

## **Chinese Tiremakers Urged to ‘Accelerate Transformation’**

To change the low profitability of China’s domestic tire industry, enterprises need to improve core competitiveness, increase the technology content and added value of products, reinforce brand building, and make more consumers aware of the high cost-performance ratio of Chinese tires.

The industry needs to guide enterprise to step up merging and restructuring and improve industrial concentration and resources allocation efficiency.

ST Yellowsea suffered huge loss of RMB 79.61 million, and all production of its semi-steel tire production has been suspended due to relocation; net profit of Qingdao Doublestar plunged by 73% to merely RMB 9 million.

Most of the publicly listed tires companies that have recently published their interim reports saw miserable results. On the contrary, international tire tycoons Michelin and Goodyear delivered brilliant results. In the first half of 2012, Michelin’s sales volume was \$10.7 billion, its operation result improving by 11.1%, raking in operation profit of \$1.32 billion.

According to Goodyear’s performance report in the second fiscal quarter, the company’s profit almost doubled in the quarter. Its financial reports show that the company earned \$92 million in the quarter, higher than the \$47 million in the same period of last year.

With the same exterior environment, why are the performances of Chinese tire brands and that of foreign tire brands so different? Is it that the quality of Chinese tire brands is not good? That’s not the case.

Currently, 45% of China’s tires are exported, and one third of them are exported to America. The service life of some of these tires greatly outperforms that of foreign brands. This means that the quality of Chinese tires has been recognized by international market. But what’s the problem?

According to analysis, there are for reasons for the bad performance of China’s tire industry. First, Chinese tire companies are not innovative enough. The scales of most Chinese tire enterprises, with a few exceptions, are rather small. They lag behind in R&D and innovation capability and have few self-developed products. Their product structure is not very proper, with relatively few high-end products and serious homogenization.

Second, low industrial concentration. There are more than 500 tire enterprises in China, but the total market share of the top 10 enterprises is about 30%, whereas the top three multinational enterprises of the industry account for 46% of global sales. No concentration, no say in pricing.

Third, overdependence of key raw materials and products on the international market. 75% of China’s natural rubber is imported from foreign

countries. Due to backward industrial structure adjustment, tire production capacity has been growing so fast that 40% of the products are dependent on foreign markets.

Fourth, the lack of auxiliary market. Due to technology level, brand, consumption habits, and other factors, it's very difficult for Chinese brands to get into car auxiliary market.

Currently, joint venture enterprises are dominant in the car market. Famous brands, such as Citroen, Volkswagen and Nissan, have decades of auxiliary purchase history in foreign market.

Tire companies that work with them are all internationally famous suppliers. It's hardly possible for Chinese tire companies to infiltrate such long-term partnerships. Besides, the foreign parties of joint ventures would sign agreements that that give preference to tire supplier from their own countries at the beginning of the joint ventures, depriving Chinese tire suppliers off the competition opportunities.

To change the weak profitability of China's tire industry requires efforts from numerous sides. Enterprises need to improve core competitiveness, increase the technology content and added value of their products, and make active efforts to develop green and energy-saving spare tires, high-performance car tires and aviation tires and high-performance green tire additives.

Meanwhile, more efforts should be made to build brands and to make more consumers aware of the advantage of Chinese tires' high cost-performance ratio. The industry should guide enterprises to accelerate merging and restructuring, improve industrial concentration and resources allocation efficiency, attach importance to building Chinese brands, and speed up in cultivating a group of large and internationally competitive tire enterprises. The government should give more support to Chinese tires and use Chinese brands so as to boost demands and promote the development of China's tire industry.