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## **PRESS RELEASE – TYRES & ACCESSORIES – SEPTEMBER 2008**

### **Virtual Margins**

In recent years the online tyre market has swollen in size (as observed in other retailer sectors). Whilst the proportion of the total market controlled by this sector remains limited, the fact that the number of different e-tail platforms is continually proliferating means online sales could already account for as much as 3 per cent of the European replacement market. With this in mind, knowing more about how these businesses operate is of interest to everyone in the tyre trade.

The latest insight is that the average tyre offered for sale online costs consumers around £69.14, meaning the myth that 'virtual' margins are too thin to make business sense could be evaporating. However, the most commonly offered tyre online is characterised as a mid-range brand costing around £60. It seems making money online is all a question of business model.

Tyres & Accessories' most recent research into the online tyre business, published exclusively this month in association with industry research specialists Encircle Marketing, reveals that the entrance of the large national retail chains into this market has brought with it a new premium price level. Prior to their involvement, online tyre businesses were largely about cataloguing the products the seller wants to move at the most competitive prices it could muster.

The two leading 'pure' Internet tyre businesses operating in the UK (Blackcircles.com and Delticom AG-owned mytyres.co.uk) still command the majority of the online market share by virtue of two completely contrasting strategies. But other sites such as kwik-fit.co.uk, national.co.uk (and its sister site tyreshopper.co.uk), not to mention bestbuytyres.co.uk, are also making an impression on the market.

With tyres selling at as little as £20.20 each, Delticom sites (mytyres.co.uk and eiretyres.ie in the Republic of Ireland) arguably represent the "stack 'em high, sell 'em cheap" approach. However, this is a broad generalisation, and in fairness Delticom's strategy is much more nuanced than this, something that is evidenced by the fact that company is increasingly profitable. Blackcircles on the other hand has opted to focus on niches, including its own particular customer base, fleet business and specific segments such as motorbike tyres.

What the new Encircle data shows most clearly is how the online presence of large retail chains HiQ, Kwik-Fit and National – and the independent retailer cooperative bestbuytyres.co.uk – are adding new pricing dimensions, plus added depth and volume to the market place.

What it also shows is that the e-market's product mix is not as budget tyre heavy as you might think. Perhaps the most obvious difference between online retailers and the market as a whole is the number of premium tyres offered. According to Encircle, 41 per cent of tyres offered in the wider market between June and August this year were premium tyres. However, only 30 per cent of tyres marketed online fit into this category.

What is most surprising, however, is the fact that the vacuum left by premium tyres in the online seller's product mix is not filled with the lowest price products. Tyres deemed upper budget (having a named brand) account for roughly the same share of both markets (9 and 10 per cent respectively) and when it comes to lower budget (generic products simply marketed as budget) the wider market sells more than twice as many as the Internet sellers alone. Instead the vast majority of tyres offered online are 'mid-range' products, with this classification accounting for 51 per cent of the market.



A further indication that online sellers retail more than just cheap tyres can be seen when the data is broken down by rim size and speed rating. Viewing online sales by rim diameter shows that while the 13 - 15 inch rim sizes occupy the economical £40 - £60 bracket, online retailers charge as much as anyone else for 17 and 18-inch tyres. Prices in this category are all over £100 per tyre and peaked as high as £120 a tyre for 18-inch products in July.

Virtual retail margins: tyres online, but at what cost?

Encircle Marketing's data supports the widely held belief that tyres offered online include some of the cheapest available in the market with tracked prices averaging £62 - £65, the best part of £10 cheaper than any other channel between June and August this year. Traditional local independent retail centres were the next closest, with tyres costing £67 - £70 on average. At the top end of the scale the national fast fit chains charged an average of £85 and £87 per tyre in June and July respectively, peaking at £90 in August. This means that when you compare the traditional national retail chains' prices against the new 'pure'

online sellers, they are charging as much as 50 per cent more per tyre. However, this is not comparing like with like (due to differences in product offering). So how do the prices stack up when you compare the e-tailers with the national retailer's websites? And what about cooperation sites like [bestbuytyres.co.uk](http://bestbuytyres.co.uk), which is backed by a collection of regional distributors?

In order to answer this question, let's first set a benchmark – the average price of an online tyre. According to Encircle Marketing's data, the average virtual tyre cost £69.14 between June and August 2008. This immediately splits the sampled field right down the middle. While there are variations in approach each side of the split, the "online only" sellers ([blackcircles.com](http://blackcircles.com), [mytyres.co.uk](http://mytyres.co.uk) and [tyreshopper.co.uk](http://tyreshopper.co.uk)) and [bestbuytyres.co.uk](http://bestbuytyres.co.uk) come in at below average selling prices. Meanwhile the online arms of the largest national chains (HiQ, Kwik-Fit and National) are selling at prices significantly higher than average. At the top end of this scale, [national.co.uk](http://national.co.uk) is charging £10 a tyre more than the next most expensive site. And what's more, National's pricing is a clear £30 a tyre more expensive than the cheapest site, the obviously budget market orientated [mytyres.co.uk](http://mytyres.co.uk).

National chains discounting up to 18% versus in-store prices

The next largest discount was offered by [national.co.uk](http://national.co.uk), which advertises tyres about 10 per cent (£85.60) lower than the £95.10 it charges at outlets. What is interesting to note in this instance is that the powers that be at National HQ appear to be positioning themselves at every level of the online tyre market. Even the discounted [national.co.uk](http://national.co.uk) prices remain premium level rates.

That's where the National-affiliated [tyreshopper.co.uk](http://tyreshopper.co.uk) site comes in. (Tyre-shopper is a trading name of Constant Price Monitor Ltd, which was established in 1994, but is closely related to National Tyres & Autocare, claiming a fitting network of over 1000 outlets across the country including many National outlets). With prices averaging £63.50 a corner, [tyreshopper.co.uk](http://tyreshopper.co.uk) is positioned at the centre of the mid-range online volume market.

At the budget end of the market, Axle Group Holdings MD Alan Revie holds a 1.49 per cent share holding in Delticom AG and sits on the supervisory board of the company behind [mytyres.co.uk](http://mytyres.co.uk). And with [mytyres.co.uk](http://mytyres.co.uk)'s average tyre price coming in at £56.30 it is clear this site is targeting a different level of consumer to the other two operations.

HiQ offers the best price parity between its traditional retail operations and its e-business, offering just six per cent discount online between high street (£75.60)



and information superhighway (£71) prices.

The data appears to show that the large retail chains are using their online businesses as marketing tools designed to lure customers in-store with their proportionally low prices. At the most striking end of the spectrum kwik-fit.co.uk was advertising prices 18 per cent lower than at its bricks and mortar outlets. However, as these prices are amongst the highest on the market to begin with, prices remain high and therefore margins remain strong.

#### About Encircle Marketing...

Encircle Marketing has been monitoring Online tyre prices since May 2008. Their continuous market-wide (all channels, Local Independents through to National Fast Fits) Pricing study was launched in January (2008). Over 8,000 telephone and 3,000 online prices are collated each month with prices weighted to represent proportionate channel splits and provide a true market analysis of the traditional retail sector versus the developing online arena.

Their online audit covers the key sizes in the market (top 20) with comparisons tracked against 15 pure e-tailor sites. These sites are rotated on a continuous basis to ensure an accurate market representation is achieved.

Clients are provided with both key market statistics and trends by dimension, speed rating, brand, competitor and channel in a live online reporting format.