STABLE COMMODITY PRICES KEEP REPLACEMENT TIRE COSTS FLAT

Replacement tires are the second highest operating cost for fleets after fuel. During CY-2015, replacement tire prices have remained stable compared to the prior year. A key reason was the minimal volatility in commodity prices. BY MIKE ANTICH

The good news is that replacement tire pricing for 2015 has been flat compared to 2014. A key reason for the stabilization in replacement tire prices is less volatility for commodities used to manufacture tires, namely carbon black, oil, rubber, and steel. These lower materials prices have contributed to keeping replacement tire costs flat.

“Tire prices, as a whole, have been slightly down across the board in 2015 compared to 2014. With commodity prices remaining low — particularly oil — material costs have not shown much fluctuation. Additionally, increased imports of low-cost replacement tires from abroad has helped keep average prices down,” said Bill Croke, manager of TotalView analytics at Merchants Fleet Management.

The types of vehicles in a fleet has a direct bearing on overall fleet tires costs, especially in the oil patch and other off-road fleet applications.

AT A GLANCE

- Replacement tire prices have decreased slightly in 2015 compared to 2014.
- Unique tire sizes for new-models impact aftermarket tire companies’ ability to develop replacement tires fast enough to meet initial demand.
- Replacement tire prices are anticipated to remain stable into the 2016 calendar year.
- The wildcard is the price of the key commodities used to manufacture tires, but the near-term outlook is that pricing will remain stable.

“Tire spend was down for all passenger models in 2015 as compared to 2014. While tire spend was up slightly for light-duty trucks and cargo vans, there were a number of factors that were contributing to this trend. They include the addition of more off-road vehicles in the Wheels fleet,” said Jeff Whiteside, senior director manufacturer relations and repair services for Wheels Inc.

The overall fleet expense for replacement tires will vary by the type of fleet application and region of the country.

“In certain applications, we have noticed tire spend increasing. The size and rating of the tire will determine the tire’s cost. A specific manufactured tire could be of the same size, but with a different rating and the cost can vary dramatically. A fleet needs to install the proper size and rated tire to reduce liability risk,” said Zingha Lucien, strategic consulting manager at Element Financial Corp.

The wildcard continues to be the price of the key commodities used to manufacture tires, but the near-term outlook appears to be that pricing will remain stable.

“Replacement tire costs across our fleets are relatively flat in 2015. Barring any unforeseen changes to commodity and oil prices, tire prices are expected to remain flat or increase just slightly in 2016. With the improved technology of run flat and fuel efficient tires, more fleets are considering them as replacement options which could result in slightly higher up-front costs,” said Lucien.

This assessment was mirrored in comments made by LeasePlan USA.

“For the most part the pricing has not changed drastically. We have seen minimal increases and some decreases in pricing structures from most suppliers. The main obstacle that we foresee is lack of product availability for new tire size and load requirements of latest model service vehicles,” said Tom Sopel, manager, maintenance and repair management for LeasePlan USA.

Introduction of New Tire Sizes

One factor influencing replacement tire expenses is an OEM trend to offer new vehicles with a much broader variety of tire sizes.

“Over the past several years, vehicle manufacturers have had a tendency to introduce some new model vehicles with unique tire sizes that have limited replacement supply. With limited competition, the cost of the replacement tires tended to be high and difficult for stores to inventory a drastically increased range of tire sizes. Indications are that this trend will begin to reduce, and over time (years) we may see better supply levels at stores (less downtime for drivers) and more consistent pricing,” said Whiteside of Wheels Inc.
As auto manufacturers develop unique tire sizes for new-model vehicles, it impacts the replacement tire supplies for one to two years, as aftermarket tire companies may not immediately meet the demand for these tire sizes. This lag time limits selection and availability of replacement tires.

"The continued trend toward larger diameter, lower profile tires have impacted tire costs, in turn, making fleets more strategic in their replacement parameters and manufacturer product offerings," said Dale Jewell, director, North American maintenance operations for EMKAY.

A case in point has been the success of the new Euro-style vans, which, for the first time this year, exceeded total sales of traditional body-on-frame vans.

"We expect fleets that moved to new-generation cargo vans will see higher tire prices driven by the new euro-metric and unique OEM tire sizes," said Steve Jastrow, strategic consulting manager for Element Financial Corp. "More euro metric size tires, which have no 'P' or 'LT' load range prefix, are being introduced. Replacing these tires can be a challenge due to limited availability and typically comes with significantly higher prices. We expect these challenges to increase as more vehicle odometers approach the 30,000-40,000 mile range and replacement tires are needed."

This observation was echoed by ARI. "While overall petroleum pricing has stabilized, commodity pricing for other products still varies. Increased use of larger-sized wheels and tires has also impacted the pricing and availability of replacement tires," said Romy Bria, director, fleet management at ARI. "In addition to larger-sized tires, the introduction and expansion of Euro-style vans in the market will impact tire availability and costs moving forward. Most of these new vans have OE fitment with a higher load range 'C' specification, which will impact tire replacement, market pricing, and availability."

LeasePlan USA also cites the potential lag time in developing replacement tires for the new van markets that have entered the commercial fleet market.

"The overall cost of tires has remained static. However, newer vehicles currently entering the market, such as the Transit and the Nissan NV200, have a new tire size that is carried by very few manufacturers and in very few lines. These tires are expensive and very hard to find, and dealers are finding it hard to keep them in stock," said David Jankiewicz, director, maintenance and repair management for LeasePlan USA.

Market Dynamics

The numerous variables impacting tire replacement patterns, a dizzying array of fleet applications, and regional market pricing dynamics makes it difficult to make broad sweep generalizations about the market.

"This year, tire costs have been higher for vehicles in service less than two years and/or less than 48,000 miles, whereas tire costs have remained steady for older units in service. Overall tire pricing is up about 8 percent on average," said Bria of ARI.

Seasonality is also a factor in replacement tire pricing, especially with snow tires, which result in product shortages with severe weather changes.

"The severe winter of the past year, particularly in the Northeast, created a greater demand for snow tires, and in doing so also drove prices seasonally higher," said Croke of Merchants Fleet Management.

Another issue is the premature wear of snow tires as drivers fail to switch to other tires at the start of spring.

"Many fleets today don't have clear snow tire policies written to hold drivers accountable for taking care of switching in and out of snow tires. We have noticed that drivers are not switching out of the snow tires and thus burning through them during the spring and summer. Fleets are seeing more tire

Replacement Tire Cost 2012-2014

These two charts indicate the average cost of tires per unit and per mile. Replacement tire costs began decreasing in 2010-CY due to more frequent vehicle replacement, which reduced the need for additional new tires. However, tire manufacturers raised prices again in 2012, which drove up costs. The increase seen in 2014 was attributed mostly to less early replacement cycling, which sometimes required an additional set of tires.
replacements and covering the costs of replacing more sets of tires than they need to be,” said Jankiewicz for LeasePlan USA.

Impact of Imported Tires
As one way to offset higher tire prices, more fleets have instituted fleet policy changes to authorize the purchase of lower-priced replacement tires and house-brand tires.

“Tire manufacturers are adding product lines to their catalogs to create a ‘good/better/best’ option to cover the needs of a wider range of application, utilization, and cost consciousness,” said Jewell of EMKAY.

Tires are a global commodity. Half of the hundreds of tire brands sold in the U.S. are sourced from China. Nearly 25 percent of light-duty truck tires and 33 percent of the medium-duty truck tires sold in the replacement market are manufactured by Chinese companies, which are typically among the lowest-priced tires in the market.

“The cost per tire trended down as the influx of cheaper foreign-made tires flooded the market, particularly since the subject of duties being imposed was up in the air until the U.S. International Trade Commission’s finding in July 2015,” said Croke of Merchants Fleet Management.

However, the U.S. tariff on specific Chinese tire manufacturers should not impact other replacement tire prices.

“The recent tariff on import tires from China won’t impact most of the name-brand tires purchased through national accounts, but for some fleets buying these imports the cost could go up significantly. Many of these import tires are also now being shipped to Canada, where there is no tariff, so fleets buying lower-cost import tires may not have as much availability to them in the future,” said Whiteside of Wheels Inc.

Another factor putting downward pressure on total fleet tire expenditures is the ongoing improvement in tire quality, which has resulted in longer wear life during the past decade. Tire life has been extended by 10 percent in the past 10 years. This has helped offset some of the recent price increases since the expense is spread out for a longer period.

“If fleets continue to remain proactive and strategic in the selector process, tire costs can potentially decrease. Furthermore, appropriate tire selection, replacement timing, and vendor utilization will be essential to experiencing a downward trend in price,” said Jewell of EMKAY.

Forecast for 2016 Tire Prices
Replacement tire prices are anticipated to remain stable into the 2016 calendar-year. This forecast is based on the anticipation that commodity prices and vehicle replacement policies will remain stable in 2016.

“Global demand for tires from vehicle production and replacement markets, availability of raw materials, and other market factors will impact tire pricing for 2015. Costs look to remain stable or have a slight increase for next year, with the exception of certain larger and newer size tires,” said Bria of ARI.

The key to future tire prices is the price of oil. “If oil prices continue at the current levels, we would expect to see some reduction in tire prices,” said Whiteside of Wheels Inc.

Offering additional detail to projected tire prices in 2016 is Jewell of EMKAY. “Prices should remain consistent and slightly increase as the cost of material and transportation remains high. All season tires should remain steady and possibly decrease slightly through 2016, while premium tires, off-road, snow, and other specialty type tires are increasing slightly and expected to do so into 2016,” said Jewell.

Others foresee the tariff on low-price Chinese brand tires stimulating a trend toward more expensive, but higher-quality tires.

“With the U.S. International Trade Commission affirming the duties imposed on tires imported from China, we expect average tire prices to rise in 2015-2016. This could continue to drive the trend towards higher quality tires, where the increased initial expense is metered out by the increased longevity, leading to better cost-per-mile (CPM) performance,” said Croke of Merchants Fleet Management.