|  |
| --- |
| Case #6 |
| Goodyear Tire and Rubber Company |
| BUAD 6300  University of Toledo  Dr. Michael L. Mallin |
| Meagan Frances Ayers  Spring 2011 |

**Issue**

Goodyear Tire Company has been proposed with the idea of selling its tires via Sears Auto Centers. If they choose to do so, they must address 3 things: (1) what brands will be sold through Sears, (2) how will this strategic move affect their franchisees, and (3) what will the cannibalization of their brands sold through other retail chains look like?

**Analysis**

Industry

The tire industry is divided into two end-use markets: (1) The original equipment tire market, and (2) the replacement tire market.

*Original Equipment Tire Market*

In this market, tires are sold directly to the automobile or truck manufacturers. This market represents 25 to 30 percent of the tire unit production volume each year. Goodyear is the market share leader in this segment and captures 38 percent (1991). Within this segment, price is highly inelastic due to the fact that car and truck manufacturers can easily switch to a competitor brand since the price competition in this segment is fierce.

This market is the least profitable of the two but it is considered strategically important to be a player in this segment. The justification for this is the fact that many believe that car and truck owners who are satisfied with their original tires would seek out the same brand when they need to be replaced.

*Replacement Tire Market*

This segment of the market accounts for 70 to 75 percent of tires sold annually (3 times that of the original equipment market). The demand for this segment is driven by average miles driven per vehicle. Tire manufacturers produce a large variety of grades and lines of tires under both the manufacturers name as well as private label brands to accommodate the needs of all different customers who are seeking tires based on price, quality, performance, etc…

Goodyear is the perennial market share leader in the US replacement tire market. They hold a leadership position in the passenger car, light truck, and highway tuck product categories.

*Distribution*

Major manufacturers of tires capitalize on their reputation and experience as producers of building strong wholesale and retail dealer relationships and networks through which to sell their brand name replacement tires to vehicle owners. The industry uses “retail points of sale” to gauge the retail coverage of tire manufacturers and their brands. Goodyear has the broadest retail coverage with almost 8,000 retail points of sale.

Independent tire dealers usually carry the brands of several major manufacturers and a discount priced private label brand to give a full assortment of qualities, brands, and price ranges to choose from. Retail tire outlets there were owned or franchised by the manufacturers carried only the manufacturer’s name brands and maybe a private label discounted price line. Department stores and major retail chains (like Sears) occasionally carried manufacturers’ brand tires but usually marketed only their own private label brands.

In most communities, price is the dominant competitive appeal in an intensely competitive industry. Many dealers feature and push their private label brands of tires because the profit margins are higher. Dealer sponsored private label tires accounted for 15 to 20 percent of total replacement tire sales in the US in 1991. For this reason, it would be beneficial for Goodyear to consider providing a private label brand for Sears, if they decide to use them as a retail channel, to capture this growing market.

*Marketing*

Major tire producers often use network TV campaigns to promote their brands, introduce new types of tires, and pull customers to the retail dealer outlets. Network TV budgets commonly run from $10 million to $30 million, and their budgets for cooperative ads with dealers run from $20 million to $100 million. Print media is also commonly used extensively.

*Customers*

Few replacement buyers are very knowledgeable about tires and many end up choosing a tire based on price and some just follow the recommendation of their local dealer. Consumers are becoming more price sensitive/conscious while abandoning brand loyalty. This is important to remember because it defeats the purpose of presence in the original equipment segment. Therefore, being in a market segment, which is not as profitable, for a reason that is no longer viable might be a strategic error. Most replacement tire customers do not have a preference, which makes it easy for tire salespeople to switch customers to private label brands that deliver higher profit margins.

*Competition*

World tire production in 1991 was approximately 850 million tires. Goodyear is the world’s second largest producer, right behind Groupe Michelin who is the world’s first largest producer, and right before Bridgestone who is third. These three firms collectively account for 60% of the worldwide tire market. While Michelin is the leading producer of tires worldwide, Goodyear is the leading producer in the United States, North America, and Latin America.

Goodyear

As of 1991, 60% if Goodyear sales worldwide were in the tire replacement market and 40% were in the original equipment market. They produce tires for virtually every type of vehicle and have the broadest line of tire products of any other manufacturer. Goodyear is the name of one of the best known tire brands in the world and has been traditionally positioned and priced as a premium quality brand.

Goodyear is also the leading national advertiser in the US. They maintain a high profile in auto racing to emphasize high performance capabilities of their products and are famous for their well-known blimps at special events throughout the US. Their slogan also portrays a high quality message to consumers: The best tires in the world have Goodyear written all over them. Therefore, it is essential for them to maintain the availability of their high quality brands.

**Evaluation**

Goodyear is considering selling their tires via Sears retail channels. This move would be strategically advantageous because consumers are demanding low price tires and Goodyear is focused on high priced tires. By using Sears as a retail channel, they can provide a private label, low cost tire to consumers via a retailer which customers already have loyalty to. As stated above, consumers are losing loyalty to tire brands but they do have increased loyalty to retailers (such as Sears). Therefore, this move would provide Goodyear with a broader spectrum of customers.

One problem with selling via Sears is the issue of current Goodyear Tire dealer franchisees’ reactions. Some franchisees have said that if they see this change, they will sell tires from competitors who provide a better value to customers. Therefore, it is imperative to overcome this negative reaction to using Sears as a new channel of distribution. One way of dealing with this issue is to provide a tire to these franchisees that will provide them with a higher profit margin and a better value to customers. This tire can be produced by Goodyear but not bear the Goodyear logo in order to uphold their status as the highest quality tires but also meet changing demands.

Cannibalism is another problem to consider, especially in communities where Sears has a strong market presence. The strategic problem with not using Sears as a retail channel is that the sales which would be cannibalizing current sales would more than likely go to Sears anyways for replacement tires. Goodyear can either have a presence at Sears where these customers are going or they will lose out on the sales all together.

Another issue is that of advertising. While it is important to advertise strategic changes and beneficial to continue advertising for current brands, it might not be appropriate (at this point in time) to advertise their brands in conjunction with Sears because it would create a loss of customers for current franchisees.

**Recommendation**

Goodyear should sell a private label as well as manufacturer (with the Goodyear logo) tires at Sears Auto Centers in order to capture a customer base they would otherwise lose to other brands. By offering a private brand for Sear as well as their own brand, they are capturing a larger market; those who are seeking the best value based on price and those who are seeking tires based on performance. This would maximize their market presence and hopefully their profits.

They should also offer a high margin tire to current franchisee’s so that they have a high profit margin tire available to capture the price sensitive market.

Goodyear should also consider lowering their presence in the original equipment market and try to match the market segments percentages more strategically (25%/75% versus their current 40%/60%). The reason being that the profits in this segment are not as profitable as those of the replacement market and the logic of using this segment in order to increase brand loyalty is not practical since customers are more concerned with price and retailer loyalty than loyalty to Goodyear. A break-even analysis should be conducted to define how much they should lessen their presence in this segment.

If they do not make these strategic moves, they will more than likely suffer sales due to the amount of customers who are more loyal to the retailer (Sears) than to the tire manufacturer (Goodyear).