How the Retreading Industry Can Face Up to the Challenge of Budget New Tyres

By David Wilson (Publisher – Retreading Business)

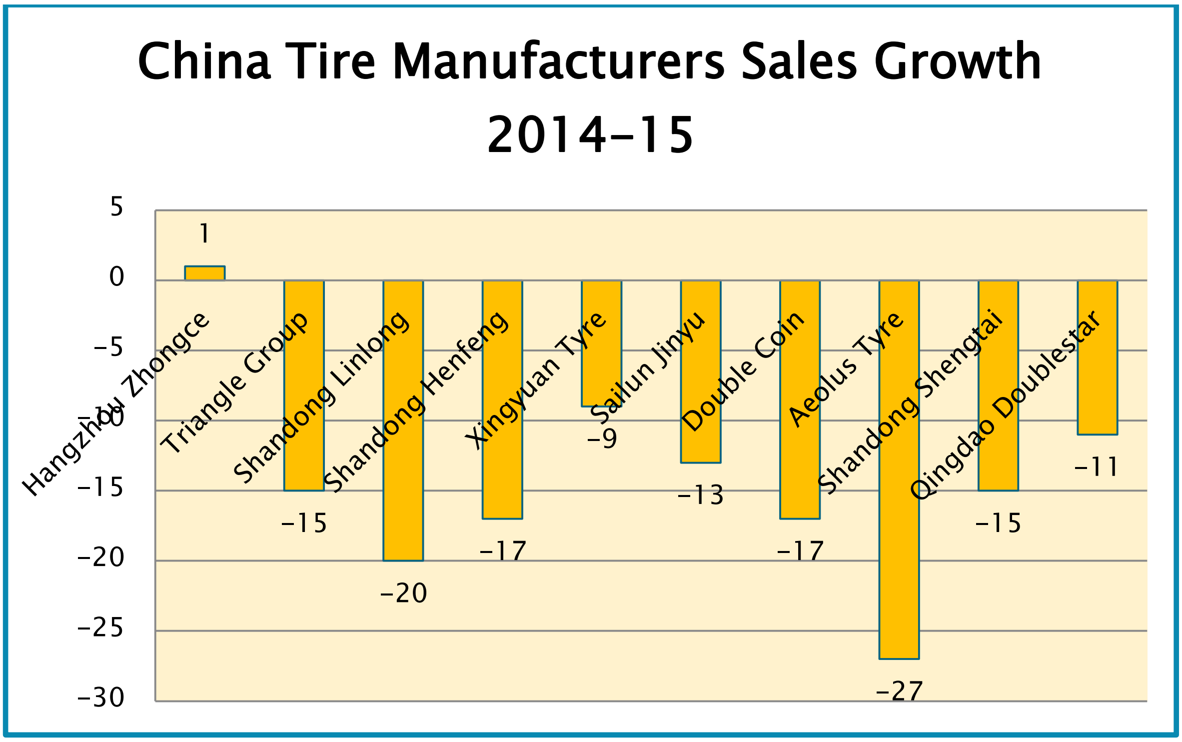
David Wilson

There’s no denying that the challenge posed to the retreading industry by budget new tyres (primarily from China) is the biggest issue being faced by the industry today. Wherever we go in the world it’s what people want to talk about. It has affected developed markets like North America and Europe, where there is a culture of retreading and an understanding of the role of retreading in the life cycle of the tyre, it has affected developing markets in Africa, Asia and the Middle East where there is less of a culture of tyre maintenance and where retreads are pitched largely as budget alternatives to new tyres, it has the potential to affect markets where budget imported tyres are excluded and it has even affected China’s own retreading market.

Now, I’m not going to spend too much time here analysing the effect of Chinese new tyres on the retread market. I think the retreading industry has spent far too much time navel gazing of late. It is my opinion that the retreading industry needs to stop whingeing about the state it is in, stop relying on government intervention to drag it out of the mire and focus on the two things it can do to counter the threat – produce better, more efficient, cost-effective products and market itself better, and I hope to be able to provide some focus in this article on some of the areas where the industry has achieved success recently, and how it can prepare itself for the future.

The first question to ask, however, is whether the retreading industry is lagging too far behind the people in the image above in the race to get our tyres out into the market? In other words, is the current situation a blip or is it the new reality? My view is it's somewhere between the two. We're currently at the bottom of a cycle caused to a large degree by overcapacity in China. However, the Chinese tyre manufacturers are not going to completely go away – they will continue to improve the quality of their products and become more efficient, and the retreading industry cannot afford to ignore them.

So, let us have a quick look at the current situation. If we think the retreading industry had a disastrous year in 2015, we are not the only sector to suffer by any stretch of the imagination. The Chinese tyre industry also had huge difficulties. Overall sales by Chinese tyre manufacturers were down by 15.4%, and for 2016 the China Rubber Industry Association (CRIA) is forecasting a further 3.6% decrease in truck tyre production. As can be seen from the chart, of the top 10 Chinese tyre manufacturers, only Hangzhou Zhongce showed any growth at all, with many of the others posting double digit decreases.



With the prospect of further decreases and the undoubted impact that anti-dumping actions would have, particularly by the US – but by other major markets too, it appears that government policy in China is switching towards consolidation and to policies that will help the development of the larger, more professional players at the expense of the smaller operators. According to the CRIA the Chinese government has plans to cut 40% of production by 2020 mainly by introducing stricter regulations in the areas of energy efficiency and environmental impact. The likelihood, therefore, is that we will see some kind of shake out in the Chinese industry, but it won't be immediate.

Now before I go on, a few words about reliance on government intervention. It's great if you can get it. There is little doubt that anti-dumping tariffs in the US have had an impact. There has been a big reduction in car tyre sales from China to North America and a similar effect is likely in truck should the action be ratified later this year. Other countries such as Russia and Brazil have also had government support. However, for every national retreading industry that has gained government support, there are plenty that haven't, plenty where markets are opening up again and plenty where other political considerations are threatening the market.

Turkey, for example, is currently deciding whether to rescind its anti-dumping regulation against Chinese tyres. For markets like Malaysia the issue is tied up with the country's status as an exporter of rubber, whilst in South American countries like Chile and Uruguay the market is being impacted by a national policy of openness.

Which brings me neatly onto Europe, where the key issue is the EU's traditional stance in favour of free trade. Here the attitude to the tyre retreading sector is best illustrated by the words of EU Commissioner Cecilia Malmstrøm, who says her first responsibilities are "Pursuing an ambitious trade agenda to the benefit of European citizens, SMEs and the broader economy."


Cecilia Malmstrøm

However, the European Federation of Retreaders Associations, BIPAVER was so frustrated with the Commissioner's lack of understanding of the make-up of the European retread sector, and the refusal to initiate anti-dumping legislation against the Chinese tyre industry that it sent out a strongly worded press release accusing the EU of being unable to defend SME's.

The press release read as follows; "After more than a year asking the Directorate-General Trade to consider our case and presenting several solutions, both technical and legislative, it has become clear that the European Commission is not able to defend our industry due to the lack of legislation for this specific situation within the retread industry. At a time when the EU is discussing opening even further the EU market to imports from diverse exporting countries and when its citizens are questioning the European project, the retreading industry cannot understand the added value of a European trade policy if they are not able to defend their own SME industries."


Tata Steel Works, Aberavon

A closer understanding of where interests really lie can be seen in the wrangling over the future of the UK steel industry and, in particular, a story which broke in April relating to the potential closure of the Tata Steel owned Port Talbot Steelworks in South Wales (pictured above), which was said to be losing £1 million per day.

For those of you who are unfamiliar with this story, the main reason given for the uncompetitiveness of the Port Talbot plant was the dumping of cheap steel from China into the European market. True to its ultra-free market approach, the EU had managed to impose penalties of only 13% on Chinese cold rolled steel compared to a whopping 267% by the US government in Washington.

Stephen Kinnock

At the time there were plenty of voices suggesting that there was more to the UK government's failure to act than met the eye. Stephen Kinnock, the MP for Aberavon, where the Port Talbot plant is located, said in a newspaper article "We are rolling out the red carpet for Beijing", suggesting that Britain was pushing for China to get market economy status at the World Trade Organisation despite the fact that the vast majority of its steel industry was state-owned. He also described Britain as a "ringleader" in blocking European commission attempts to improve anti-dumping policies. "They are in hock to China," he said. "Our commercial policy, our approach to trade and manufacturing, and our overall industrial strategy, is being dictated by Beijing."

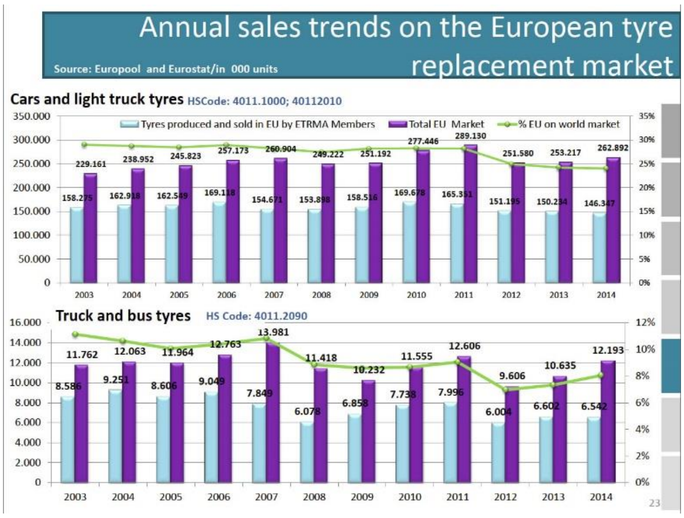
In another article a Brussels official was quoted as saying; "The British are sacrificing an entire European industry to say thank you to China for signing up to the nuclear power project at Hinkley Point, and pretending it is about free trade."

I am digressing, of course, but the point of this digression is to show that there are higher level issues at play than the saving of small SME industries. If the stakes are so high in other areas that governments are prepared to risk the future of an industry as fundamental as the steel industry, then what chance does a small industry like the tyre retreading industry have?

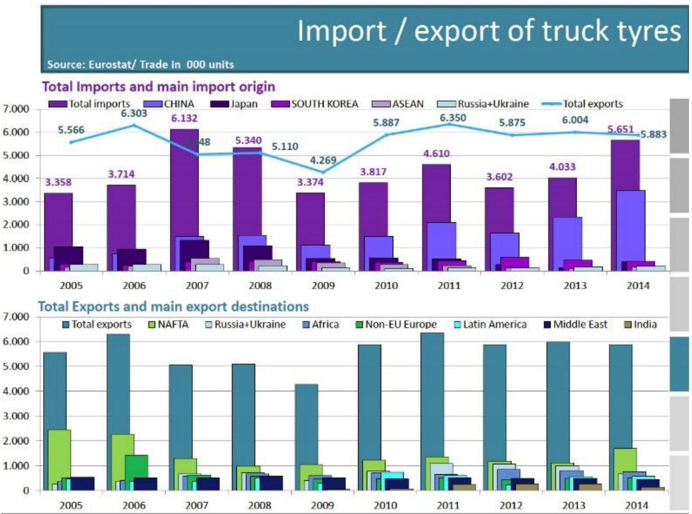
Clearly the retreading industry cannot rely on governments to support its interests, so I'm afraid the industry just has to get on with it, and focus on looking after itself.

The current situation in Europe is as follows: According to ETRMA figures, the total European truck and bus tyre replacement market has recovered somewhat since 2012 when it fell to a low of 9.6 million units. In 2014 the market was back to nearly 12.2 million units – on a par with the average market size of 10 years ago. Overall, the trend is more or less even except for the blips experienced in 2008-9 and in 2012.

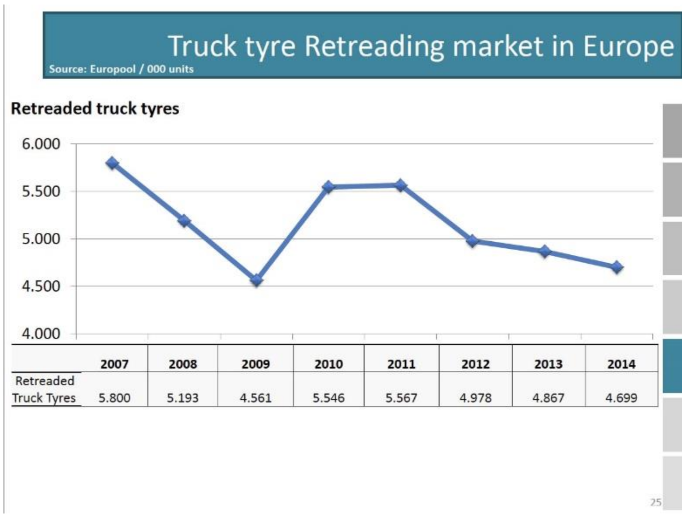
Over the course of the past ten years, however, the make-up of the market has changed fundamentally. ETRMA manufactured tyres have fallen from 8.5 million in 2003 to 6.5 million in 2014. This accounts for a reduction in ETRMA market share from 73% to 54% over the period. And whereas the overall market has recovered since 2012, ETRMA sales have not recovered in the way they did after the 2008-9 crisis. The recovery has come almost entirely from imports, largely, of course from China.



The make-up of imported tyres has changed significantly since 2007, when there was also a very high number of truck tyres imported into Europe – 6.13 million units, in fact – more than the 5.8 million imported in 2014. However, the origin of these tyres in 2007 was split fairly evenly with 1.3 million units coming from Japan and only 1.5 million from China. By 2014, of the 5.8 million tyres imported, 3.5 million were from China, and since 2012 the amount of new truck tyres coming into Europe from China has increased by 50% each year.



Meanwhile, whilst the new tyre replacement market has more or less held its own, truck retread sales have plummeted. According to ETRMA the market has reduced from 5.8 million units in 2007 to 4.7 million in 2014. The market did see a temporary recovery in 2010-11, but overall, the retread market is moving in only one direction. Many foresee a further consolidation in the European retreading industry and a new restructuring of the market. If that happens, what kind of a retreading industry can we expect to see in Europe, and what can individual retreaders do to make sure they are the ones who survive the shake out?



In my opinion, one of the key problems that has affected the retreading industry over the years, is a kind of laissez faire attitude and a widespread unwillingness to really invest in pushing the industry's credentials, both as individual companies and (with the notable exception of the USA) as a united industry. We have talked a lot over the years about the retreading industry's green credentials, about how retreads can perform as well as new tyres and how they should form part of a whole life cycle approach to tyre management, but when it comes down to the nitty gritty, and the daily grind of running a business, too much of the market has allowed the sector to be brought down to the lowest common denominator, pitching retreads as a budget product competing against cheap new tyres, with price as the deciding factor. This, of course, is understandable to a degree, it doesn't take much effort to cut prices and services with it – and you're not going to turn down ready business that requires minimum marketing effort, are you? It's an easy option – but it breeds laziness, inflexibility and a lack of entrepreneurial innovation. That said, of course, this approach is OK if you can produce and sell at prices below those of new tyres and still make a profit, which for many years was the case.

However, when new tyres suddenly became cheaper than retreads, too much of the industry has simply thrown its hands up in despair and said "That is the end of retreading." The fact is we have become far too lazy. Retreading has plenty going for it and there are many good economic and environmental reasons why the industry can have a bright future. However it needs a different approach to that which has sufficed in the past. Fortunately it appears that this message has begun to get through – not everywhere, I hasten to add – but there is enough innovative thinking to give us hope that the retreading industry will work its way through the current problems and emerge stronger.

So let's have a look at some of the latest developments.

In many markets the increasingly low prices of Chinese tyres has meant that a good proportion of retreaders have felt that the only way to respond is to reduce costs by using cheaper compound and by reducing costs in other parts of the production process. Of course this is happening in most developing markets where awareness of the benefits of PPK and tyre management issues in general is less prevalent. Many of the interviews written by our correspondent covering India, the Middle East and Africa are characterised by retreaders complaining about reduced volumes due to the impact of Chinese imports. However, this has also been a factor in major western markets with the established premium suppliers coming under pressure from mid-range and budget imported tread brands.

There is, of course, a valid role in the retread sector for product and customer segmentation based on attitude to price. There is also an increased necessity for a focus on improving efficiency and therefore also optimising costs in the production process, but this is different to downtrading in terms of quality as a response to market forces. This, in my view, is a mistake, and can only result in a further weakening of the position of retreading vis-à-vis Chinese new tyres, whose quality, of course, continues to improve.

The only answer, in my opinion, is to continue to improve the quality of retreading, to push to market towards more premium products and to validate the process in terms of efficiency and cost savings for the fleet. I realise that we are a long way from this in some markets, but this has to be the long term goal for the whole of the retreading sector. Budget retreading may be around for a while yet, but Quality Premium retreading is the future.

Fortunately, the good news is that many companies, including suppliers and some retreaders have recognised this requirement. It is worth noting that in Europe, where this trend has begun to take off, the premium sector of the market seems to be holding its own whilst much of the decrease in retread production is occurring in the budget sector, which is coming most under pressure from cheap Chinese tyres. Here are a few examples from the European market.

Possibly the most interesting response to market developments in recent years has been Marangoni's introduction of the Blackline range of precured treads.

Marangoni Blackline

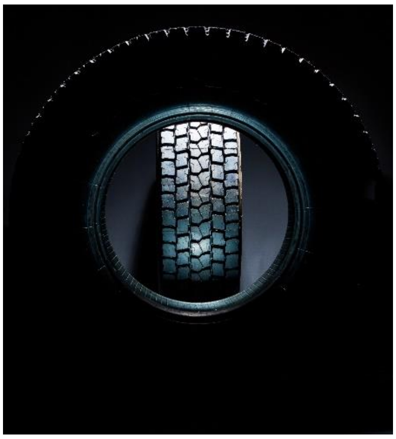
Blackline, says Marangoni, is the company's response to the evolution the market has undergone in recent years, where larger fleets in particular have been demanding retreaded tyres with reliable performance, improved durability and rolling resistance which is comparable or superior to quality new tyres in order to guarantee savings. Bearing in mind that Ringtread has always been positioned as a premium product, Blackline is effectively a premium/premium product. The objectives of the Marangoni Group's Advanced Research Division during the development of the Blackline range of products, was to achieve at least 15% increased mileage, a 10% reduction in rolling resistance, a 3% reduction in consumption, as well as a 10% increase in adhesion and, for the on-off road tread, a 20% increase in mechanical wear-resistance. Those goals were actually exceeded through the use of new materials, increased natural rubber content, a new generation carbon black perfectly incorporated in the compound through a revolutionary mixing process, and a new generation of moulds – so a comprehensive approach to providing top level premium products that provide measurable benefits and improvements over budget competition from the new tyre sector.

The need to provide fleet customers with guaranteed performance has also been recognised by Bridgestone Bandag, who earlier this year introduced their "Bandag Contract of Trust" a contract to be signed between Bandag dealers and fleet customers. Again, a key aim of this is reassuring fleets that Bandag retreaded tyres are not only a safe and reliable alternative to a new set of tyres, but a further solution for reducing fleets' tyre related costs per kilometre. The Bandag Contract of Trust covers three key guarantees. The first is a Bandag retread warranty that provides trouble-free performance as good as you would expect from premium new tyres. The second guarantees a lower tyre cost per km with Bandag retreads than the fleet's fitted tyres, with the third delivering 100% retread suitability of Bridgestone and Firestone tyre casings.

Kraiburg Road Tests

Kraiburg's response to the need to prove and guarantee performance has been the decision to put its retreads through regular and extensive on-road tests in conjunction with a local transport company as part of its product development activities. The aim was to prove that retreads can match up to new tyres in terms of rolling resistance, wet grip and rolling noise. Kraiburg has summarised its latest test results in a brochure, comparing the performance of its treads with new tyres. According to EU law anyone selling new truck tyres has to show labelling information to the purchaser before a sales is made, but this does not currently apply to retreads, at least until the end of 2017. However, the brochure allows Kraiburg to provide users with comparable information in a clear and concise way. All the tyre test results published in the brochure were obtained by an accredited and independent test laboratory with reference to the standards and specifications applicable to new tyres.

We are also seeing some larger retreaders paying greater attention to the development of premium products with measurable benefits to fleets. Not only that, we are seeing some players taking advantages of specific niches where they know they can outperform competitors from the new tyre segment.


Vacu-Lug Logistik

An interesting example of this is the UK based retreader Vacu-Lug, which since the acquisition of Bandvulc by Continental a couple of months ago is now the largest independent retreader in the country.

Over the course of the last couple of years the company has developed a new range of tyres called Logistik, which, as the name suggests, have been specifically designed to target growth in the logistics sector and are positioned at the premium end of the market.

Key to the success of this range has been investment in a 12 segment press, which has allowed the production of a tyre with a significant increase in 'true roundness' which has helped optimise tyre life. The new press has also helped achieve an upgrade in terms of curing pressure, which has helped eliminate micro-porosity in the cured compound, thereby helping improve performance in terms of mileage and well as fuel efficiency. The success of the Logistik range shows that it is not beyond the retreading industry to access the most demanding sectors of the commercial vehicle market.

As Vacu-Lug Sales Director Dave Alsop says, "Clearly, there is still a strong demand for premium retread tyres in the HGV sector, as it would appear that some of the very cheap imports are not proving to be as cost-effective as expected."

This brings me neatly onto the question of whether retreaders should sell Chinese tyres in an "If you can't beat them, join them" approach to the market. All over the world we hear of retreaders doing this. The argument is that the customer wants a cheap Chinese tyre – not a retread, and if the retreader does not offer such tyres in his range, the customer will go somewhere else.

However, there is plenty of evidence to suggest that unless the retreader is marketing one of the top Chinese brands like Westlake, Double Coin or Sailun, this is more likely to be counter-productive and will eventually result in the cannibalisation of the retreader's core business.

One retreader, which sells Chinese new truck tyres as part of a cohesive strategy is the German retreader Haemmerling, who market a private branded new tyre made in China under the brand name Athos. However, this is a proper branding exercise which incorporates Haemmerling's own retread brand – and the company make it perfectly clear that Athos is perfectly retreadable.

Vacu-lug have a similar approach, marketing the Westake brand pro-actively as part of a multi-brand strategy and a fleet management package that includes Pirelli, Yokohama, Westlake and Vacu-Lug's own retreads. What they do not do is sell budget Chinese tyres as an alternative to their own retreads. Again, it is made clear that the Westlake casings are actively retreaded.

One retreader that has done a u-turn on the sale of Chinese tyres is the UK retreader Bandvulc, which at the time was independent. A couple of years ago Bandvulc was importing and marketing

Boto new tyres from China and marketing them alongside its own premium quality retreads. However, according to Bandvulc's Managing Director Patrick O'Connell, the company eventually realised that selling any Chinese tyres was directly against their interest as a retreader, so they stopped the practice.

So the advice has to be – and I accept that this is easier said than done - only sell Chinese tyres if they are part of a structured and comprehensive marketing strategy – not as a defensive reaction to price conditions in the market place.

Next I'd like to talk a little about how retreaders approach fleets. In general, those retreaders who are able to market their products as part of an overall fleet tyre management concept and full life package and those who have direct access to their fleet customers are best equipped to survive. Those who have to sell through distributors and those whose products are in direct competition to cheap Chinese tyres are the companies who face the bigger challenge. Retreaders who are already tyre distributors have been shown to be more likely to be successful, not only because their profit margins are bigger, but because they are able to have a direct influence over the end user.

Again – an example from the UK – and I use the UK not just because I'm British, but because the leading UK retreaders have been very successful in transforming their businesses from retread only operations to comprehensive fleet management companies.

Bandvulc, now in its 45th year, and recently acquired by Continental, has long been a major player in the retreading industry, but in recent years the company has re-invented itself as a significant fleet management provider. The company is broken down by sector and now includes several divisions; Bandvulc Mixing, Bandvulc Tyres, Bandvulc Plus+ Tyre Management, Bandvulc Fitting Tyre Maintenance Ltd and Bandvulc FIRST wholesaling. The tyre fitting company has depots in Gateshead, Leeds, Nottingham, Lutterworth and Luton and operates a call-centre, which is in operation on a 24/7 basis.

Bandvulc Fleet Management (BVPlus+) is now the largest arm of the Bandvulc Group, with a clientele including many of the UK's leading supermarket chains (the company's tyre management service supports over two-thirds of the UKs supermarket activity) as well as a plethora of well-known haulage fleets.

Companies like Bandvulc are at the forefront of modern retreading. Retreading is at the company's core, but it has developed into a total fleet management company, which can show that retreading is a valid and valuable part of a total tyre management concept.

Of course, I'm perfectly well aware that not every retreader has the resources to do what Bandvulc has done. Nonetheless, the future of retreading in the light of the challenge from budget new tyres will come down to service and communication. For small, independent pre-cure retreaders this is clearly problematical. These are often small, family owned businesses, who do not have the resources to develop sophisticated fleet management programmes.

This is where the suppliers of pre-cured treads come in. In many markets we have seen larger, mould cure retreaders be significantly more successful in defending their position against cheap new tyres. Smaller independent retreaders are much more likely to be dealing with small, independent fleets, and it is no surprise that it this part of the market, which is under the most pressure.

In my opinion the future of pre-cure retreading in many markets will depend on the ability of tread rubber suppliers becoming more than just suppliers of tread rubber. Branding will become increasingly important (and there is a precedent for this – for decades Bandag was the World Champion at branding in the retreading industry) – but also suppliers will need to help retreaders with national service networks, with fleet services, with tyre management tools, with training, with information validating the performance of retreads – and so on

And this brings us on to my next point – the issue of communication in the retreading industry. One of my favourite topics.

Historically the retreading industry in most parts of the world has been disastrously bad in promoting itself properly and in identifying and keeping customers. I remember several years ago carrying out a market research project on behalf of a major retreading company during which I identified a large number of truck fleets and interviewed them about whether they used retreads and whether they would consider using them. A surprisingly high proportion of the fleets I visited said they would be happy to consider using retreads if only they had been visited by retreaders to promote their products.

Even when the money for promotion becomes available it is not always channeled correctly. I remember a few years ago in the UK the government body WRAP made thousands of pounds available for tyre recycling projects and campaigns, under which a promotional campaign for retreads was agreed. When the campaign reached its conclusion, all the industry had to show for it was a few case studies in pdf format.

Organisations such as TRIB do a fantastic job in North America (and further afield, I might add) – and they are properly funded. Why then is there no equivalent umbrella organisation in Europe (and other markets) that is able to represent the interests of the retreading industry to governments, fleet bodies and the like? In some parts of Europe, such as in Italy, where AIRP has recently presented a White Paper on retreading to the Italian government, coverage is good – but support in other countries is less comprehensive. Surely proper targeted communication of the key messages of the retreading industry on a regional basis has to be a priority.

AIRP White Paper

And finally a brief word about the sustainability of the retreading industry. As an industry we have spent years trying to persuade governments of the green credentials of retreading, with mixed success, but one thing is certain, as an industry we have never been able to validate and monetarise the carbon assets of retreading, but perhaps that is also about to change.

Chilean Retreaders Association ARNEC

One of the most interesting recent developments has been the fascinating work carried out in Chile by the Chilean Retreaders Association ARNEC together with the environmental consultancy, Sustrend, whose programme consists of a four phase process which allows national retreading industries to create a standardisation process, which will allow the retreading industry to work with individual governments in a manner, which will allow the industry to create validatable carbon assets, which can then be traded on the carbon markets. In Chile ARNEC is already some way into this process, with the industry having signed a so-called Clean Production Agreement with Chile's National Clean Production Council – the first step towards completing the standardisation process.

In conclusion, then, I suspect that in the future the ability of independent retreaders to survive and flourish in the increasingly competitive tyre market will come down to a number of key factors:

- The ability to justify, measure and explain pricing as it relates to retreads and new tyres- and particularly the concept of cost per mile (PPK)

- Investment in continually improving the performance of retreads, particularly relating to mileage and fuel consumption
- The promotion of retreading as a premium product and an avoidance of a price war with Chinese new tyres
- The ability to identify and keep potential new fleet customers, the ability to communicate direct with them and service them properly
- The ability to add value added services such as fleet management programmes
- And – an area which I haven't had time to expand upon here, the ability to spot and develop application specific niches where the competition from cheap imports is less severe or where the cost/performance ratio is more beneficial to retreads

Overall, the challenge from cheap Chinese tyres is not going to go away. It may abate for a while depending on exchange rates, raw material costs, tariff levels etc, but ultimately it will come back, so in my opinion it is up to the global retreading industry to accept that retreading is entering a new age, and prepare itself accordingly.