

Trouble with Continental Tire

Survey indicates dealers are upset with demand, fill rates, quality, and servicing.

Background

As Continental Tire of North America (CTNA) announced the shutdown of two of its three U.S. production facilities, the company realized a loss of production capacity of almost 13 million tires annually at facilities servicing the North American market. This major hemorrhaging of production capacity raises real questions about the company's continued ability to service its customers in the North American market. While CTNA announced major capital expansions in Brazil and at the company's remaining U.S. facility, it has not fully explained yet how it would compensate for the lost production.

On August 21, 2006 the United Steelworkers (USW) sent a letter to over 1,300 independent tire dealers across the U.S. questioning the company's continued ability to provide a consistent supply of high quality products to its tire dealers in North America. The August 2006 letter also stated, "*Experience indicates that moving production to more distant and less stable parts of the globe creates huge unpredictability and instability in supply lines.*"

Just one week later, many of our predictions about supply line problems and poor fill rates were validated as Tire Business published a special report entitled "*Singin' the fill-rate blues; As Continental Tire realigns its N.A. production, dealers struggling to meet their customers' needs.*" The article, written by industry expert Vera Linsalata, chronicled some of the company's most serious supply issues, noting that some dealers experienced fill rates as low as 50%. Many of the dealers attributed the company's inability to provide a consistent supply to the cessation of tire production in Mayfield, KY and Charlotte, NC, but some noted that they had been experiencing supply line and servicing trouble for several years.

The Tire Business article gave credence to some of the issues we had raised in our initial dealer letter, and we decided to conduct a comprehensive survey in order to systematically assess the scope of CTNA's dealer problems.

Survey and Methodology

Between October 6, 2006 and January 7, 2007 members of USW Local 850 from Charlotte, NC visited 376 tire dealerships selling Continental and General Brand tires in 10 states across the United States. During the visits, the USW members interviewed dealers, asking several questions about Continental Tire supply, pricing, support, marketing, and demand.

The union selected tire dealerships in five geographic clusters, each representing one of the company's important customer bases: North Carolina and South Carolina; Georgia; New York and New Jersey; Southern California; and the Midwest (Ohio, Tennessee, Kentucky and Indiana).

Cluster	Dealerships Visited	Dates Visited	
North Carolina and South Carolina	119	10/6/2006	10/18/2006
Georgia	120	11/2/2006	11/27/2006
New York and New Jersey	34	12/10/2006	12/13/2006
Southern California	43	12/10/2006	12/13/2006
Midwest	60	12/2/2006	1/5/2007
Total Sample	376	10/6/2006	1/5/2007

Summary of Findings

Of the 376 dealers visited, about half or 179 reported serious concerns about their relationships with CTNA. The rest were either unavailable, declined to comment, or did not express any serious concerns about their relationship with the company. The area with the highest percentage of dealers reporting serious complaints was the Midwest with 63.5% reporting complaints. The other four clusters each reported complaint rates between 41-46%.

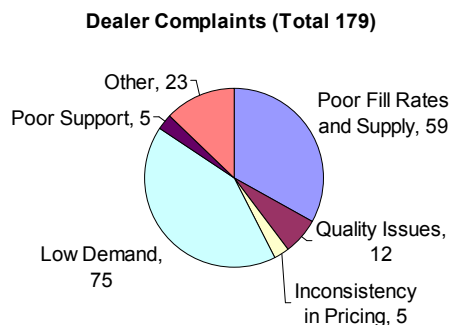
Cluster	Dealerships Visited	Number Reporting Complaints	Percent Reporting Complaints
North Carolina and South Carolina	119	54	45.4%
Georgia	120	53	44.2%
New York and New Jersey	34	15	44.1%
Southern California	43	19	44.2%
Midwest	60	38	63.3%
Total Sample	376	179	47.6%

Of the 179 tire dealers reporting complaints, low demand was by far the most prevalent concern with a total of 75 dealers or 42 % reporting this as their primary complaint. Fifty nine dealers or 33% reported supply problems as a primary complaint. Twelve dealers noted quality issues, five reported poor support, and five complained of inconsistency in pricing.

Most dealers reporting low demand attributed this to deficiencies in Continental's marketing program. Most showrooms in North and South Carolina displayed little or no Continental signage (in contrast to other major tire makers who had major displays in many of these stores). One dealer in Georgia, unable to get promotional materials from the company, was forced to make his own Continental displays. None of the dealers in Southern California knew anything about a major marketing push by the company, which was remarkable given that Southern California was the only area of the U.S. where Continental had announced a new marketing program.

While low demand was the most prevalent issue, our surveyors found that dealers who reported supply problems were most vocal about their dissatisfaction with Continental.

Several dealers reported that they are reluctant to recommend or advertise Continental tires because they are unable to get a consistent supply of the tires their customers demand. A major chain of tire dealers in New York reported that it was considering dropping Continental tires altogether because of late, delayed or incomplete shipments.



Findings by Region

North Carolina and South Carolina

USW members visited 119 tire dealers in North Carolina and South Carolina between October 6 and October 18, 2006. Of the 119 dealers visited, 54 (45.4%) reported problems. Dealers said they were not able to get timely delivery of Continental tires for car owners who requested replacements for their OE fitments.

Some common dealer comments include:

- Very little Conti business
- There is no demand for Conti tires, so we don't stock them
- Tires are backordered for months
- Hard to get Conti to replace OE
- We don't sell many because of the quality
- We only sell Conti tires on request

Very few of the stores visited had Continental signs or displays in the showroom; even fewer had a significant quantity of Continental tires on display in the showroom.

Georgia

USW members visited 120 tire dealers in the northern half of Georgia between November 2 and November 27, 2006. Of the 120 dealers visited, 53 (44.2%) reported problems.

New York and New Jersey

USW members visited 34 tire dealers in the New York/New Jersey area between December 10 and December 13, 2006. Of the 34 dealers visited, 15 (44.1%) reported problems.

The Continental presence in most stores was minimal; some were using Continental Tire display stands to hold Goodyear Tires. Two major chains of tire dealers in this area report that they have moved away from the company because of supply glitches and low fill rates.

Some common dealer responses include:

- The tires we need are discontinued
- It's hard to get certain sizes
- We only sell Conti tires on request

Southern California

USW members visited 43 tire dealers in Southern California between December 10 and December 13, 2006. Of the 43 dealers visited, 19 (44.2%) reported problems with the company. Several dealers in this area noticed a major price increase in several of

Continental's more popular tires over the past several months. Dealers also reported low fill rates and seemed outraged at the company's non-responsiveness to dealer complaints.

Some common dealer responses include:

- No one at Conti cares if you complain
- Cost of Conti tires continues to increase
- Hard to get certain sizes they promote
- We don't sell many because of the quality
- We only sell Conti tires on request

Very few dealers knew anything about a marketing campaign and of those who did, they sold very few, if any, Continental tires to begin with.

Midwest

USW members visited 60 tire dealers in the Midwest between December 2, 2006 and January 5, 2007. Of the 60 dealers visited, 38 (63.3%) reported problems. Dealers in this area told interviewers they saw a steady decline in customer service, delivery and supply speed in the past two years. In this cluster of stores there were very few Continental banners or signs. Several dealers reported that they discourage customers from buying Continental tires to avoid the hassle of trying to get the correct tires.

Conclusions

Dealer responses during our visits are indicative of serious problems in Continental's marketing, sourcing, and servicing strategies, with just under half (47.6%) of the total sample reporting problems. The sheer frustration expressed by a large section of the dealerships visited was daunting. Dealers reported problems with marketing and the company's ability to generate demand and voiced the serious supply problems they were facing.

Last year, at its first ever Gold Tire Dealers Convention in Las Vegas, Continental recognized that relations with dealers degenerated so much that it apologized for its missteps and promised to change its ways. At the conference, Continental vowed to become more consistent, in terms of supply, price, and support. Unfortunately it appears that the company did not live up to its promises- and dealers are noticing.

