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PARTS SUPPLIERS POISED FOR HIGH GROWTH IN SOUTHEAST ASIA

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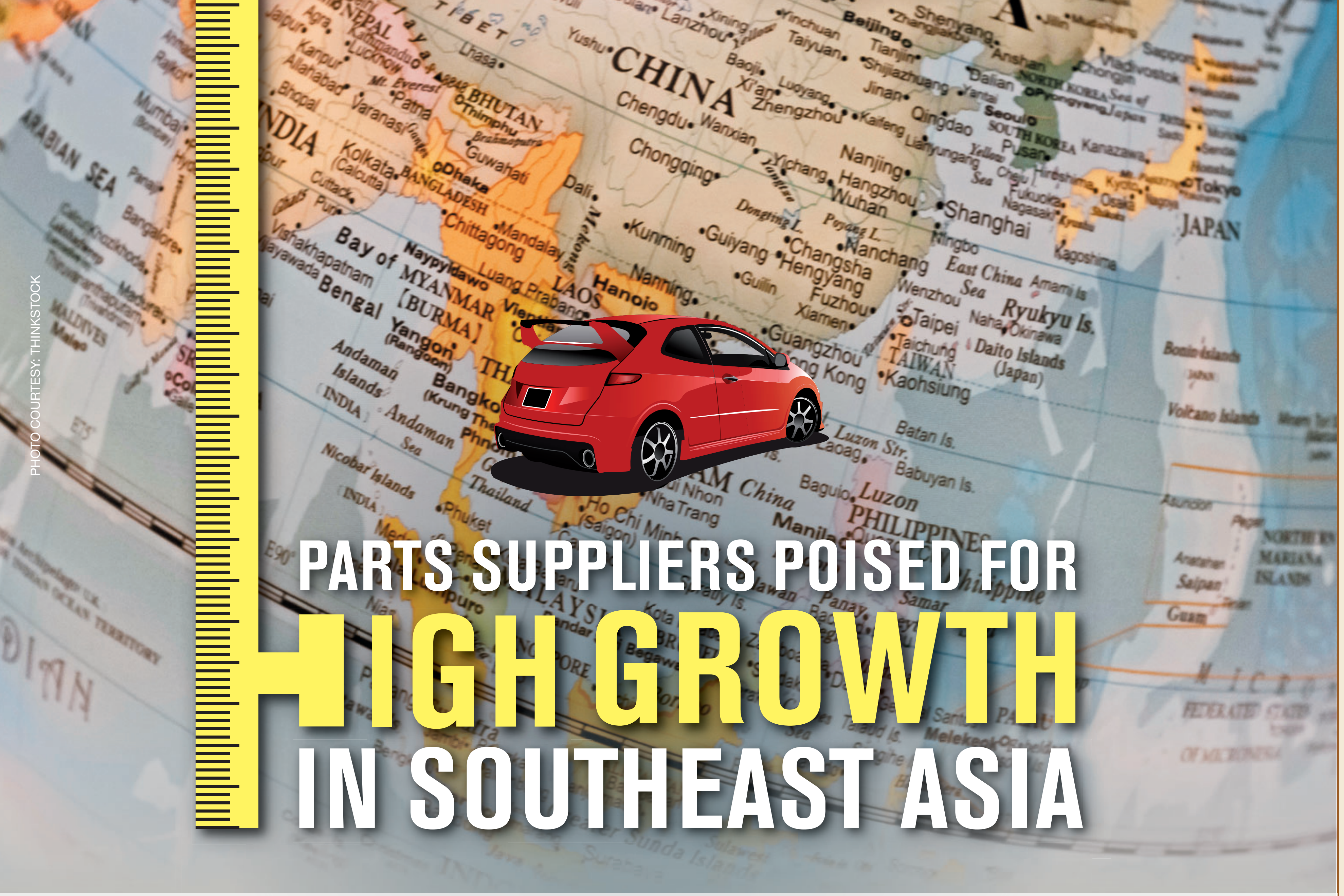

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PARTS SUPPLIERS POISED FOR HIGH GROWTH IN SOUTHEAST ASIA

BY STEPHEN SPIVEY | Contributing Editor

Life is changing quickly for the people of Southeast Asia. In only 10 years, economic output has nearly tripled, and the rate of vehicle ownership has doubled across the region that includes Malaysia, Thailand and Indonesia.

According to World Bank figures, Indonesia's GDP per capita increased from $1,076 to $3,557 per person over the 2003-2012 period, and the number of vehicles per 1,000 people rose from 19 to 42.

The statistics look similar in Malaysia and Thailand. Vehicles in operation will nearly double in Thailand over the 2013-2018 period, a country where pickup trucks outnumber passenger cars. In Malaysia —which has the highest rate of ownership in ASEAN at 350 per 1,000 people — GDP per capita grew from $4,427 in 2003 to $10,381 per person in 2012.

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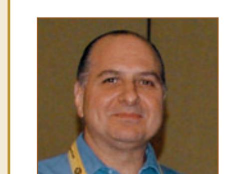

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Southeast Asia aftermarket

> The ASEAN aftermarket offers attractive growth potential, but it is a difficult region to serve.

Altogether, the total light vehicle population will grow by 9.7 percent annually across all three countries — reaching 42.2 million passenger cars and light trucks by 2018.

As a result of this economic growth, Frost & Sullivan forecasts demand for maintenance products such as wiper blades, filters and brakes to grow at about 10 percent annually over the 2012-2018 period.

The growth potential is remarkably high, but there are also high barriers to entry – particularly for North American and European suppliers.

First, there is the vehicle population itself. In Thailand – the largest of the three countries with 10.3 million light trucks and passenger cars – Asian brands dominate the aftermarket. Toyota, Honda, Isuzu, Mitsubishi and Nissan account for about 80 percent of all vehicles receiving parts and service.

The scenario is similar in Indonesia, while Malaysia has a domestic auto industry based on OEMs such as Perodua and Proton, which are not widely distributed outside the country. Parts manufacturers, in particular, would need to spend significant sums developing new products to fit these vehicles.

However, suppliers specializing in Japanese brands are strongly positioned to grow in Southeast Asia given their high share of the market.

Second, average vehicle age is generally about 7.5 years, which is lower than in developed regions such as the United States (10.5 years) and Europe (9.4 years), and continues to decline as new vehicle sales dramatically outpace scrappage rates. It will probably take another decade for the ASEAN aftermarket industry to mature.

Although there is a large migration away from the OEMs to independent repairers after the first two years of ownership, there is also a proliferation of grey market, counterfeit replacement parts used throughout the ASEAN region, limiting market potential of OES and aftermarket products.

Finally, high inflation (4 percent to 5 percent annually) is driving up parts prices and maintenance costs for ASEAN motorists, making

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it more likely they will choose the cheapest available product.

Overall, it is difficult to find high-quality aftermarket parts in many parts of ASEAN, suggesting that many barriers to entry could be converted into opportunities.

As in many emerging regions, there is a lack of wholesale distribution (WD) channels throughout much of Asia, with a fragmented network of retail suppliers responsible for most parts sales to local service centers. There are few, if any, large distribution groups covering the region and, in some places, criminal gangs are believed to control sections of the automotive aftermarket industry.

About 80 percent of vehicle owners have their cars and light trucks serviced at independent repair facilities, with very few fast-fit service chains in the aftermarket. "Organized" service chains represent no more than 5 percent of the maintenance and repair volume, suggesting an opportunity to develop new businesses across the region.

It seems that the market growth potential is very high for parts and service providers that can develop distribution networks and service models catering to the region's diverse vehicle population.

A Frost & Sullivan market analysis of key replacement parts shows that there is room for new competition. Generally speaking, there are two types of parts widely available, original parts from the OEMs and their suppliers, and counterfeit parts made locally or imported from China.

As a matter of fact, counterfeit products account for more than half of air filters sold in Malaysia and up to two-thirds of brake discs sold in Indonesia. There are also many small, local suppliers of radiators, clutch parts and other components competing with these imports.

Wiper blades are among the products that will enjoy the highest growth with unit shipment volumes nearly doubling to 28.2 million across all three countries in 2018. Bosch is the market share leader, with DENSO and Nippon Wiper Blade also capturing a high percentage of volume in Indonesia and Malaysia.

Remanufacturers are successfully penetrating the ASEAN aftermarket, with recycled auto parts such as starters and alternators already capturing high shares. Demand for starters is forecasted to increase from 1.4 million last year to 1.9 million in 2018, while alternator sales will grow from 1.6 to 2.3 million.

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OEMs, aftermarket getting picture of enhanced in-vehicle visibility

BY JAMES E. GUYETTE
News Correspondent

Moving forward while looking back, automakers the world over are rolling out vehicles equipped with backup cameras displaying eye-opening innovations. The trend signals sales for aftermarket installations as owners of older vehicles desire similar systems, especially among aging baby boomers.

TRENDS & MARKET Analysis

Front-facing dashboard cameras – which have become popular in Russia where motorists tend to exhibit aggressive driving habits – are also in focus as an international do-it-yourselfer retail add-on. (Those compelling newsreel images of the giant meteor that exploded over Russia last February came courtesy of fortuitous dashcam shots.)

In May, VOXX Electronics Corp. began shipping its aftermarket In-Vehicle Dashboard Event Video Recorder that was introduced in January at the Consumer Electronics Show. The company has a footprint covering Europe, Asia, Mexico and South America in addition to the U.S.

Vendor Newsmaker Q&A

RANDY FISHER
Marketing Director, Royal Purple

Q How would you describe your current product line? What are some of your new products and what do they do?

A What did Fisher say? Continue reading online.

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> Backup camera sales have been increasing over 20 percent annually for three or four years.

"The DVR 700 is our first HD camera developed for dashboard recording of the events that occur in front of a moving vehicle," reports VOXX President Tom Malone. "We expect it to be as successful as our ADAS (Advanced Driver Assistance Systems) backup cameras that launched this category for us years ago. Drivers are coming to rely on technology to help them operate their vehicles with optimum safety and convenience, and we as leaders in the aftermarket category continue to provide those products."

A compact configuration "allows almost stealth-like installation so as not to draw attention to the device," Malone says. "The camera mounts on the windshield just behind the rearview mirror and records continuously so you can record interesting, fun experiences during your travels as well as any accidents or fender benders you may encounter," he notes.

"Should you have an accident, G-sensors in the camera automatically lock the currently recorded section from 30 seconds prior to 2 minutes after the incident so that the key video segment cannot be erased or recorded over, thus giving you a permanent record of the event," Malone says.

Rostra recently debuted its DashCam line of digital video capture systems that use a standard SD card for storage while recording on-road video images.

"Their compact form factor means they blend seamlessly into most vehicle dashboards and windshields while providing easy access to their many features, including video playback, starting and stopping recordings, and turning audio capture on or off," according to Jim Pineau, president and CEO of Rostra parent-firm Aftermarket Controls Corp.

"The software suite included with each Dashboard Video Recording System," he says, "provides a sophisticated means of

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Well-appointed rental fleets showcasing OEM innovations

BY JAMES E. GUYETTE
News Correspondent

Automakers are exceptionally eager to put you in the driver's seat of a rented vehicle – the fancier the better.

No longer the domain of basic stock models, the rental marketplace has been steadily evolving into a vibrant venue for highlighting the latest in OEM offerings that come loaded with options to entice and educate potential vehicle buyers.

TRENDS & MARKET Analysis

In addition to showing off the latest in luxury and practicality, taking an environmentally advanced propulsion system or otherwise unfamiliar model on a shakedown cruise to size it up can present a worthwhile learning opportunity that advances the shopping process.

According to a recent Enterprise Rent-A-Car customer survey, more than half of the respondents report that they first became aware of various automotive innovations while behind the wheel of a rental. And when stepping into a dealer's showroom, nearly 50 percent of the prospective purchasers say they tabulated their wish list of desired features based on what they

Vendor Newsmaker
Q&A

KAYE CEILLE
President of Zipcar

Q How does a person join Zipcar and what types of vehicles are available to drive?

A What did Ceille say? Continue reading online.

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> Auto manufacturers have regularly viewed rental fleets as a testing ground for new technologies..

admired during the extended test drive that rentals provide.

"Our automotive manufacturing partners have regularly viewed our fleet as a testing ground for new automotive technologies, and this survey reveals that this experience does impact drivers' future purchase decisions," says Kurt Kohler, Enterprise's senior vice president of vehicle acquisition and remarketing.

"As drivers, we often don't know we need something until we've tried it out for ourselves – then we can't do without it," he notes.

Most renters, 60 percent, are "very comfortable" sampling a car equipped with unfamiliar technology, and business rental customers are four times more likely to rent an electric vehicle.

Safety-related technologies – especially collision avoidance systems – are rated as the "most important" element of having a satisfactory driving experience. When buying a new vehicle, renters are more likely to choose technological upgrades over a luxury or sport/performance package, says Kohler.

Regarding fuel-saving technologies, fuel efficiency is significantly more important to women than it is to men (54 percent vs. 39 percent). Women are significantly more likely than men to prefer a more dynamic navigation system (56 percent vs. 45 percent) and technology that enables them to identify the lowest-price gas stations (58 percent vs. 36 percent).

Women are more inclined to say heated/cooled seats, GPS navigation and a sunroof are must-haves, and 47 percent of women say that lack of a place to put a purse or laptop bag is a pet peeve, according to Kohler.

Men, relative to women, are more interested in satellite radio (17 percent vs. 11 percent) ...CONTINUE READING

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Consumer perceptions threaten dealer service business

BY BRIAN ALBRIGHT
Correspondent

Customer perceptions about the cost of repairs, lack of price transparency and underutilization of digital marketing may pose a threat to dealership service profitability.

A study commissioned by Cars.com and conducted by research firm GfK surveyed more than 800 vehicle owners, and found that uncertainty about repair costs is a major hurdle for dealer fixed-ops departments.

TRENDS & MARKET Analysis

"With the average age of vehicles on the road increasing, and inevitably going off-warranty, dealers are being challenged to acquire and retain service customers," said Barbara Mousigian, vice president of product at Cars.com. "Since consumers do not have a good sense of repair costs, they are suspicious of pricing and tend to look elsewhere for a trusted service provider. By promoting price transparency and highlighting dealership quality and convenience online, dealers have the opportunity to build trust with shoppers and ultimately win their business."

Dealer Newsmaker Q&A

DAVID SARGENT
Vice President of Global Automotive at J.D. Power

Q What appears to be behind the increase in the problems drivers are experiencing with their vehicles in this year's study?

A What did Sargent say? Continue reading online.

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> There is a big disconnect between dealers and consumers during and after the warranty period.

According to the study, more than half of consumers believe dealership service departments are the most expensive service option, regardless of repair type. They think that independent repairers are the least expensive option.

"There is a big disconnect between the dealers and the consumer during and after the warranty period," says Jack Simmons, manager of dealer training at Cars.com.

While other studies have tracked dealership loyalty and how it can vary based on age, the Cars.com study found that service preferences were fairly steady across a spectrum of drivers. The respondent pool was evenly split between men and women, and there was a mix of vehicle types (from small cars to SUVs) represented. "The perception about dealer price was the same, regardless of demographic or age, and regardless of which type of vehicle they owned," Simmons says.

Dealers haven't done themselves any favors by making it difficult to determine service prices. "We all have a tendency to think that if we don't know how much it will cost, then it's probably too much," Simmons adds.

That concern about price is important, given the lack of initial preferences most drivers have when looking for a repair shop. According to the survey, 43 percent of shoppers had no preference of service provider, while 27 percent preferred dealerships, 18 percent preferred independent shops, and 13 percent preferred national chains.

Transparent pricing, online presence are critical

In terms of evaluating potential service providers, price guarantee/warranty and technician certification level were the most important factors, followed by online consumer reviews. According to Cars.com, service departments could potentially draw more customers by promoting their online reputations specific to service.

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Bar code scanner evolution

Imaging-based bar code scanners have supplanted laser scanners

BY BRIAN ALBRIGHT
Correspondent

Accurately scanning bar codes is a critical function in most warehouses and distribution centers. Moving to a "paperless warehouse" operational model requires a robust inventory management solution, as well as reliable bar code scanning equipment to eliminate inefficient processes.

TRENDS & MARKET Analysis

According to a report from VDC Research, the type of bar code scanners on the market is rapidly evolving as traditional laser scanners are displaced by camera-based systems.

The $1 billion-plus handheld bar code scanner market has traditionally been dominated by laser scanners, the same type of scanners used at the supermarket checkout. Imaging-based scanners, which use cameras to decode the bar codes, were initially introduced to handle two-dimension/matrix code scanning. With imaging technology costs dropping, the industry is moving away from lasers altogether, according to VDC's "Global Market for Handheld Barcode Scanners."

"Camera-based scanning, or 'imaging' as it's referred to in the industry, is going to displace

Technology Newsmaker Q&A

SCOTT THOMPSON
Vice President and GM of Epicor's E-commerce Unit

Q What are some emerging requirements that will affect how the aftermarket players approach e-commerce?

A What did Thompson say? Continue reading online.

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> Laser scanners are holding on in environments where there is a need for long-range scanning.

laser in the vast majority of applications in the years to come," says VDC Research senior analyst Richa Gupta. "Instead of scanning the barcode with a laser, these new bar code readers use embedded cameras and software to take a picture of and then process the image to read, at the very minimum, the bar code. Simultaneously, these imagers can take a picture of virtually anything: the damaged product being returned by a consumer, the defective part moving down the assembly line, for example. The possibilities for new applications based on the captured information are virtually limitless."

According to Gupta, revenues derived from camera-based scanning are significantly higher than laser scanning technology. "If you look at new product introductions on the scanning side, almost all of them are image-based today," Gupta says. "You see very little laser scanning."

Laser scanners are holding on in manufacturing and warehouse environments where there is a need for long-range scanning. Right now, laser scanners typically have better range than imagers. "But performance of imagers is improving at a fast rate, and the number of applications that laser has traditionally dominated is coming down," Gupta says.

Imaging scanners also enable other applications. Not only can they capture data from 2D bar codes (like a QR Code), they can also take photos. That's helpful in scenarios where damaged packaging or merchandise can be photographed. On the retail side, imaging scanners can scan coupons and loyalty cards that reside on customer's smartphones.

"Imagers are just as fast as laser scanners now, and the price has come down," Gupta says. "You can also use the imaging functionality to take photos for claims management. They do more than just bar code identification."

This shift will be disruptive to scanner manufacturers like Motorola and Honeywell, who have large laser scanner-installed bases. New competitors are emerging that will put more pressure on device prices. Motorola

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Taking care of TODAY'S CARS

Today's cars can go longer and harder than those of even a decade ago. But that doesn't mean we can treat them less kindly. In this article, I'll talk a bit about everything from the routine oil change to the diagnostic problems that were caused by the lack of proper maintenance.

Recently, I got a rude awakening being back in the shop doing simple tasks such as oil changes and maintenance. Now, I am not complaining about the maintenance or diagnostic work. That's no problem since I always keep my skills up to speed working on problem vehicles. The area I want to focus on is oil changes. Not that it's so hard to change oil, but resetting the oil lights or messages are another story.

If you have been around a while then you know most of the domestic and Asian vehicles are not that hard. But if you work on European vehicles, you know what I am talking about. Let's take a look at some of the helpful information sources that you can utilize.

The information systems ALLDATA, AutoData, Identifix, Mitchell and MotoLogic have very helpful information, but you need to follow the steps carefully until you do a few of the tough resets and get them down. Let's not forget there also is helpful information on YouTube and Google when someone has gone through the process of documenting the procedure, or better yet videotaping the process. Another solution is from Launch Cresetter and CanDo Reset+ that offer a small handheld oil reset tool that plugs into the system similar to most scan tools. The Launch Cresetter and CanDo Reset units offer an automatic or a manual reset. Having the hand held units are very convenient since you have all the information right in front of you without a laptop or tablet.

Let's talk about oil; it's not your father's motor oil anymore. Specifications

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G. JERRY TRUGLIA
President, Technicians Service Training

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What is YOUR SHOP'S IMAGE?

> How many times have you opened a parts box to find it was installed and returned to the box?

Spring and early summer are filled with conferences and education events. As a teacher I get invited to attend or present at a lot of these events. It's no secret that across the country there are a core of individuals who are constantly striving to improve their abilities to repair cars, run their businesses, take care of their customers and support their employees growth and success..

Every time I visit a city I look forward to seeing the people who I know will be there. They are always there. Often I am invited to do a topic that I have done before and those folks are there for a second time. Why? Like me they know that depending on where you are in your personal development and your business you can hear a message differently and learn something different. I have been trying to convince my wife that this is why I watch the same movies over and over again.

At the other end of the scale are the people who do not attend any training classes, don't read any technical or business articles yet manage to operate a business. We can talk about them because they will never read this.

I think it is safe to say we can blame these folks for most everything that goes wrong in our industry. Why not, they won't read this. Seriously consider what uninformed people cost your business.

How many times have you opened a parts box only to find that it has been installed and then returned to the box? It didn't fix the problem due to a lack of education. The tech who last touched it was trying the "known good part" approach to auto repair.

The problem is now the part may no longer be a known good part so you lose the time testing a new part before you have confidence to install it or you don't risk it and you wait for your parts store to find you another one.

How about the shop that has no service information system so they miss an important technical service bulletin and fail to perform a software update that is intended to be applied to support a part that has been updated. You bet they call the part supplier multiple times and while the parts truck is running back and forth you cannot get a part delivered.

This is the same shop that does not have any processes in place to work out vehicle diagnosis, estimating and approving repairs with customers and ordering parts so they are insisting that your parts store deliver parts ASAP on every call because we know they don't use a computer to place orders or plan ahead for what they are going to need to repair a car. All that is just the parts side of the issue.

The truth is that many of us would be mad at our parts store and blame them for the bad service. Maybe we should, but I have seen that many if not most parts suppliers have figured out that warranty return rates and constant ASAP parts orders are good indicators that a shop may not be their best customer.

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DONNY SEYFER
Operations Manager
Seyfer Automotive, Inc.

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East Coast considers TOUGHER CATALYTIC CONVERTER RULES

> "Most states in the OTC already have adopted California tailpipe emission standards."

The Environmental Protection Agency published its final Tier III rule at the end of April and it avoids any improvements in the agency's aftermarket catalytic converter standard, which has been around since 1986.

The EPA's failure to update that standard now moves the spotlight over to the Ozone Transport Commission (OTC), the quasi-federal advisory commission, which recommends air emission policies in 12 states along the Eastern seaboard plus the District of Columbia. The OTC is about to recommend that its member states upgrade their aftermarket catalytic converter standards above what the EPA requires.

The Tier III rule lowered the amount of sulfur refiners can have in gasoline. Catalytic converters become significantly less efficient when exposed to sulfur, thereby opening the door to higher emission of exhaust pollutants such as nitrogen oxide, carbon monoxide and most air toxics. They contribute to smog problems. The Tier II rulemaking required refiners to take steps to reduce sulfur levels in gasoline by approximately 90 percent, to an average of 30 parts per million (ppm). The Tier III final rule drops that limit to 10 ppm.

Most of the states in the OTC already have adopted California tailpipe emission standards. Its low-emission vehicle (LEV) program began in 1990, and was upgraded to LEVII in 2004. For example, New York State adopted California's LEV program in 1990 with implementation beginning with model year 1993 vehicles.

Most of the other Eastern states picked up some iteration of LEV at a later date. But only New York and Maine have adopted the California aftermarket catalytic converter standards, which the Golden State put in place effective January 1, 2009. New York made them effective June 1, 2013 for cars manufactured after 1993. So an aftermarket converter sold after that date has to be certified by the California Air Resources Board (CARB).

But the other OTC states adhere to the EPA aftermarket catalytic converter standard, which is substantially weaker than California's. That weakness is reflected by the EPA's allowance of shorter warranties, used converters, self-certification by manufacturers and other easier-to-meet standards.

The OTC has long pressured the EPA to improve its aftermarket catalytic converter standard along the lines of what California has enacted. The EPA's refusal to do so in this last round of Tier III rule making apparently forced the OTC's hand. In April it published a model regulation for aftermarket catalytic converters. The OTC Commissioners (one from each of the 12 member states, plus the District of Columbia) will now have to decide what kind of recommendation they will make to their states, as to adoption. The recommendation from the OTC carries no requirement for the states; they can ignore the model regulation,

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STEPHEN BARLAS
Washington Correspondent

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Acting on GOOD ADVICE

> Everyone is ready to listen to an opinion, but few of us are willing to act on good advice.

The automotive aftermarket has had its fair share of wagon peddlers and get-rich-quick offerings. It's had more than enough of here-today, gone-tomorrow vendors, and a plethora of wacky advertising schemes that are akin to the infamous bridge to nowhere.

It has had myriads of acronyms and marketing mumbo-jumbo that excites mostly the sales executives who invent the jargon to amuse and impress other marketing executives. It's hard to navigate between the dangerous shoals that surround the solid ground of truth and the sandy atolls of conjecture.

An opinion is actually a judgment not necessarily based on fact or knowledge. Advice is also a judgment, but is distinguished by being rooted in knowledge or authoritative experience. Recognizing the difference should be easy to discern, but the apparentness can be elusive. Take it from me, it's good advice to have the ability to readily define when smoke is being pumped toward the general vicinity of, well, enough of that unpleasant image.

In our business, everyone is ready to listen to opinion, but few of us are willing to act on good advice. I'm going to intervene with a new euphemism about opinions: "Opinions are like blog sites, everybody's got one." They are a little less revolting, but equally as numerous.

Our customers and consumers will believe almost anything they read on a blog site as opposed to listening to our professional advice. As a result, they spend two to three times more trying to fix their own problems, and still end up seeking the help of a professional counterman or technician.

So, who's to blame, you ask? Why are so many consumers risk takers? It's quite simple. Opinions are painless advice that offer just enough hope of beating-the-man (professional). On top of that, our entire industry carries around a stigma of either selling the wrong part, charging too much, or being a bunch of grease-monkeys taking advantage of women and the elderly. How in the heck did we get these inflammatory reputations?

This is my advisory opinion. We didn't take or act on good advice ourselves. The independent warehouses do not listen to the independent jobbers that say, "Give us more available inventory. Your shipping fill-rate is killing us. We need daily delivery like our big box competition offers their stores."

Why don't the warehouses and program groups listen to us? Our customers and installers want us to stock more products, offer same-day delivery for special orders, and stop already with the goofy spiff programs and box-top incentives.

The professional employees and technicians want specific training and more specific information regarding complete repairs. A pattern should become clear. In our industry, there seems to be a disconnect about how to make money and service our respective customer bases. It's not a new phenomenon, but it is the reason we continue to lose market share, revenue and have tremendous difficulty finding qualified people.

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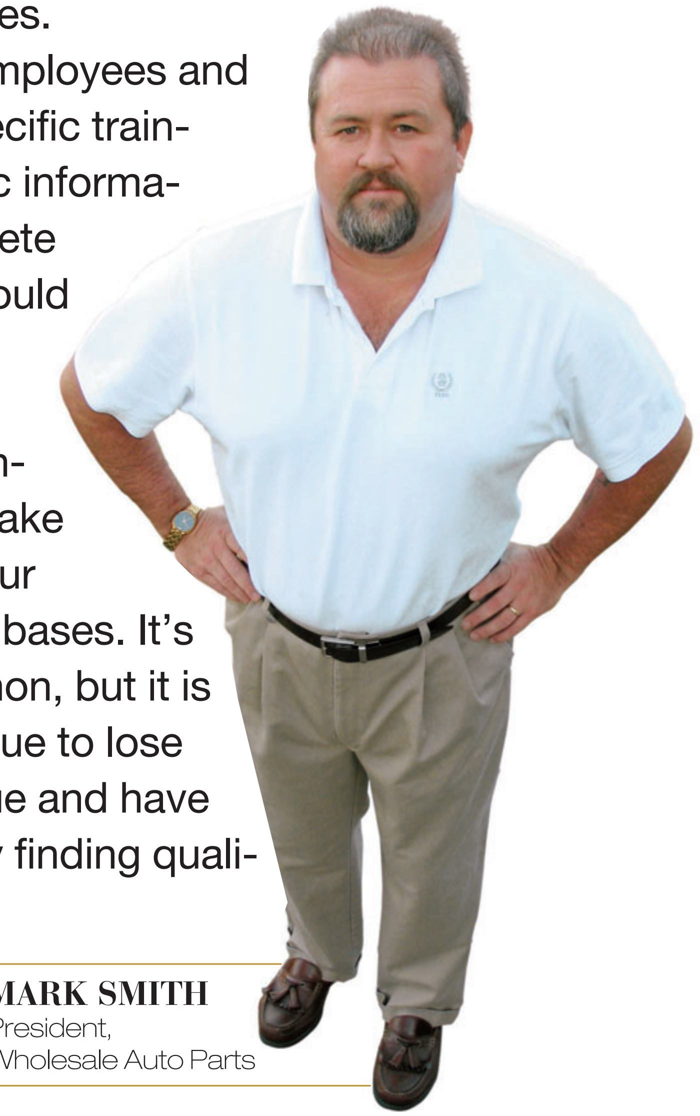

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Global growth and CHANGING PRODUCTION

> It appears that the number of SKUs will continue to fall even further.

We are in the midst of the largest increase in global motor vehicle usage in history – not just vehicles currently in operation but also vehicles in production. Consider this: it took the automotive industry 110 years to reach 50 million units produced per year – but it will only take another 20 years to add the next 50 million.

This explosive growth of the global automotive industry was one of the subjects addressed by two of the automotive aftermarket industry's top thought leaders at the Global Automotive Aftermarket Symposium (GAAS) in May. Bill Long, president and chief operating officer of the Automotive Aftermarket Suppliers Association (AASA), and Mark Seng, global aftermarket practice leader of IHS Automotive, shared their perspectives about growing global opportunities as part of their GAAS presentation, "What's Driving Change Now? Top Trends and Aftermarket Shifts."

Long noted that global growth is a significant driver in the industry today, as well as a notable strategic shift. "We are projecting that by the year 2020 there will be 1.5 billion motor vehicles around the globe. This historical boost in global motor vehicle usage spells lots of opportunity," Long said. "OEMs are examining how they think about vehicle platforms and how they manufacture vehicles in order to keep pace with the growing global demand."

As the OEMs pursue increasing global demand, they also are trying to contain costs, Seng said. "It is forcing OEMs to leverage global platforms more and more – but not developing more platforms, simply leveraging them more."

In fact, the number of platforms will decrease, possibly declining by 32 percent over the next eight years, Seng said. "Ford is leading the way … nine out of the Big 12 OEMs are basically doubling their average per platform." He noted, "By 2020, the Top 10 platforms will represent 30 percent of total global production," compared to approximately 21 platforms in use today.

Global platforms will not be the only shift OEMs employ, Seng said. "OEMs also are moving to a new production technology and process – modular architecture." OEMs are working toward standardizing the specifications of areas such as the engine compartment, front and rear underbodies, and the driver cockpit, he noted. "OEMs are looking to use more standard components across these global vehicles – more chance that vehicles around the world will use the same parts."

This standardization ultimately will reach the automotive aftermarket where it will have a big impact for the aftermarket companies, Seng noted.

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CURTIS DRAPER
Vice President, Industry Analysis, Programs and Member Services, AASA

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QUALITY IS KING

AUTO SERVICE FRANCHISES SAY QUALITY IS MOST IMPORTANT CUSTOMER NEED

BY BRUCE ADAMS | Managing Editor

Auto service franchises report that auto part quality, not price, is the number 1 need of their customers, according to the *Aftermarket Business World* 2014 Auto Service Franchise Study.

Thirty-one percent of respondents said quality was the most important requirement of their customers, while 22 percent said part availability, 19 percent said OEM form, fit and function, and 18 percent said price. Only 4 percent said that warranty was the customer's most important need.

Overall, 92 percent of respondents said their sales in 2013 were about the same or better than their sales in 2012. Some 53 percent reported similar sales results while 39 percent improved upon last year's sales.

They expect their sales in 2014 to either stay the same (51 percent) as last year, or increase (44 percent)

When it comes to gross margins, 52 percent said their margins stayed the same as in 2012, while 43 percent said their gross margins improved in 2013 compared to 2012.

They also are an optimistic lot as 51 percent expect their gross margins to hold steady in 2014, while 47 percent expect to improve their gross margins in 2014 compared to 2013.

METHODOLOGY: The *Aftermarket Business World* Auto Service Franchise study was fielded to readers of *Motor Age* magazine via email. Survey results are intended to show general market trends, not statistical certainties.

CONTENTS

Auxiliary Lighting

QUALITY IS KING

73% of auto service franchises report that they stock this product on an as-needed basis.

Needs of customers

Quality	29%
OEM form fit and function	25%
Availability	26%

Most effective marketing tool

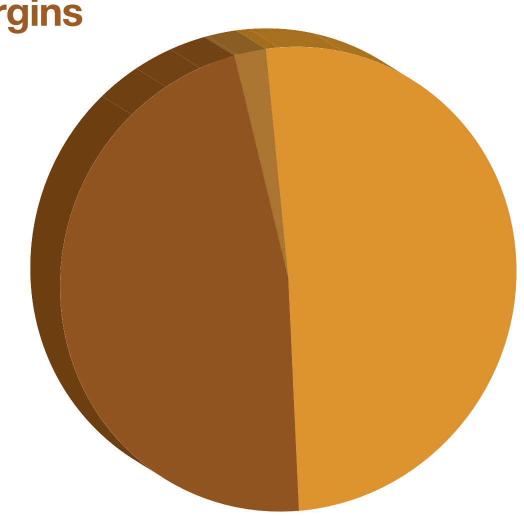
Shop's recommendation	59%
In-store displays	21%
Other	12%

Expected 2014 gross margins

51% To Increase

47% To Hold Steady

2% To Decrease

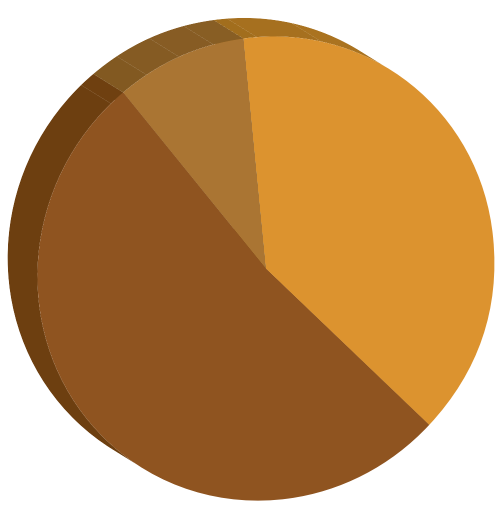


2013 auxiliary lighting sales

39% Increased

52% Held Steady

9% Decreased



51% of auto service franchises report that they order this product from suppliers electronically.

2014 auxiliary lighting sales expectations

To increase 1-10%	44%
To increase 11-20%	4%
To hold steady	49%
To decrease	3%

Preferred supplier

Jobber	22%
Warehouse distributor	28%
Auto parts retailer	36%
OEM parts arm	7%

30% report that

OTHER SERVICE REPAIR FRANCHISES

are the main competitors when selling this product.

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Battery Chargers

QUALITY IS KING

78% of auto service franchises report that they stock this product on an as-needed basis.

Needs of customers

Quality	33%
Price	28%
Availability	19%

Most effective marketing tool

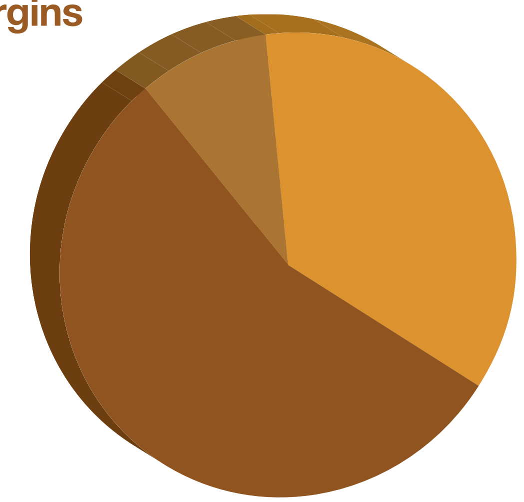
Shop's recommendation	59%
In-store displays	15%
Other	14%

Expected 2014 gross margins

38% To Increase

57% To Hold Steady

5% To Decrease

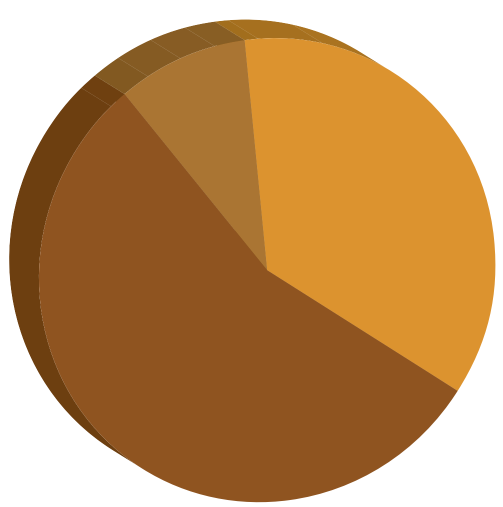


2013 battery charger sales

36% Increased

55% Held Steady

9% Decreased



43% of auto service franchises report that they order this product from suppliers electronically.

2014 battery charger sales expectations

To increase 1-10%	35%
To increase 11-20%	3%
To hold steady	54%
To decrease	8%

Preferred supplier

Jobber	22%
Warehouse distributor	35%
Auto parts retailer	28%
OEM parts arm	5%

46% report that

MASS MERCHANDISERS

are the main competitors when selling this product.

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Water Pumps

QUALITY IS KING

Needs of customers

Quality	33%
OEM form fit and function	21%
Availability	20%

Most effective marketing tool

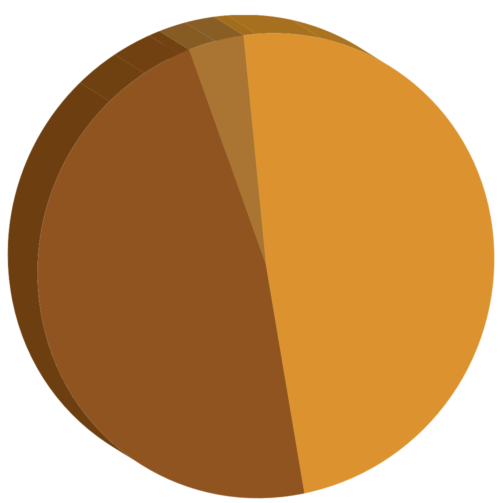
Shop's recommendation	84%
Coupon/rebates	10%
Other	7%

2013 water pump sales

53% Increased

51% Held Steady

4% Decreased



54% of auto service franchises report that they order this product from suppliers electronically.

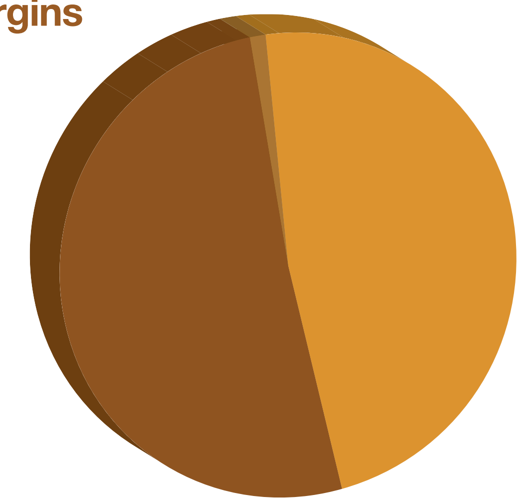
88% of auto service franchises report that they stock this product on an as-needed basis.

Expected 2014 gross margins

48% To Increase

51% To Hold Steady

1% To Decrease



2014 water pump sales expectations

To increase 1-10%	38%
To increase 11-20%	6%
To hold steady	52%
To decrease	4%

Preferred supplier

Jobber	23%
Warehouse distributor	21%
Auto parts retailer	40%
OEM parts arm	15%

44% report that

INDEPENDENT REPAIR SHOPS

are the main competitors when selling this product.

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