

THE SHIFTING BALANCE OF POWER

New customer structure in the automotive
aftermarket calls for new distribution methods

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PREFACE



The automotive aftermarket is experiencing a very dynamic phase in its development. Mergers and acquisitions are changing the face of the industry. In combination with the digitalization megatrend, the process of consolidation that is currently under way is the catalyst for a profound structural transformation. Our series of studies takes an in-depth look at the overall playing field and the rules of the game in the new competitive landscape.

- The first publication in the series was launched in April 2018: „Consolidation in the European automotive aftermarket“ highlights the full spectrum of trends shaping the industry today.
- The next publication, „Survival of the fittest“, came out in June. It shines a light on mergers & acquisitions.
- This study, „The shifting balance of power“, zooms in on the trends on the demand side of the automotive aftermarket and describes how the customer landscape is changing.
- November will see the publication of the fourth study in the series – the last one for now. It will take a detailed look at developments in the tire trade.

A clear customer focus is the key to survival in the cut-throat competitive environment of the independent aftermarket (IAM). Industry players need to be able to answer a number of fundamental questions: Who are our main customers – auto repair shops, business fleets or private individuals? What are their needs? And how is the structural change that’s taking place in the industry going to affect those needs?

The relative strengths of players on the demand side are also changing. The feeder business, in other words the supply of smaller, locally operating parts traders by industry heavyweights, is going to see its importance wane long term, while the relevance of intermediaries like insurers, claims assessors and online service portals will grow.

The independent aftermarket faces the challenge of finding the right way to address all of these new players in a way that reflects their individual needs in an effort to get them all integrated into the web of diverse customer relationships that already crisscrosses the industry. The key to future success will lie in micromarketing and in having different sales approaches for different target customers. Strategies of this kind are uncharted territory for most auto parts distributors. But by systematically analyzing their data pool – in line with relevant privacy laws, of course – players can glean valuable insights into the needs and preferences of individual customer groups. And there is additional potential to be had from expanding the pool of available data by joining buying groups to give their analyses added relevance.

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— 1 —

THE CUSTOMER LANDSCAPE: KEY PLAYERS IN CLOSE-UP

Supplying auto repair shops and serving the feeder business are currently the biggest sources of revenue for IAM players. But the importance of other customer groups is growing: Intermediaries like insurers, leasing companies and online service portals as well as private individuals buying car parts are changing the balance of power on the demand side of the automotive aftermarket as we speak.

Auto parts and accessories distributors are a key link in the automotive aftermarket value chain. Their core competencies lie in logistics, product range and supplying and advising repair shops, which they also support indirectly on the financing side by granting them lengthy payment terms. Besides auto repair shops, the multi-tiered distribution system within the independent aftermarket also spans other players on the demand side who are supplied directly or indirectly by parts distributors.

Viewed from the perspective of the large (> EUR 400 m in revenues) and medium-sized parts traders (EUR 100–400 m in revenues), figure → **A** highlights the different players that make up the customer landscape. Repair shops and small parts distributors are currently the main direct customers. Exclusively online shops, repair shops and private end customers are among the customer base for the big auto parts distributors. At this point in time there is hardly any direct relationship between intermediaries and end customers on the one side and independent parts distributors on the other. But this is set to change. Intermediaries and end customers are already exerting a considerable direct influence on the balance of power in the IAM. This chapter describes the key characteristics and needs of the different customer groups.

Auto repair shops

Looking at the total number of auto repair shops across 34 European countries, a slight downward trend has been visible since 2013 → **B**. The development will continue in the years to come, albeit with significant differences between captive repair shops that are tied to a particular OEM and independently operating repair shops with no ties to any specific automaker. Between 2015 and 2020 the number of independent repair shops is set to decline by about 7%, falling from around 360,000 to 336,000. One of the reasons for this trend is that many independent repair shops are closing down owing to their owners' inability to find anyone to take over the

business when they retire. In some cases, a lack of profitability is the reason for abandoning the business. And demographics play a role, too. The pull of the big city leads to declining populations in rural regions and the demand for services goes down accordingly. Thus, the death of the local repair shop is rife in rural areas.

Conversely, the number of captive repair shops is set to go up slightly in the period to 2020, rising by 3–5%. This forecast reflects the OEMs' strategy of keeping their customers loyal to the brand long term by offering services for several years after a customer buys a car from them. The key requirement for this strategy to work is a dense network of OEM repair shops.

Whereas captive repair shops make up just under 20% of all repair shops across Europe, the share of OEM repair shops in Germany is actually 35%. And Germany's captive repair shops are set to retain their special status well into the future. One reason for this is the heavy preponderance of premium vehicle brands on the nation's roads. Added to that, many of the automakers have their roots in Germany, a fact that makes itself felt in the relatively dense network of OEM repair shops present in the country.

OEM repair shops typically service and repair vehicles less than four years old. Up until cars reach that age, the choice of repair shop is frequently dictated by the automakers' warranties and service packages, which require vehicles to be taken to one of their branded repair shops. As such, OEM repair shops focus mainly on the maintenance and replacement of genuine OEM parts and on complex bodywork. In the independent aftermarket, on the other hand, older cars predominate. Services provided by independent repair shops range from small-scale repairs to extensive work – depending on the human and technical resources available to the given service provider. Figure → **C** presents an overview of the service spectrum offered by auto repair shops.

The competitor landscape in Germany's independent aftermarket remains very fragmented. Players possessing concentrated market power tend to be mostly found among the glass specialists and the fast fitters → **D**.

— A —

Customer landscape among large and medium-sized auto parts distributors

Contact

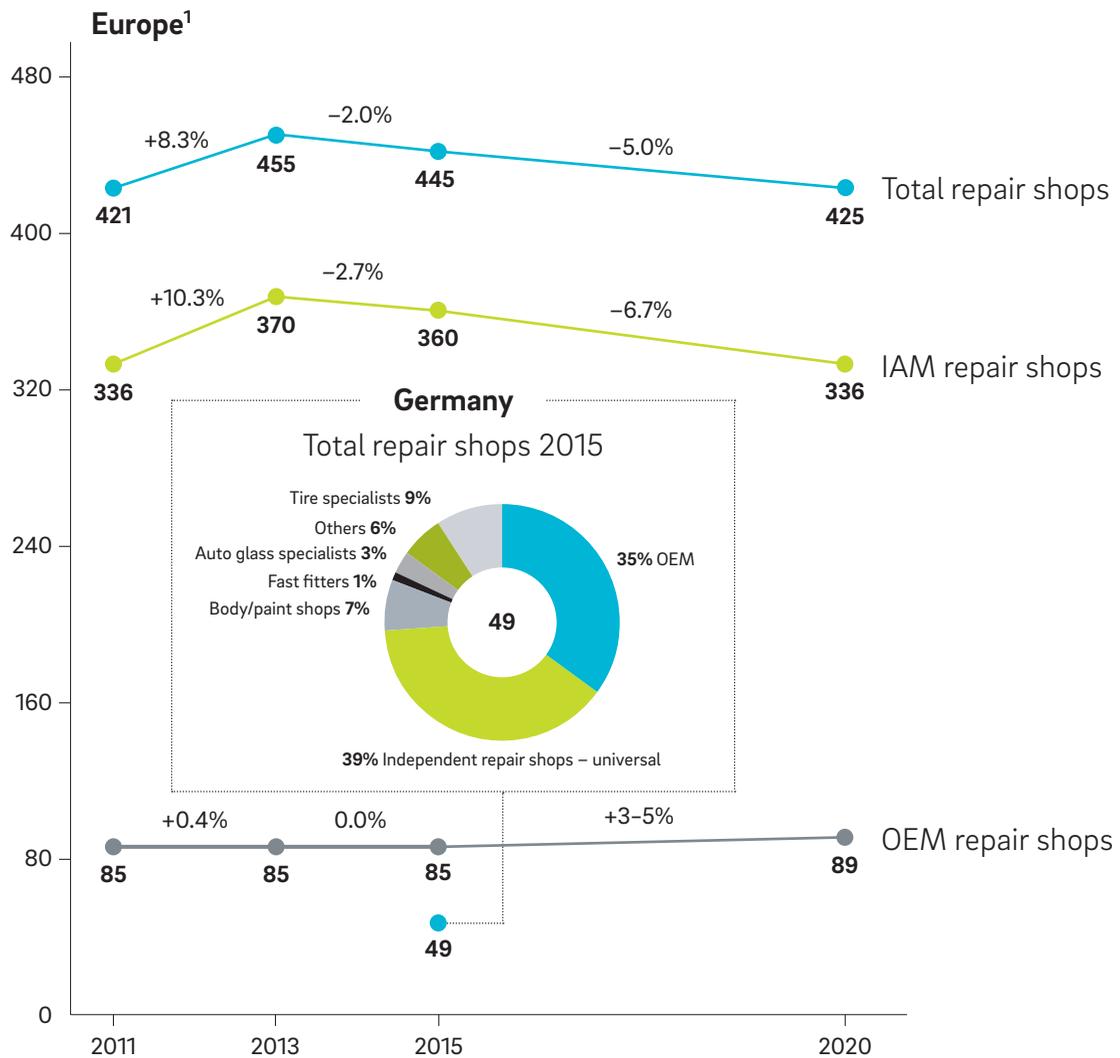


¹ Current volume; additional potential not included

² Includes insurers, leasing companies and service providers for insurers/repair shops and online service portals

B

Development of repair shops in Europe and Germany [figures in thousands]



¹ 34 European countries including Turkey

Small auto parts distributors

The small-scale industry players are an important customer group for medium-sized and large parts traders. With annual revenues generally amounting to less than EUR 100 million, the smaller players' scope of action is mostly restricted to supplying repair shops or end customers in their home region.

To keep their storage costs as low as possible and be able to offer a broad product portfolio at the same time, small parts traders rely on supplies from the large industry players. Known as the feeder business, this activity contributes between 15% and 30% of a big auto parts distributor's total profits. A large supplier can expect the feeder business to bring a short-term sales boost of approx. 5% in the wake of industry consolidation. In certain highly fragmented markets across Europe the potential is even higher – in southern Europe, for example. In the long run, however, the industry's increasing consolidation will shrink the feeder business.

One successful strategy for small parts traders is to position themselves as a local champion. An important element of this strategy is the exclusive supply of premium items not only to large distributors but to small repair shops, too. This also simplifies the logistics for the medium-sized and large distributors as they don't have

to drive out to individual repair shops to deliver these premium items – they let the small parts distributors handle the hassle of the last mile.

Consumers

There are not usually any direct business relationships between parts distributors and the owners or users of vehicles as end customers. But the changed needs of this customer group still have a direct and significant influence on IAM business models.

Consumers who buy their own car parts fall into two groups: the do-it-yourself (DIY) customers and the do-it-for-me (DIFM) customers. DIY customers can be divided into professionals and amateurs: there's the mechanics who like to tinker around on their own car after work. And there's the self-taught DIY customers who love keeping their vehicle in shape and are capable of performing their own minor repairs.

DIFM customers buy the parts themselves but don't get their hands dirty. They let professional mechanics do the work, with several variations on the theme: there's the private DIFM who has a friend who'll fit the parts. And there's the repair shop DIFM, whereby the customer turns up with the parts they organized themselves and the repair shop professionals just charge for the labor.

Tire specialists

The tire market is an important part of the automotive aftermarket but it works different to the rest of the IAM. Whereas the full spectrum of spare parts and consumables adds up to a very diverse portfolio, tires are much less complex. Many end customers simply order the tires they want and fit them themselves. Online business is therefore a big part of the tire trade. Unlike in other segments of the automotive aftermarket, direct OE sales are very important in the tire trade. Tire specialists make up 9% of all repair shops in the German automotive aftermarket. In absolute

figures, this means that more than 4,400 businesses focus exclusively on making sure that cars and commercial vehicles are running on the right wheels. Some 70% of repair shops specializing in tires belong to a chain, but the market for tire specialists is still a fragmented one. In Germany, the top four chains together account for 24% of the market. This quartet encompasses HMI, Point S, Vergölst and Euromaster. The players, structures and trends in the tire market will be presented in detail in the fourth study in this series, to be published in November 2018.

Then there's the combined private and repair shop DIFM, where the repair shop and the vehicle owner buy the parts together online but the vehicle owner pays. This way, the repair shop avoids the problem of the owner potentially buying the wrong parts. The repair shop handles the installation and the customer pays for the labor. And finally there's the service portal DIFM, where the repair work is booked through an online platform. When it comes to procuring the parts, there are various options: car owners can buy the parts themselves and take them to the repair shop, or the parts can be ordered through a booking portal or purchased by the repair shop direct. When choosing a repair shop, consumers consider not only the value for money it offers but also factors like how friendly the staff are and the quality of advice they provide. Brands and brand awareness carry less weight as selection criteria, with prior experience and recommendations being more influential. The choice of repair shop is evidently first and foremost a question of trust. For independent repair shops, the key criterion for customer loyalty is generally a longstanding relationship between the repair shop owner or automobile technician and the vehicle owner.

Intermediaries

A new set of players known as intermediaries have come in on the demand side of the automotive aftermarket in recent years. They include insurance companies, leasing firms and car-sharing providers, automobile clubs and online service portals. Despite all being very different by nature, the one thing they have in common is that they occupy the customer interface between the independent aftermarket on the one side and repair shops and private consumers on the other. In their role as a managing entity, intermediaries make the decision on which repair shop to steer a vehicle into for any maintenance or repair work. This changes the way IAM players interact with consumers. Intermediaries are curtailing the market power of IAM value chain incumbents and fast becoming an important segment

„Intermediaries are curtailing the market power of incumbents and becoming an important segment in the B2B customer spectrum.“

Jens Thiele, Head of Trade and Commodity Finance,
HSH Nordbank

in the B2B customer spectrum. In 2015, the share of steered value in the total volume represented by the automotive aftermarket was estimated at as much as 20%. By 2030, a Roland Berger analysis indicates that the demand steered in by intermediaries will make up some 40% of the market. Figure → E illustrates how intermediaries are taking over the individual stages in a typical service process – much to the annoyance of IAM incumbents. Wilhelm Hülsdonk, Federal Guild Master of the German Federation for Motor Trades and Repairs (ZDK), went so far as to liken the increasing engagement of intermediaries in the repair shop business to an ever-growing clutter of hungry cats scrapping over the milk pot. A key ingredient in the intermediaries' recipe for success is their ability to offer their customers individual tailor-made solutions in a complex market. Intermediaries can be split into a number of different groups (somewhat simplified), with varying customer focus and different business models.

C

Repair shop types and selected examples in Germany

OEM

Captive repair shops

Daimler
Renault
Fiat

IAM

Auto glass specialists/ others

Carglass
National
Windscreens

Body/paint/ smart repair shops

Fivestar

Fast fitters

A.T.U
Kwik Fit

Tire specialists

Point S
Euromaster

Independent repair shops

Auto-Profi
Meisterhaft
Lienau

Source: Roland Berger, HSH Nordbank

D

What auto repair shops offer

Servicing and maintenance, failure repairs, accident repairs

SMART REPAIRS

- Spot repairs
- Dent repairs (no paintwork)
- Alloy wheel reconditioning
- Materials for the interior and color customization
- Windscreen repairs

QUICK FIXES

- Inspection
- Basic service, e.g. oil change, screenwash change
- Check-ups, e.g. winter check
- Brake servicing
- Battery replacement
- Exhaust replacement
- Change of suspension
- Air con servicing

MECHANICAL AND OTHER REPAIRS

- More complex work:
 - Powertrain repairs
 - Chassis repairs
- Complex electronics repairs, e.g. changing the control unit

BODY & PAINT REPAIRS

- Body paintwork
- Body parts replacement
- Chassis welding
- Chassis alignment

Source: Roland Berger, HSH Nordbank

Insurance companies and leasing providers

As intermediaries, insurance companies and leasing firms have direct contact with consumers. Insurers steer vehicle owners in their choice of repair shop through their tariff structure. For instance, they can grant discounts on their comprehensive insurance policies if the policyholder agrees to take the vehicle to a partner repair shop in the event of an accident. The business model for these intermediaries is based on insurers negotiating with their partner repair shops some fairly heavily discounted fixed prices for any repairs they carry out. Repair shops agree to these terms in return for the prospect of significant business volumes. The role of a leasing company follows a similar model: In the event of an accident they will send their customers to a repair shop with which they have a framework agreement. Another variant involves the leasing company steering customers to a repair shop that is a member of its insurance company's partner network. Insurance companies' goal in pursuing this strategy is to offer their own customers a good service, no doubt about it. But it's also about reducing costs. As the German Insurance Association (GDV) reported, the cost of spare parts for cars rose by a fifth, on average, in the period between January 2013 and August 2017. Whereas it cost an average of EUR 2,400 to repair insured damage to a car in 2013, by 2017 the figure had risen to approx. EUR 2,700. Insurers are keen to steer the development in the opposite direction in their role as intermediaries.

Service providers to insurance companies

This group is not in direct contact with vehicle owners but acts as service providers for insurance companies. The business model involves the latter outsourcing the service process to intermediaries after an insurance claim is made. Examples include claims assessors Innovation Group and riparo GmbH. These companies have a network of partner repair shops and also offer service packages like rental cars and breakdown recovery.

The business model operated by these service providers is also built on economies of scale, based on their ability to negotiate favorable terms with repair shops. Developing and implementing software that insurers can use to optimize claims handling represents an important source of revenue for service providers.

Service providers to repair shops

This type of intermediary evolved out of the vehicle repair trade. One example is the company Eurogarant AutoService AG, which was founded on the initiative of the Central Association of Bodywork and Motor Vehicle Engineers (ZKF) with the basic idea of saving customers time and effort. When a vehicle owner needs to make a claim, they either contact the intermediary or a repair shop. The latter then handles the recovery of the vehicle and informs the intermediary, which provides the owner with a rental car if necessary. At this point, the intermediary – like Eurogarant – commissions an independent expert to compile a report on the extent of the insured loss. Equipped with this document, they can then get the green light from the vehicle owner's insurance company to have the repairs carried out by a member of the network.

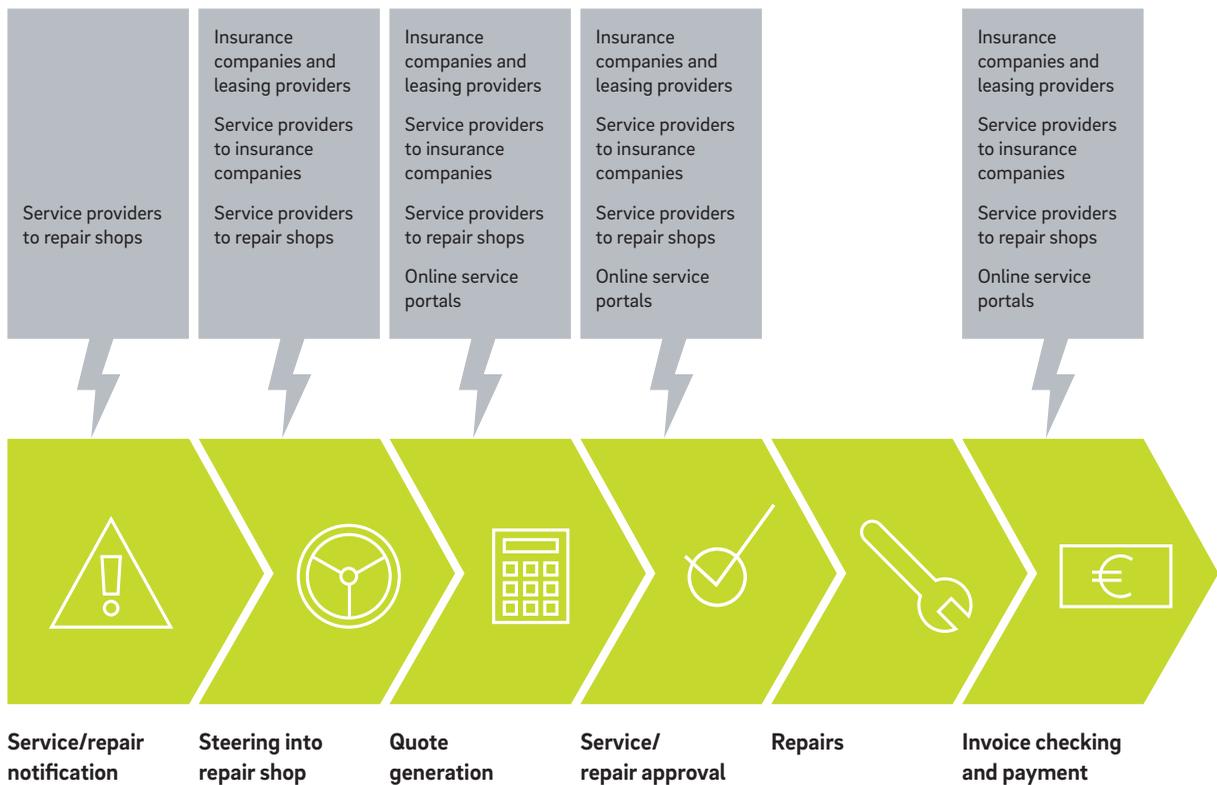
The backbone of this business model is a close and trustful network of relationships with repair shops. A service charge levied per loss event generally constitutes the source of revenue.

Online service portals

By way of example, we describe here how the online portals Carroobi and Fairgarage work. Carroobi was founded in Berlin in 2015 and now employs around 60 people. BMWi Ventures came onboard in the last funding round. Carroobi promises guaranteed quality at fixed prices. Customers can book a range of car-related services on the website, from A for air con servicing to B for brake disk replacement and everything else besides. The portal has a network of 750 repair shops across Germany and

— E —

The service value chain and new challengers



recently branched out into the parts trade as well. Carroobi can also source remanufactured or second-hand components, such as engines, transmissions and turbochargers, and deliver them direct to the repair shop carrying out the work.

German repair shop portal Fairgarage was founded by the start-up company United Vehicles in 2011 before Deutsche Automobil Treuhand (DAT) took a majority stake in 2013. Fairgarage claims to be the portal with the most repair shops listed, boasting more than 16,000 businesses in its network. Fairgarage works in a similar way in that customers input their vehicle model, type of service required and region, and a price is then calculated on that basis. Repair shops, like many other businesses, have long since realized that offering improved services helps them retain existing customers and acquire new ones. A.T.U. and Pitstop, for example, also offer customers the possibility to book appointments online. For those repair shop concepts, these booking options are a means of offering customers added convenience. For online service portals, on the other hand, they are the very heart of the business model.

Web shops

Whereas online service portals occupy the interface between consumer and repair shop and act as brokers, selling the repair shop's services on, web shops have a different business model: They sell car parts to repair shops and consumers alike through online platforms. Established parts distributors have generally developed their own online ordering system for their customers to enable them to order what they need online. Their competitors, on the other hand, which we refer to here as web shops, operate exclusively online. Operating either as specialists or as generalists with their own domain name, they attract customers with transparency and aggressively low prices. Specialists include rameder, scheibenwischer.de, motoroel-direkt, bremsen.com and reifen.de. Generalists with their own domain name include known entities like kfzteile24, ATP, autodoc and

mister auto. Online platforms, for their part, offer a marketplace to bring supply and demand together. They include internet trading giants like Amazon and eBay in the B2C business arena and tyre24 for B2B.

Across Germany, Austria and Switzerland, online players account for about 15% of IAM parts sales (parts and tires); in the UK it's around 20% (including tires). Preferences for online as a sales channel vary. Consumers tend to frequent the virtual shop counters, with DIY and DIFM customers using exclusively online shops to an increasing degree. Private individuals shop online mainly for low-tech items like wiper blades, light bulbs, batteries and filters, which are easy to install. For more complex maintenance and repair work, including ordering the parts, the typical consumer will take their car to a repair shop. But the importance of web shops is trending up in the B2C arena.

Independent online platforms or web shops with their own domain name still play only a minor role in the business relationships between parts distributors and repair shops at this time. There are barriers to their expansion in the B2B segment given that doing business with professional customers entails meeting a particular set of requirements, especially in regard to lead times and delivery frequency. The bar is still too high for many online players (especially web shops with their own domain name) when it comes to service levels. There is also the fact that many repair shops tend to trust the service proposition of their longstanding parts distributors rather than an online platform or web shop that they have no personal knowledge of.

It will be compelling to observe whether and to what extent the internet behemoths like Amazon and eBay consider parts distribution in both the B2C and B2B segment as an interesting business area and choose to invest additional time and money in it.

— 2 —

POWER STRUGGLES: CHANGES IN THE CUSTOMER LANDSCAPE

The customer landscape in the IAM is undergoing a structural transformation: Repair shops are responding to the tougher competition, small parts distributors are defiant in the face of consolidation, intermediaries are encroaching into the market as new players, and consumers want low prices and high quality combined.

The balance of power within the tangled web of relationships in the automotive aftermarket is shifting. Parts distributors face the challenge of defending their role in the changed customer landscape. The trends outlined here have a huge impact on the position and market power of the individual players → **F**.

Repair shops: Under pressure

The number of auto repair shops is falling. This development is accelerating the process of consolidation and helping to professionalize those providers that survive in the market. Repair shops find themselves sandwiched uncomfortably between the different trends prevailing in the automotive aftermarket: Customers are becoming fundamentally more price sensitive; the process of consolidation is continuing in the IAM, and intermediaries are edging into the relationship between repair shops and their customers.

This conflict situation serves to ramp up the competitive pressure on repair shops and encourage them to get onboard with existing repair shop concepts. Any cooperation of this kind is always steered by a central service provider who supports the repair shop partners with the operational overhead elements, things like IT solutions, marketing assistance and intercompany training and education. In return, repair shops maintain quality standards and pay a system charge. In line with the „stronger together“ principle, repair shop concepts carry more weight and can therefore better impose their prices and terms on the market. Repair shop systems are even in a better position than the lone wolf repair shop to negotiate with independent parts distributors. These benefits are clearly a compelling argument: some 60% of independent repair shops were part of a repair shop concept in Germany in 2010; five years later the figure had risen to 80%. Europe has more than 800 repair shop concepts, some of them multinational, with a total of almost 110,000 affiliated repair shops.

Independent parts traders themselves have also initiated successful repair shop concepts, including 1a Auto-

„This re-accentuation of customer needs is an opportunity for parts traders as long as they can position themselves as competent and reliable partners to repair shops.“

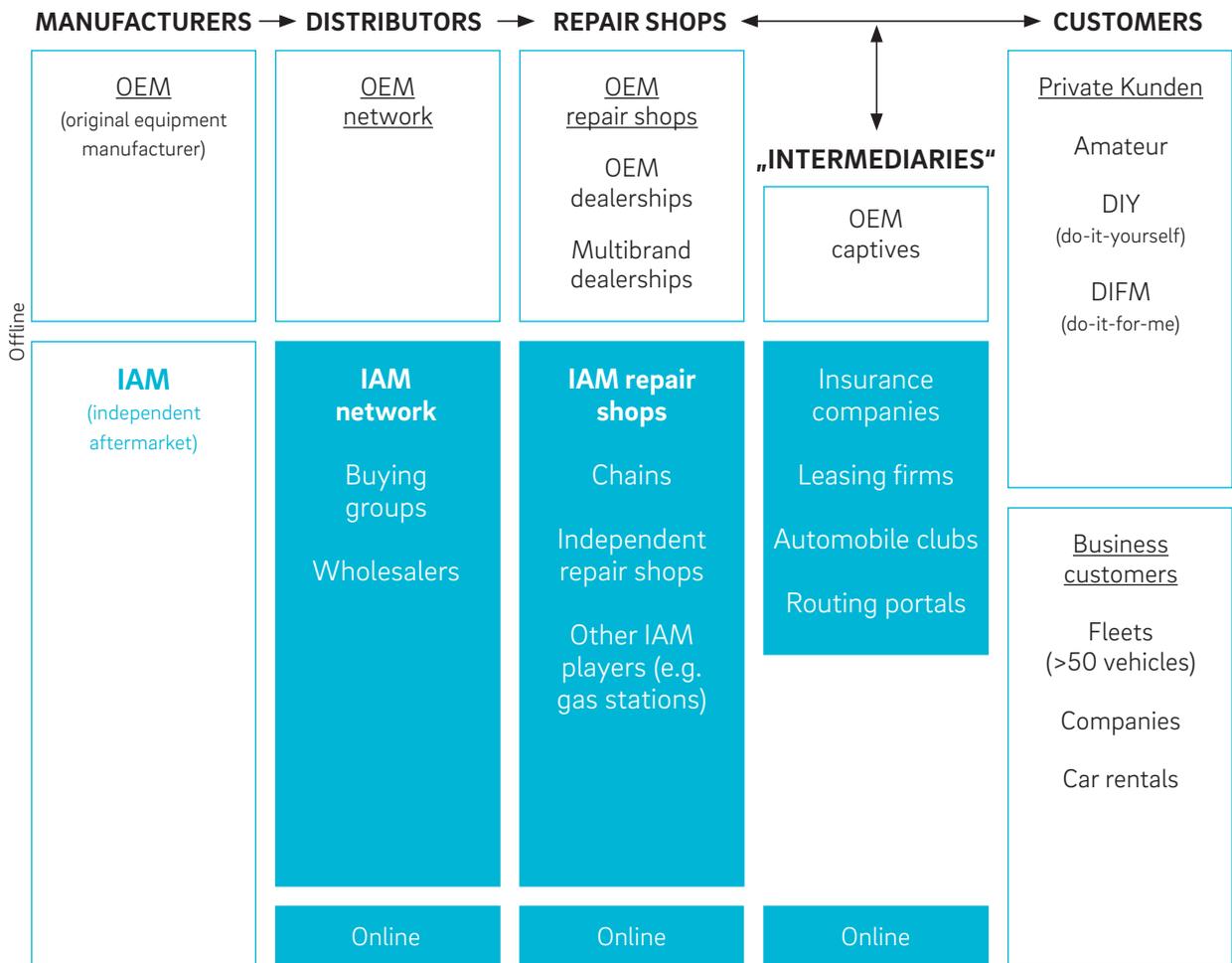
Jörg Kasten, CEO of Heil & Sohn Group

service (Coler, Knoll, Küblbeck, Lorch, WM SE/Trost), Autofit (PV) and Meisterhaft (ATR cooperation). Such concepts are being used by IAM players to promote repair shop professionalization. Irrespective of any membership in a repair shop system, the increasing professionalization of IAM repair shops is changing what they need from parts distributors. Price and volume driven requirements remain important but factors like technical support, service and quality are becoming more significant. This re-accentuation of customer needs is an opportunity for parts traders as long as they can position themselves as competent and reliable partners to repair shops. As businesses become more professional, it often becomes necessary to adjust the technical requirements and achieve a certain critical size – which in turn calls for investment. But many repair shops lack the funds to do so. From the perspective of auto parts distributors, it could therefore make sense to support repair shops in capital-intensive acquisitions as a means of fostering customer loyalty.

— F —

The IAM value chain

Schematic (simplified)



■ Focus channels for this study

Stronger rivalry between OEM and IAM repair shops

The competition between OEM and IAM repair shops is escalating and neither side are pulling their punches. One ad by a German premium OEM showed a crowd of oil-covered zombies chasing a coupé that just manages to escape to safety behind the gates of one of the OEM's repair shops. The message? „Don't let your [make of car] fall into the wrong hands“. The response from a trade cooperation was an attack on OEM repair shops with the claim „#We set car drivers free“.

Marketing is not the only way in which automakers are trying to maneuver car owners straight into OEM repair shops. Complex parts that need to be fitted with the help of OE tools make it more difficult, if not impossible, for IAM repair shops to get hold of cars to service. Added to that, end customers fear invalidating their warranties if parts are not properly fitted. This is how OEMs put up barriers to any autonomous choice of repair shop on the part of consumers. Then there's the role of car dealers with affiliated servicing repair shops: Some of them grant discounts on the cost of buying a car if the owner commits to having the vehicle maintenance and servicing done at the dealership. And OEM connectivity solutions help steer drivers direct into OEM repair shops whenever maintenance or repair work is required. IAM repair shops are trying to counter this trend with the use of OBD dongles.

These app-based retrofit solutions transform even older vehicles into smart cars and provide information (on things like fuel consumption, battery charge and service intervals) for user-friendly display on a cell phone or tablet. Many apps are able to diagnose faults and can then recommend a repair shop direct. But the independent repair shops are not going to be able to handle the scale of this digital retrofitting on their own. Support from the independent aftermarket would therefore hold great potential as a way of boosting customer loyalty. Bosch is one OES to provide an example in the form of their Drivelog Connect. This has a special

plug, the Drivelog Connector, which can be connected to the vehicle's OBD2 diagnostic port. All relevant data on the vehicle state is then transmitted to the Drivelog Connect app on a smartphone via Bluetooth. The app notifies the driver when the car is due for its next check; repair shop appointments can also be booked through the app.

Multi-sourcing is widespread

The days of monogamy are over when it comes to relationships between repair shops and their parts suppliers. Multi-sourcing has established itself as the standard; almost 90% of IAM repair shops have several sources they turn to when they need to order parts. They generally split their business between two main suppliers and one or two further sources that they use for special or particularly cheap parts. Once a repair shop has made a decision as to who will be their top supplier, their willingness to change supplier tends to be fairly low. When a parts distributor loses its status as a top supplier, it's usually because of delayed deliveries. It is extremely hard – and costly – to regain lost ground there.

Besides delivery reliability, delivery frequency is also crucial for consolidating and expanding customer relationships. Small repair shops expect prompt delivery of ordered parts, even nationwide, to enable them to complete jobs quickly. It must be possible for them to receive deliveries at least three times daily. The majority of parts distributors can deliver up to eight times a day. The bigger repair shops often have small store rooms, meaning that for parts they use regularly they don't have to rely on deliveries at such short intervals.

Most repair shops are extremely price sensitive. But price alone is not a reason to split from a supplier. Rather, the majority of repair shops tend to add a low-cost provider into their supplier network. When Roland Berger conducted a poll of some 100 German repair shops, almost half of respondents stated that they would consider changing their top supplier if a rival firm's prices were more than 10% cheaper.

Small auto parts distributors: Opportunities as local champions

As the industry goes through the process of consolidation, small auto parts distributors with revenues below EUR 100 m are at risk of being run out of the market by their bigger rivals. To avoid falling victim to this fate, the main strategy open to small players is to try to earn a reputation as a local champion. To be successful in this, companies need to offer their regional customer base the highest standards of quality, reliability and service. And to do that, the smaller traders must have a perfectly tuned supply chain behind them. Those car parts and accessories distributors active in the feeder business are called upon here to use their strengths in logistics to help cement customer loyalty long term.

There are also some small parts distributors who are considering merging with a larger player. Such plans could represent an opportunity for the medium-sized and bigger distributors to take on a leading role in the region concerned.

Consumers: Price conscious and internet savvy

Do-it-for-me customers are a group whose size is set to increase in the medium term, and for several reasons: One, the job of fitting car parts is becoming ever more complex – requiring both the expertise and the equipment of a professional repair shop mechanic. And two, the interest in do-it-yourself repairs is waning, especially among the younger generations of vehicle owners. At the same time, the greater cost transparency and increasing price sensitivity of consumers that have become the norm in the online age have made customers more open to the idea of DIFM models. Plus there's the fact that consumers are no longer as focused on certain specific brands as they used to be.

Online sales channels play a key role in addressing end customers. The internet has become an indispensable source of research for consumers. DIY and DIFM cus-

tomers in particular are increasingly using online platforms to gather information about servicing and repair work and how much it costs as well as the terms on which it is provided. About one-third of this customer group is prepared to book their car into a repair shop online. And the number of users taking advantage of such online offers can only be expected to rise in the future.

These trends present a number of opportunities for players in the independent aftermarket to establish direct business relationships with end customers. Options include developing private label concepts and starting to market services direct to consumers.

Intermediaries: A growing influence

Intermediaries like insurance companies are set to change the balance of power in the automotive aftermarket forever. All the signs are pointing to the fact that intermediaries will not just be influencing the business of independent parts and accessories distributors indirectly by requiring customers to choose certain repair shops. Some insurers are already planning to take the job of parts procurement into their own hands – much to the displeasure of repair shops. Germany's Central Association of Bodywork and Motor Vehicle Engineers (ZKF) spoke out strongly against this tactic, with CEO Thomas Aukamm complaining that, „Repair shops are expected to carry out the low-revenue but high-expertise servicing of increasingly complex vehicle concepts at the extremely low rates they've had to agree to, while it looks like the insurers want to take over the purchasing of spare parts.“ Aukamm warned that this would erode even more of the already low income of body and paint shops.

The share of demand controlled by intermediaries in the total volume of the automotive aftermarket will increase dramatically in the years to come. In view of this growth in intermediaries' market power, parts distributors should be taking a very serious look at what the inter-

mediaries are actually doing. The high volumes involved may well mean that having an intermediary as a direct customer could be a lucrative option. But on the other hand, such high volumes also represent a risk: they can be used by intermediaries as a way to get OEMs to sell them parts direct. In that case the IAM will come away empty handed.

Online retail: More transparency in the market

Aside from the intermediaries, online shopping is also changing the balance of power and altering the web of relationships between players in the automotive aftermarket. As a huge – and global – shop window, the internet promises to bring increased clarity into the opaque prices and terms often found within the multi-tiered distribution system in the IAM.

With this new openness around the services available and the terms on which they are offered, online retail heralds a cultural change within parts distribution as customers become increasingly price sensitive. The competitor landscape is also changing because supply and demand in the virtual marketplaces and web shops is no longer regional in nature. This geographical decoupling gives buyers new options to choose from.

Different sized repair shops are open to the idea of buying parts online to different degrees. One in three small repair shops with five or fewer employees uses online providers to order parts. Among repair shops with more than ten employees, the figure is just 20% in Germany – but they are often members of a repair shop concept. B2B platforms are fundamentally growing in importance in the independent aftermarket. Platforms like Tyre24 offer small auto parts distributors the chance to get into the online business without incurring excessive costs.

For incumbent IAM players, web shops play a dual role presenting both risks and opportunities: On the one hand web shops are competitors trying to lure their customers into a different sales channel. Yet on the other

„The internet will be incredibly important to end customers in the future. They will be able to look up prices online, make appointments and track repairs.“

Andreas Maske, CEO of the Maske group of companies

hand, shops that are exclusively online also represent a new customer group. Most online players buy parts and stock from the independent aftermarket, after all. The existence of this supplier relationship gives IAM players the chance to participate indirectly in the growing online platform revenues.

Spotlight

INSIGHT INTO THE MARKET FOR REPAIR SHOP EQUIPMENT

Part of the automotive aftermarket is the segment offering repair shop equipment, a mainly business-to-business operation. More and more parts distributors have discovered the equipment business in recent years – both as a means to support repair shops across virtually all aspects of their business and as a way to access the much bigger margins that repair shop equipment normally offers compared to the sale of parts.

The market for repair shop equipment encompasses machines and equipment for working on vehicles, such as lifting platforms, wheel aligners, brake testers, tire changers and wheel balancing equipment, as well as test lines. Another area comprises the diagnostic tools used to analyze the engine, electronics, handling, etc. The value chain in the repair shop equipment segment involves three tiers and is less complex than the value chain in parts distribution → **F, G**.

On the manufacturer tier, we find the European (high-end) and Chinese (low/medium-end) suppliers. Some of the latter also produce private label items for repair shop outfitters and the independent aftermarket. In terms of sales organizations, there are numerous national and international players operating, which can be grouped into five categories:

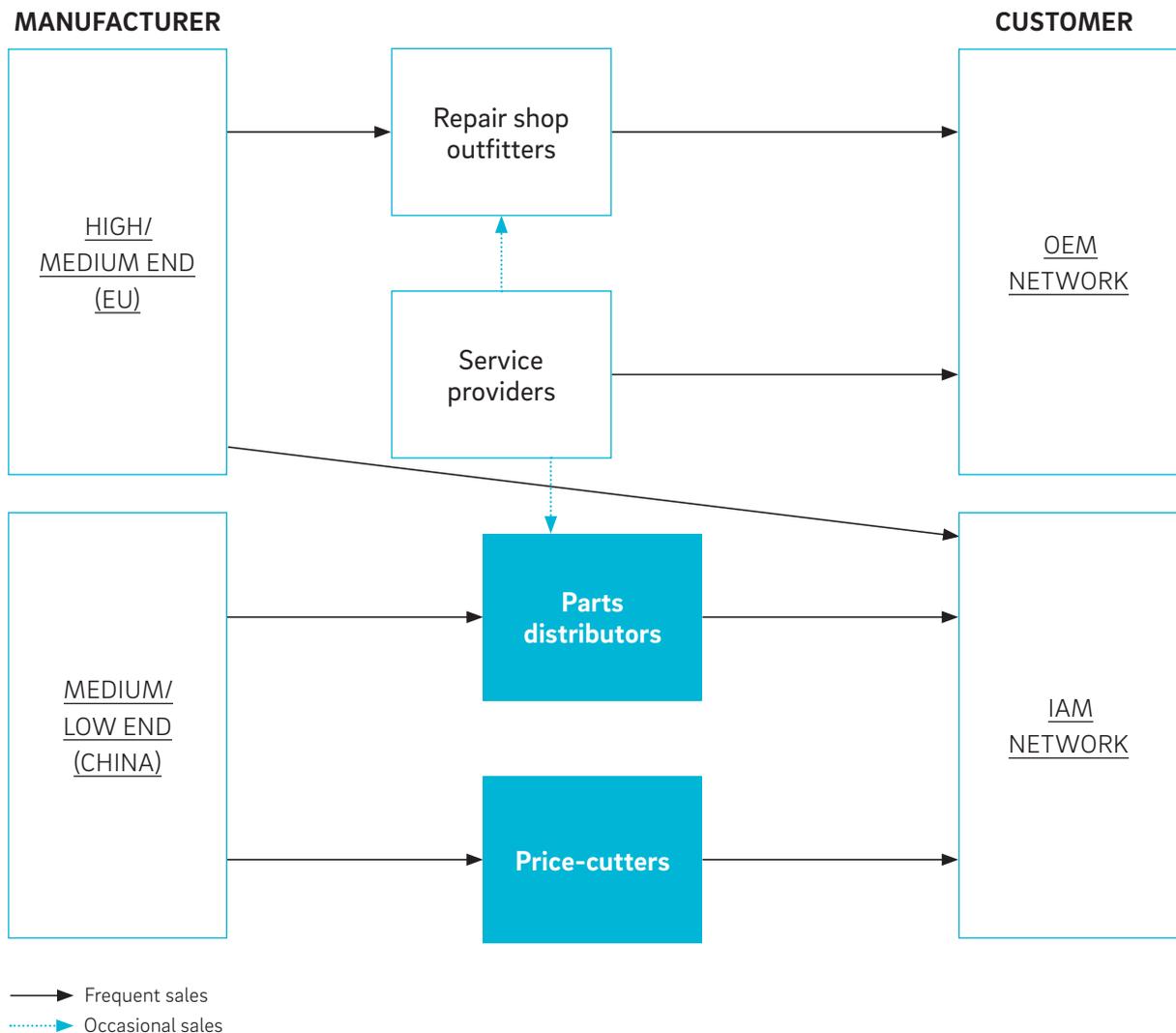
1. Repair shop outfitters (e.g. WHB Autohaus Profi Service, Gemco Sales & Service, Uhl Werkstatt-Technik, Explora X) are specialists with a regional focus. They buy their products from EU manufacturers and supply mainly OEM repair shops.
2. OEM repair shops are themselves a target group for service providers like AMN Garage Services & Equipment. Companies of this type define themselves as pure-play service providers with a national focus.
3. OEMs can also be a source of repair shop equipment. But such direct sales constitute an exception to the rule.
4. Nationally or internationally operating parts distributors (including Stahlgruber, Groupauto international, WM, Autodistribution) are also active in selling repair shop equipment. Their focus lies on supplying IAM repair shops, with products mainly sourced from the mid-to-low-price segment. Chinese imports are playing an increasing role here.
5. So-called price-cutters target first and foremost small independent repair shops and private individuals. Companies like Twin Busch, RP Tools, ATA and Fog Automotive import repair shop equipment from China.

Purchasing new repair shop equipment is a significant expense and generally constitutes a long-term investment. Decisions about such acquisitions are normally made by top management as a result. Most parts traders have good and longstanding relationships with repair shop owners and bosses. These contacts can prove invaluable for medium-sized and large parts distributors looking to expand into the repair shop equipment segment.

G

Value chain in the repair shop equipment segment

Schematic (simplified)



— 3 —

RECOMMENDATIONS: WHAT TO DO NOW

In the old order of things, medium-sized and large auto parts distributors could concentrate on supplying auto repair shops and servicing the feeder business. They knew their target groups well and these sales channels brought in the bulk of their revenues. But this predictability is no more. Today's customer landscape is much more opaque. Looking to the long term, parts distributors will have to meet the different requirements of the distinct customer groups. They will need to fine-tune the way they approach customers and be prepared to adopt an omnichannel strategy.



Reach more customers with omnichannel sales

The customer spectrum for independent parts traders encompasses many different actors, all of whom make a relevant contribution to their business success. The only way to meet the needs of all the individual customer groups is by employing a differentiated marketing and sales strategy. Different customer types show varying tendencies when it comes to the use of online channels. Medium-sized and large auto parts distributors should therefore adopt an omnichannel approach to ensure that they can reach the whole of the customer spectrum through different sales channels. B2B customers (repair shops, small parts distributors, web shops) and consumers need to be given the choice of different channels to use (online, mobile, call center and possibly even mail order).



Be a service partner to your customers

As vehicle technology becomes ever more complex and competitive pressure grows, auto repair shops are more in need of advice and professional support than ever before. Parts distributors can use this development to their advantage to strengthen customer loyalty. IAM players can even recruit the OEMs' captive repair shops into their customer base – targeting them, for example, by offering to source parts for older vehicles, an area in which there is a great deal of potential for private labels. The fundamental goal must be to turn the supplier relationship into a partnership. One promising way of doing this is through repair shop concepts to increase the level of consolidation and professionalization of IAM repair shops.



Accept intermediaries as customers and target them specifically

The role of intermediaries is growing in importance within the IAM. Insurers in particular are flexing their market muscle, steering the consumer's choice of repair shop and even looking to take control of the business of parts purchasing in the future. Against this backdrop, independent aftermarket players should definitely step up their efforts to build relationships with this customer group. Players first need to be willing to engage with the (as yet) unfamiliar new customer group. And then they need to adapt their distribution structures accordingly. Although relationships with auto repair shops and distribution networks are well established and have been for decades, key account management with insurance companies or leasing firms will require a different approach.



Set your sights on consumers – and reach them online

Independent parts distributors should turn their future focus more toward the B2C business. Consumers have evolved into a relevant customer group in the IAM. Parts traders would therefore do well to develop new ideas on how to get into business with private customers. Direct B2C contact would also yield valuable insight into consumers' preferences and behaviors. Armed with this knowledge, distributors could even inject fresh stimulus into their business relationships with auto repair shops and smaller parts traders given the considerable influence that consumers have over the business development of these players. There are various ways in which parts distributors could build up direct business contacts with the B2C segment. The internet is the most important channel through which to reach end customers. Service platforms or web shops thus represent a promising way of beating a path to the consumers' door. Options for IAM parts players include pursuing the goal of cooperation or acquisition in order to gain access to a service platform, or they could establish a digital sales channel of their own. Web shops also offer parts distributors a way of getting private labels to end customers as a means of guaranteeing higher margins and reducing the level of dependency on traditional suppliers. Plus they're useful for keeping OEM repair shops on board. An interesting option for web shops, in turn, would be to establish a brick-and-mortar outlet in order to participate in the traditional offline business.



Unleash hidden potential through the use of big data

Particularly when it comes to the small and medium-sized parts distributors, they often lack the personnel and material resources to systematically drive customer management activities with IT solutions and targeted marketing. This leaves many opportunities untapped. One way of leveraging this potential is to intensify the level of cooperation within buying groups beyond pure purchasing activities. Working together to develop big data solutions is one option; joining forces to address customers as a combined entity is another.



Analyze customer needs and tailor your offerings

Many parts and accessories distributors are still not aware of the treasure trove of information that lies hidden in their data archives. Collecting, editing and using customer data is a way of acquiring crucial knowledge to enable customers to be approached in a targeted, individualized manner. Systematically analyzing the data pool using CRM software or other IT tools can reveal the needs and preferences of different customer groups. Tailor-made offers can be developed on this basis as a key step toward realizing a micromarketing strategy. Possible actions include offering individualized discounts for frequently purchased parts, special shipping terms, newsletters with personalized content, and so on. Such activities can also generate pull effects for private labels. Players that successfully use data analysis to decode their customers' ordering behavior can, for example, optimize their delivery route planning. Analyzing customer data can even put companies on the path to implementing internal processes optimizations, including improved warehousing and efficient logistics planning.

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WE WELCOME YOUR QUESTIONS, COMMENTS AND SUGGESTIONS

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