Concentration process in the European automotive aftermarket distribution is growing

An interview with Helmut Wolk, CEO of *wolk after sales experts and* Zoran Nikolic, *Consultant,* responsible for the study „The Car Aftermarket in Europe 2012"

Cologne, 15th January 2013. Regarding a strong concentration process, increasing competition, declining margins, and high costs, the European automotive after sales market has been facing some massive pressure. In the following interview, the aftermarket experts will explain the developments in the European automotive aftermarket, based on a market analysis that was performed over a period of two years.

How would you assess the situation of the European automotive aftermarket?

Europe's total volume for the aftermarket car components is around 115 billion Euros at the moment while at the same time the individual markets are diverging strongly. This means that the aftermarkets in Western-Europe, which are characterized by a high competitive density in parts trade and an oversupply in car garages, will increasingly be facing pressure. This tendency will be more or less strongly pronounced - depending on the respective product group. Classic wear parts ranges will be particularly affected by this. Improved quality, decreasing mileage and increasing vehicle costs of ownership will lead to a drop in sales in spite of growing car park. Still, because of their higher prices, these new high-tech products will effect a small growth rate in terms of value for the whole aftermarket volume. This upward trend will be around 1 or 2 percent for new parts and shall also apply to the market for remanufactured parts.
In contrast to this, the Eastern European markets, particularly Russia, Ukraine, Poland and Romania, will increase significantly in long term. Especially Russia and Ukraine, which still today have more or less no garage concept chains at all, have considerable growth reserves. These reserves are not least due to the growing car park. The car manufacturers' trade and service partners will gain more importance caused by building up of their networks.

The countries in Southern Europe, for which Italy and Spain are mentioned exemplary, are facing a major challenge due to the financial and euro crisis.

Apart from the changes that are effected by these exogenous factors, the countries in Southern Europe will also have to cope with structural changes. With their numerous small local garages and small and medium-sized parts wholesalers, the market participants will be facing an enormous price and margin pressure.

In order to lessen this pressure, the slogan for the future has to be:

a) direct delivering (just in time) for garages via wholesalers without intermediary trade stages or in cooperation with local wholesalers for local logistics in rural areas
b) integration of small local wholesalers in cooperatives / concepts with central control and monitoring

What our after sales experts observed while performing their researches in all European markets was that the majority of aftermarket participants are acting too passive at the point of sale rather than providing more proactive impulses especially in the use of market opportunities for the sale of services by the garages. The consequences are neglected growth potentials that amount to a value of approximately plus 25 percent. The aftermarket is still a long way from being exhausted.

How do market actors develop within the European automotive aftermarket?

In summary, a few key statements regarding the development of distribution apply:

1. At level of the IAM parts wholesalers, the free European aftermarket is dominated by four big parts buying groups, namely ATRI, TIAG, ADI and GAUI. In addition to that, there are 20 to 25 major distributors which are members of these buying groups, for example: Trost Autoservice SE, Stahlgruber (Germany), Intercars (Poland), Mekonomen (Scandinavia), Rhiag (Italy/ CEE countries), Autonet (Romania), ECP (UK), AP United (Netherlands/UK) and Exist (Russia). The buying groups as well as single distributors are also active out of Europe e.g. in Brazil, USA, Canada, China, North Africa and near East. In future, concentration and internationalization will proceed further.
2. Western Europe is marked by an extreme competition concerning parts wholesalers. This is not only fought out in a performance-based competition, but also leads to a continuing deterioration in prices and margins which benefits final consumers and garages at the same time. The great number of capable wholesalers which offer encompassing services to their garage customers, the parts market has become a consumer-focused market. Here, the customer has the power, not the supplier. Since market growth is declining, we are dealing with a destructive competition in the aftermarket. At the same time, car garages record a firm tendency towards less, but bigger and more qualified and specialized garages. This effect is enforced by the generation change.
3. Furthermore, the advancement of private equity companies, which promote the consolidation of the European aftermarket, is remarkable. AP United (Sator Holding/ Unipart) via H2, A.T.U. via KKR, Rhiag via Gruppo

Alpha or Europart via Triton are some examples for this tendency. These private equity companies have recognized the market's potential and build on structures of traditional distributors and garage chains while aiming at higher profits through further process optimization.

4. In the field of specialized auto center chains and Fast-Fit- chains, the players are Norauto, Feu Vert (France), A.T.U., Pit Stop (Germany) or Kwik Fit (Great Britain).

5. European-oriented garage concepts like Bosch Car Service, AC Auto Check Service, Autofit, Profi Service Center or ad garage, which are usually driven by wholesale-buying groups, gain more importance. The sheer existence of 385 different concept headquarters proves that these garage concepts fulfill the needs of garages and the demands of car drivers. Efforts and buying-loyalty are often unrelated to the claimed effect. Therefore, restructuring is necessary: systems with identical key features will merge due to cost savings – if not under one and the same roof, then at least with shared back office services.

6. Car manufacturers, first and foremost car mega dealers like AVAG, Emil Frey or Inchape, will intensify their aftermarket activities because of high profit in the aftermarket business. Likewise, the technological developments will favor OES service partners in the middle to long-term, even if legislative measures and the range of services offered by IAM wholesalers lead to a compensatory benefit. Electronic order-portals such as Partslink 24 and intensive efforts of OES distributors / car dealers to push the OE- parts to free garages are examples. While performing our market researches throughout Europe, we have more and more frequently observed constellations in which car dealerships and free parts wholesalers act under one single corporate roof while at the same time delivering aftermarket garages (OES and IAM) with OE as well as IAM parts from one source in a coordinated way. This, for instance, happens in Portugal. In our opinion, this form of coordinated market processing can be regarded as a benchmark model with growing prospects of success. In the long run, this will lead to a networking of the OES and IAM aftermarket partners.

7. Aftermarket online activities are gaining ground. In contrast to the tyre replacement market, the B2C web shops for car parts is still in its infancy with a market share of less than 1%. As we have observed in our aftermarket online network, the tendency is towards "routing customers to garage concept networks" in order to get parts fitted right there. In future, online service portals like "FairGarage.de" or "workshop AutoScout.de" will be more important. The car driver can book all of his auto services here – just as he or she does with online hotel reservations (e.g. booking.com or HRS.de). Online service portals will, in the long term, change the aftermarket. They will make the market for auto services more transparent and thereby confront industry and trade with new challenges. Some parts wholesalers have taken up the challenge by running such service-portals themselves for their garage partners and thereby securing their own parts sales.

The analyses of the Car Aftermarket Europe Report 2012 have shown that in the 27 EU member states, small parts wholesalers account for round about 93,7 percent of the IAM total volume. This figure is followed by medium-sized wholesalers which account for approximately 5,6 percent. Only 0,7 percent of parts wholesalers which a turnover of more than 20 million Euro generate 59 percent of the total European car parts aftermarket at wholesale prices. Only about a dozen of distributors have turnover of between 200 million and one billion Euros. These major distributors alone generate about 30 percent of the aftermarket at wholesale prices.

Small and medium parts wholesalers must use their marketability and their flexibility to customers in order to compete. One of the most vital challenges for these market actors is that they are caught between the increasing B2C-online-business and auto centers that feature direct sales to the car driver one the one hand, and the major distributors which sell more and more directly to the garages on the other hand. This will lead to increasing price and margin problems in the future. The biggest advantages the small and medium-sized parts wholesalers are that they can act more flexibly, have a very good relationship to their garage customers and are able to deliver promptly. The distinction that has to be made here is between small and medium parts wholesalers in big cities and those in rural areas. In rural areas, wholesalers are often dependant on small local parts wholesalers in order to ensure their frequent JIT deliveries to garages, because they have no own establishments there. For this reason, special concepts for smaller wholesalers like Coparts plus Partner have been implemented by GAU Germany. In cities, on the other hand, especially in Metro markets, wholesalers increasingly organize their business directly via their own garage concepts.

Can parts business fund garage service support in the long run?

Parts wholesalers are confronted with a strong competition throughout Europe. Still today, the majority of parts wholesalers feature outstanding logistical performance. Sales support that offers garage concepts, training seminars, and marketing support for customers will become more important and is one of the core competences of successful wholesalers.
Technological development and the great number of competitors made parts wholesalers offer their workshop customers technical and commercial services in addition to the classic parts business many years ago. This has led almost to an oversupply in workshop concepts. Parts follow the know-how.
These measures are not passed on in any cost-covering way, so that rentability has to be secured through parts procurement. In addition, the service support costs for IAM garages develop enormously in order to

ensure the garages' competitiveness regarding OES garages at least to some extent. Furthermore, to secure the continued existence of their enterprises, IAM garages will have to face the steadily growing competition in a proactive way in the future, and cannot, as in the past, remain passive.
Because of this, the following questions come to the fore for more and more wholesalers (IAM and OES):

- How can I sustain technical support in the future while facing increasing service costs and decreasing gross profits?
- Will service concepts still be up-to-date in the future regarding the enormous costs and limited buying-loyalty? Which sort of restructuring is necessary to match the changing market conditions?
- How the enormous logistical costs caused by JIT deliveries could be reduced?
- In case my garage partners has no enough sales activities – how can I still generate customers in order to ensure my turnover results?

Concerning the question of service, the answer is that suppliers will have to earn independent revenues with their auto-service-support and thereby establish it as an independent business model that works alongside the parts business.

Regarding the problem of JIT-logistics, the use of „Online-workshop-termination-programs" will gain importance for drivers and will at the same time achieve cost reductions for wholesalers.

The question of sales requires intensified „Customer Routing Activities" while paying special attention to online distribution channels.

Both strategies are closely aligned to the „real" needs of garages and will usefully complement, or for that matter, change the established service concepts. These strategies lie at the heart of future system relaunches provided by wolk after sales experts.

Which consequences does the declining automotive market have on the field of aftersales?

The latest decline in the automotive industry has had numerous negative effects on the aftermarket, too. Automobile manufacturers have made a great deal of effort to stabilize their „Cash Cow"- car parts, thus: to reinforce their business in original components. In the B2C-sector, for example, new product lines with lower and more competitive prices for the repair of vehicles older than four to eight years have been introduced

It is to be expected that from now on large car dealer groups will buy up free parts wholesalers in order to sell both OE-parts from car manufacturers and parts from the free market to deliver OES and IAM garages at the same time. In this context, EFA Autoteilewelt's (Emil Frey Group) and AutoMega's (Dello Group) parts-activities are noteworthy. On the whole, it is likely that the boundaries between the OES and the IAM will increasingly disappear.

The independent aftermarket was little affected by the last automotive crisis three years ago and proved to function as an anchor of stability. This experience leaves the IAM well prepared for the latest auto-crisis – therefore, it will even be less affected this time, although the economic conditions have become more complex. The pressure resulting from the „costs of ownership" intensively affects the budget lines of private households and commercial vehicle fleets considering the European financial crisis. In addition to this, the intra-group competition inside of OES and IAM companies is fought out in a much stronger way and supports the market partners' process of selection.

How would you evaluate the differences between the German aftermarket and other countries?

Concerning car drivers, the high vehicle density, the diminishing emotionality towards the car itself, and the costs of owning a vehicle, which are increasingly taking stage, are important for the German market. A strong focus on the premium and low price segment is noted, while the traditionally strong medium segment is decreasing. In addition to this, there is a sinking loyalty towards garages. On the level of garages, it can be summarized that in the German-speaking aftermarkets, the influence of the OES market is much stronger than in other European countries. This effect can be traced back to the concentration of manufacturer brands like Mercedes-Benz, BMW, Volkswagen, Ford, Opel or Porsche.

Summary:

Germany has a share of round about 20 percent of Europe's total aftermarket (35 countries). Our market analyses have shown that, in Western and Southern Europe, the aftermarket volumes for all vehicle components are about 400 Euros per country and car (without labor). In Scandinavia, the volume amounts to 591 Euros per car, in Eastern Europe (including Russia and the Ukraine) to 293 Euros, and in Southeast Europe (former Yugoslavia and Turkey) to 267 Euros (all prices are on end consumer level without VAT).

In the coming years, before Russia will finally take over as the No. 1 market, Germany will remain Europe's most important aftermarket.

Thank you very much for interview.