

QUESTIONS ABOUT THE REPORT “CAR AFTERMARKET IN EUROPE 2009”:

- How do you see the present European aftermarket?
- What are the main challenges for SME in this sector?
- Is it services and parts the future of car business? How?
- You talk with some of the greatest distributors. What are we assisting in distribution area?
- Do you think the OEM crisis would have any effect on aftermarket? And what effect?
- About the automotive manufacturers and distributors, are we assisting on a bigger presence in the aftermarket? Can you give some examples?
- How do you see the differences between the German aftermarket and other countries?
- About the several markets, what can we conclude in the reading of this document?

Hello,

To your questions:

All answers are reflecting only the aftermarket of passenger cars excl. LCV's. All prices are at end consumer prices excl. VAT. The market volume is reflecting only the material without labor.

HOW DO YOU SEE THE PRESENT EUROPEAN AFTERMARKET?

The volume of the total European aftermarket for passenger car components is about 105 billion Euro.

The European aftermarket is fragmented in different country cluster: (see chart). In the Western European high volume countries, like Germany, the aftermarket is decreasing in the future despite of increasing car park and

increasing of the average age of the passenger cars. The better quality, high fuel prices and a decreasing mileage is reducing the aftermarket in a long term prognoses. That means, in a few years the aftermarket will decrease, but not in general. In some niche markets like turbo chargers, smart repair and so on you will still find increasing markets.

The Eastern European aftermarket will be the increasing market of the future. Especially Russia, Ukraine, Poland, Romania.

The Southern European markets are characterized by small workshops and traders/ distributors (see chart).

Current characteristics of European countries:

country cluster	characteristic
Italy, Spain, Portugal, Greece, Cyprus, Malta	very small sized companies
Germany, Switzerland, Austria, Netherlands	over distribution, stagnating after sales market
Denmark, Norway, Sweden, Finland	high price level, stagnating aftermarket
Estonia, Latvia, Lithuania	no chains, high share of independent market participants,
Poland, Czech, Slovakia, Slovenia, Hungary, Romania, Bulgaria	a high future AM-potencial very large and dominating distributors
Ireland, United Kingdom	a lot of chains
France, Belgium	a lot of auto centre chains, over distribution
Russia, Ukraine	passenger car drivers buy parts at retail shops, no garage marketing systems, high future potential

On distribution level the total European independent aftermarket is dominated by the four big trade groups (adi, ATRi, TIAG, Gai) as well as by a few very large parts distributors like Trost Autoservice SE (Germany), Intercars (Poland), Fota (Poland), KGK and Mekonomen (Scandinavia/Baltic countries), Rhiag (Italy), Stahlgruber (Germany), Autonet (Romania), Uniparts (United Kingdom).

On garage level the dominating players are auto centers, like Norauto (France) or A.T.U (Germany) and fast fits like Kwik Fit (United Kingdom). Garage marketing systems like "Bosch Car Service" or "ad garage" become more and more popular.

In all West European countries you will find overcapacities in the networks of independent parts distributors and garages.

Especially in Germany, France, Spain and Italy the parts distributors are acting in their national areas. The distributors in the Eastern and Northern European countries are acting also in their neighbor countries.

WHAT ARE THE MAIN CHALLENGES FOR SME IN THIS SECTOR?

In the EU 15 countries the share of small IAM distributors is 89%, followed by medium distributors 10%. 1% are large distributors with a turnover of more than 20 M Euro. But this 1% of large distributors generates 32% of the turnover made in this business.

The market positioning of the SME's parts dealers is one of their main problems but also one of their chances.

One of their main problems are, that they are acting between the online business, the auto centers with direct sales to the car drivers and the large distributors which will sell more and more directly to the workshops. That means, in the future they will get price and margin problems.

One of their big advantage are, that the small parts dealers are more flexible, they have best personnel relations and they are able to deliver very quickly.

I think we have to differentiate between SME´s in metropolis and rural areas. In the rural areas the big distributors need the small enterprises to ensure the delivery to the garages.

In cities, especially in metropolises the big distributors will manage the business more and more directly to the workshops.

What can the SME´s do?

To ensure their efficiency and their market position, they have to decide with which customer group they want to make business:

- A) to their B2B customers like garages or
- B) directly to the car drivers (B2C)

To A) if they want to force their B2B business, they have to intensify their personal relationship to their clients combined with a more professional sales policy. To ensure the market position goes along with the membership in a trade group or with the membership with a special trade system for small distribution partners of a big distributor.

The SME´s need in particular access to a wide range of products (centralized stock with quick delivery), technical support and marketing/sales assistance.

To B) a chance could be to open the business directly to the end consumers. The danger is to lose the business with the B2B customers. One solution could be to open such stores under a new name or to be a partner of a concept/system.

If the owner decides to intensify the B2C business than he has to consider:

- He needs a location with high frequency
- He needs 2-3 fitting workplaces

- Important: he needs qualified fitters.
- He needs qualified staff with know how in the end consumer business (it's totally different to B2B business)
- He needs a car driver orientated marketing and advertising orientation with a yearly investment of 2% of the turnover.

Other market players will also be faced with this kind of market restructuring. For example tire dealers. Today you find mainly end consumer orientated outlets selling tires. Only a few, very big companies are tire wholesalers. In Germany the online commerce channels have won a market share of 4% within the last 3 years.

Conclusion: the most important decision for SME`s is in which direction they want to develop, that means to have objectives with priority.

IS IT SERVICES AND PARTS THE FUTURE OF CAR BUSINESS? HOW?

In the field of parts you will find in total Europe high competition, especially in the EU 15 countries. This “over” distribution forces the distributors to intensify also other business fields, e.g. services.

The distributors are specialists in logistics (JIT delivery, more than 3 times per day). They become more active in the field of technical and marketing support. This became a successful sales argument caused by the fact that especially the garage owners are mechanics and no managers.

That means: a professional parts wholesaler has to offer to his B2B customers more additional services, than the traditional logistic, technical and marketing support. For instance: If the garages can't handle a professional tire business, the parts dealer has to establish a “tire hotel” to manage and to route the car driver to the garage. The garages could be shareholders of this business model.

Another service business activity from wholesalers could be a centralized “Electronic Center” to reduce the investments of the workshops in technical equipment, in a qualified expensive staff and permanent trainings.

The basic message to the wholesalers is: the margin of parts will be lower in the future. Also the parts markets will decrease caused by longer durability. Than the wholesalers has to establish new business fields. One of the most interesting future strategies is to establish professional auto service support companies to route customers to their IAM clients.

YOU TALK WITH SOME OF THE GREATEST DISTRIBUTORS. WHAT ARE WE ASSISTING IN DISTRIBUTION AREA?

- Concentration process will go on.
- European orientation
- Increasing share of direct delivery to garages
- More sales support to their B2B customers
- Cooperation with OEM`S or OES-dealer groups (delivering of parts as well as using of garage systems)

Potential developments could be:

Increasing assortment (high, medium plus low quality products)

For low income passenger car drivers e.g.:

- More B2C online activities under a new company name
- Discount chains

DO YOU THINK THE OEM CRISIS WOULD HAVE ANY EFFECT ON AFTERMARKET? AND WHAT EFFECT? - ABOUT THE AUTOMOTIVE MANUFACTURERS AND DISTRIBUTORS, ARE WE ASSISTING ON A BIGGER PRESENCE IN THE AFTERMARKET? CAN YOU GIVE SOME EXAMPLES?

The OEM crisis will show a lot of effects to the aftermarket.

The car manufacturers / importers will start a lot of efforts, to stabilize their cash cow “car components”. That means the OEM’s will force their business with OE-components.

In the B2C sector:

- launch of new product lines (like Renault Motrio, Toyota Optifit) with a lower price level to recapture older passenger cars (esp. 4-8 years)
- Online customer routing via high frequented online providers like e-bay motors or own web-shops.
- Building up multi brand auto centers (VW-stop+go) or multi brand garage marketing systems like Renault Minute etc..

In the B2B sector:

- Build up of web shops for IAM workshops
- Establish special sales promotions for IAM workshops to sell more genuine parts

OEM will also cooperate directly with trade groups and IAM wholesalers:

- to sell parts to IAM garages because the own dealers are not able to handle the B2B genuine parts business to the IAM garages (no motivation, no personal capacities, no delivery vehicles etc.) and
- to get the knowhow of the IAM multi brand garage marketing systems

In a future outlook the competition borders between OES and IAM will vanish into thin air.

HOW DO YOU SEE THE DIFFERENCES BETWEEN THE GERMAN AFTERMARKET AND OTHER COUNTRIES?

On car drivers level:

The car density in Germany is higher than in the most other European countries. Based on a reclassification of the German motor vehicle registration the temporary deregistered cars are not included in the German statistics any longer. We have in Germany a car density of 501 cars per 1000 inhabitants

which is a little bit lower than in the past years. Italy has a quota of 601, Portugal of 412.

On repairers level:

In the German aftermarket the OES influence in the aftermarket is higher than in a lot of other European countries. This is based on the concentration of car producers in Germany like Mercedes, BMW, VW, Ford, Opel, Porsche.

We have a split AM in three major partners: OES dealers, IAM garages and so called new distribution (chains) like auto centers (A.T.U), fast fitters (only pit stop), product orientated chains like Carglass.

In Germany you will find a lot of marketing systems for the repairers. Besides the traditional full service garage marketing systems we have nearly 100 such systems for the target groups of IAM garages, tire dealers, body shops, auto glass specialists etc.

But actually, the average utilization of the IAM repairers is satisfying.

On distributors level:

The German wholesalers operate primarily only in Germany. Exceptions are: Trost Autoservice SE is after merging of Meteor and KSM operation in the new EU member countries incl. Ukraine. Stahlgruber is active in Austria, Czech Republic and Slovenia. In Europe are some big companies which are operating abroad since a long time e.g. the Swedish distributor KGK in Scandinavia incl. the Baltic countries, Polish wholesalers like Intercars and Fota in a lot of new EU countries and the Italian distributor Rhiag also in the new EU countries.

Summary: the German, French, English and Spanish wholesalers are acting primarily in their own countries.

In Germany as well in the other West European "high volume" countries exist an "over distribution" (to much trade levels between the parts manufacturers and the garages) within the IAM distributors/wholesalers. The concentration process will go on.

B2C Online activities:

More and more new companies are using also the internet platform to sell car components directly to the car driver. Especially in the tire market we have a lot of new online distributors (Delti.com, tyre.24 etc.) These tire platforms show, what could be possible also in the market of parts in the future.

In the field of automotive suppliers:

Based on the high dependency of the OE business, a lot of the auto suppliers show a turnover decrease of at least -30%. The resulting cost reduction has also an effect to their aftermarket activities. A lot of parts manufacturers reduce their sales staff for the IAM. That means the support to their distributors and garages will decrease. Also in some cases the availability of components for the AM is reduced.

Germany holds a share of about 20% of the total European Car aftermarket. In spite of decreasing tendencies of the German aftermarket, primarily based on better durability and of the parts, Germany will be one of the most important AM countries in Europe also in the future. The after sales market volume for all car components (parts, accessories, tires, glass etc.) by country cluster per car is in the German spoken countries 444 Euro/car, in the southern European countries incl. Portugal 364 Euro/car and in countries of the former Russian federation 280 Euro/car. These amounts are reflecting end consumer prices excluding VAT and excluding labor .

WHAT CAN WE CONCLUDE FOR THE SEVERAL COUNTRIES IN THE READING OF THIS DOCUMENT?

Some examples for what you can conclude for in this case Portugal:

- The passenger car fleet in Portugal has a share of about 1,6 % of all European passenger cars. But the Portuguese independent distributors have a share of 5,4 % of all European independent distributors.
- There are 412 registered passenger cars per 1.000 inhabitants in Portugal. This more than the European average.
- For each passenger car about 400 Euro were spent for all components (including parts, tires, oil, etc.) built in a garage or by the driver himself.
- About 58% of the Portuguese after sales market volume in Euro belongs to IAM ("including do it yourself")

Furthermore you will get a lot of facts around the several after sales markets and its players. For example which are the important trade and buying groups, who are the largest distributors, who are the leading OES companies, which

chains exists and so on. Each important market player comes with a short company profile. Please find attached an example report which shows very detailed what information you may expect.

For further questions and information please contact me.

Kind regards.

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