INSEAD The Business School for the World®

KNOWLEDGE

Pirelli's Acquisition by ChemChina: Has a New Era Begun for the Global Tyre Industry?

Consolidation speeds up in the global tyre industry as Pirelli gains rare access to the Chinese market ahead of Western peers.

Pirelli announced on Monday that it agreed to a €7.1bn acquisition by ChemChina. State owned ChemChina is China's largest chemical company with a 2013 turnover of about €35 billion. It is also the parent of China National Tire & Rubber Company (CNTR), whose best known brand is Aeolus, not a household name outside China.

For over three decades, Pirelli has been the fifth largest tyre maker in the world, squaring off with the three largest players Bridgestone, Michelin and Goodyear, and a group of second-tier players, including Continental Tire (Germany), Sumitomo and Yokohama (Japan), Cooper Tire (USA). More recently, Hankook (S. Korea), Maxxis (Taiwan) and Hangzhou Zhongce (China) joined the list of the top 10 players, while Cooper Tire of the U.S. was relegated to the group of followers. In 2013, Pirelli had to relinquish its fifth position and dropped to sixth, being overtaken by Sumitomo; it reclaimed its position, however, in 2013. Snapping on its heels now was Hankook that had advanced to seventh from its eight position, and that has not made any secret of its ambition to become the **fifth largest player**.

Table 1: Rank of tire manufacturers by sales in 1985 and 2013.

1985	2013

Rank	Co / Country HQ	Tire sales ($M)	Rank
1	Goodyear, USA	6,190	1
2	Michelin, FR	4,640	2
3	Bridgestone, JP	2,632	3
4	Firestone, USA	2,532	4
5	Pirelli, IT	1,694	5
6	Continental, DE	1,292	6
7	Sumitomo, JP	1,215	7

Visit INSEAD Knowledge
http://knowledge.insead.edu

Hankook, KR

8	BF Goodrich, USA	1,184	8
9	General Tire, USA	1,156	9
10	Uniroyal, USA	953	10
11	Yokohama, JP	933	11
12	Toyo, JP	620	12
13	Armstrong, USA	488	13
14	Dunlop Tire, USA	445	14
15	Cooper, USA	445	15
16	BTR Dunlop, UK	350	16
17	Uniroyal-Englebert, DE	343	17
18	Sempirit, AT	310	18
19	Hankook, KR	260	19
20	Ohtsu, JP	245	20

Source: European Rubber Journal: Global Tire Report, 1986, 2014

CNTR claims that it sold about 20 million tyres in 2014, which is roughly a tenth of Bridgestone’s production. That would put CNTR’s combined tyre activities somewhere around number twenty in the global tyre league tables. With Pirelli about a quarter of the size of Bridgestone, Pirelli was taken over by a tyre company less than a third its size.

Racing for buyouts

The writing was on the wall after Geely's 2010 acquisition of Volvo and Dongfeng's 2014 investment of 14 percent of the capital of PSA Peugeot Citroën in 2014. The Chinese suppliers to the car companies could be expected to spread their wings also, and the Pirelli acquisition is a bold move that is likely to create a new "number five" in the world, right behind Conti.

This is a major catch for CNTR as it opens doors to the prime car manufacturers around the world. The replacement market however is by far the biggest and most profitable worldwide for tyre makers and this gives CNTR a segue into a segment dominated by the major European and Japanese tyre brands. It also throws a wrench in the works of Hankook that is feverishly building up from scratch its position around the world.

Pirelli reverses into China

CNTR also buys a technology base in passenger and truck tyres, elevating it into the major technology league. This may become a major headache for Michelin and Bridgestone. They have been trying to crack the Chinese market in passenger tyres and truck tyres for years, without much success. While Michelin has been forced to invest in the **production of budget tyres** to counter Chinese imports into Europe and the US, the CNTR-Pirelli tie-up creates a challenge in the core proposition and markets of Michelin (and Bridgestone). If CNTR succeeds in also deploying Pirelli's truck tyre technology to the booming truck tyre market in China, this would create a major challenge for Michelin and Bridgestone.

As important and symbolic as this acquisition is, the question is: what tie-ups are to follow next? The rising U.S. dollar makes acquisitions in the US.. more expensive, but Cooper Tire, which ended up being severely scarred after the failed merger with India-based Apollo Tyres, remains a prime candidate. Germany's Continental Tire is owned by the debt-laden family-owned Schaeffler Group, which bought Conti in 2008 for €12 billion and almost bankrupted the company. The tight cash situation of the mother company has forced Conti into a delicate "surplace" act while being the bank for Schaeffler's ball-bearing automotive activities. The company is rumoured to be **close to an IPO** for the non-Conti activities, which would give a fresh inflow of capital – and options for Conti. A Conti-Hankook tie-up would create a major new force. While other combinations are possible and a bid would be pricey, the low euro would sweeten the bid.

And while once all-mighty Goodyear may seem beyond reach, its US$7 billion market cap – less than a quarter of Bridgestone's market cap of US$32 billion -- and total enterprise value of US$12 billion (TEV/EBITDA of 5.4) makes it within reach of several bold Asian players. It would be a repeat of Bridgestone's Firestone takeover and Michelin's Uniroyal-Goodrich acquisition in the 1980s that then reshuffled the deck of cards.

Karel Cool *is the BP Chaired Professor of European Competitiveness and Professor of Strategic Management at INSEAD. He directs the* ***Competitive Strategy*** *programme, part of INSEAD's suite of Executive Development Programmes.*

Follow INSEAD Knowledge on Twitter and Facebook

177

Find article at
https://knowledge.insead.edu/blog/insead-blog/pirellis-acquisition-by-chemchina-has-a-new-era-begun-for-the-global-tyre-industry-3919

Download the Knowledge app for free