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**DYNAMICS OF THE AUTOMOTIVE AFTERMARKET
1996**

by

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A research paper submitted in fulfillment of the requirements for 4.5 credits,
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Dynamics of the Automotive Aftermarket

April 1996

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Goal Statement

This report -- made possible by the University of Michigan Business School -- was designed to provide an industry-wide analysis of the automotive aftermarket in the U.S. This report addresses the essential questions of marketing:

- Quantifying the size and structure of the automotive aftermarket
- Determining the relevant trends and their impacts upon various sectors of the aftermarket
- Discussing the future realities of the aftermarket by defining the changing make-up of the aftermarket with respect to auto parts distribution and channel structure
- Monitor items for the aftermarket supplier are included. These will act as reference points in assessing firm capabilities and resources in this changing industry.

Methodology

The research and analysis for this report were collected from several sources:

- Interviews with industry experts, consulting firms and aftermarket executives
- Industry reports and publications
- Lexis / Nexis and ABI Inform research
- Annual shareholder reports

The authors of this report have striven to produce a practical report and compared the perceptions of various sources in compiling this report. Resource constraints and time, however, did not permit the study to be a detailed assessment of each product area of the aftermarket. Instead, the market for brake system parts were used as an indicator of the changing dynamics of the aftermarket.

Differences in industry terminology were reconciled by the use of a glossary of terms incorporated in this report.

Glossary of Terms

- **Accessories:** Comfort, convenience and safety products not essential to the performance of a vehicle such as audio, security products and floor mats, covers, etc.
- **Aftermarket:** Replacement or add-on purchases for a product after its original sale. The automotive aftermarket includes replacement parts, accessories, lubricants, fuel, appearance products and repairs.
- **Buying Group:** Consortium of independent owned retailers that buys in large quantities at discount prices. Programmed distributors serve this function.
- **CAGR:** "Cumulative Average Growth Rate;" the average growth rate computed over a period of time.
- **Consumer Factors:** Demographic characteristics of consumers including age, gender, income, etc.
- **DIFM:** "Do-It-For-Me;" refers to consumers who use professionals to perform maintenance and repair work on their vehicles.
- **DIY:** "Do-It-Yourself;" refers to consumers who perform maintenance and repair work on their vehicles.
- **Full Line:** A retail outlet handling any three of the following automotive categories: chemicals, engine parts, heavy parts, accessories, tires.
- **Gross Margin:** The difference between the cost of merchandise and the selling price.
- **Hard Parts:** Solid engine parts, including crankshafts, camshafts, pistons, engine bearings, flywheels, etc.
- **Jobber:** A middleman who typically buys from warehouse distributors and sells to service stations, garages and retail outlets.
- **Jobber/Retailer:** Automotive wholesaler who sells parts, chemicals and accessories to "walk-in" retail customers. Retail sales account for at least 50% of a jobber/retailer's total sales.
- **"Mom and Pops":** Small service outlets or repair shops.
- **Private Label:** A retailer's brand, sponsored by the seller rather than the manufacturer.
- **Programmed Distribution:** Associations of WDs, jobbers and dealers under a common promotional banner to provide buying, marketing or operational services.
- **SKU:** Stock Keeping Unit. Refers to each single item carried by a retailer. Every color, style, and item having its own vendor number has its own SKU.
- **Service Station:** Establishment which may or may not sell products over the counter, but for which gasoline accounts for more than 50% of total volume. Examples include Amoco, Shell, Exxon, Mobil.
- **Specialty Repair:** Establishment specializing in one facet of automotive repair (ie., transmission, ignition, exhaust). The outlet's specialty accounts for more than 50% of total sales receipts.

Glossary of Terms (continued)

Specialty Store: a retail store outlet, such as an auto parts store, that restricts its appeal to a specific type of merchandise. These outlets generally offer wider assortments in a narrower range than department, discount, or variety stores.

Suppliers: In the traditional aftermarket distribution chain, suppliers include manufacturers, rebuilders, national distributors, and manufacturers¹ agents.

Three-Step Distribution: Traditional aftermarket distribution process, flowing from the manufacturer to the warehouse distributor to the jobber to the service outlet.

Two-Step Distribution: Distribution process under which the warehouse distributor supplies the service outlet directly, eliminating the jobber.

Warehouse Distributor: A traditional wholesaler of automotive parts and supplies primarily to jobbers.

Definition Sources: APAA, AIAC

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I. Automotive Aftermarket Conditions: Overview

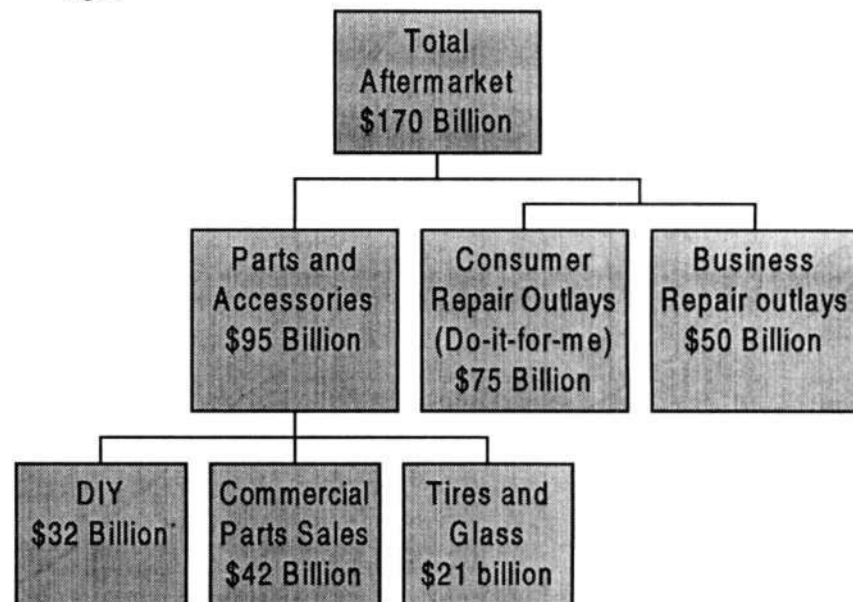
This section of the report provides an industry overview into the automotive aftermarket (the industry) in the U.S. This industry overview highlights the automotive aftermarket with respect to:

- Structure of the automotive aftermarket
- Size and growth
- Sales of replacement parts
- Channel distribution
- Retail sales by distribution channel
- The players

Automotive Aftermarket Conditions: Structure of the Automotive Aftermarket

- ◆ Total retail value of parts, accessories and services in 1994 was \$170 billion.
 - 1994 consumer repair outlays (DIFM sector) was \$75 billion.
- ◆ Parts retailers sold \$95 billion:
 - DIY sector: \$32 billion
 - Commercial parts sales: \$42 billion
 - Tires & Glass sales: \$21 billion

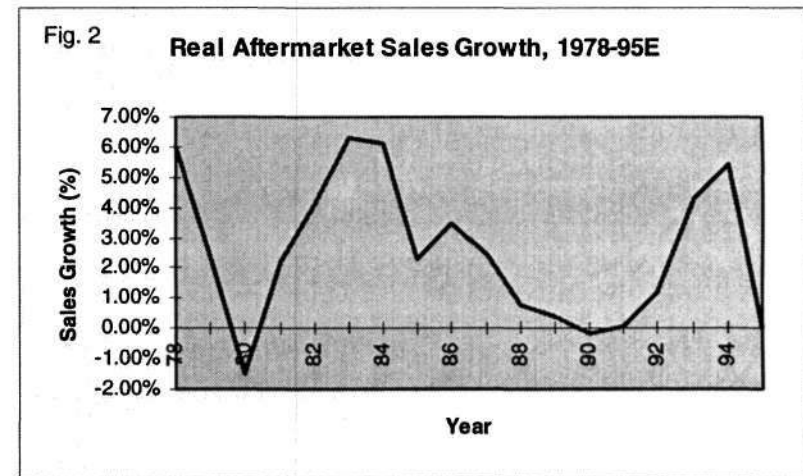
Fig. 1



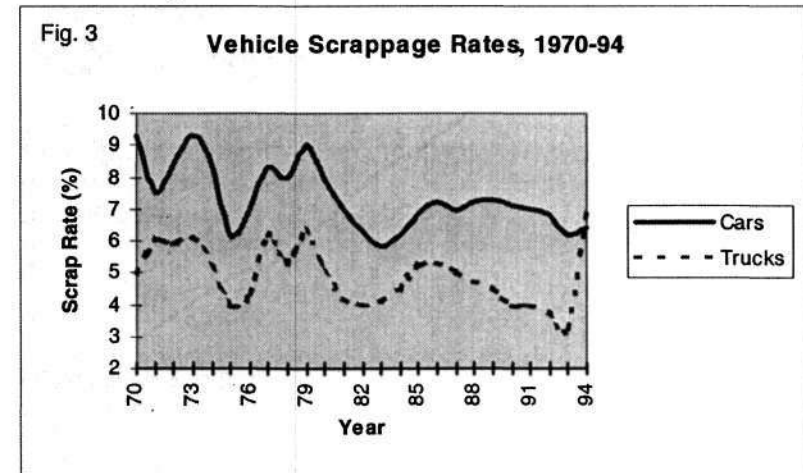
Source: Automotive Parts and Accessories Association, TCC estimates

Automotive After market Conditions: Size and Growth

- ◆ According to APAA, retail auto parts aftermarket at CAGR of 4.4% between 1984 - 1994
- ◆ 1995 Ranks as one of the worst years
 - Flat unit sales
- ◆ 1994 Ranked as one of the best years
 - 5% increase in unit sales
- ◆ Prediction for 1996: Expectation that 1996 unit growth for the industry will be in the range of 1.5% - 2.0%
- ◆ Reasons for mediocre 1995
 - mild winter
 - sharp increase in truck scrappage rates (7% - 25 year high)
 - moderately slow economy
 - ever-increasing vehicle quality



Source: Lang Market Resources and Salomon Brothers Inc.



Source: American Automobile Manufacturer's Association

Automotive Aftermarket Conditions: Sales of Replacement Parts

- ◆ Replacement parts market grew 12% (\$) in 1994
- ◆ Brake system parts growth (\$) 1993 - 1994: **3%**
- ◆ Estimated cumulative annual growth rate (\$) 1995 - 2000
 - Brake system parts: **+3.1%**
- ◆ Retail market projection in 1996:
 - Brake system parts (\$): **+8.6%**
 - 1995 was **+6.1%**

Fig. 4 Sales of Replacement Parts, 1994

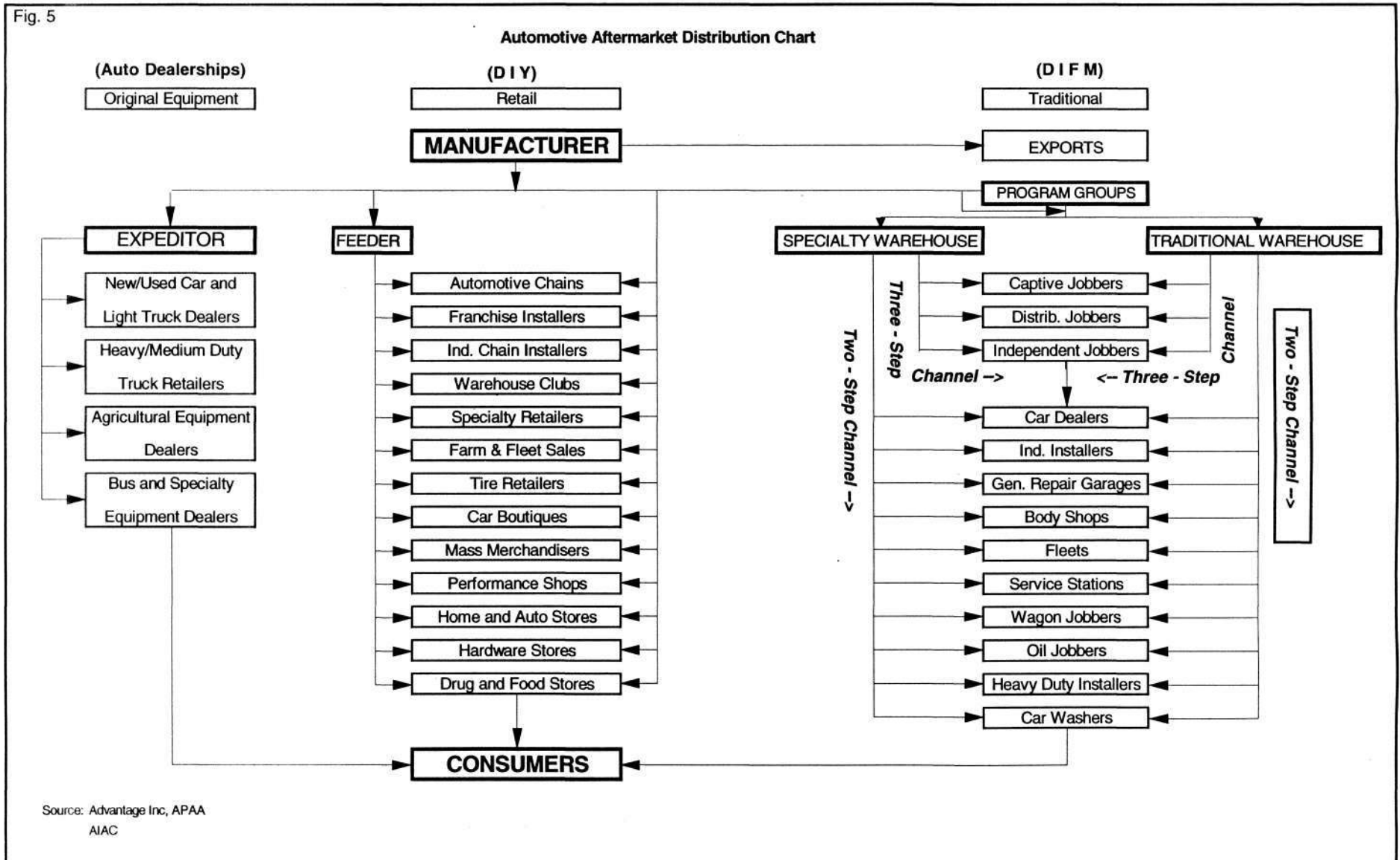
| | Total (\$ Millions) | % Change 1994/1993 |
|-------------------------------|------------------------|-----------------------|
| Brake System Parts * | \$3,283 | 3.0% |
| Drive Train Parts | 3,896 | 3.40 |
| Electrical Systems | 3,595 | 1.20 |
| Engine Gasket Sets and Seals | 1,126 | 1.80 |
| Engine Hard Parts | 1,188 | -0.50 |
| Exhaust System Parts | 1,907 | 0.60 |
| Gasoline Fuel Systems | 2,064 | 4.00 |
| General Service Parts | 8,758 | 6.20 |
| Glass | 1,946 | -22.70 |
| Heating and Cooling Parts | 2,497 | 7.70 |
| Shock Absorbers and Struts | 1,288 | 3.00 |
| Steering and Suspension Parts | 1,036 | 6.90 |
| Tires | 18,800 | 11.90 |
| Wheel Bearings and Oil Seals | 324 | -0.60 |
| Other Replacement Parts | 24,220 | 29.40 |
| Total | \$75,928 | 11.90% |

* Brake system parts: Drums, rotors, brake hardware, hydraulic parts, friction material.

Source: APAA Automotive Market Research Council

Automotive Aftermarket Conditions: Channel Distribution Chart

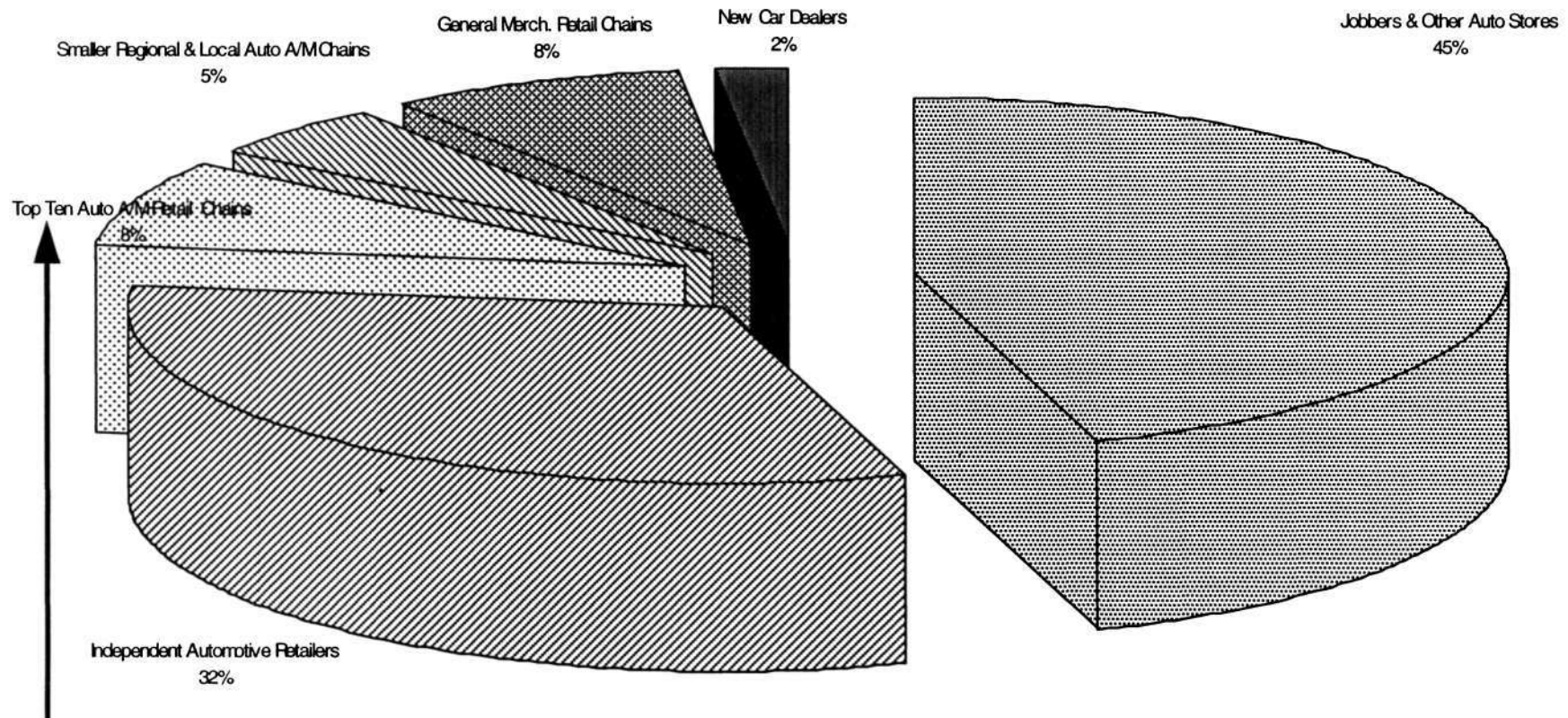
Fig. 5



Automotive Aftermarket Conditions: 1993 Retail Sales (\$) by Distribution Channel

Fig. 6

U.S. Automotive Aftermarket Retail Sales (\$) by type of Distribution Channel, 1993



NOTE: TOP TEN AUTO PARTS RETAILERS MARKET SHARE IN 1993 = 8%

Source: Schroeder Werthiem & Co. Estimates and APAA

Automotive Aftermarket Conditions: The Players

- Top Ten Auto Parts Retailers
- Top Ten Wholesale Auto Parts Jobber Chains
- Other Leading Auto Parts Retail and Jobber Chains

Fig. 7

Top Ten Auto Parts retailers, 1995

| Rank | Chain | 1995 Stores | 1995 Sales (000) | 1991 Stores | 1991 Rank |
|------|---------------------|----------------|---------------------|----------------|--------------|
| 1 | Auto Zone | 1,059 | \$1,508,029 | 570 | 2 |
| 2 | Western Auto | 629 | \$1,800,000 | 517 | 4 |
| 3 | Northern Automotive | 550 | \$690,000 | 801 | 1 |
| 4 | Advance Auto Parts | 510 | \$593,000 | 211 | 8 |
| 5 | Chief Auto Parts | 505 | \$400,000 | 522 | 3 |
| 6 | Pep Boys | 435 | \$1,406,985 | 313 | 6 |
| 7 | Trak Auto | 282 | \$348,599 | 335 | 5 |
| 8 | Hahn Automotive | 239 | \$160,000 | 72 | 17 |
| 9 | Discount Auto Parts | 238 | \$207,569 | 150 | 10 |
| 10 | Nationwide | 210 | \$175,000 | 300 | 7 |

Source: Automotive Marketing

Top Ten Jobber Chains, 1995

| Rank | Chain | 1995 Stores | 1995 Sales (000) | % 1995 Wholesale Sales |
|------|----------------------------------|----------------|---------------------|------------------------------|
| 1 | Genuine Parts (NAPA) | 738 | \$735,000 | 570 |
| 2 | General Parts (CARQUEST) | 540 | \$462,000 | 517 |
| 3 | Fisher Auto Parts (Federated) | 202 | \$150,000 | 801 |
| 4 | APS (Big A) | 200 | \$122,000 | 211 |
| 5 | O'Reilly Auto (Auto Value) | 170 | \$167,000 | 522 |
| 6 | Parts Inc. (Parts Plus) | 129 | \$122,000 | 313 |
| 7 | Mid-State Auto (Auto value) | 123 | \$119,000 | 335 |
| 8 | Crow-Burlingame Co. (Bumper) | 106 | \$53,000 | 72 |
| 9 | STAFCO (CARQUEST) | 105 | \$80,000 | 150 |
| 10 | Middle Atlantic Warehouse (IAPA) | 102 | \$85,500 | 300 |

Source: Automotive Marketing

Other Leading Auto Parts Retail and Jobber Chains

| | |
|-----------------------------|-------------------------------|
| Acklands (Rose Auto Stores) | Murray's Discount Auto |
| ADAP (Auto Palace) | One Stop/Walt's Auto Parts |
| Big Wheel / Rossi Auto | PACCAR (Grand Auto/Al's) |
| Brooks Auto Parts / Supply | Parts Depot/Steego Automotive |
| Carport Auto Parts | Reddi Brake Supply |
| Champion Auto Stores Inc. | Republic Automotive |
| Forest City Auto Parts | Strauss Discount Auto |
| Hi-Gear Tire & Auto Supply | Straus-Frank |
| Hi/Lo Auto Supply | Super Shops |
| KOI Warehouse | Wheels Discount Auto Stores |

Source: Automotive Marketing

II. Trends

Through interviews and research -- eleven key trends relative to change agents in the aftermarket were determined:

- Sluggish income growth
- Increase in miles driven
- Decreased affordability of new cars
- Increasing popularity of leasing
- Extended warranty and re-leasing
- Rising initial vehicle quality and improved design
- Growing complexity of vehicle mechanical and electrical systems
- Increasing and aging of the car and truck population
- Auto parts proliferation
- Aging of the population
- Stagnation in the growth of the largest segment of the DIYer population

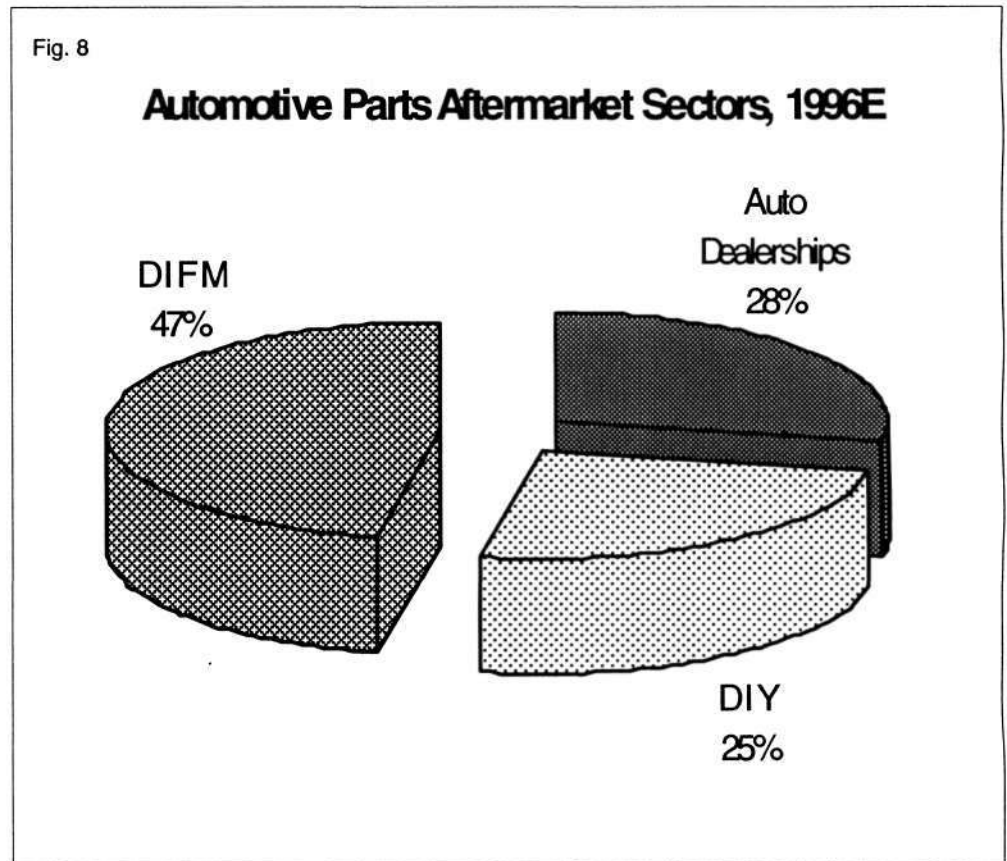
It is important to understand that none of these changes exist in a vacuum. In fact, they intermix with one another, some positively some negatively, to ultimately shape the market.

II. Trends (continued)

In this section, trends are identified and are discussed relative to the sector helped and general impacts in the aftermarket. These sectors (or segments) compete for the end-consumers cash outlays in both parts and service, and broadly defined as:

- Do-It-Yourself sector
- Do-It-For-Me sector
- Auto dealerships sector

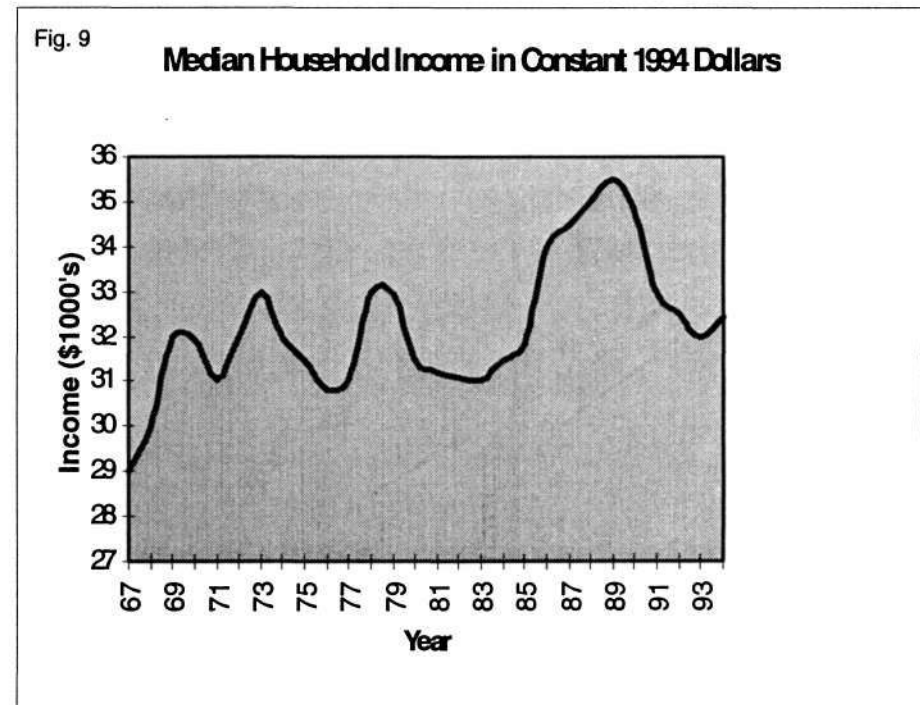
Author's Note: The auto dealerships sector for purpose of this trend analysis was considered to consist of parts and service (DIFM) used at the auto dealerships.



Source: Automotive Parts and Accessories Association; Author's estimates

1) **TREND: Sluggish income growth**

- SECTOR HELPED
 - Do-It-Yourself
 - Auto dealerships
- IMPACTS
 - AutoZone, Discount Auto Parts, Parts USA (Pep Boys); larger chains with efficient distribution and inventory management systems will capture more market share
 - Auto dealerships are helped through the increase in leasing and re-leasing



Source: TCC

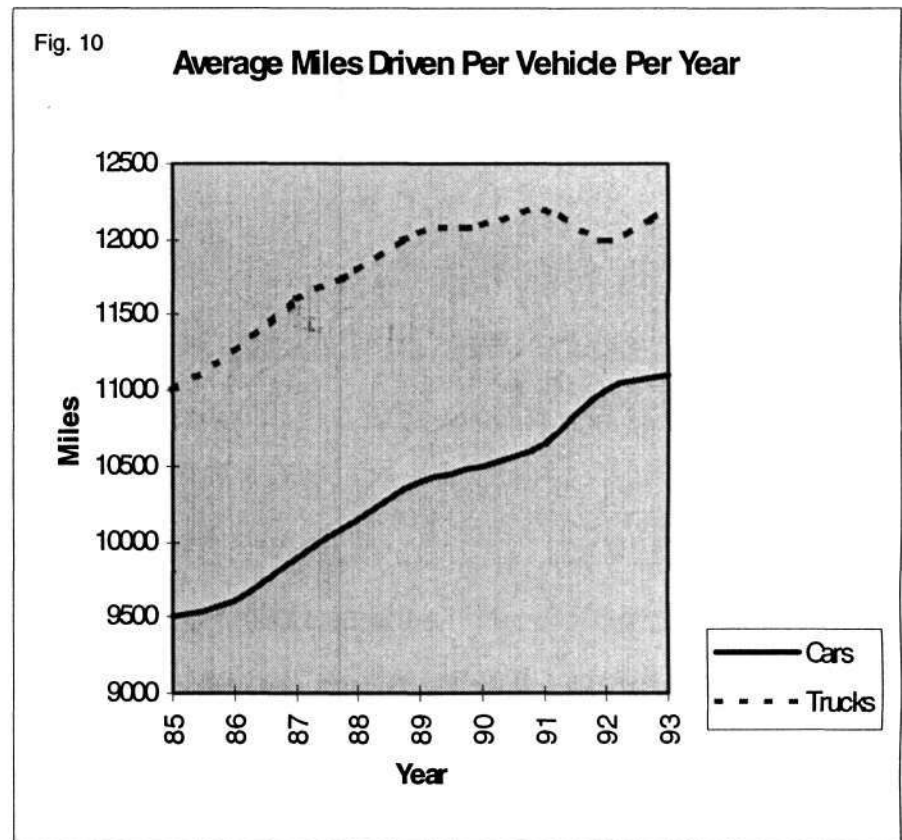
2) **TREND: Increase in miles driven**

◆ SECTOR HELPED

- Do-It-For-Me
- Do-It-For-Yourself
- Auto dealerships

◆ IMPACTS

- Incidence of repair rates will continue to increase



Source: U.S. Federal Highway Administration, TCC

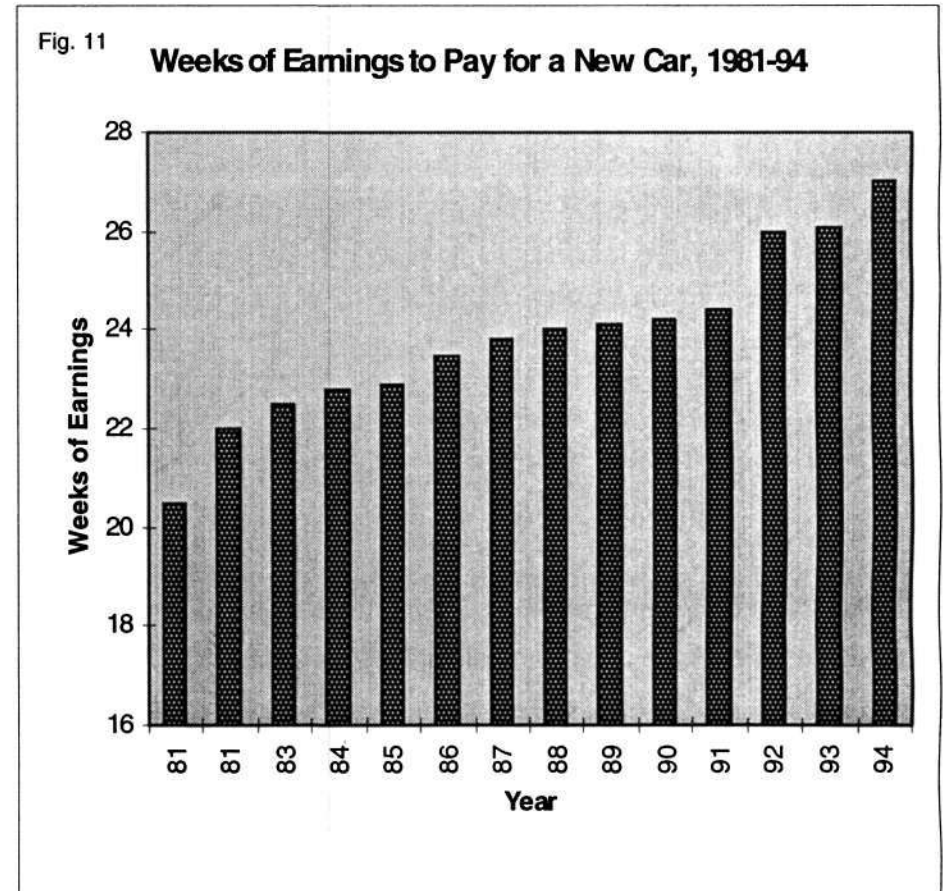
3) TREND: Decreased affordability of new cars - “Sticker Shock”

◆ SECTOR HELPED

- Neutral

◆ IMPACTS

- No sector-specific impacts
- DIY and DIFM outlays will be stretched over a longer time
- Auto dealerships experience an increase in leasing popularity



Source: American Automobile Manufacturers Association and Salomon Brothers

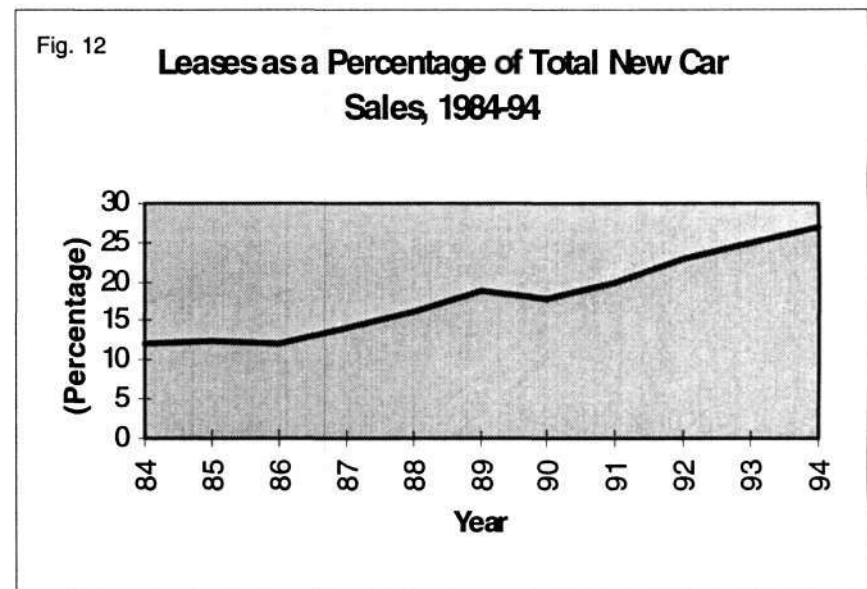
4) **TREND: Increasing popularity of leasing**

◆ SECTOR HELPED

- Auto dealerships

◆ IMPACTS

- Auto dealerships are helped while non-dealership DIFM outfits' share of service repairs is threatened if dealerships can improve service and maintain customer loyalty
- Leasing curbs elective maintenance and more preventative maintenance is performed



Source: TCC

4) TREND: Increasing popularity of leasing (continued)

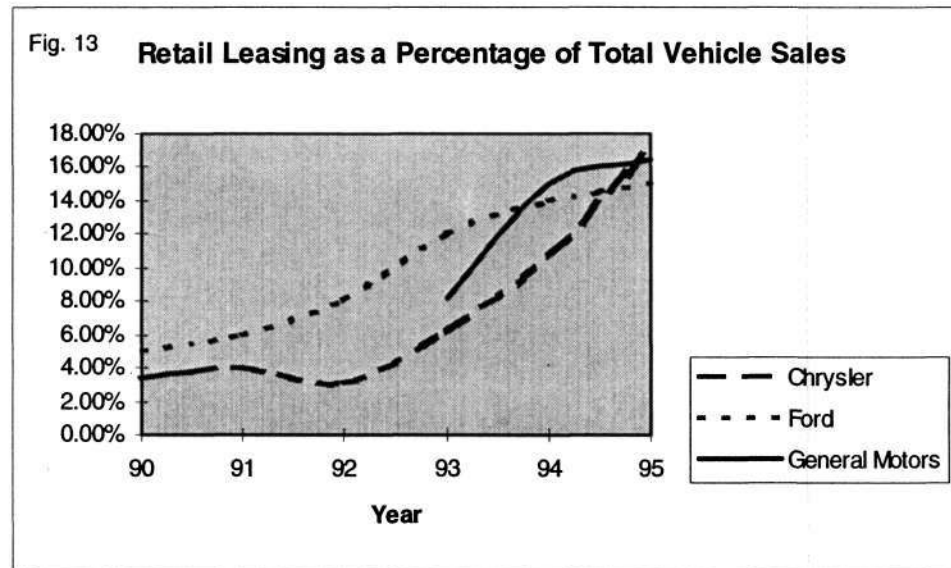


Fig. 14 RETAIL LEASING AS A PERCENTAGE OF TOTAL VEHICLE SALES

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 (1st half) |
|-----------------------|-------|-------|-------|-------|--------|--------|--------------------|
| Chrysler | N/A | 3.40% | 4.00% | 3.10% | 6.20% | 10.70% | 17.20% |
| Ford Motor | 3.00% | 5.00% | 6.00% | 8.00% | 12.00% | 14.00% | 15.00% |
| General Motors | N/A | N/A | N/A | N/A | 8.20% | 15.00% | 16.50% |

N/A - Not applicable
Source: TCC, Company reports

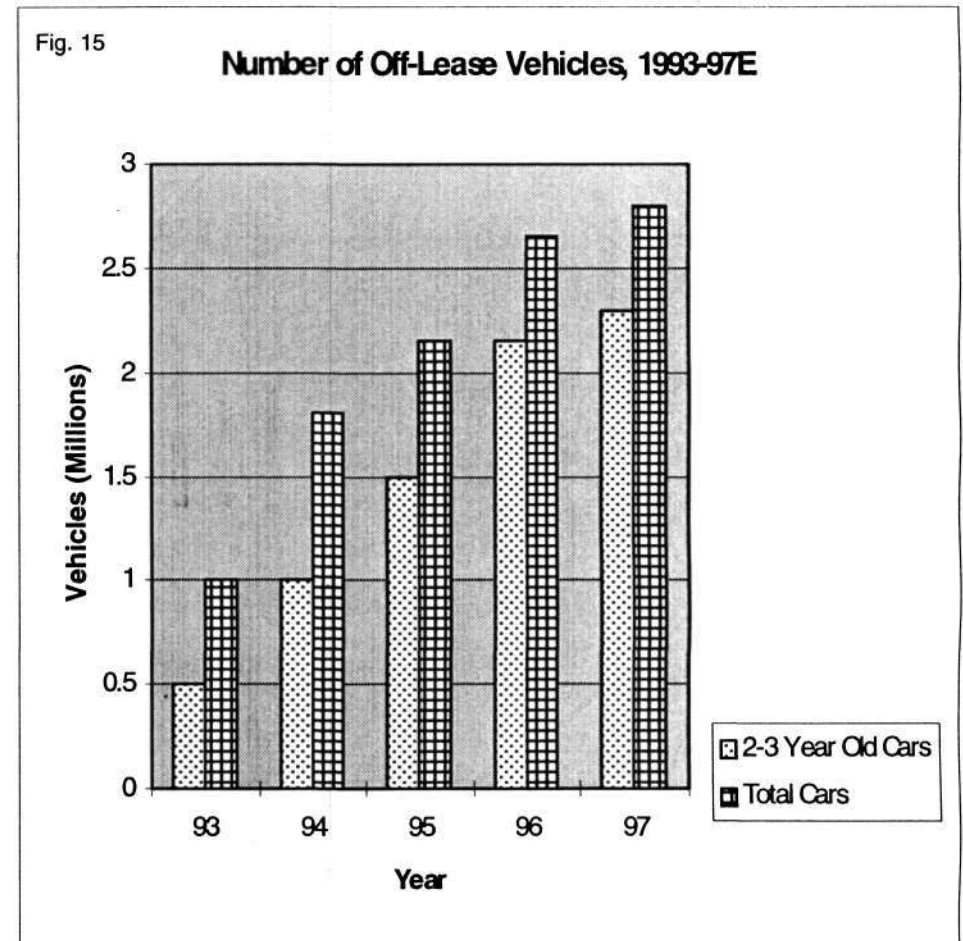
5) TREND: Extended warranty and re-leasing

◆ SECTOR HELPED

- Auto dealerships

IMPACTS

- Auto dealerships maintain control over maintenance for extended timeframe
- Extended repair volume enhances profitability of dealerships which is non-existent in new car sales and therefore imperative
- Extended warranty and re-leasing will curb elective maintenance and increase preventative maintenance
- the only barrier to entry to further penetration of dealerships into the DIFM sector is bay capacity and customer service

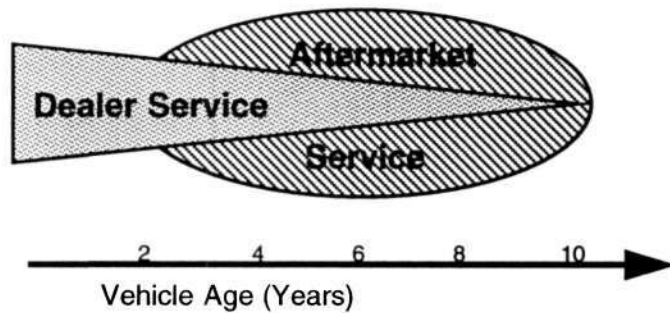


Source: Salomon Brothers

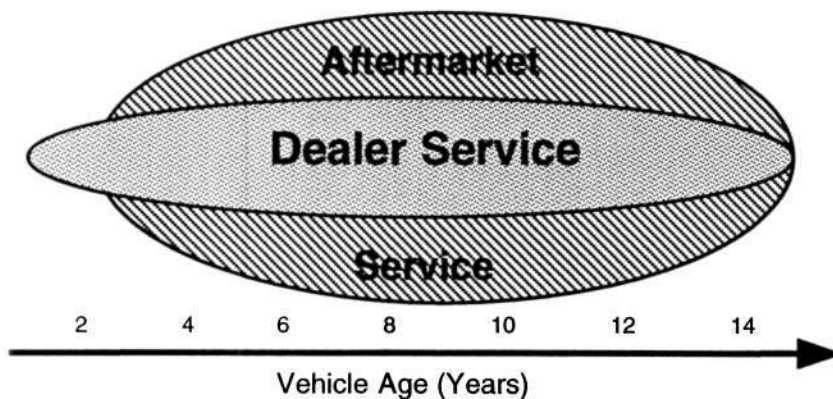
5) TREND: Extended warranty and re-leasing (continued) -- Auto dealerships must extend control of vehicle service repair to remain profitable

Fig. 16

◆ Traditional Vehicle Service History



◆ The Future Service



Source: Automotive Consulting Group

Dealer Sales and Profits Breakdown by Dept.

Fig. 17

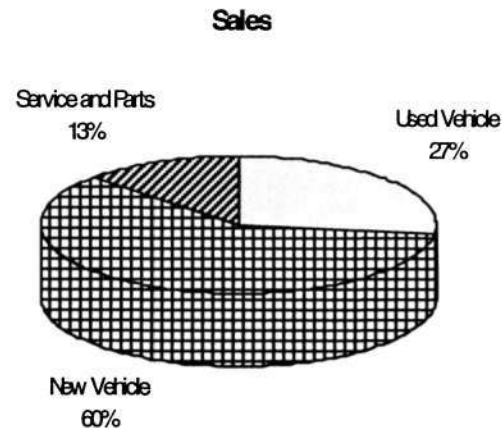
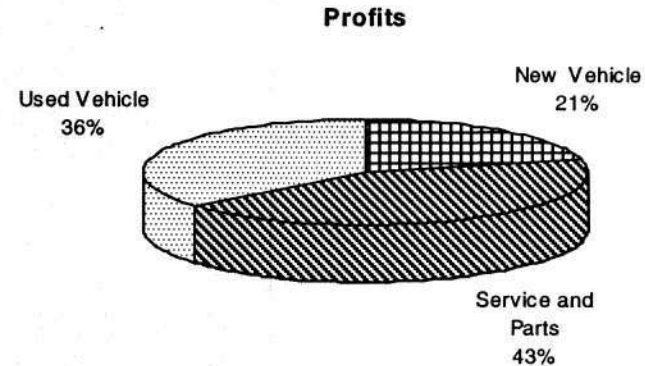
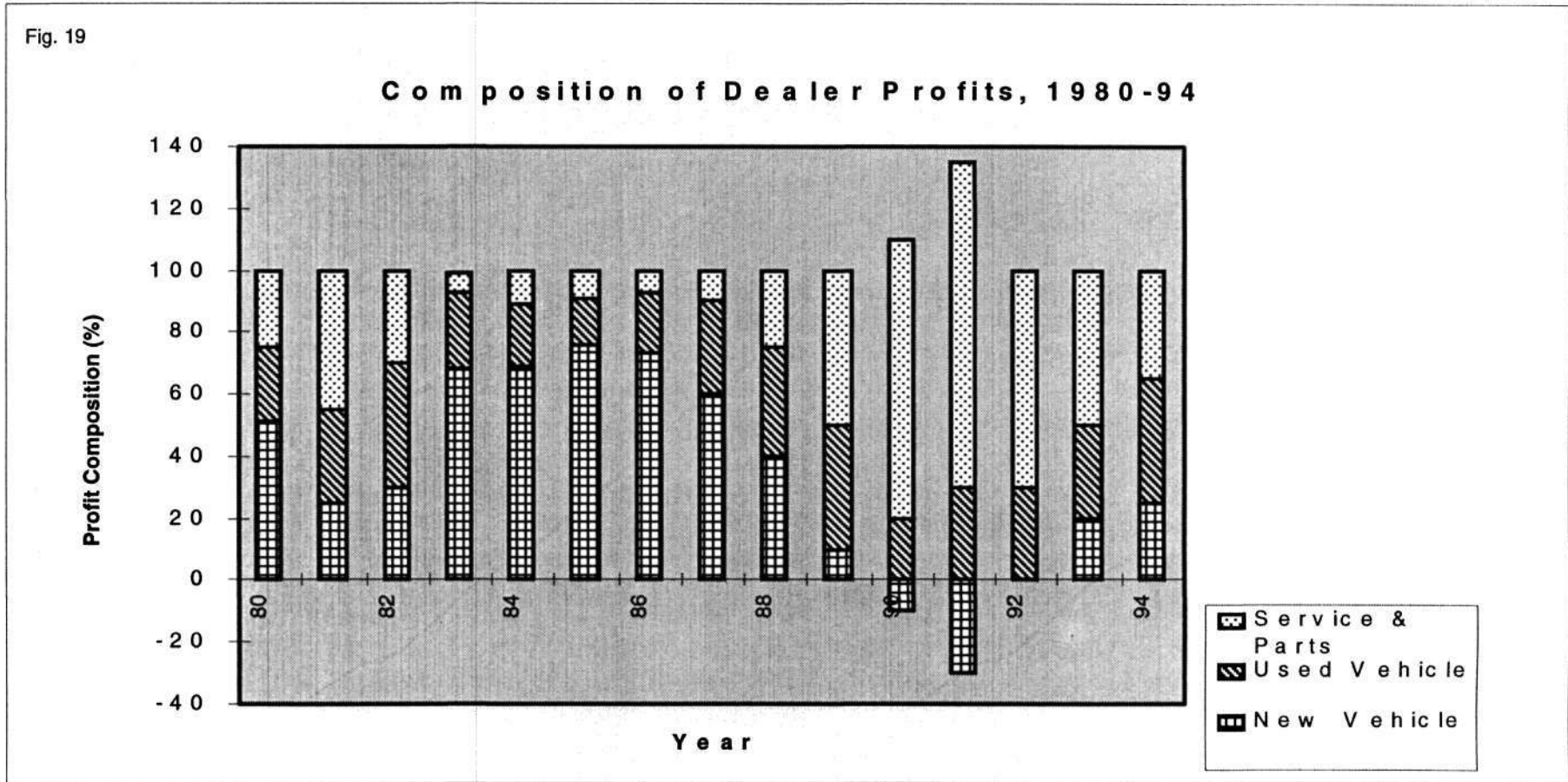


Fig. 18



Source: National Automobile Dealers Association and Salomon Brothers Inc.

5) TREND: Extended warranty and re-leasing (continued) -- Auto dealerships must extend control of vehicle service repair to remain profitable



Source: National Automobile Dealers Association and Salomon Brothers Inc.

6) TREND: Rising initial vehicle quality and improved design resulting in less routine maintenance (Increase in “Robustness”)

◆ SECTOR HELPED

- Neutral
- The financially pinched consumer is helped through this partial offset to climbing new car prices

◆ IMPACTS

- In general, detracts from aftermarket growth
- The auto manufacturers will be able to improve profitability through reduced warranty repair costs

7) TREND: Growing complexity of vehicle mechanical and electrical systems (eg. ABS)

- ◆ SECTOR HELPED
Do-It-For-Me

- ◆ IMPACTS

- Pep Boys (supercenters), Western Auto (Sears), auto dealerships, specialty repair shops (Midas, Tuffy, Speedy) are helped
- Costs of diagnostic equipment and training (knowledge acquisition) will continue to be a burden for a smaller mom and pops, independent garages and DIYer; resulting in a shrinking market presence

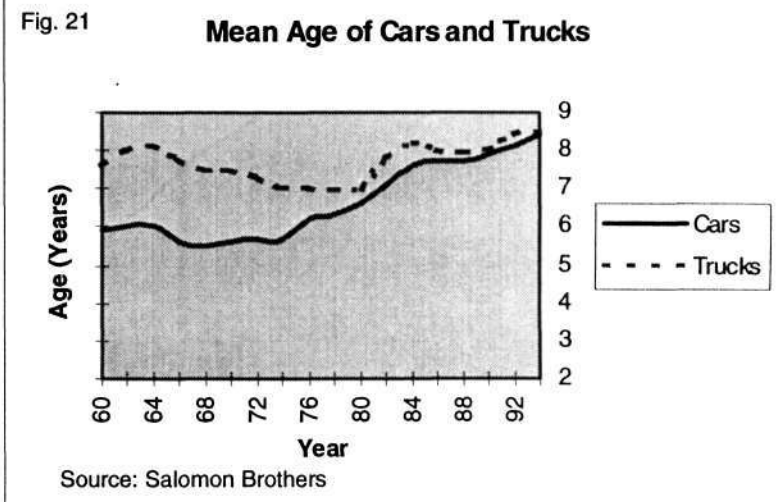
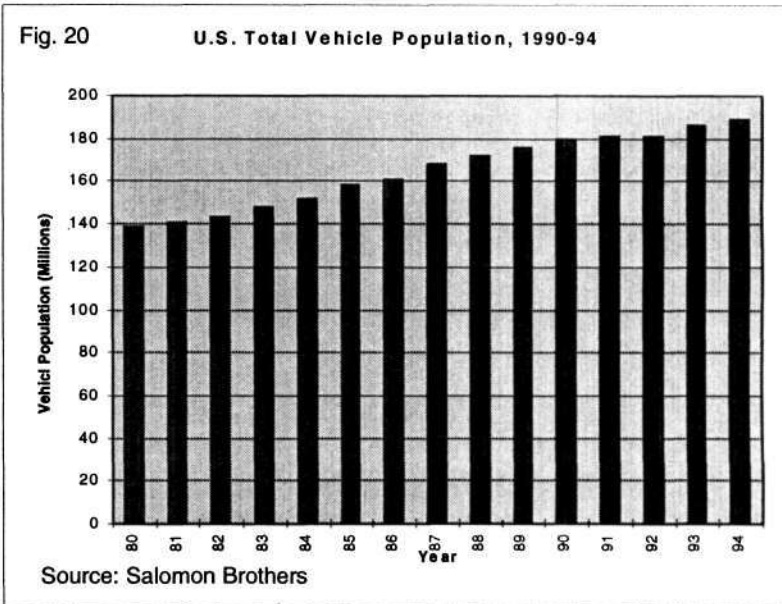
8) TREND: Increasing and aging of the car and truck population

◆ SECTOR HELPED

- Neutral

◆ IMPACTS

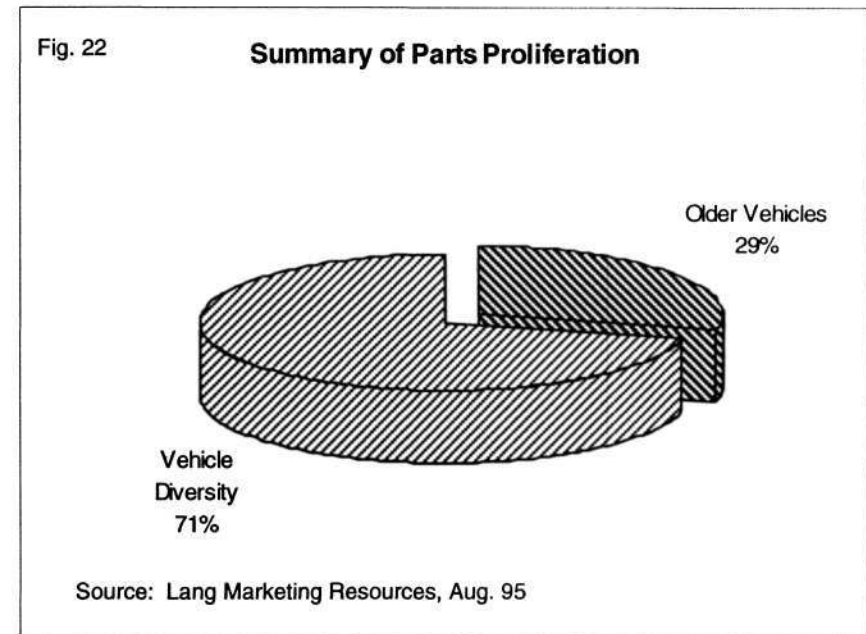
- No sector-specific impact
- DIY and DIFM expenditures will be stretched over a longer time



9) TREND: Auto parts proliferation; as a result of vehicle diversity and an increasingly older vehicle population

- ◆ SECTOR HELPED
 - Neutral

- ◆ IMPACTS
 - Larger DIY retail chains with good distribution management systems -- (eg. AutoZone) -- will benefit
 - Smaller retail mom and pops will not be able to manage the logistics nor the associated inventory costs; lack purchasing leverage and inventory management savvy coupled with thin capitalization will result in the further demise of mom and pops



According to Lang marketing, the number of parts in the aftermarket rose by 21% between 1985 and 1990, and an additional 30% from 1990 to 1995.

10) TREND: Aging of the population

- SECTOR HELPED
 - Do-It-For-Me
 - As the U.S. population ages, and their financial security increases, the consumer will tend to prefer having work on their cars done for them.
- IMPACTS
 - Pep Boys (supercenters), Western Auto (Sears), auto dealerships and specialty repair shops (Midas, Tuffy, Speedy) will be helped

11) TREND: Stagnation in the growth of the largest segment of the DIYer population

- ◆ SECTOR HELPED
 - Do-It-For-Me

- ◆ IMPACTS
 - Pep Boys (supercenters), Western Auto (Sears), auto dealerships and specialty repair shops (Midas, Tuffy, Speedy) continue to grow and capture more volume.

Author's Note: The DIYer is male and 18 to 45 years old

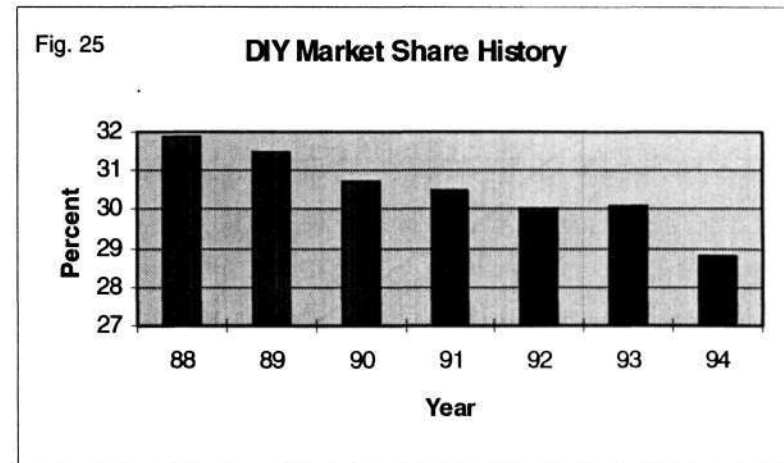
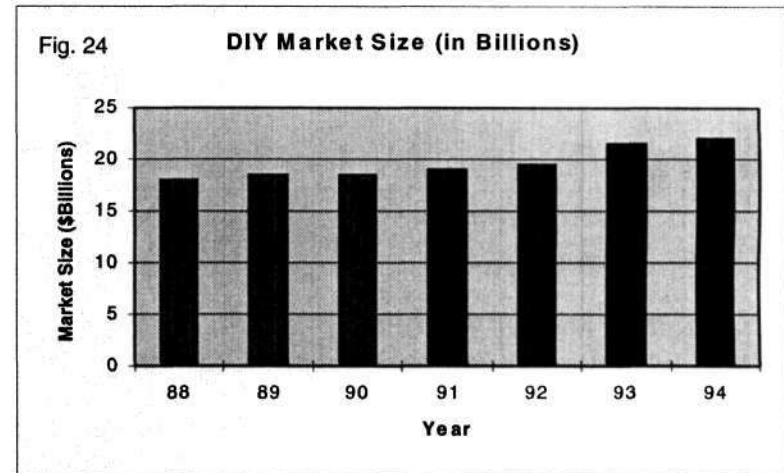
DIYer Demographics

| Characteristic Fig. 23 | Percentage of Sample |
|---------------------------------|-------------------------|
| Gender: | |
| Male | 88% |
| Female | 12 |
| Age: | |
| Under 18 | 2% |
| 18 - 25 | 23 |
| 26 - 35 | 33 |
| 36 - 45 | 23 |
| 46 - 55 | 12 |
| 56 and over | 7 |
| Motivation for DIY Work: | |
| Save money | 69% |
| Earn money | 6 |
| Enjoy DIY activities | 20 |
| Other | 5 |
| Where DIYers shop first: | |
| Auto parts stores | 81% |
| Discounters | 12 |
| Hardware/home center | 1 |
| Department Stores | 2 |
| Warehouse Clubs | 1 |
| Other | 2 |

Source: Aftermarket Business

11) TREND: Stagnation in the growth of the largest segment of the DIYer population (continued)

- ◆ Market Share History Decreasing
 - Share of total aftermarket slipping
 - Marginal growth over six years

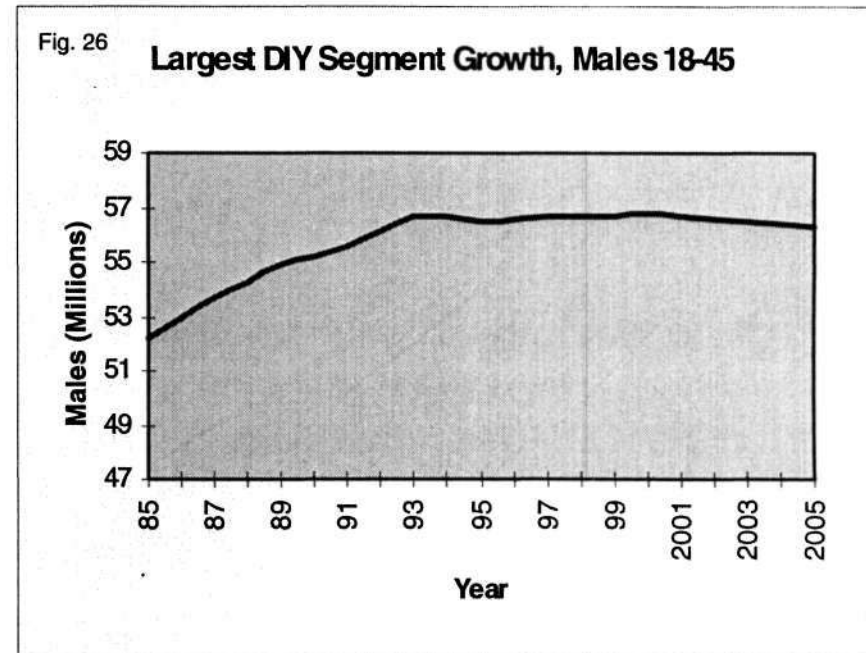


Source: Lang Marketing Resources and Salomon Brothers Inc.

11) TREND: Stagnation in the growth of the largest segment of the DIYer population (continued)

◆ Future of DIYer

- According to U.S. Census Bureau the number of males between 18 and 45 years old will stay flat at approximately 56 million.



Source: Bureau of the Census; TCC research

Changing Industry Make-up

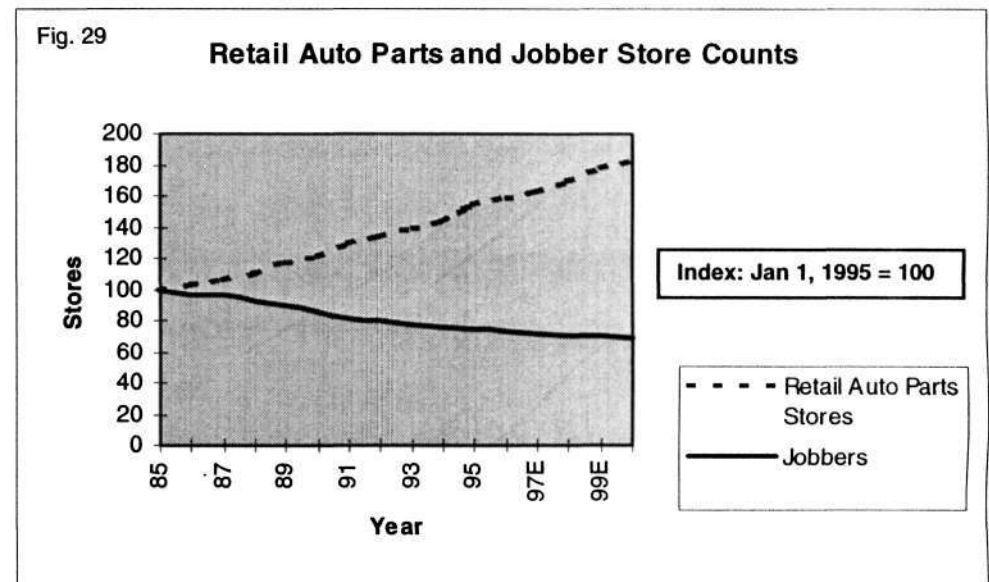
As we have stated earlier, the aftermarket is in a state of flux. This section is provided to highlight the changing dynamics of the automotive aftermarket. Opportunities and threats exist with the changing make-up of the industry. Therefore, it becomes imperative for aftermarket firms to assess their own, and their competitors' strengths, weaknesses, resources and capabilities in relation to these future realities.

Areas of concentration are in our assessment of the changing industry make-up were:

- The blurring of lines between retailers and jobbers
- DIY versus installer market
- Future role of retailers:
 - How will retailers compete in the professional installer sector?
 - What will hinder retailers as they enter the professional installer sector?
- Future role of traditional players
 - How will traditional players compete?
- Growth of “Two-Steppers”
- Growth of specialized distribution
- Private labeling / branding

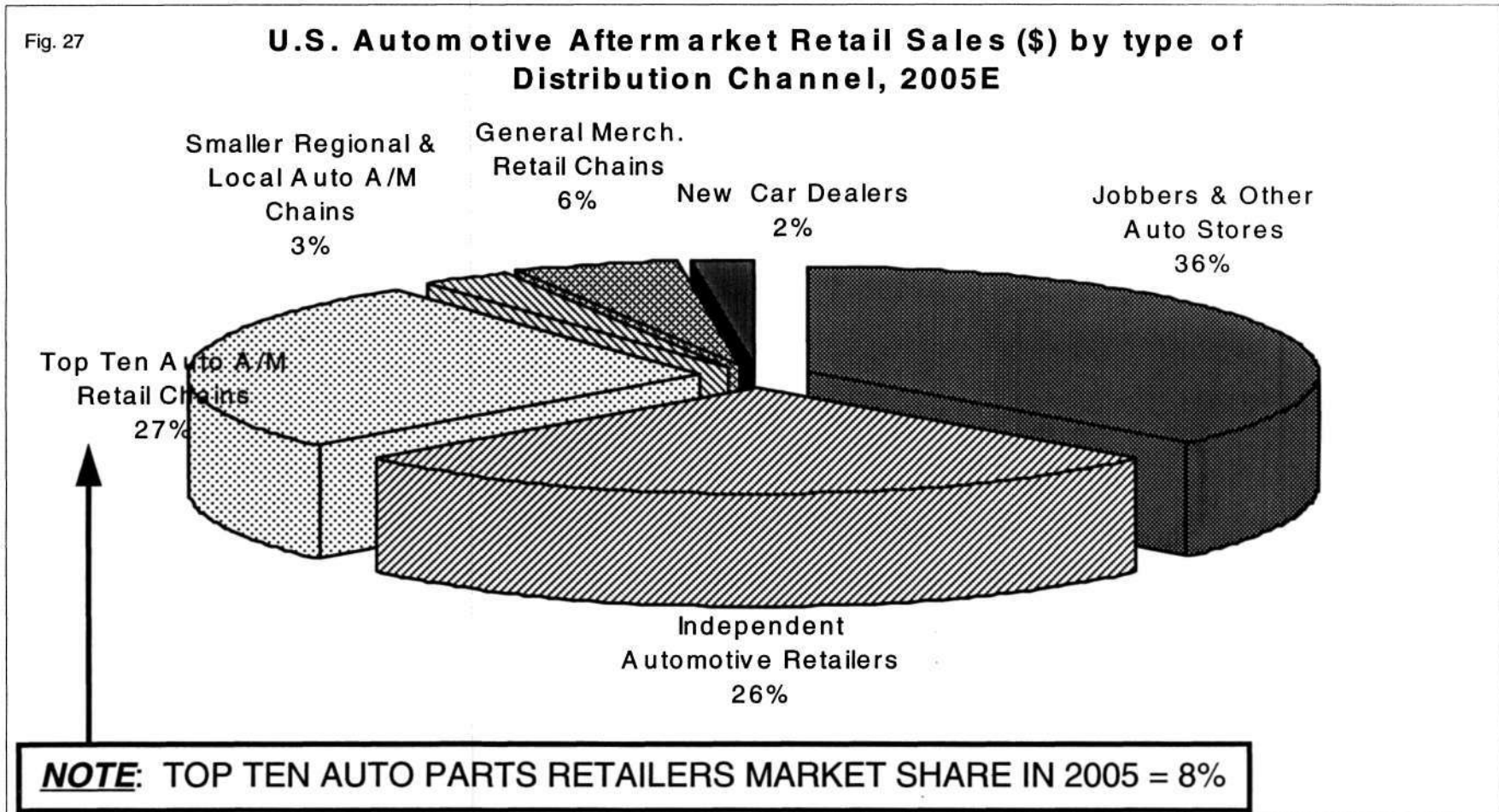
Changing Industry Make-up: The blurring of the lines between retailers and jobbers; WD control of the distribution channel (jobbers)

- ◆ Independent jobbers not associated with a programmed buying group are losing the battle on pricing and service
- ◆ AutoZone, Parts USA, WD-retailers and WD-jobbers will continue to increase market share as independents continue to die



Source: Lang Marketing Resources, Salomon Brothers, TCC

Changing Industry Make-up: Estimate of the year 2005 Retail Sales (\$) by Distribution Channel (1993 comparison pg. 6)



Source: Schroeder Wertheim & Co. Estimates and APAA

Changing Industry Make-up: Where is Growth?

- ◆ Professional Installer (DIFM) sector
 - 5-Year CAGR = 4.3%
- ◆ Do-it-Yourself sector
 - 5-Year CAGR = 1.8%
- ◆ Where is Growth?
 - Wholesale segment serving professional installer (DIFM)
 - Two-steppers serving professional installer
 - Two-steppers share of the traditional business has ***doubled*** over the last 13 years, this is driven by the growth of the professional installer in the DIFM sector.

Changing Industry Make-up: Future Role of Retailers

- Retailers currently own one-third of DIY sector
 - Top ten retailers own 8% of the DIY sector but are predicted to own 27% in 2005
- Retailers will set sights on professional installer segment
- Why?
 - Continued shrinking margins and slower growth in DIY sector
 - Professional installer segment is larger and growing faster than the DIY sector

Changing Industry Make-up: Future Role of Retailers

How will retailers compete in the professional installer segment?

- ◆ **Price:** retailers lower warehousing / distribution costs will allow them to compete at lower prices
 - retailers possess the competency in inventory management required
- ◆ **Service:** will need to climb experience curve in terms of servicing the professional customer
 - AutoZone begins with the purchase of ALLDATA
- ◆ **Availability:** Retailers will initially offer a smaller range of products; because of their advanced information technology; the products they offer will most likely be on the shelf

Changing Industry Make-up: Future Role of Retailers

What will hinder retailers as they enter the professional installer segment?

◆ Quality Perceptions

- Installers are price sensitive only when they believe they are not sacrificing **quality**
- Retailers will have to convince installers that their products are of high quality

◆ Warranty Programs

- Retailers will need to offer generous warranty programs to overcome quality perceptions

◆ Slow Start

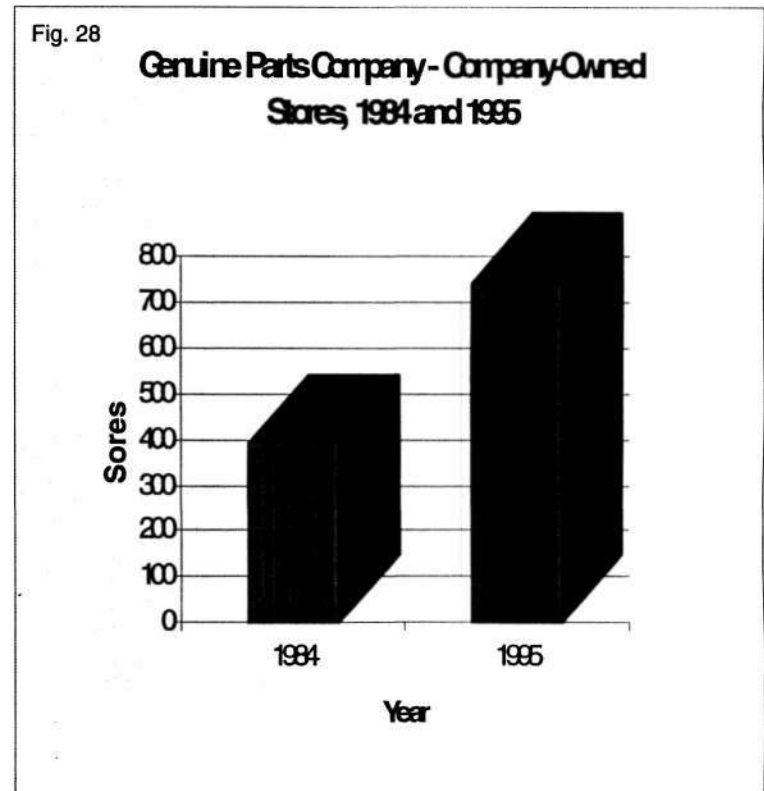
- Break-even estimates are probably underestimated largely because initial business will likely be weighted towards low-margin products

Source: Chrysler Corporation: Mopar Division, Salomon Brothers / Lang Marketing, Jim John: Northwood University

Changing Industry Make-up: Future of Traditional Three-Step Players

How will traditional players Compete?

- ◆ Relationship Building
 - Leverage their knowledge of professional installer needs and their ability to meet those needs
 - (eg. NAPA's AutoCare program)
- ◆ Integrate
 - Further integration/consolidation of the warehouse jobber
 - Why?
 - Need to get by on leaner margins
 - Need to obtain efficient information control
 - On the retail side they must improve the physical appearance and merchandising of previously independent jobbers (eg. Genuine Auto Parts)
- ◆ Emphasis of traditional players has been and will continue to be on:
 - Availability
 - Service
 - Price



Source: Company data and Salomon Brothers Inc.

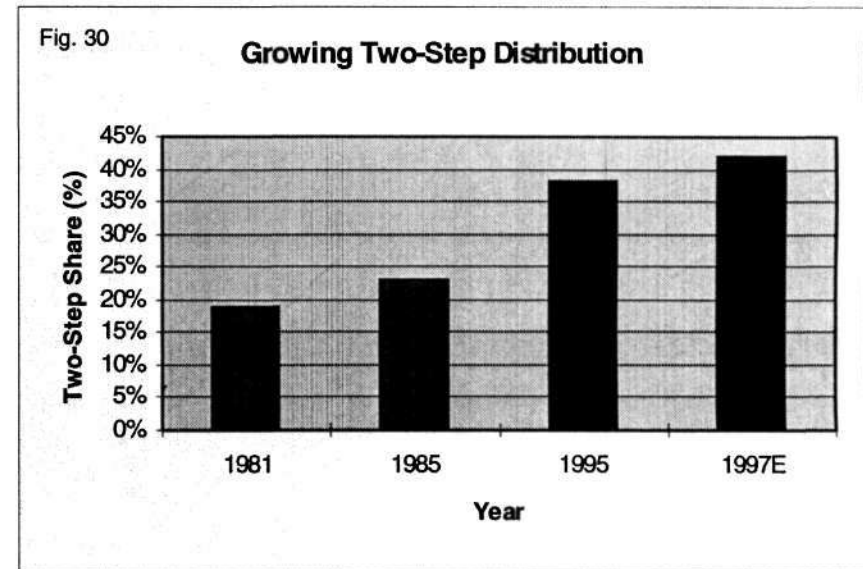
Changing Industry Make-Up: Growth of Two-Steppers

◆ Market Share

- Doubled in the last 13 years
- Owns one-third of (former) traditional three-step distribution business

◆ Why the Growth?

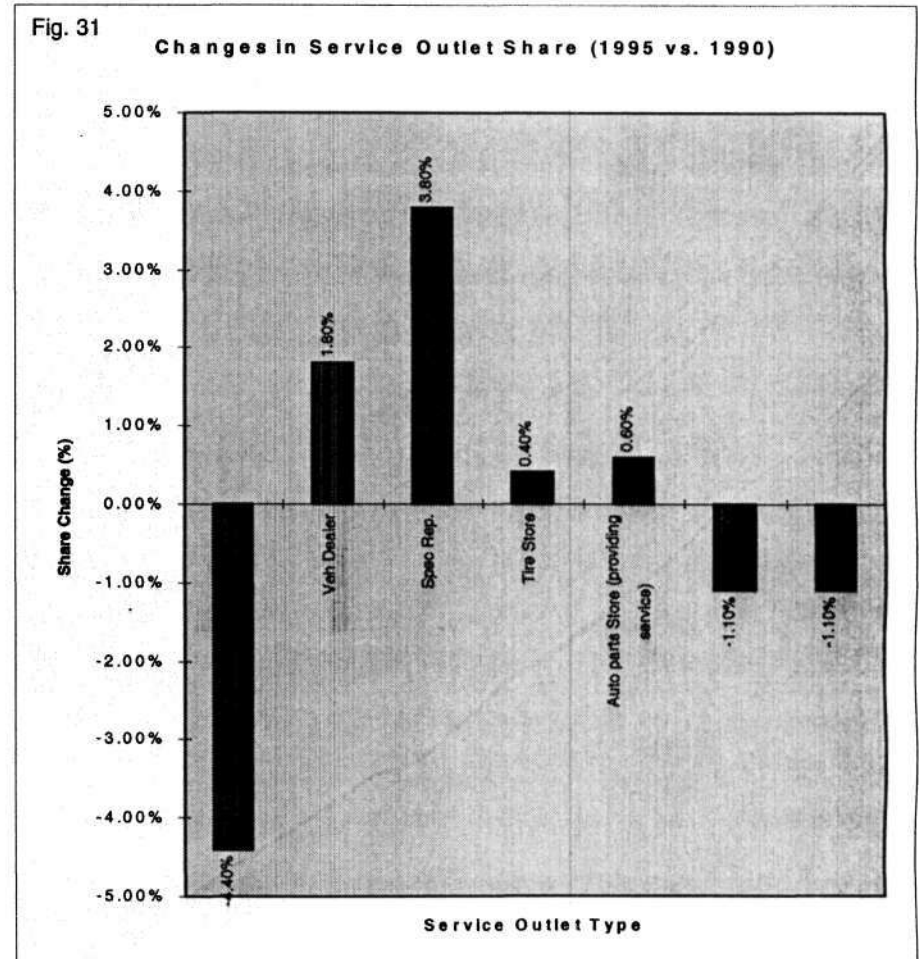
- High gross margin and selling direct to large service installers
- Bypassing jobbers allows for lower product acquisition costs
- Low overhead
- Focus Concept / No retail distraction
 - Focus exclusively on serving the needs of the professional installer



Source: Lang Marketing Resources, Inc.

Changing Industry Make-up: Growth of Specialized Distribution

- ◆ Focused on particular products or segments of the DIFM sector
- ◆ Weak in DIY sector
- ◆ Driven by Specialized Repair
 - Specialized repair outlets are not interested in a full range of products and are more likely to buy from a distribution specialist (eg. undercar specialist)
 - Specialized service repair shops comprise one of the fastest growing segments of the DIFM sector and account for a substantial share of work involving certain types of products (eg. brakes)
- ◆ Intensifies price competition at wholesale level by dropping a step out of traditional three-step distribution channel particularly in metropolitan areas.



Source: Lang Marketing Resources, Inc.

Changing Industry Make-up: Private Labeling / Branding

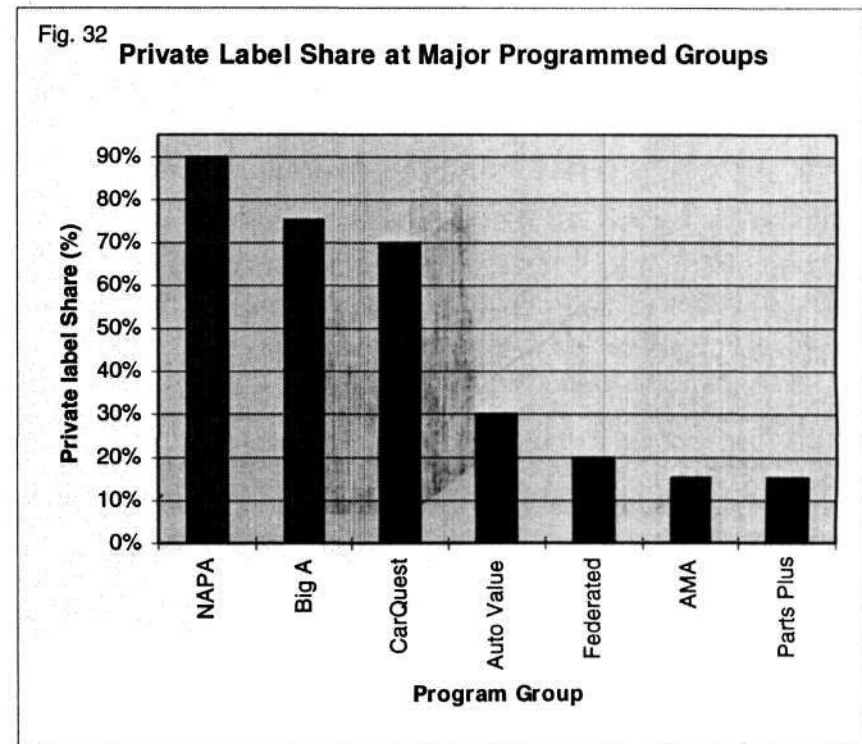
- ◆ Steepest challenge will be perceived quality
 - Private labeling retailers will face many of the same challenges as programmed groups did with the introduction of private labels

it requires,

- ◆ Convincing installers that the product is:
 - Made by reputable manufacturers
 - High quality
 - Supported by reputable warranty programs

but,

- ◆ Private labels will become the cornerstone of every retailers' corporate image and marketing strategy in the next decade



Source: Salomon Brothers Inc.

Aftermarket Brake System Parts

The brake system parts segment of the aftermarket represents an important product area. Not only has this product segment been in the midst of the changing industry make-up, but in many respects has been an integral part of the change, with the growth of specialized brake repair.

In this section, the authors examine the brake system parts segment of the aftermarket with respect to:

- Size and growth
- Continued price pressures
- Brand selection by professional installers
- What do retailers stock?
- The future

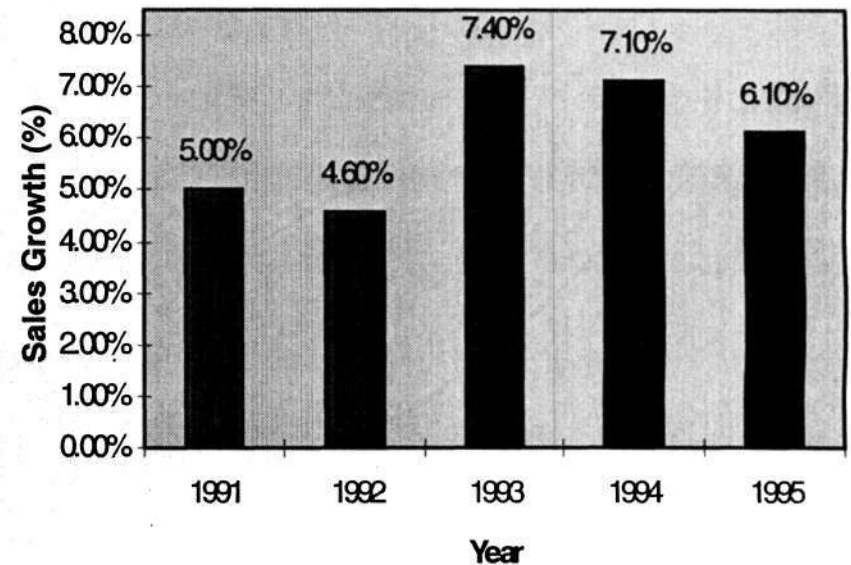
Aftermarket Brake System Parts: Size and Growth of Market

- ◆ Brake System Parts Growth
 - Brake system parts growth 1993-1994: **+3%**
 - Estimated CAGR 1995 - 2000: **+3.1%**
- ◆ Retail market projection in 1996:
 - Brake system parts: **+8.6%**
 - 1995 was **+6.1%**

Brake System Parts

Fig. 33

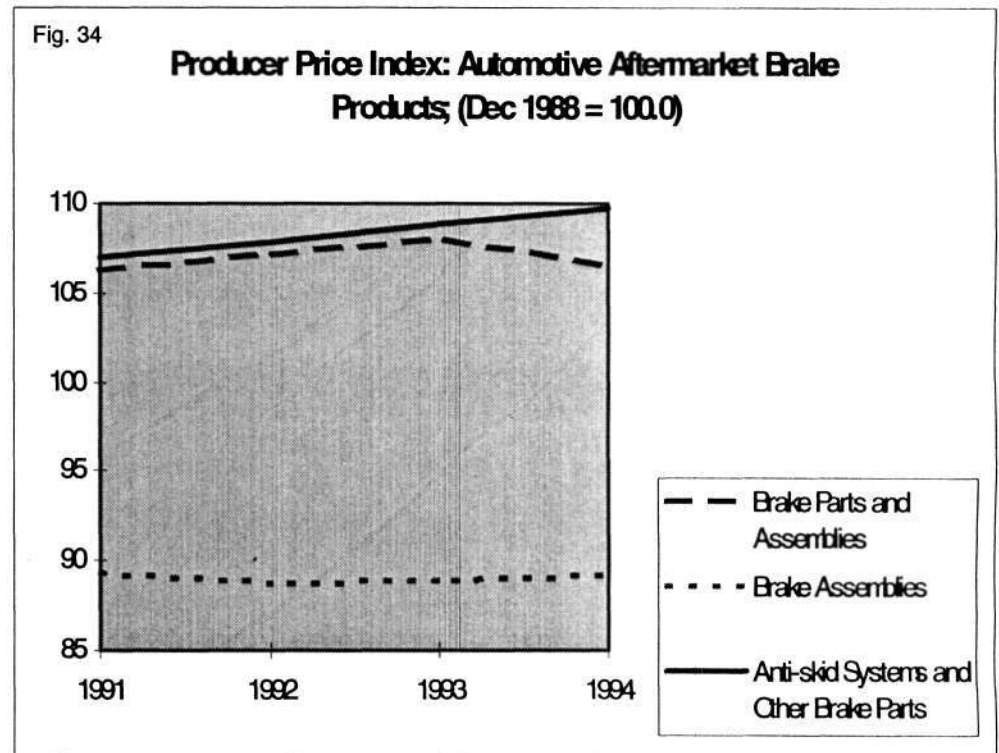
Retail Aftermarket Sales Annual Percent Gain



Source: Aftermarket Business Magazine, April 1996

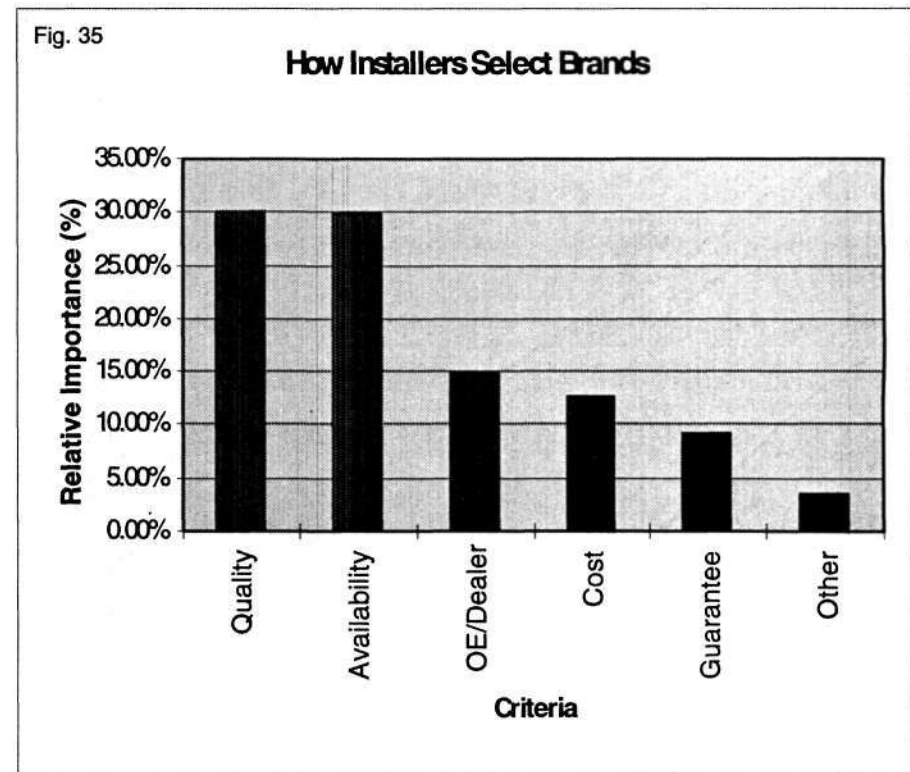
Aftermarket Brake System Parts: Continued Price Pressures

- ◆ Price growth in automotive parts lags behind the general economy's inflation rate
 - Price pressures will continue to squeeze margins through the distribution channel
- ◆ Growth of retail chains, programmed distributors and specialized repair chains will increase price pressures
- ◆ The customers listed above and the major brake manufacturers could drive this aftermarket product segment into price-driven commodity items



Aftermarket Brake System Parts: Brand Selection by Professional Installers

- ◆ Dominant Buying Criteria
 - Quality and availability
- ◆ Second-tier of buying criteria
 - O/E applications coverage
 - Cost
 - Guarantee
- ◆ Installers are price sensitive **only** when they do not believe they are not sacrificing quality
- ◆ With reduced inventory throughout the distribution channel, availability will continue to gain importance

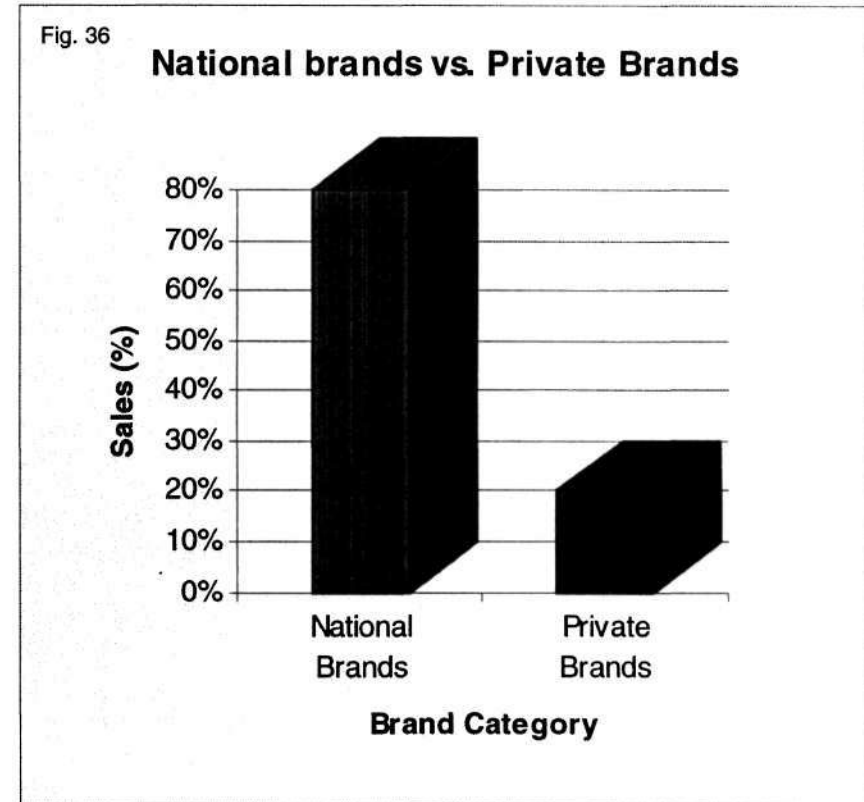


Source: Lang Marketing Resources, Inc.

Source: Lang Marketing: Nationwide Survey of Independent Service Outlet: Independent Service Outlets represents non-OE service including service-stations & garages foreign vehicle specialists discounters / mass-merchandisers, tire stores.

Aftermarket Brake Products: What do retailers stock?

- ◆ Retailers report carrying in brake system parts:
 - 2 national brands
 - 1 private brand
 - ◆ National brands account for 80% of profits in brake system parts
- yet,
- ◆ Growth in private labeling / branding is predicted to be the cornerstone of every retailers' corporate image and marketing strategy in the next decade



Source: Aftermarket Business Magazine, April 1996

Aftermarket Brake System Parts: Future

- ◆ With more cars:
 - Driving faster
 - Driving farther
 - With lighter-weight hardware components
 - With higher brake technology
- ◆ We expect that:
 - The brake system parts segment of the aftermarket will prosper
 - The DIY brake repair market will increase only if manufacturers can provide the educational information (knowledge acquisition) that DIYers need to work on ABS, modular technology
- ◆ The professional DIFM sector will continue to outpace the DIY market in growth requiring that the aftermarket firm monitor the professional sector's buying criteria

V. Monitor Items for the Aftermarket Supplier

This section of the report outlines some of the areas of concern that the aftermarket supplier should monitor. The aftermarket supplier, by the author's definition, consists of the suppliers to the aftermarket in the traditional distribution chain, including manufacturers, rebuilders, national distributors and manufacturer's agents.

V. Monitor Items for the Aftermarket Supplier

- Continual re-assessment of the 11 trends in the automotive aftermarket as outlined within this report
 - The future realities and shape of the industry are based upon the these trends and their intermixing
 - Monitor Sources: APAA, The Chicago Corporation, Salomon Brothers and Schroeder Wertheim
- Monitor the sectors of the aftermarket: DIFM, DIY and auto dealerships
 - Determine the strong and growing players in the aftermarket and position the firm's resources and capabilities to growth with these players; succinctly, reduce dependency on sales through weaker players
 - Monitor Sources: The Chicago Corporation

V. Monitor Items for the Aftermarket Supplier

(continued)

- ◆ Continuously monitor the buyer's value drivers for the DIFM and DIY sector
 - Monitor Sources: Lang Marketing, Aftermarket Magazine
- ◆ Private labeling / branding provides an area of great growth for the aftermarket supplier willing to develop the packaging, inventory management and distribution logistics necessary to service these retailers
 - Monitor Sources: Aftermarket Magazine, Salomon Brothers
- ◆ The DIFM sector will continue to grow at a faster rate than the DIY sector requiring the aftermarket firm to monitor the channel of distribution servicing these sectors and align their organizations accordingly
 - Monitor Sources: Salomon Brothers, Schroeder Wertheim

V. Monitor Items for the Aftermarket Supplier (continued)

- ◆ The larger, stronger, more sophisticated retail chains (Top 10 retailers) will continue to grab market share in the DIY sector and will enter the professional installer market will below-expectation penetration rates
 - Monitor Sources: Schroeder Wertheim & Co., APAA

Information Sources

- ◆ A.T. Kearney, Inc.
John Waraniak, Manager Automotive Practices
(810) 262-7862
- ◆ Aftermarket Business Magazine
Douglas E. Ferguson, Publisher
Chicago, IL
(312) 553-8906
- ◆ Allparts, Inc.
Gary Smalley, VP & General Manager
Robert L. Bauer, V.P. Sales & Marketing
Louisiana, MO
(314) 754-4545
- ◆ American Automobile Manufacturing Association (AAMA)
Dennis Wyzlinski
(313) 871-2270
- ◆ The Automotive Consulting Group, Inc. (ACG)
Denis Virag, Managing Director
Ann Arbor, MI
(313) 971-1110
- ◆ Automotive Industries Association of Canada (AIAC)
Ottawa, Canada
(613) 728-6021
- ◆ Automotive Marketing Magazine
Karen Switsher, Editor
(610) 964-4000
- ◆ Automotive Parts & Accessories Association (APAA)
Rob Ebbin, Research Analyst
Bethesda, MD
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- ◆ Automotive Marketing Magazine
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(610) 964-4000
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Rob Ebbin, Research Analyst
Bethesda, MD
(301) 654-3299
- ◆ Automotive Service Industry Association (ASIA)
James L. Pawlowski, Manager of Products and Services
Charles Piszczor, Market Research
Elk Grove Village, IL
(847) 228-1310
- ◆ Automotive Warehouse Distributors Association (AWDA)
Chuck Udell, President, AWDA University
Kansas City, MO
(816) 444-3500
- ◆ Automotive Week
Angel Mendillo, Analyst
Bethesda, MD
(201) 694-7792

Information Sources (continued)

- ◆ AutoZone
Steven Gutterrez, Store Manager
Lansing, MI
(517)394-4220
Ed Lullum, Area Manager - Michigan
Grand Rapids, MI
(616) 246-7006
Laura Nivens, Public Relations Coordinator
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(901) 495-7307
- ◆ The Chicago Corporation (TCC)
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(212) 293-5321
- ◆ Chrysler Corporation
Kathleen Wideman, Manager Research and Business
Planning, Mopar Parts Division
Center Line, MI
(810) 497-1173
- ◆ Ernst & Young LLP
Dan Holland, Automotive Practices
(313) 596-8821
- ◆ Ford Motor Corporation
Jason Small, Ford Motorcraft Sales
Dearborn, MI
(313) 621-9957
- ◆ General Motors Corporation - Service Parts Organization
Daniel Webb, Statistics & Research
Detroit, MI
(313) 974-7748
- ◆ Lang Marketing Resources, Inc.
James A. Lang, President
Wyckoff, NJ
(201) 652-5220
- ◆ McKinsey & Company, Inc.
Glenn A. Mercer, Director, Automotive Services
Cleveland, OH
(216) 861-9335
- ◆ MascoTech
Robert F. French, Research Analyst
Auburn Hills, MI
(810) 377-1600
- ◆ Motor & Equipment Manufacturers Association (MEMA)
Frank H. Hampshire, Director of Research
Research Triangle Park, NC
(919)549-4800
- ◆ Northwood University
James R. John, Chairman
Automotive Aftermarket Management Department
Midland, MI
(517) 837-4342

Information Sources (continued)

- ◆ Pep Boys
 - Byron Collins, Manager
 - Farmington Hills, MI
 - (810) 476-5210
 - Brian Davidowitz, Assistant Manager
 - Dearborn, MI
 - (313) 563-3433
 - Lorraine Mitchell, Corporate Purchasing, Brake Systems
 - Philadelphia, PA
 - (215) 229-9000
- ◆ Salomon Brothers
 - Darren S. Kimball, Vice President Automotive
 - New York, NY
 - (212) 783-6343
- ◆ Schroeder Wertheim & Co.
 - John A. Casesa, Managing Director
 - New York, NY
 - (212) 492-6433
- ◆ U.S. Department of Commerce
 - National Trade Data Bank
 - Washington, DC
 - Elizabeth E. Couch, Senior Analyst
 - (212) 482-1418
 - Mary-Ann Slater, Research Analyst
 - (212) 482-1420

Selected Publications

- ◆ *The Dynamics of a Market - The Automotive Aftermarket in Canada*
Automotive Industries Association of Canada (AIAC)
August 1995
 - ◆ *1996 Aftermarket Factbook*
Automotive Parts & Accessories Association (APAA)
April 1996
 - ◆ *The Automotive Aftermarket: A Highly Profitable, \$170 Billion Industry Ripe for Consolidation*
The Chicago Corporation
Mark D. Mandell
Timothy F. Tucker
January 11, 1996
 - ◆ *Automotive Aftermarket - U.S. Retail Automotive Aftermarket Saturation Study*
Schroeder Wertheim & Co., Inc.
John A. Casesa
Stephen M. Haggerty
January 3, 1996
 - ◆ *The Lang Report*
Periodicals from August 1995 to March 1996
James A. Lang, Publisher
 - ◆ *NADA Data 1994 - Automotive Executive*
National Automotive Dealers Association (NADA)
 - ◆ *"Where is the Automotive Aftermarket Going?"*
Salomon Brothers
Darren S. Kimball
November 1995
 - ◆ *AutoZone - 1995 Annual Report*
 - ◆ *Pep Boys - 1994 Annual Report*
 - ◆ *Automotive Marketing - March 1996*
 - ◆ *Aftermarket Business - April 1996*
 - ◆ *Future Challenges and Changes in the Automotive Service Business*
Automotive Consulting Group (ACG)
1993
 - ◆ *Lexis/Nexis Research**
918 pages of selected readings
 - ◆ *A/B Inform**
26 pages of selected readings
- * - Key search words: automotive aftermarket, trends, forecasts, replacement parts, hard parts, accessories, automotive retailers, Do-It-For-Me, Do-It-For-Yourself, AutoZone, Pep Boys, Western Auto, Northern Automotive, Chief Auto, Federal Mogul, Dana Corporation, AlliedSignal, Bendix, Bosch, Varsity, Wagner, Guardian, Echlin, Raybestos, Kelsey-Hayes, EIS, Guardian, JPE Industries, Allparts
- ◆ *U.S. Department of Commerce - National Trade Data*
110 pages of selected readings

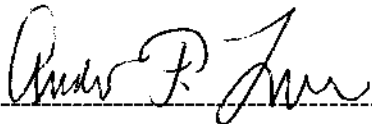
All materials available upon request from:
Professor Andrew Lawlor
University of Michigan Business School
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Faculty Comments

The Automotive Aftermarket Industry Study was sponsored by the Chairman of JPE, Inc.

The study comprised a review of JPE internal documents and procedures concerning market research, production, strategy, and forecasting, external research and interviews with industry observers, the trade press, customers, as well as secondary research using the database tools of Kresge Library. A trip to the St. Louis AllParts subsidiary for aftermarket components was also part of the data collection process.

The study is an excellent compilation of the aftermarket data and trend analysis. The body of work accomplished and the overall results/deliverables warrant a grade of "EX", Excellent for Janek and Duff.



Andrew Lawlor, Faculty Advisor
May 3, 1996