0	3.5
Bridgestone	0.0	2.0	2.0	3.0	3.5
Cooper	1.0	1.5	2.5	3.0	3.5
Kelly	3.0[a]	4.0	3.0	3.0	3.0
Uniroyal	3.5	3.5	3.0	3.0	2.5
Dunlop	2.5	2.5	2.5	2.5	2.0
Pirelli	0.0	0.0	1.0	2.0	2.0
Montgomery Ward	4.5	3.5	2.0	2.0	1.5
Other[b]	42.5	34.0	35.0	35.5	37.5
OEM Market					
Goodyear	35%	28%	32%	36%	38%
Michelin	2	5	11	16	16
Firestone	24	22	22	17	17
General	11	11	13	12	11
Uniroyal	20	24	22	17	13
BF Goodrich[c]	8	0	0	0	0
Dunlop	0	10	0	1	3
Bridgestone	0	0	0	1	2

Source: *Modern Tire Dealer*

[a]Estimates

[b]Other included a variety of smaller brands, some of which were exclusively private label.

[c]BF Goodrich was sold to Uniroyal, and eventually to Michelin.

Exhibit 2 Share of Retail Sales of Replacement Passenger Tires by Channel (U.S. market only)

Channel Share of Retail Sales	1976	1981	1986	1991
Garages/service stations	18%	11%	8%	6%
Small independent tire dealers	36	47	46	40
Manufacturer-owned outlets	11	10	11	9
Warehouse clubs	0	0	2	6
Mass merchandisers	28	24	16	12
Large tire chains	4	2	12	23
Other	3	6	5	4
Total	100%	100%	100%	100%

	Relative Price Index, 1991	Sales of Private Label Tires as a Percent of Retail Sales Dollars, 1991
Garages/service stations	110%	57%
Small independent tire dealers	100	36
Manufacturer-owned outlets	107	16
Warehouse clubs	80	8
Mass merchandisers	97	34
Large tire chains	90	54
Other	N/A	59

Source: Company records

Note: Relative price index indicates typical retail prices for the same tire in each channel. Retail prices in "other" category varied according to the specific outlet.

Exhibit 3 Tire Dealers' Bill of Rights

"Tire dealers as independent business people have earned the right to the respect of all other facets of the tire, retreading, and auto service industries since it has long been established that they fulfill the role as the most important channel of tire distribution. . . .

Tire dealers expect to give loyalty to, and receive loyalty from their manufacturers; to be treated like valued customers; and to be encouraged to sell to end users without direct competition from their manufacturers. Independent tire dealers have a right to the uninhibited exercise of their ability to increase their market share with the cooperation of their manufacturers. . . .

Tire dealers have a right to expect reasonable and timely communications from, and where appropriate, consultation with their manufacturers on actions taken by the manufacturers which directly affect independent tire dealers and their customers. . . .

Independent tire dealers have the right to expect their manufacturers to pay careful attention to supply and demand, pursuing neither to excess, and to keep the dealer supplied in a timely fashion with high quality products which will allow the dealer to sell and serve the customer properly. . . .

Independent dealers have a right to a level playing field including the availability of tire lines, pricing, terms, and programs equal to those offered to wholesale clubs, discounters, company-owned stores, mass merchandisers, chains, and other forms of competition. . . .

Tire manufacturers should recognize the need for profits, not only for themselves, but also for the independent tire dealer who performs the major distribution function for them. . . .

Independent tire dealers have a right to the timely, proper, and uniform issuance of credits for advertising, national account sales, return goods, adjustments, and any other money due. . . .

Independent tire dealers . . . have a right to expect that the manufacturer will use the network of independent tire dealers as the first step for expansion, increasing the dealers' market share; and that commitments made are commitments kept."

Source: Adapted from *Tire Business*.

Exhibit 4 Brand Image of Major Tire Manufacturers, 1991

A survey of broad-line tire owners asked what brand of tires the owners intended to buy the next time they needed tires. Results are reported below for the five major brands and for the four major consumer segments.

Intent to Buy for Major Consumer Segments

	All Buyers	Value-Conscious Buyers	Quality-Conscious Buyers	Price-Focused Buyers
Goodyear	15%	17%	15%	14%
Michelin	15	25	26	7
Other	19	19	24	17
Uncommitted	51	39	35	62

Source: Company records

Exhibit 5 Switching Among Tire Brands, 1991

	Brand Bought						
Brand Replaced	Bridgestone	Firestone	Goodyear	Michelin	Minor Brands	Private Label	Total
Bridgestone	29%	4%	8%	8%	7%	43%	100%
Firestone	2	27	11	6	7	45	100
Goodyear	2	5	39	5	9	38	100
Michelin	3	3	7	44	6	36	100
Minor brands	2	4	10	7	32	42	100
Private label	2	5	8	5	7	70	100

Source: Company records

Note: The above chart can be read as follows: Four percent of car owners with Bridgestone tires bought Firestone tires to replace the Bridgestone.

Exhibit 6 Results of Mystery Shopping in Aquatred Test Market

A male mystery shopper visited nine independent Goodyear outlets in the Aquatred test market during October 1991. The mystery shopper told the staff in each outlet that his wife needed tires for her Plymouth Voyager. In the sales presentations that followed:

Eight of the nine salespersons mentioned the Aquatred during their presentations. Of those eight, five began their presentation with the Aquatred and three finished with the Aquatred.

Three salespeople made specific claims concerning the Aquatred's superior performance in wet traction. One claimed the Aquatred was 15% better than other tires; another claimed 20%-25%; and a third claimed up to 35% better traction with the Aquatred.

Goodyear's suggested retail prices for the Aquatred were $89.95 with a black sidewall, and $93.95 with a white sidewall. Prices quoted by six outlets were as follows:

Store Number	Price with Black Sidewall	Price with White Sidewall
1	$79.95	$79.95
2	81.95	81.95
3	80.00	83.00
4	85.00	85.00
5	85.00	88.00
6	100.00	100.00

Source: Company records