

MAY 2016

## AFTERMARKET IS EMBRACING INVENTORY MANAGEMENT TECHNOLOGY INNOVATIONS

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# AFTERMARKET IS EMBRACING INVENTORY MANAGEMENT TECHNOLOGY INNOVATIONS



BY BRIAN ALBRIGHT | Correspondent

Inventory management has become increasingly challenging for the automotive aftermarket. SKU proliferation continues to expand, combined with new sales channels and order configurations, and expectations for faster delivery and better accuracy. Customers are ordering in smaller quantities, and expecting faster order turns. Auto parts retailers must compete with a growing number of e-commerce providers.

Manufacturers, distributors, jobbers and retailers have responded by investing in advanced forecasting tools, as well as new ways to improve the visibility and management of inventory in their respective supply chains.

“The inventory position in the market is high

because there are so many active SKUs,” says Jake Dombrowski, IT director at Tenneco. “Customers place orders and expect a 48-hour turnaround so something has to give somewhere. The answer is you build up inventory, and the best way to improve on inventory is to improve on the forecasts.”

Companies need better data so they can decide the depth of lines they need to cover, and have the logistics in place to get the right part to the right location. “Managing those lines, the depth of the lines, and how quickly you can do a line changeover are becoming more critical,” says Suelyn Sprague, director of product development at Epicor. “Managing

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## Analysis by market

### REPLACEMENT

**Vendors:** Franchise model offers training, experience and chances for success.

### EMERGING

**Technology:** Sensor-laden tires could play a larger role in autonomous driving.

### INTERNATIONAL

**Vendors:** LKQ to increase presence in Europe by purchase of Rhiag-Inter Auto.

### CUSTOMERS

**Dealers:** Takata recall taxes supply chain.

## Research

**Top 25 Auto Chain Report:** For the second consecutive year, AutoZone edges out Advance Auto Parts with the most company-owned stores in North America.

## Online Special Reports

### EXPERIAN AUTOMOTIVE

**Vehicles in operation:** The number of light-duty vehicles on U.S. roads jumped to an all-time high of 258 million in the fourth quarter of 2015, up 2.7 percent from 251.1 million year over year.

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## Opinion



**John Shoemaker**  
5S method promotes shop efficiency



**AASA's OAC**  
Global thinking is key to aftermarket success



**Scott Luckett**  
Business data sync is vital to avoid lost sales



**Mark Smith**  
Aftermarket life imitates a board game



**Stephen Barlas**  
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# Inventory management

“Big Data, analytics and improved forecasting are improving inventory up and down the supply chain.”

obsolescence is also more difficult, because vendors are putting tighter conditions on when you can return obsolete inventory.”

The old 80/20 rule of inventory (that 20 percent of SKUs will account for 80 percent of sales) is also getting diluted as companies find themselves handling a larger number of SKUs on a more frequent basis. “If the warehouses don’t find a way to optimize their operations, then their productivity drops,” says Al Neal, vice president of sales at MAM Software. “In this industry, margins are not favorable enough to keep those businesses profitable for long.”

To address these challenges, aftermarket companies are investing in updated technology. That includes retail locations that have added bar code scanning to their receiving operations and tapped into automated solutions that allow them to quickly locate and transfer inventory; warehouses that are shifting to new picking technologies and modern warehouse management solutions; and suppliers that are using advanced forecasting tools to help better place inventory and plan production.

“Reliance on automated, complex inventory planning systems forces us to better understand the underlying drivers, rather than using work-around methods to get the inventory levels we want,” says Ryan Carlton, manager of logistics engineering and warehouse management at Robert Bosch. “Though this will result in a stronger system in the long term, the short-term costs are higher than expected.”

For example, One Stop Parts Source, a California-based two-step distributor, has upgraded to Epicor Vision to accurately and more easily track inventory at its 16 locations.

Manufacturer Federal-Mogul has been strategically investing in its IT systems and distribution infrastructure to increase connectivity with customers. Those investments have included new multi-product line distribution centers on the East and West Coasts and robotics-based automation at several distribution centers.

“We are automating our distribution to increase accuracy and speed in the shipping ...CONTINUE READING □

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# Paint jobbers focus on training TO OFFSET IMPACT OF MERGERS

By **JAMES E. GUYETTE** | News Correspondent

The acceleration in the number of mergers and acquisitions (M&A) is putting pressure on paint jobbers to increase the coverage and depth of their training programs.

Consolidators in the collision repair industry and the growth of independent multi-shop operators (MSOs) are impacting paint jobbers local customer base of previously independent body shops. At the same time, consolidators in the paint refinish distribution category itself also are pursuing their own stream of M&A transactions.

According to industry estimates, eight years ago there were some 9,500 paint jobbers in the U.S., and now that number amounts to about 5,400 outlets.

Some jobbers may be eager to leverage an acquisition offer as an exit strategy, of course. Yet if that prospect is not what you desire, effective efforts to resist the impacts of consolidation in either the body shop or jobber segment can be augmented through an atmosphere of cooperation and education that assists in strengthening the operations, financial outcomes and balance sheets of the independent jobber.

“The jobbers have to figure out how to help the independent collision repair shops to survive so they can survive,” says consultant David Luehr of Elite Body Shop Solutions, which additionally provides industry educational services through the Refinish Distributors Alliance (RDA).

“Distributors need to find ways to add value besides delivering a can of paint,” says Keith Bell, U.S. sales manager for AkzoNobel and chairman of the Auto Care Association’s Paint, Body and Equipment Specialists (PBES) segment.

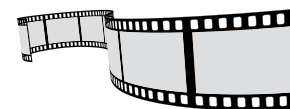
“We offer them education for their own business, but we also ‘train the trainers’ so they can go back to the end-user” to impart technical and business management training for their body shop customers. “People are seeking this kind of consolidation knowledge because it may be coming to their trading area,” Bell points out.

“Consolidation is a problem for jobbers and a problem for independent body shops,” says Luehr. “For jobbers it’s horrible,” recounting a particular collision center’s purchase by an MSO that implemented its own paint ...**CONTINUE READING** □

## ASE GUIDES | QUESTION OF THE MONTH

In October, an auto supply store sets up a display near the entrance selling windshield washer premix and winter windshield wipers. Using merchandising terminology, this is an example of:

- A. related and seasonal items
  - B. impulse and obligatory items
  - C. confrontation and anxiety items
  - D. corresponding and autumnal items
- Click here to see the answer.**



### [ WATCH AND LEARN ]



**Brian Littlefield of UPS discusses E-commerce and the aftermarket supply chain.**



**Pete Meier of Motor Age examines A/C system testing and inspection.**

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# Connecting current technicians TO CONNECTED VEHICLES

By **TSCHANEN BRANDYBERRY** |  
Special Projects Editor

Connected vehicles are becoming more commonplace, as current model year vehicles roll off the line with smart braking and lane departure technology already in place. Technicians around Ann Arbor, Mich., are getting a first-hand education on how the new technology works, how it should be maintained and problem solving the issues on these vehicles and beyond.

Students, faculty and researchers at Washtenaw Community College (WCC) in Ann Arbor conduct their studies, lessons and hands-on experiences at the college's Advanced Transportation Center. WCC also partners with the University of Michigan Transportation Research Institute (UMTRI) and the Mcity collaborative to take these experiences to the street. Mcity is the life-like urban setting and testing ground for connected vehicles and corresponding infrastruc-

ture, a part in which WCC plays a large role. Al Lecz, director of the Advanced Transportation Center, says the center has been charged with defining the roles of both transportation workers and automotive professionals, outlining core competencies all will need from installation through maintenance in the infrastructure and on the vehicle.

"We forecast that there will be a lot of public demand for aftermarket devices on older vehicles that would be getting some of the new OE equipment installed. People want the warning and safety messages in an aftermarket installation," Lecz says. "Our automotive program is in the heart of that, teaching technicians how to install and how to make them work properly. Our faculty are working to up-skill and integrate those new skills into our current programs. It's going to be a continuous thing. This is a crawl, walk and run of technology being implemented in a learning and teaching process here at the college."

Students enrolled in these advanced



*Washtenaw Community College works with others in the area on connected vehicle technology, such as stopping for objects or people in the road.*

transportation courses and similarly in computer programming courses are immersed in the technology both in today's and future vehicles as well as what goes into urban infrastructure. The Advanced Transportation Center at WCC consists of three areas: Intelligent Transportation Systems focused on safety, Advanced Manufacturing focused on what the vehicle is made of and how it's built and Automotive Transportation Servicing focusing on repair and maintenance. It combines expertise from WCC and the University of Michigan to provide a deep



Photos: Washtenaw Community College

*Washtenaw Community College experts work with Mcity, a 32-acre life-like urban setting and testing ground for connected vehicles and corresponding infrastructure.*

understanding of current technology and where the possibilities could lead.

"Key WCC faculty and program managers have been working with UMTRI and Mcity for some time now, sharing information and even some prototype data communications equipment for testing," Lecz said. "UMTRI leadership have keenly understood that implementation of Intelligence Transportation Systems technologies require not only transportation systems engineers, but also skilled ...CONTINUE READING □"



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# VENDORS

## Growth by acquisition

LKQ to increase presence in Europe through purchase of Rhiag-Inter Auto Parts

BY JAMES E. GUYETTE  
News Correspondent

LKQ's purchase of Rhiag-Inter Auto Parts Italia, amounting to an enterprise value of \$1.14 billion, would expand the Chicago-based firm's sales reach into Italy, the Czech Republic, Switzerland, Hungary, Romania, Ukraine, Bulgaria, Slovakia, Poland and Spain.

TRENDS & MARKET Analysis

"This acquisition gives us access to the rapidly growing Eastern European market, and of course Italy, where Rhiag's base business is well positioned for continued growth beyond their current 15 percent market share," according to Robert L. Wagman, LKQ's CEO and president.

Noting in a conference call with stock analysts that "our European strategy continues to evolve," he says the deal will allow "more runway to grow this fragmented market" and further solidify LKQ's "market-leading position across all of Europe."

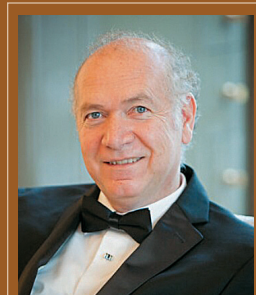
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### Vendor Newsmaker

## Q&A

**PATRICK CAPRIATI**

Marketing Promotion Manager  
Italian Trade Promotion Agency



What services do you offer to facilitate aftermarket business transactions between the U.S. and Italy?



What did Capriati say? Continue reading online.

[Read full interview](#)

sionals as customers, Rhiag has 247 distribution centers and 10 warehouses; 5,700-plus wholesalers are served.

Europe presents a "definite positive trend" as the car parc's average age is 8.7-years-old, "so we do expect that to be a nice tailwind for our European car parts business. As old cars get older, sort of what they're seeing here in

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“

Rhiag has 247 distribution centers, 10 warehouses and serves 5,700-plus wholesalers.

”

United States, you'll see more need for those mechanical parts," Wagman says.

The increasing complexity and sophistication of today's passenger car and commercial vehicle components is another factor cited in LKQ's forecast of operational achievements going forward, along with Rhiag's existing strong management team and an attractive distribution system.

Expecting pending governmental approvals to be finalized in the second quarter of 2016, the purchase "expands our addressable market with the addition of 10 new countries to our European footprint," says Wagman.

"Rhiag has a strong market position in Italy and the Czech Republic and experienced management teams in their respective markets," he says. "Clearly this acquisition will accelerate our strategy of creating a Pan-European after-market mechanical parts distribution business in this highly fragmented €188-billion (\$208.8 billion) wholesale DIFM market."

"I believe that, combined with LKQ, Rhiag Group will be in an even stronger position to deliver its superior service level to custom-

ers across Europe," says Luca Zacchetti, Rhiag's CEO.

LKQ board member Sukhpal Singh Ahluwalia – who is also the chairman of Euro Car Parts, the U.K.'s largest distributor with 200-plus outlets – reports, "I have long admired Rhiag's impressive track record of growth and strong distribution network. We have numerous common suppliers, and I have worked closely with many of them for more than 30 years. I am confident that together with Rhiag we will make our supplier relationships even stronger. LKQ and Rhiag share a commitment to serve our customers and a desire to expand into new markets."

"Rhiag is an example of a high quality, market leading distributor," says Frank Ehmer of private equity firm Apax Partners, Rhiag's owner that made the sale. "We believe the company is well-positioned to achieve success under LKQ ownership."

Already exporting to more than 70 nations, Rhiag has long been growth-oriented under its umbrella of regional brands:

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# TELEMATICS/CONNECTIVITY

## Goodyear's tires of the future

Sensor-laden tires could play larger role in autonomous driving applications

BY BRIAN ALBRIGHT  
Correspondent

As the number of connected cars on the road increases, and we move closer to the reality of autonomous, self-driving vehicles, every automotive system has become more intelligent. The number of electronic controllers and sensors increases with each model year, and each of those systems provides critical data that will play a role in making vehicles smarter.

### TRENDS & MARKET Analysis

That's also true of tires. While tires already include a number of sensors, Goodyear recently unveiled two concept tires that showcase an impressive array of electronics and new physical designs that could make connected or autonomous cars safer to operate.

"By steadily reducing the driver interaction and intervention in self-driving vehicles, tires will play an even more important role as the primary link to the road," says Joseph Zekoski, Goodyear's senior vice president and chief technical officer.

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### Technology Newsmaker

#### Q&A

**MIKE WARD**  
Vice President of  
Technical Services Software



Q What are the major drivers of labeling variability and how can that negatively affect a business?

A What did Ward say? Continue reading online.

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"Goodyear's concept tires play a dual role in that future both as creative platforms to push the boundaries of conventional thinking and test-beds for next-generation technologies."

"The market is moving toward autonomous vehicles, and that will change the role of the

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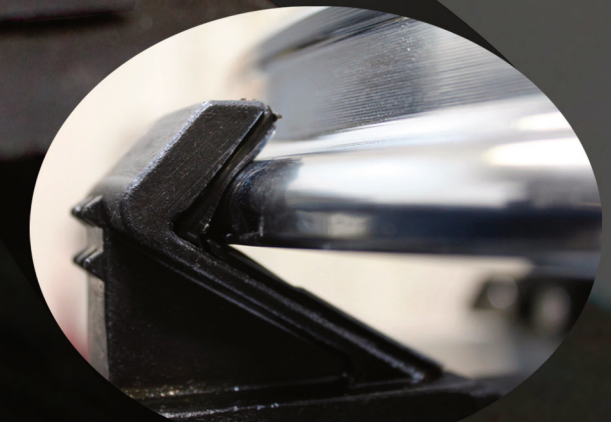


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The Eagle 360 tire is shaped like a basketball and relies on magnetic levitation.



driver and of the tires,” says Troy Scully, communications director for global research and development at Goodyear. “The more intelligent the vehicles get, the more intelligent the tires have to get.”

The company showcased the tires at the Geneva International Motor Show earlier this year.

### The spherical tire concept

Like concept cars, the tires feature a number of innovations that we’re not likely to see in actual

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tires any time soon, but that may slowly be incorporated into products over time.

That may be difficult to imagine, particularly in the case of the Eagle 360, a tire that is shaped like a basketball and relies on magnetic levitation.

The Eagle 360

concept tire is spherical shaped and features a sponge-inspired tread design (biomimicry) and multi-dimensional orientation. Because the tires are spheres rather than donuts, the vehicle could move any direction – a feature that would come in handy with self-driving cars, and even the self-parking vehicles that are already on the market.

The tread design was based on the structure of brain coral, and is responsive to road conditions. In wet conditions, the tire softens and becomes more flexible, providing better road grip. In dry conditions, it stiffens.

On the technology front, the tire is loaded with sensors that not only provide tire pressure monitoring, but also tread monitoring and regulation, as well as sensors that provide the ability to assess road and weather conditions.

The tire can even provide a safety boost by sensing nearby cars.

“With autonomous vehicles you reduce the responsibilities of the driver and put more onus on the car itself,” Scully says. “You rely more on cameras ...CONTINUE READING □

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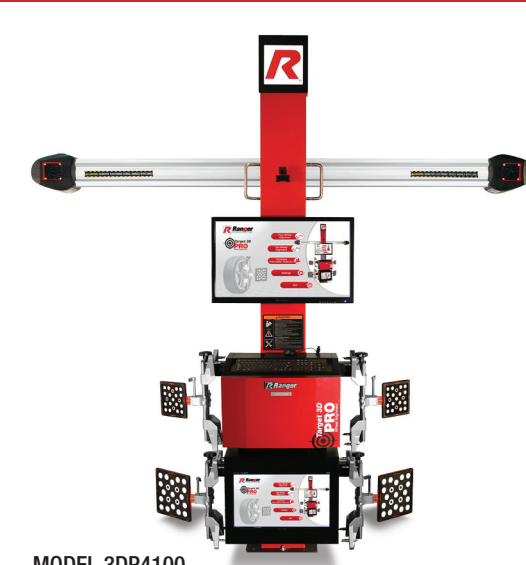
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## Takata recall taxes supply chain

Parts shortages have made airbag inflator recall a long, difficult journey

**BY BRIAN ALBRIGHT**  
Correspondent

The continued expansion of the Takata airbag inflator recall has strained the capacity of the troubled manufacturer to provide replacement units. Additional manufacturers are providing replacement equipment, while the National Highway Traffic Safety Administration (NHTSA) has resisted calls for even more recalls in an effort to relieve pressure on the supply chain.

### TRENDS & MARKET Analysis

Dealerships, meanwhile, face the prospect of providing replacement airbags to consumers that might have to be replaced again in the future because of the growing scope of the recall effort.

And in March, Honda Motor announced it would compensate U.S. dealerships for depreciation costs of vehicles they can't sell because of the airbag recall. Honda will also provide financial assistance to help offset floor planning costs incurred by the automaker's

### Dealer Newsmaker

## Q&A

**JULIA BRADFORD**  
Group HR Manager  
Jennings Motor Group



How long has Jennings service operation had the apprenticeship program in place and how does it work?



What did Bradford say? Continue reading online.

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stop-sales order on new and used vehicles from model years 2007 to 2015.

Some 29 million vehicles have been recalled because of the inflator problem. There are another 50 million vehicles in the U.S. that include Takata airbags that have not been recalled – but could be in the future.



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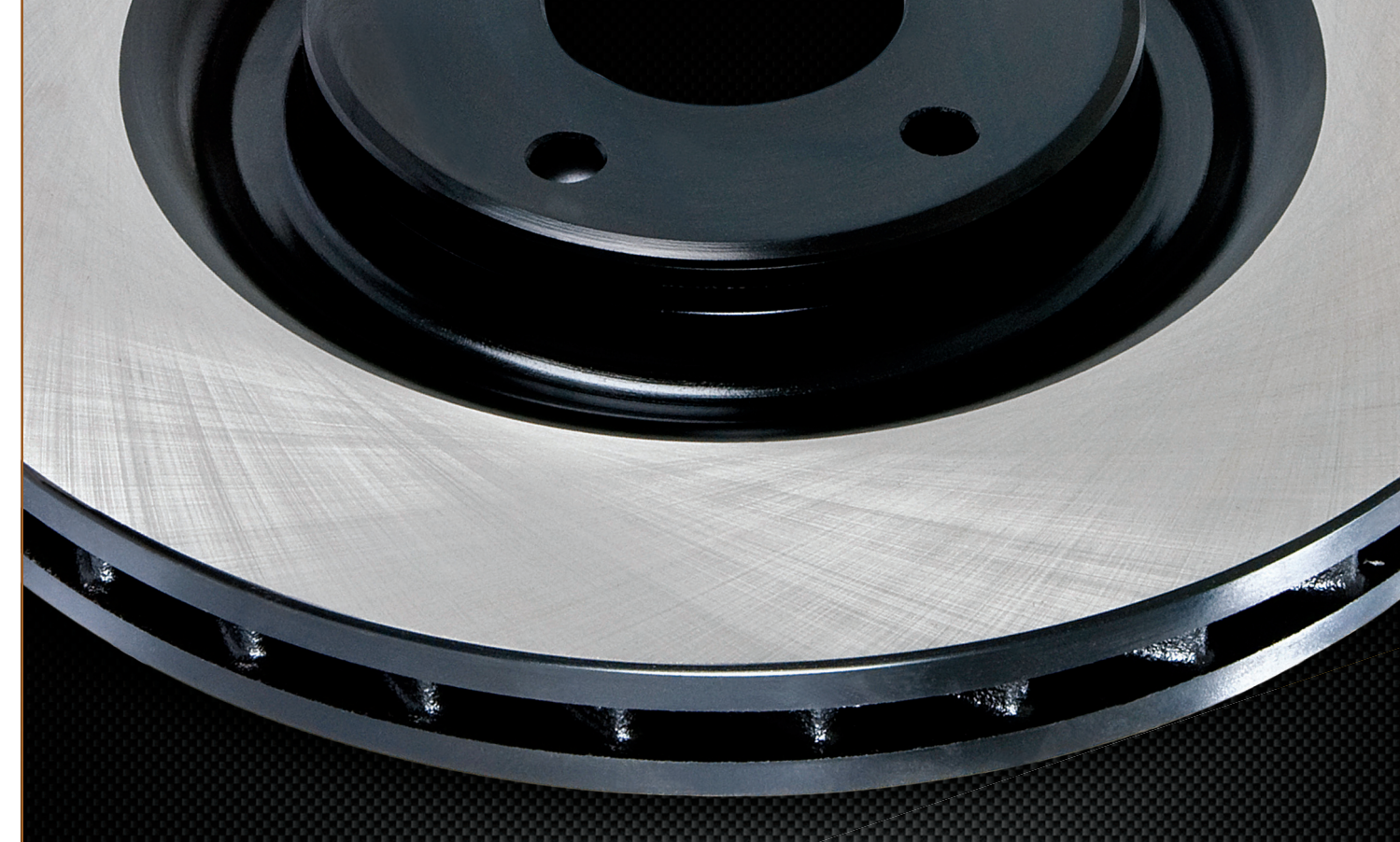
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DEALERSHIPS

“Dealers have replaced 7.1 million inflators or roughly 31 percent of affected airbags.”

Failure causes pinpointed

The faulty airbag inflators have killed 10 people worldwide and injured another 139. In January, another 5 million vehicles were recalled following the 10th and most recent death, that of a South Carolina man.

Ten automakers hired engineering firm Orbital ATK to investigate the cause of the airbag failures. The company cited the use of ammonium nitrate (a propellant) without a moisture-absorbing desiccant, combined with faulty inflator assemblies and prolonged exposure to hot, humid weather as the causes of the failures. In certain weather conditions, increased moisture in the airbags can cause them to explode.

Newer Takata airbags include a drying agent to mitigate against the moisture problem.

According to a Senate report released in February, there is evidence that Takata deliberately misled auto manufacturers with faulty data and inaccurate information about the airbags and the potential scope of the recalls. Internal documents indicate the company continued to manipulate safety data even after several fatalities and the start of the original recall.

According to the report: “Committee minority staff believe that the emails and other documents referenced above represent, at the very least, a failure by Takata to ensure the integrity of its testing of inflators or to respond appropriately to ethical concerns raised to senior Takata personnel. These apparent testing manipulations and the failure by Takata to address them raise concerns about the safety of all ammonium nitrate-based Takata airbag inflators.”

Takata failed to prioritize the safety of its products, and as a result nine people are dead and dozens are injured, and even after exploding Takata air bags had killed these innocent people, the company employees continued to manipulate safety-testing data. This is not only inexcusable, it’s reprehensible,” said Florida Senator Bill Nelson, the senior Democrat on the Commerce Committee investigating the recall.

On Feb. 23, Nelson called for NHTSA to move faster to address the Takata recalls, and for NHTSA to order Takata to stop manufacturing ammonium nitrate inflators and to recall all such inflators. ...CONTINUE READING

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# VENDORS

## Franchise model offers experience, training and chances for success

BY JAMES E. GUYETTE  
News Correspondent

**A**ffiliating with an established franchise operation “is the fastest way to understand proven business systems,” according to Charles J. Bonfiglio, the founder and CEO of Tint World Automotive Styling Centers, which has 64 franchises in 18 states along with a growing presence of overseas outlets.

### TRENDS & MARKET Analysis

“When you understand the systems behind a business, you understand how business works; all the formal education in the world can never prepare you for the constant reinvention it takes to stay ahead in the automotive business,” he points out.

Experiencing firsthand “what it was like to be too young and too inexperienced” to get his ambitious ideas off the ground, Bonfiglio recalls his struggles to get loans from banks, credibility from landlords and support from industry colleagues.

Never giving up, Bonfiglio pushed ahead with his goals, and upon establishing Tint World he continues to emphasize assisting others in achieving the appropriate levels of training needed for business success.

“Not just new-store training, but ongoing education as well,” he reports. Tint World annually hosts a convention that coincides with the Specialty Equipment Market Association’s SEMA Show in Las Vegas. “Owners benefit from special training sessions, roundtable discussions, meetings with vendor partners, and the network with thousands of automotive exhibitors.”

The company also presents an annual awards banquet during SEMA to honor its outstanding franchisees. “The whole event really creates a comradery between all the store owners,” says Bonfiglio, who recently answered a series of questions posed by *Aftermarket Business World*.

**Q:** You started out as a young and inexperienced entrepreneur; what were the challenges that you faced and what path did you take to success?

**A:** I started off as a young New York City clothing designer and restaurateur in the 1980s. While other kids were in universities, I spent my time in business. I had a dream that I wanted to install automotive stereos, so I moved to Florida to develop myself. It wasn’t easy, though, and I was met with a lot of challenges trying to get my own business off the ground; from gaining credibility with landlords, getting loans from banks, you name it.

I was in a new state and while I had good ideas, I didn’t have the knowledge needed to get the right support. Around that same time,

my cousins had recently opened their own automotive service and repair shop, and in talking with them I realized they were struggling with the same things I was. They couldn’t legitimize their business concepts any ...CONTINUE READING □



CHARLES J. BONFIGLIO

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# 5S method promotes SHOP EFFICIENCY, EFFECTIVENESS

**5**S, a workplace organization method used to promote efficiency and effectiveness, needs to be included in any improvements to your business. Realistically, it should be the platform that all your improvements are based on. I have seen shops in various stages of the 5S process, which includes Sort, Store, Shine, Standardize and Sustaining. Some have completed the process with great success, while others are hovering around what I refer to as 3.5S, a hazy area between Shine and Standardize.

To start you need to gather your people and explain what you are trying to accomplish. Some owners and managers will create elaborate plans giving little thought to the people involved. Let your team help decide where you should start and let them develop the action plan with you. I can assure you that if you walk out to the shop and tell everybody that you want the shop cleaned up by Friday, you will fail.

People are your first tool to success and you need their buy-in to reach your goal.

The first step in 5S is Sort. As you begin the Sort process, ask your peo-

ple to suggest to you what is good and what is not. Again, allow your people to help make the changes in the shop, as their buy-in of the process will ensure sustainability. In the Sort process, I suggest you think strategically.

I walked through a shop after they had completed their 5S and I admit it looked good. However, as I was walking through the shop a technician was pushing a welder across the floor. During the trip he hit a floor pot breaking a wheel off the welding cart. The manager looked at me and said, "There goes another wheel, wish they would be more careful."

I looked around and saw the shop's five welders lined up very neatly in marked spots along one wall. I asked the manager who generally uses that welder, his reply; "He does!" I then asked why he didn't keep it in his work area. You can only imagine the look he gave me. Think about where equipment is being used and locate it near that area.

That leads us to the second step, Store. When you layout your storage areas you again need to think strategically and arrange items in a way that is

People are your first tool to success and you need their buy-in to reach your goal.

## COLUMNISTS

### Scott Lockett

Business data sync is vital to avoid lost sales

### Mark Smith

Aftermarket life imitates a board game

### Stephen Barlas

Controversy brewing over automotive software

### AASA/OAC

Global thinking is key to success in today's aftermarket

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**JOHN SHOEMAKER**  
Business Development Manager  
BASF North America

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based on frequency of use. Ideally, you want the items nearby so it takes minimal steps to retrieve them. This is a good time to introduce work carts for supplies used continually throughout the day.

Storage areas should be dedicated to specific items ...**CONTINUE READING** □



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# Business data sync is vital **TO AVOID LOST SALES**

I was watching my favorite cable program the other day and grew increasingly annoyed because the audio was just a half a beat off from the video. It was completely distracting because what my eyes told my brain to expect was out of sync with what my ears were hearing.

But imagine if that was your critical business data, and your version of the truth was a bubble off from that of your trading partner. Business data that isn't in sync between trading partners can be more than annoying – it can be very expensive.

In this column we've written at length about how rich product content and catalog data fuels your business systems. But if the maker of the product and the distributor/retailer don't have their product data and inventory files in perfect sync, the business systems consuming that data fuel can misfire and make some costly mistakes.

Data elements critical to e-commerce and procurement include the brand name and part number, the standard package and the unit of measure as well as the pricing and minimum order quantity. If the supplier

and distributor are not perfectly aligned on these fields for all items, the result can be lost sales, shipping overages and shortages, invoicing errors and costly adjustments. When you consider that a typical distributor manages data for hundreds of thousands of items and gets data refreshed weekly or in some cases daily, a very small margin of error can affect many products and even more transactions.

When dealing with product data in the volumes commonly found in the aftermarket, it's essential that processing be automated to the greatest degree possible. And for systems to function as intended, critical data elements must be standardized and recognizable by the application. Unlike humans, business systems cannot recognize "Standard" and SMP as the same, or Dog Bone and Engine Torque Strut as synonymous.

Brands and part terms that cannot be found, simply get lost in search results. This results in lost sales and customer disappointment. Remember, with more business being conducted online (both

B2C and B2B) there is no parts professional standing by to interpret the results. Customers will either be delighted or disappointed by what they see on the screen. Type "dog bone" into Google and see what you get. Ask the pro behind the parts counter for a Dog Bone and she'll ask you for the year, make, model and engine.

A number of years ago, the Auto Care Association conducted a study to ...**CONTINUE READING** □



**SCOTT LUCKETT**  
VP, Industry Strategy  
GCommerce Inc.




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# Aftermarket life imitates A BOARD GAME

Last year I wrote an article about Icahn Enterprises purchasing Uni-Select USA and questioned what the real reasons were for a major manufacturer (Federal-Mogul) wanting to get into wholesale and retail parts distribution.

Since then Icahn Enterprises has outbid Bridgestone to acquire Pep Boys. If this were a game of Monopoly, Icahn seems to be focusing on Boardwalk and Park Place, accompanied by lots of hotels, and owns all four of the railroads as well. In the meantime, the rest of us seem to be stuck with Baltic Avenue and rely on Chance as our primary business strategy, mortgaging every property we have to stay afloat in case we “roll the dice” incorrectly.

While being in the automotive aftermarket business is by no means a game, everybody wants to be a major player and Icahn is positioning himself to do just that. He’s got the manufacturing, a distribution system to the jobber level, company owned jobber stores, and now a sizable retail chain complete with tires and repair. An automotive monopoly? Not according to regulating authorities, but old timers like me are envisioning something else – an end game. Let me explain my convoluted and comforting theory.

In the game of monopoly the first move is to roll the dice. Becoming a jobber store or service center is not very different in that respect. Each continuing roll either leads to property acquisitions, rewards or penalties.

After several trips around the board (years in business), patterns begin to emerge as participants start to carve out their corner of the board. Deals are made, properties bought and sold, losers drop out and some unfortunate souls occasionally go to jail.

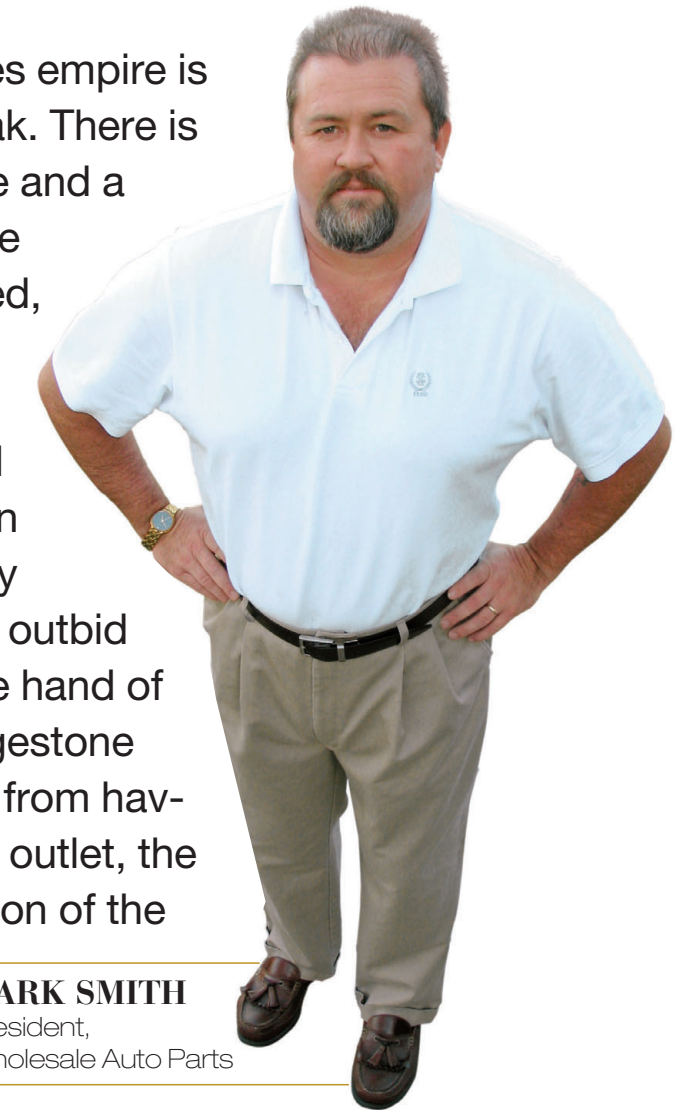
But what about the malingerers? The ones that have enough to make it around the board in spite of all the taxes, mortgage fees and penalties? We can’t really get any bigger without taking the risk of “rolling the dice” again and getting hit with the rent of four hotels on Park Place. This competition has gone on so long that our kids have lost interest in watching.

My Uncle Bob, a serious Monopoly player, is drooling with anticipation when anyone rounds the corner of Atlantic Avenue, approaching the hotels on his properties. I’ve gotten so jaded and tense, I’m happy to just visit someone in jail or get free parking, and I’m not just talking about the game of Monopoly! I don’t want to get beaten, but I would like to get some rest. All my Uncle Bob has to do at this point is make me an offer to allow

“Those of us with no exit strategy might take 50 cents on the dollar just to leave the game.”

me some small pittance of dignity for having played well and made it this far. Do you think my Uncle Bob knows this?

The Icahn Enterprises empire is being built as we speak. There is much work to be done and a chance to revolutionize how product is sourced, built, dispersed, marketed and sold. This influence also will have a similar affect on tire distribution. Simply put, Icahn Enterprises outbid Bridgestone to win the hand of Pep Boys. While Bridgestone could have benefitted from having this huge retail tire outlet, the automotive parts portion of the business was probably seen by them as an



**MARK SMITH**  
President,  
Wholesale Auto Parts

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# Controversy brewing over **AUTOMOTIVE SOFTWARE**



OEMs increasingly use software and firmware to control the function of motor vehicle parts.



The U.S. Copyright Office is about as low a profile federal agency as one can imagine. In 35 years of covering Washington for about 50 trade and professional magazines in many different sectors, I have never written anything about the office. I didn't even know it existed.

That all changed when the office raised its head on a controversial issue, in this case software enabled consumer products, such as the electronic control units (ECUs) in automobiles. The issue came to surface quickly when the Electronic Freedom Foundation (EFF) filed a request for an exemption from the Digital Millennium Copyright Act's prohibition on circumvention of copyrights for consumer products.

The Copyright Office is part of the Library of Congress. It reviews certain sections of the copyright law every three years. It was about to undertake a review of section 1201, which encompasses the DMCA's provisions that have been cited by auto manufacturers as allowing them to sue third parties for copyright infringement.

The Librarian of Congress granted the EFF an exemption from section 1201 liability in October 2015,

but only for do-it-yourselfers, not third parties, such as independent service stations and parts manufacturers. One week after the Librarian of Congress issued the exemption the two top senators on the Senate Judiciary Committee sent a letter to the Register of Copyrights asking her to conduct a study of the role copyright law plays in defining how software-enabled products can be used. Two studies are now being prepared, and comments from industry are pouring in.

Aaron Lowe, senior vice president, Regulatory and Government Affairs, Auto Care Association, says, "The issue went viral for us after the Library of Congress issued its decision last October. We couldn't understand how the exemption did not extend to third parties." Lowe said that the reports will be issued later this year, and will lead to legislative discussion next year.

The problem for aftermarket players is that original equipment manufacturers increasingly use firmware and software to control the function and operation of motor vehicle parts. Engines, transmissions, oxygen sensors, ignitions, brakes, emissions systems, electric windows, air blowers, air bags and even windshield wipers are a few of the systems in which manufactur-

ers have replaced purely electro-mechanical parts with microprocessors and software controls embedded in ECUs.

Groups such as the Auto Care Association are awaiting the two copyright office reports before formulating a legislative strategy, which will be deployed next year in the next Congress. There are a couple of germane bills in Congress now bearing on software ownership that have not moved forward in part because their sponsors are waiting for these two Copyright Office studies to be completed, and to be able to use them as political ammunition.

One bill is called Breaking Down Barriers to Innovation Act of 2015 (S. 990/H.R. 1883). This bill would essentially ...CONTINUE READING ▢



**STEPHEN BARLAS**  
Washington Correspondent



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# Global thinking is key to success IN TODAY'S AFTERMARKET

Today, there are more than 1 billion vehicles on the road globally, 70 percent of which are outside the U.S. Vehicle parc growth rates are three times higher outside of the U.S. and European Union.

Global thinking is core to success in today's automotive aftermarket. Many members of the Automotive Aftermarket Suppliers Association (AASA) are multinational companies who have been doing business overseas for a generation. Today, virtually all suppliers are expanding their production, sourcing and selling around the world.

This is especially true in China, where there are already 120 million cars on the road. In the near future, there will be more cars on the road in China than in the United States. China's vehicle parc includes an increasing variety of makes and models, which will age. A used car market is being created as well. All of these factors equate to a great available market for maintenance and repair.

The long-term development of the aftermarket in China is viewed as a huge opportunity. The key now is the development of a sustainable profitable business model to service this opportunity, and parts manufacturers are the key to this development.

China's vehicle owners need maintenance and repair service. They need local access to a variety of choices of quality products and convenient service outlets; replacement products that are of consistently high quality, are easily available, and are professionally installed; and confidence in the performance and safety of the replaced parts and repair service.

The distribution of auto parts as well as vehicle repair service can be significant contributors to employment and gross domestic product as China shifts to a more balanced economic model. A new rulebook is evolving in China to ensure an open repair market and move away from the OEM-dominated model of the past.

AASA and its China Aftermarket Forum (CAF) are working in China to monitor the regulatory process and, where possible, shape new guidelines for the aftermarket. As part of this effort, we have developed a strong relationship with the Auto Components workgroup of

the European Union Chamber of Commerce (EUCC) in China. AASA and CAF are collaborating with EUCC on a common global industry position regarding the opening up the independent aftermarket in China.

The CAF has provided support and networking to its members' local aftermarket executives for more than a decade. Through the MEMA China Center and its director, Dr. Yilong Chen, we provide on-the-ground support for business development in China.

For more information about AASA's China initiatives, view this video.

Editor's note: Jay Burkhart is AASA vice president, chief strategy officer and executive director of the AASA China Aftermarket Office. Burkhart provides strategic guidance and global aftermarket direction to Dr. Yilong Chen, managing director of the new MEMA China Center in Shanghai, also the location of the AASA China Aftermarket Office. □



JAY BURKHART  
AASA VP  
China Aftermarket Office

“New rules in China ensure an open repair market and move away from the past model.”



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# THE STORY BEHIND THE BIG NUMBERS

## ICAHN'S AUTO PLUS MAKES BIG SPLASH IN TOP 25 REPORT

BY **BRUCE ADAMS** | MANAGING EDITOR

**W**hen it comes to the annual Aftermarket Business World Top 25 Auto Chain Report, sometimes there's a story that big numbers alone can't tell.

That's the case this year due to the meteoric growth through acquisition of IEH Auto Parts LLC, doing business as Auto Plus Auto Parts and Pep Boys.

For those keeping score, for the second consecutive year AutoZone edged Advance Auto Parts by having the most company-owned stores in North America with 5,644 compared to approximately 5,200 for Advance Auto Parts, according to the report.

O'Reilly Automotive was third with 4,571 company owned

stores in North America, followed by Genuine Parts Company with 1,138 North American company-owned stores.

But the larger story in the last 12 months was the rapid growth through acquisition of IEH Auto Parts.

In June 2015, Icahn Enterprises LP completed the acquisition of Uni-Select USA and Beck/Arnley Worldparts, which had supported the U.S. auto parts distribution business of Uni-Select Inc. The \$340 million transaction included 22 distribution centers and satellite locations, 259 corporate owned stores and more than 3,500 employees in the U.S.

Rather than settle back and digest this large acquisition, Icahn Enterprises struck again in December 2015 by outbidding Bridgestone Retail Operations LLC in dramatic back and forth fashion to acquire Pep Boys for approximately \$1.03 billion. Icahn Enterprises agreed to pay on behalf of Pep Boys a termination fee of \$39.5 million to Bridgestone for a previous agreement Bridgestone had struck with Pep Boys. The Pep Boys deal closed on Feb. 4, 2016 and Icahn added 800 locations in North America to its portfolio.

As a result of the two acquisitions and other smaller ones, IEH Auto Parts LLC dba Auto Plus Auto Parts and Pep Boys came in fifth place with 1,069 company-owned stores in this year's Top 25 Auto Chain report. The company, led by CEO and President Brent Windom, reported approximately 21,000 employees and 3,370 total locations. □

### 1 AUTOZONE INC.

123 South Front Street  
Memphis, TN 38103  
Phone: (901) 495-6750  
www.AutoZone.com

**CEO/President:**  
William C. Rhodes III  
**Program Group**  
**Affiliation:**  
None  
**Stores:** 5,644

**Employees:** 81,000  
**Retail:** 80%  
**Commercial:** 20%  
**Sales:** \$10.187 billion (2015)  
**Estimated Sales (2016):** NA

AutoZone continues implementation of its inventory availability initiatives. At the end of the quarter ending Feb. 13, 2016, the company expanded its increased frequency of distribution center deliveries initiative to 1,300 domestic AutoZone stores and expects by the end of the fiscal year to be servicing approximately 2,000 of its 5,000 domestic AutoZone stores. AutoZone expects to open approximately five additional Mega Hubs by the end of the fiscal year. During the quarter ending Feb. 13, 2016, AutoZone opened 30 new stores and relocated two stores in the U.S., opened nine new stores in Mexico, and opened two IMC branches.

### 2 ADVANCE AUTO PARTS

5008 Airport Road  
Roanoke, VA 24012  
Phone: (877)-advance  
www.advanceautoparts.com  
**CEO:**  
Tom Greco

**President:**  
George Sherman  
**Program Group**  
**Affiliation:**  
None  
**Stores:** Approx. 5,200

**Employees:** 73,000  
**Retail:** 43%  
**Commercial:** 57%  
**Sales:** \$9.74 billion (2015)  
**Estimated Sales (2016):** NA

Advance Auto Parts took measurable steps to grow key parts of its business in 2015. The company accelerated the General Parts International integrations process by completing the consolidation of corporate functions and integration of field teams. It completed the first phase of Carquest market conversions. It also grew its membership loyalty program, Speed Perks, to more than 11 million and increased the professional membership program, TECHNET, to 8,300. In addition to its approximately 5,200 stores in North America, it serves approximately 1,300 independently owned Carquest locations.



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233 South Patterson Ave.  
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www.oreillyauto.com

**CEO/President:**  
Greg Henslee

**Program Group**  
None

**Affiliation:**  
None

**Stores:** 4,571

**Employees:** 67,926

**Retail:** 58%

**Commercial:** 42%

**Sales:** \$7.967 billion (2015)

**Estimated Sales (2016):** \$8.5 billion

O'Reilly announced record revenues and earnings for its fourth quarter and full year ended Dec. 31, 2015. The results represented 23 consecutive years of comparable store sales growth and record revenue and operating income for O'Reilly since becoming a public company in April 1993. In 2015, O'Reilly added 205 net, new stores and expanded into Connecticut, its 44th state. The company said it will face "very difficult" same store sales comparisons in each quarter of 2016, and based on these factors, established its first quarter and full-year 2016 comparable store sales guidance ranges at 3 percent to 5 percent.

**4 GENUINE PARTS COMPANY**

2999 Circle 75 Parkway  
Atlanta, GA 30339  
Phone: (770) 953-1700  
www.genpt.com

**Program Group**  
NAPA

**Affiliation:**  
None

**Stores:** 1,338 (North America only)

**Employees:** 39,600

**Retail:** 25%

**Commercial:** 75%

**Sales:** \$8.0 billion (2015, automotive group only)

The Automotive Group, Genuine Parts Company's largest segment at 52 percent of 2015 revenues, reported a 1 percent sales decline for the year. This reflects core sales growth of approximately 3.5 percent and a slight benefit from acquisitions, offset by an approximate 5 percent currency impact. Each of its four geographic regions, the U.S., Canada, Mexico and Australasia, generated positive core sales increases in their local currencies in 2015.

**5 AUTO PLUS/ PEP BOYS**

1155 Roberts Blvd. Ste. 175  
Kennesaw, GA 30144  
Phone: (770) 701-5000  
www.autoplus.com  
www.pepboys.com

**CEO/President:**  
Brent Windom

**Program Group**  
None

**Affiliation:**  
None

**Stores:** 1,069

**Employees:** Approximately 21,000

**Retail:** NA

**Commercial:** NA

**Sales:** NA

**Estimated Sales (2016):** NA

In June 2015, Icahn Enterprises L.P. completed its acquisition of substantially all of Uni-Select USA and Beck/Arnley Worldparts, which supported the U.S. automotive parts distribution business of Uni-Select Inc. The new entity was IEH Auto Parts LLC dba Auto Plus. The transaction included 22 distribution centers and satellite locations, 259 corporate-owned stores and more than 3,500 employees in the U.S. In February 2016, Icahn Enterprises closed its acquisition of The Pep Boys — Manny, Moe & Jack in an all-cash transaction of \$1.03 billion. The new entity is IEH Auto Parts LLC dba Auto Plus Auto Parts and Pep Boys.

**6 FISHER AUTO PARTS**

512 Greenville Ave.  
Staunton, VA 24401  
Phone: (540) 885-8901  
www.fisherautoparts.com

**CEO:**  
Bo Fisher

**Program Group**  
Federated (The Group)

**Affiliation:**  
None

**Stores:** Approximately 700

**Employees:** 5,000

**Retail:** 25%

**Commercial:** 75%

**Sales:** NA

2014 was a year of incredible growth as Fisher Auto Parts added nearly \$300 million in sales through acquisitions, greenfield locations and same-stores sales growth of 8.8 percent. The company also helped to form the Automotive Parts Services Group. 2015 was prudently an assimilation year that produced record sales and profits. The company continues to invest more every year in people, inventory, education, information technology, infrastructure and training as new technology offers greater opportunities.

**7 UNI-SELECT INC.**

170 Industriel Blvd.  
Boucherville, Quebec  
J4B 2X3  
Phone: (450) 641-2440  
www.uniselect.com

**CEO/President:**  
Henry Buckley

**Program Group**  
None

**Affiliation:**  
None

**Stores:** Approx. 245

**Employees:** 2,700

**Retail:** NA

**Commercial:** NA

**Sales:** \$736.6 million (2015 auto only).

**Estimated Sales (2016):** NA

In February 2015, Uni-Select agreed to sell substantially all of the assets of Uni-Select USA Inc. and Beck/Arnley Worldparts Inc. for approximately \$340 million to an affiliate of Icahn Enterprises L.P. The deal closed in June 2015. Uni-Select said the proceeds of the transaction would be used to repay its outstanding debt, settle related transaction costs and to invest in future growth-driven organic and acquisition opportunities. Uni-Select retained its FinishMaster automotive paint and related products distribution activities in the U.S., as well as its automotive products distribution business in Canada.

**8 AUTO WARES GROUP OF COMPANIES**

440 Kirtland SW  
Grand Rapids, MI 49507  
Phone: (616) 243-2125  
www.autowares.com

**CEO/President:**  
Fred Bunting/  
Todd Leimenstoll

**Program Group**  
The Alliance

**Affiliation:**  
None

**Stores:** 178

**Employees:** 2,184

**Retail:** 25%

**Commercial:** 75%

**Sales:** NA

From March 16, 2015 through the end of the year, Auto Wares acquired or opened 15 new locations. The company announced March 8, 2016 that it will acquire Thompson Auto Supply's two stores in Illinois. The company is implementing Sales-i Mobile Business Intelligence to provide current analytics for Salesforce and sales growth opportunities for its independent service providers. Over 3,500 attended Tech Expo events in Grand Rapids, Mich., and Schaumburg, Ill., for tech training and new product knowledge. Auto Wares hosted over 800 technician and business owners at AAPEX/SEMA for the Alliance convention.

**9 REPLACEMENT PARTS INC.**

1901 E. Roosevelt Road  
Little Rock, AR 72206  
Phone: (501) 372-5275  
www.BTBAutoParts.com

**CEO/President:**  
Bill Schlatterer

**Program Group**  
The Alliance

**Affiliation:**  
None

**Stores:** 172

**Employees:** 1,240

**Retail:** 20%

**Commercial:** 80%

**Sales:** \$219 million (2015)

**Estimated Sales (2016):** NA

Replacement Parts Inc. grew its business in 2015 by taking advantage of acquisition opportunities occasioned by industry consolidations and by core growth. The company store count increased by five to 172 including car dealer specialty operations. The company is engaged in purchasing and/or converting regional competitor stores to its Bumper to Bumper Auto Parts Store program. RPI continues to incorporate inventory optimization technology afforded by the Alliance group into its own proprietary inventory management program known as AIM. Internet sales as a function of total volume continue to grow steadily on the traditional side.

**10 AUTOMOTIVE PARTS HEADQUARTERS**

2959 Clearwater Road  
Saint Cloud, MN 56301  
Phone: (320) 252-5411  
www.autopartshq.com

**President:**  
Corey Bartlett

**Program Group**  
Alliance (Auto Value)

**Affiliation:**  
None

**Stores:** 101

**Employees:** 1,000+

**Retail:** 25%

**Commercial:** 75%

**Sales:** \$110 million (2015)

**Estimated Sales (2016):** \$120 million

Automotive Parts Headquarters added four stores in 2015, two independents and two to the corporate store group. APH successfully converted to Epicor's Vision enterprise resource planning and JMO's Indago warehouse management system. In addition to upgrading and expanding a number of product lines throughout the year, APH further grew its medium- and heavy-duty categories. APH strengthened its team by adding key management team members in HR, Paint/Body/Tools/Equipment, store operations and sales management. APH armed its sales force with new customer relationship management tools and technology.

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COMPANY	STORES	WHOLESALE/ RETAIL %	2015 SALES	CEO/PRESIDENT	LOCATION	PHONE	PROGRAM
11 Hahn Automotive Warehouse	88	80/20	\$210 million	Eli Futerman/Dan Chessin	Rochester, NY	(585) 235-1595	The Alliance
12 XL Parts	70	100/0	\$250 million	Ali Attayi	Houston, TX	(713) 983-1100	Pronto
13 Arnold Motor Supply	60	75/25	Not available	Dennis Spooner	Spencer, IA	(712) 262-1141	The Alliance
14 Auto Tire and Parts	49	80/20	Not available	John Tlapek/Greg Stroup	Cape Girardeau, MO	(573) 334-9131	NAPA
15 Bond Auto Parts	48	80/20	\$74 million	Scott Bond	Barre, VT	(802) 479-4026	The Alliance
15 SAE Warehouse Inc.	48	67/33	\$64 million	Tim Sturdevant	Sioux Falls, SD	(605) 362-6970	Pronto
17 Arnold Oil Company	41	70/30	\$100 million+	Jim Arnold	Austin, TX	(512) 476-2401	Federated
17 The Parts House	41	98/2	\$150 million+	David Honig	Jacksonville, FL	(904) 731-3034	The Network
19 Automotive Supply Associates	39	80/20	Not available	David T. Segal	Concord, NH	(603) 225-4000	The Network
20 Walker Auto and Truck Parts	35	80/20	\$38 million	Dan Walker	Raleigh, NC	(919) 833-8955	NAPA
21 Bennett Auto Supply	34	70/30	\$69 million	Harold Bennett	Pompano Beach, FL	(954) 335-8700	The Alliance
22 Car Parts Warehouse	31	75/25	\$80 million	Tony Di Fiore	Brookpark, OH	(216) 676-9304	Parts Plus
23 ABC Auto Parts	28	60/40	\$61 million	Larry Pyle	Longview, TX	(903) 232-3060	The Alliance
24 Jobber's Auto Warehouse	26	70/30	\$33.5 million	Bob Evans	Wichita, KS	(316) 267-4393	The Alliance
25 Brooks Auto Parts	25	70/30	Not available	(Don) Elton D. Brooks Jr.	Douglas, GA	(912) 384-7818	NAPA
25 Hedahls Auto Plus	25	75/25	\$35 million	Dick Hedahl	Bismarck, ND	(701) 223-8393	Auto Plus
25 Smyth Automotive Parts Plus	25	75/25	\$55 million	Jim Smyth	Cincinnati, OH	(513) 843-2117	Parts Plus



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