Goodyear: The Aquatred Launch

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.

The Tire Industry in the United States

From the early 1900s through the early 1970s, the U.S. tire industry was dominated by five companies: Goodyear, Firestone, Uniroyal, BF Goodrich, and General Tire. All five were based in Akron, Ohio, and were run by executives who socialized together at the same country club. The five companies had competed in a U.S. market characterized by not only consistent growth in revenues and profits but also a complete absence of foreign competition. In the 1970s and 1980s, the U.S. tire industry experienced three important changes. The first was the emergence of the radial tire to replace the older "bias" and "bias-belted" tire constructions.[1] Compared with the older constructions, radials offered superior tread-wear, handling, and gas mileage, but had a stiffer ride. While bias and bias-belted tires lasted under 20,000 miles, by the early 1980s radials lasted over 40,000 miles. Between 1975 and 1991, radials' share of unit sales in the U.S. passenger tire market increased from 32% to over 95%, and virtually all new cars were equipped with radial tires. Converting factories to produce radials required major investments, but many

U.S. tire manufacturers had hesitated, hoping that consumers would continue to prefer the softer ride of bias-belted tires.

[1]In the radial tire, layers of rubberized material extended from side to side across the tire, perpendicular to the direction of travel. An additional layer or "belt," typically steel, was placed underneath the tread.

Doctoral Candidate Bruce Isaacson prepared this case under the supervision of Professor John Quelch as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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The second major change was increased foreign competition. Some companies, such as Michelin of France, used expertise in radial production as a lever into the U.S. market. Other tire manufacturers gained access by equipping new cars exported from their home country. Imported passenger tires represented 8% of unit sales in the U.S. passenger tire market (both original equipment and replacement) in 1972, 12% in 1982, and 22% in 1990.

The third major change was in the nature of demand from consumers and car makers. In the 1970s, the price of oil had risen, causing consumers to drive less. Producing one tire typically required seven gallons of oil or derivative products, so the cost of manufacturing tires also increased. Automobile sales shifted towards cars that were smaller, lighter, and had front-wheel drive; these cars placed less wear on tires. Coupled with the radial's longer life, this meant that consumers replaced tires less frequently.

These changes had four major impacts. First, demand for passenger tires grew sluggishly during the 1980s (see **Table A**). While the average life of a new tire rose from 28,600 miles in 1980 to 37,300 miles in 1990, annual miles traveled per passenger car in the United States grew only slowly, rising from 9,100 miles in 1980 to 10,600 miles in 1990.

Table A Trends in Passenger Tire Sales, 1975-1991 (in millions of tires)

	1991	1986	1981	1976
Replacement	152	144	123	137
OEM	43	54	37	50
Total	195	198	160	187

Source: *Modern Tire Dealer*

Second, new tire prices in the U.S. market declined. The median retail price of a typical passenger tire (size P195/75R14) in the United States dropped more than 25% from 1980 to 1990. By 1991, the average retail price of all passenger tires was $75.00. Third, tire-producing capacity outstripped demand. U.S. tire-making capacity rose 12% between 1987 and 1990; capacity utilization fell from 87% to 76% during the same period. Despite plant closings and layoffs, analysts expected the overcapacity to last through the mid-1990s.

Fourth, the industry's difficult economic conditions, coupled with the tire manufacturers' slow response, resulted in a number of mergers and acquisitions. In 1986, Goodrich and Uniroyal spun off their tire divisions to form the Uniroyal-Goodrich Tire Company, which was sold to Michelin in 1990. In 1987, General Tire was sold to Continental, a German tire manufacturer, while Pirelli, an Italian company, bought the Armstrong Tire Company, and Sumimoto Rubber Industries of Japan acquired Dunlop. In 1988, Firestone was sold to Bridgestone, a Japanese company. By 1991, Goodyear was the only major U.S. tire manufacturer that had not been acquired.

Company Background

Since the early days of the tire industry, The Goodyear Rubber and Tire Company had been known as "The Gorilla" for its dominance of the world tire industry. 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 (see **Table B**).

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Table B World Leaders in New Tire Sales, 1991 (in billions of U.S. dollars)

Michelin/Uniroyal/Goodrich	$10.4
Bridgestone/Firestone	9.8
Goodyear/Kelly-Springfield	8.5
Continental/General	3.9
Pirelli/Armstrong	3.7
Sumimoto/Dunlop	3.5

Source: *Modern Tire Dealer*

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 OEM markets. Unlike other U.S. tire manufacturers, Goodyear had made large investments (over $1.5 billion) during the late 1970s to convert its factories to produce radials. The company also had a strong track record in launching innovative products. In 1977, Goodyear introduced the Tiempo, the first all-season radial. All-season radials did not have to be replaced with snow tires during winter months; their unit sales grew from 2% of U.S. replacement passenger tires in 1978 to 71% in 1991. 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 diversified, making 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 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 (**see Table C**).

Table C Sales and Income for Goodyear and Subsidiaries, 1987-1991

	1987	1988	1989	1990	1991
Net sales (in millions)	$9,905.2	$10,810.4	$10,869.3	$11,272.5	$10,906.8
Net income (loss)	770.9	350.1	206.8	(38.3)	96.6
Net income (loss) per share	12.73[a]	6.11	3.58	(0.66)	1.61

Source: Annual reports

[a]Includes income of $257.0 million, or $4.24 per share, for discontinued operations.

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.[2]

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

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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 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. **Exhibit 2** shows Goodyear's tire lines for both segments, demonstrating the substantial price differential between them. **Exhibit 3** shows the differences among Goodyear's broad-line tires. In the U.S. passenger tire market, performance tires represented 25% of Goodyear's 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 (see Table D). 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.

Table D The U.S. Market for Passenger Tires, 1991

	Dollars (in millions)			Units (in millions)		
	Replacement	OEM	Total	Replacement	OEM	Total
Industry	$8,600	N/A[a]	N/A	152.0	43.0	195.0
Goodyear	1,290	$695	$1,985	22.8	16.3	39.1

Source: *Modern Tire Dealer*

[a]Indicates data were not available.

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.

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The average retail selling price of a 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 lower than the life of a branded tire (see **Table E**).

Table E Average Tire Life (miles)

	All Tires	Branded Tires	Private Label
1991	38,600	39,700	37,000
1986	33,100	34,500	30,900
1981	28,600	29,100	28,500

Source: Company records

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 nonbranded 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

Consumer Behavior

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.

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. Goodyear also regularly surveyed car owners concerning the criteria they used to select a tire retailer. The seven most important criteria, again in order from higher to lesser importance, were as follows:

1. Price
2. Offers fast service
3. Can trust personnel

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4. Store is attractive
5. Offers mileage warranty
6. Brand selection
7. Maintains convenient hours

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.

Consumer Segments

Goodyear used research about consumers' shopping behavior to segment tire buyers into four categories (see **Exhibit 4**):

1. Price-constrained buyers Price-constrained buyers bought the best brand they could afford within their budget. They had little loyalty to any specific outlet or brand and tended to shop around for tires before purchasing.

2. Value-oriented buyers Value-oriented buyers searched for their preferred brand at the best price. They were predisposed to major brands, shopped around extensively, and had little loyalty to any specific outlet.

3. Quality buyers Consumers in this segment were loyal to outlet and brand, tended to be upscale, and shopped for only a brief time before purchasing. The segment could be divided into two subsegments. *Prestige buyers* wanted to own the best tires on the market, while *comfortable conservatives* tended to develop a strong, lasting relationship with a specific outlet. Comfortable conservatives would often buy the brand recommended by their favorite outlet; major brands accounted for 38% of their purchases, versus 65% of purchases made by prestige buyers.

4. Commodity buyers Commodity buyers valued price and outlet and could be divided into two sub-segments. Typically, *bargain hunters* were young, with little brand preference, low retailer loyalty, and a tendency to shop around extensively. *Trusting patrons* viewed brand as unimportant and tended to buy lower-priced tires at a preferred retailer. Trusting patrons made their purchase decision relatively quickly, without extensive shopping.

In 1992, 45% of tire buyers were price oriented when shopping for tires; 22% were brand oriented, and 33% believed the outlet was most important. By contrast, in 1985, 48% were price oriented, 26% were brand oriented, and 26% were outlet oriented. Over the past four years, the percent of consumers classified as quality oriented declined by four percent, while commodity buyers increased four percent.

Wholesale and Retail Channels for Replacement Tires

Tire manufacturers sold replacement tires to wholesalers. Wholesalers resold the tires to a variety of retailers and dealers, who then sold the tires to consumers. This section describes both wholesale and retail distribution channels for replacement passenger tires.

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Wholesale Distribution Channels

The U.S. replacement passenger tire market depended on the four wholesale channels listed in **Table F.**

Table F Distribution Channels (percent of U.S. passenger tire replacement sales in units)

Type of Outlet	1976	1981	1986	1991
Oil companies	9%	5%	3%	2%
Large retailers	24	20	16	19
Manufacturer-owned outlets	11	10	13	12
Independent dealers	56	65	68	67

Source: *Modern Tire Dealer*

The majority of tires wholesaled to oil companies were resold through franchised or company-owned gas stations or service stations. Wholesaling by oil companies had declined in recent years, reflecting increased competition at the retail level.

Large retailers, including mass merchandisers and warehouse clubs, bought tires directly from the manufacturers to resell in their stores. Independent dealers had increased their share of distribution in recent years. Like other tire makers, Goodyear sold passenger tires to three kinds of independent dealers. Dealers who were strictly wholesalers, with no retail operations, accounted for 10% of Goodyear's factory sales to independent dealers and resold their tires to car dealers, service stations, small independent dealers, and other secondary outlets. Another 40% went to dealers who both sold tires at retail and resold tires to other dealers or to secondary outlets. The remaining 50% went to 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 Distribution Channels

Six major retail channels competed for market share in the U.S. replacement passenger tire market. (**Exhibit 5** 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. Warehouse clubs: Warehouse clubs operated large stores carrying categories as diverse as food, clothing, electronics, tires, and hardware. Sam's, the largest of the warehouse clubs, had 208 outlets, while PACE had 87 outlets, Price Club had 77 outlets, and Costco had 75 outlets. 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. For example, in some warehouse clubs, consumers had to select tires from sales floor racks, cart the tires to the cash register, and bring the tires around the outside of the store to service bays for installation. Although warehouse clubs were a relatively new retail format, they were growing quickly due to their low prices. Some independent dealers felt that warehouse clubs offered tires at cost to increase store traffic, generating profits from tire installation and sales of other merchandise.

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3. Mass merchandisers: Mass merchandisers were retail chains that sold tires, performed auto services, and carried other types of merchandise. The largest mass merchandisers had many outlets. Kmart sold tires in 990 outlets, Sears in 850 outlets, Wal-Mart in 425 outlets, and Montgomery Ward in 335 outlets. Mass merchandisers typically maintained a very wide brand selection. For example, Sears sold Michelin, Goodrich, Pirelli, Bridgestone, Yokohama, and its own Roadhandler brand; while Montgomery Ward sold Kelly, Goodrich, Michelin, Bridgestone, General, and its own RoadTamer brand.

4. 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.

5. 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.

6. Large independent tire chains: Also known as "multibrand discounters," large independent tire chains typically had 30-100 outlets concentrated within a geographic region. Examples of this type of outlet included Tire America, National Tire Warehouse, and Discount Tire. 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 independent tire chains gained share, often by acquiring smaller independent dealers.

7. Other: Half the sales in the "other" category were accounted for by full-service auto supply stores such as Western Auto, Auto Palace, or Pep Boys. These stores sold tires at low prices as traffic builders and were resented by independent dealers as a consistent source of low-priced competition.

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 *independent dealers* accounted for 50% of sales revenues, while the 1,047 *manufacturer-owned outlets* generated 27% of sales, and the 600 *franchised dealers* accounted for another 8% of sales. (The remaining 15% of sales were primarily to government agencies.) Goodyear was also testing a new retail format, *Just Tires*.

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.

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New owners were franchised by Goodyear for three years and then became independent. During the three years, Goodyear provided training in operations, finance, and other aspects of the business. The number of franchised dealers was kept at 600 by adding new outlets as older franchisees became independent.

Goodyear had 4,400 independent dealers, but only about 2,500 were considered active dealers 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 independent outlet required the owner to invest $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.[3]

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 tires were diverted to those outlets by the large independent dealers who acted solely as wholesalers. 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 which 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. Both were owned by Sears, 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.

Just Tires was a new retail format under test by Goodyear. Modeled after "quick lube" stores which 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.

Although there was some overlap, most outlets that sold Goodyear tires did not sell Kelly-Springfield tires. Kelly-Springfield had no company-owned outlets and sold primarily through mass merchandisers, independent tire dealers, and gas/service stations.

Promotions

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. For both independent and company-owned dealers, promotions were organized around "core events"—six 3-week periods spread throughout the year during which Goodyear dealers could buy merchandise at a discount.

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

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

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Goodyear supported core events with radio, television, and print advertising announcing special prices on specific tire lines. Every spring, Goodyear offered dealers "spring dating," which provided extended financing on tire orders. 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."

Goodyear's Independent Dealers

Goodyear operated separate sales organizations to service company-owned outlets and independent dealers. The company-owned outlets were grouped into 42 districts, each with 20 to 23 stores. There was one district manager per district, plus one store manager per store. Another sales organization called on independent dealers and was organized into 28 districts, each with a district manager and an average of three area sales managers.

Besides providing tires, Goodyear supported its independent dealers with a variety of services, including the following:

Expertise and training on issues such as financing, architecture, wholesaling, operations, and merchandising.

Certified Auto Service, which allowed dealers to attend training classes and become certified in auto services.

The Goodyear Business Management System, a computer system to help dealers with inventory and accounting.

National and regional advertising to support dealer sales.

Research on market trends, such as information on the popularity of each tire, by size, in a given market.

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.'"

Most dealer complaints 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. Complaints common to many dealers were taken up by the dealer council.

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. Council meetings typically covered issues such as market trends in a region or city, new product development, advertising schedules, the availability of particular tires, or Goodyear's overall strategy. Due to antitrust laws, the council could not discuss the selling practices of specific dealers, the brands sold by specific dealers, competition from Goodyear-owned outlets, or retail prices.

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The services Goodyear provided its dealers were not free. The cost of these services was built into Goodyear's prices. Discounts were available for dealers who paid upon receipt of merchandise, ordered in full trailer loads, or purchased under occasional promotional programs. Also, various allowances applied. A *wholesale allowance* applied on all approved wholesale sales to any authorized Goodyear dealer within a specific territory. (The wholesale allowance helped Goodyear limit competition among wholesalers.) A *merchandising allowance* of 1.5% was credited on all dealer sales; these credits could be used to obtain point-of-sale materials such as brochures, signs, and displays. Independent dealers also earned *advertising accruals* equal to 4% of tire purchases. The accruals could be used for local advertising, which Goodyear split evenly with the dealers provided no other brands were mentioned in the ad and the ad focused on tires rather than auto services.

Not all of these services were popular with every dealer. For example, some of Goodyear's largest dealers would have preferred to buy their tires at the lowest possible "net" price and develop their own advertising and promotion programs. However, smaller dealers had neither the staff nor the expertise to develop their own programs, and Goodyear was concerned that, without coordinated programs, some dealers would stop advertising and simply reap the benefits of other dealers' efforts.

Independent Dealers in the Tire Industry

In the 1970s, most major tire companies had maintained networks of company-owned dealers. By 1991, tire manufacturers owned fewer of their distribution outlets, as independent dealers typically offered more choice than the single-brand selection offered at most company-owned stores and required less capital and attention from the manufacturer. Some tire companies believed that expanding independent dealer networks would grow sales faster than company-owned outlets. The expectation was that increasing the number of independent dealers would expand brand availability and increase market share. During the 1980s, both Uniroyal and General Tire sold or closed all of their company-owned outlets.

In 1992, Michelin had fewer than 125 company-owned outlets, but Michelin tires were available through 7,000 independent dealers. Most of Michelin's independent dealers were multibrand outlets and sold Michelin as the prestige brand 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.

Firestone was an exception to the trend toward independent distribution. During the mid-1980s, many of Firestone's independent dealers switched to other manufacturers; some felt that the company had stopped supporting its dealers and its products in order to maximize short-term financial results. In 1991, there were 1,550 company-owned Firestone outlets, which also carried Bridgestone tires. Firestone's presence in independent dealers, mass merchandisers, and warehouse clubs was minimal. Also in 1991, General Tire decided to exit the retail store business entirely and instead rely on independent dealers.

While manufacturer-owned outlets were part of the manufacturer's management hierarchy, independent dealers had more autonomy. For example, tire manufacturers could suggest retail prices, but by law independent dealers were free to set their own prices. Some manufacturers felt that independent dealers' focus on price had contributed to the decline in retail tire prices.

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

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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 6**). 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."[5] 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 multibrand discounters.

Auto Services

Auto services were a $50 billion market in 1991. Auto services included jobs such as oil changes, tune-ups, and front-end alignments, as well as repairs to parts such as brakes or transmissions. Revenues from auto services included parts and labor and were differentiated from tire sales. The price of services varied by outlet and job, but $60 was typical. Garages and service stations had a 40% share of auto service revenues, while new car dealers had a 29% share. Specialty outlets focusing on parts such as mufflers or brakes had a 15% share, followed by tire dealers with an 8% share, and mass merchandisers with an 8% share.

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. Revenues from tire installation were considered auto services and averaged the following:

Mount and balance new tires:	$8.00 per tire
Place a valve on new tires:	$2.50 per tire
Scrap charge to dispose of old tires:	$2.00 per tire

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.

Competition

Goodyear regularly surveyed car owners to monitor their image of the major tire brands (see **Exhibit 7**). In 1991, Goodyear and Michelin were virtually even, but Michelin's image was stronger among value-oriented and quality buyers, while Goodyear had a stronger image among price-

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

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constrained buyers and commodity buyers. 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.

Exhibit 8 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 started the NEWEX project, to develop 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 appearancewise was different—something that a customer would walk into a showroom and tell from a distance that it was different."[6] 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.[7] 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, introduced 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 antihydroplaning tire, to be called the Aqua Contact, which could be launched in early 1993.

The Aquatred was test-marketed in a large, representative, 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 (see **Exhibit 9**). Compared with buyers of the Invicta GS, Aquatred buyers were more likely to replace competitors' tires, searched more extensively for information prior to purchase, were more likely to drive imported cars, and more often came to Goodyear outlets specifically for the Aquatred. **Exhibit 10** 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.

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

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

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In another survey, Goodyear asked drivers of cars equipped with either the Aquatred or the Invicta GS to rate their tires' traction on wet roads. Owners of each tire responded as follows:

Response		Aquatred Drivers	Invicta GS Drivers
1	(Poor traction)	5	3
2		5	5
3	(Average)	30	27
4		80	81
5	(Excellent)	180	184
	Total responses:	300	300

The Launch of the Aquatred

A storyboard for a proposed Aquatred television advertisement is presented in **Exhibit 11**. 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, did Goodyear have the right product for the dealers and for the consumer? Michelin and Bridgestone both planned to launch new tires with 80,000-mile warranties in 1992 backed by heavy advertising. 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, Robbins was concerned about the timing. Goodyear had made commitments for commercial time during the Winter Olympics in January of 1992 and could use this time to introduce the Aquatred. Launching during the Olympics might spark sales of the Aquatred, but the initial inventory of Aquatreds had been made to fit domestic cars, as opposed to the smaller sizes for imported cars. Molds to produce other sizes would not be available until several months after the Olympics.

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

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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.

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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 Goodyear Tire Lines With Typical Suggested Per-Tire Retail Prices

Performance Radials		**All Season Radials**		**Light Truck Tires**	
Eagle GS-C	$280	Aquatred	$90[a]	Wrangler	$120
Eagle VR/ZR	255	Invicta GS	80	Workhorse RIB	70
Eagle GT+4	140	Invicta GL	65	Workhorse M&S	80
Eagle GA	120	Arriva	60		
Eagle ST	100	Tiempo	50		
Eagle M&S	215	Corsa GT	40		

Source: Company records

[a]Suggested retail price in Aquatred test market.

Note: All tires varied in price according to tire size.

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Exhibit 3 Goodyear's Broad-Line Tires

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Exhibit 4 Major Consumer Segments for Replacement Passenger Tires

	Percent of Consumers	Percent of Sales Represented by Major Brands	Minor Brands	Private Brands
Price-constrained buyers	22%	30%	35%	35%
Value-oriented buyers	18	54	29	17
Quality buyers	23	51	28	21
Commodity buyers	37	18	37	45
All tire buyers	100	33	33	34

Source: Company records

Exhibit 5 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%
Warehouse clubs	0	0	2	6
Mass merchandisers	28	24	16	12
Manufacturer-owned outlets	11	10	11	9
Small independent tire dealers	36	47	46	40
Large independent 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%
Warehouse clubs	80	8
Mass merchandisers	97	34
Manufacturer-owned outlets	107	16
Small independent tire dealers	100	36
Large independent 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.

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Exhibit 6 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*.

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Exhibit 7 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	Price Constrained Buyers	Value-Oriented Buyers	Quality Buyers	Commodity Buyers
Goodyear	13%	16%	17%	18%	10%
Michelin	13	9	24	22	6
Other	19	18	20	25	16
Uncommitted	55	57	39	35	68

Source: Company records

Exhibit 8 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.

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Exhibit 9 Aquatred Test Market Data

	Buyers of the....	
	Aquatred	**Invicta GS**
What brand of tire was replaced?		
Goodyear	38%	51%
Michelin	17	15
Other	25	16
Don't know	20	18
Steps in information search:		
Checked newspaper ads	33%	23%
Telephoned outlets	21	14
Shopped other dealers	20	12
Primary shopping orientation:		
Store	36%	44%
Brand	56	47
Price	8	9
Purchase decision segments		
Price-constrained Buyers	6%	6%
Value-oriented Buyers	23	13
Quality Buyers	61	64
Commodity Buyers	10	17
Bought four tires	91%	54%
Reasons for buying tires at Goodyear (multiple answers allowed)		
Past experience	36%	49%
Want Goodyear brand	33	33
Want Aquatreds	25	N/A
Convenience	11	18
Familiar with personnel	11	12
Advertising	9	N/A
On sale/good price	8	13
Recommended by a friend	4	4
Always go to that dealer	4	9
Other	26	20
Vehicle make:		
Domestic	74%	94%
Import	26	6
What features or benefits did the salesperson tell you about the Aquatred? (multiple answers allowed)		
Has 60,000 mile warranty	41%	10%
Great wet traction	33	38
Didn't tell me about them	13	42
Won't hydroplane	16	9
Other	29	18

Source: Company records

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Exhibit 10 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

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Exhibit 11 Proposed Aquatred Advertisement

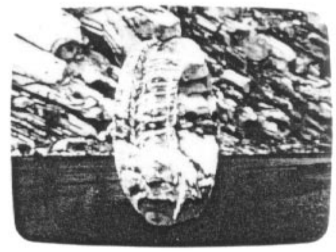
GOODYEAR

"TIRES OF THE FUTURE" :30

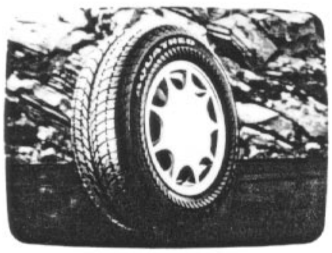
AQUATRED GTBM 8863

(MUSIC UNDER)
ANNCR: (VO) You're about to see

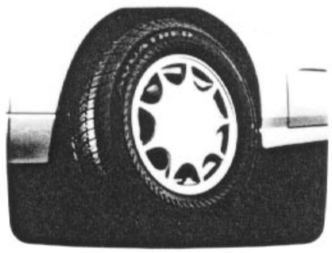
how Goodyear is changing all-season driving



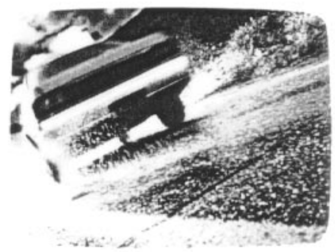
right before your eyes.



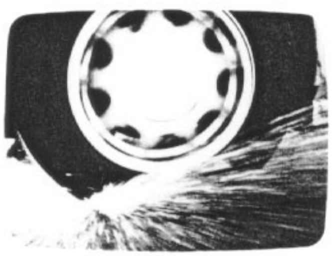
Introducing Aquatred...



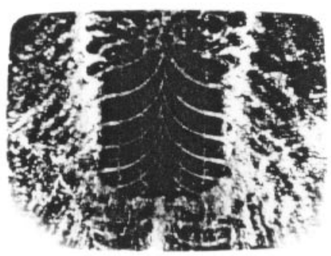
only from Goodyear.



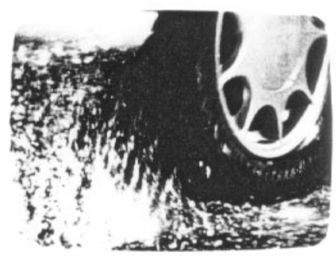
(MUSIC)



Aquatred's advanced design

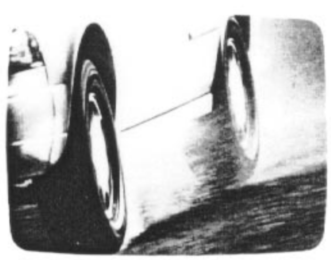


channels water out of your way



for dependable

all-season traction,



especially in the rain

when you may need it most.

Aquatred.

The newest reason why we say the best tires in the world

have Goodyear written all over them.

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