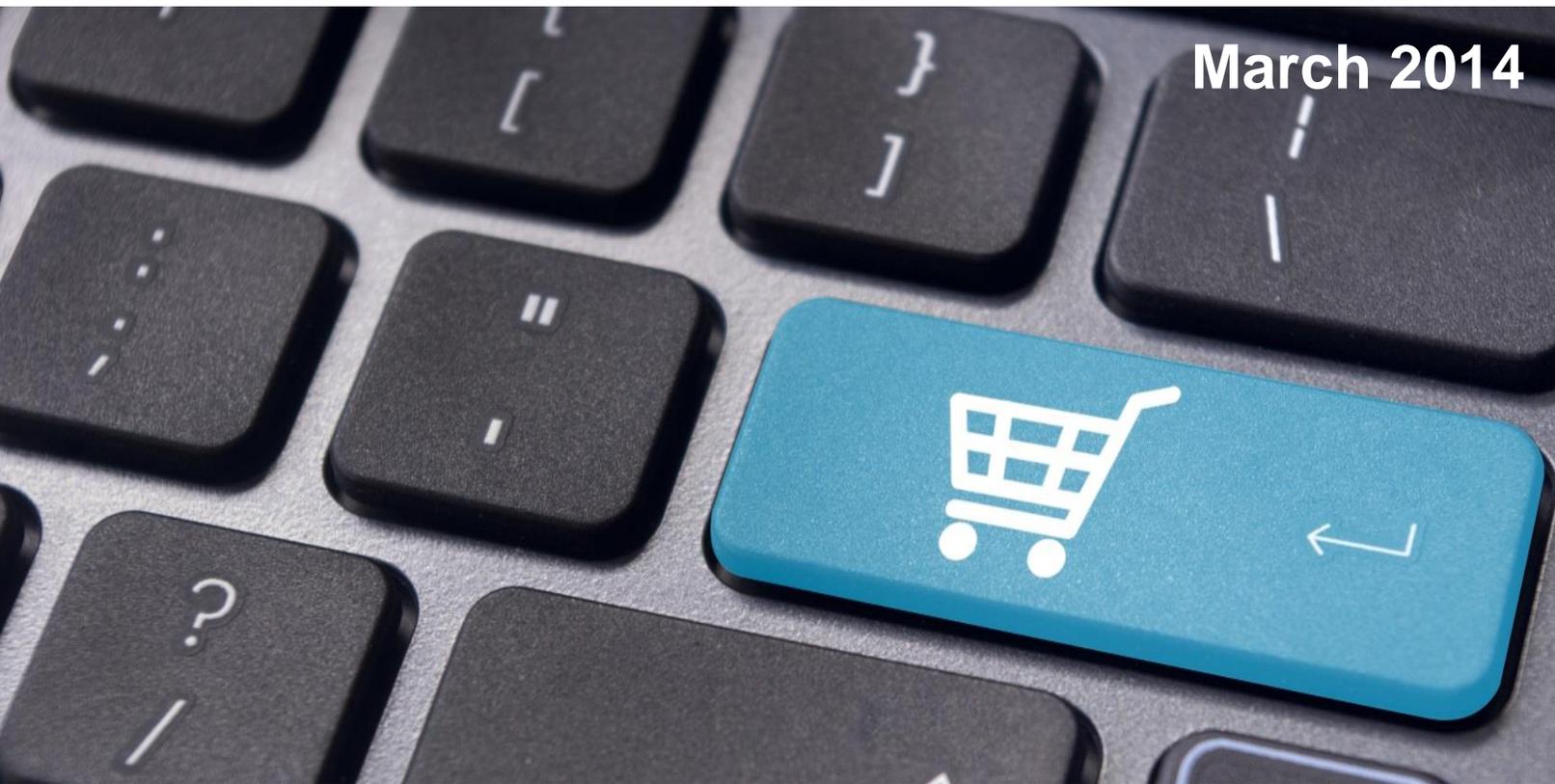




Digital Disruption: e-Tailing in the Automotive Aftermarket

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AASA Special Report

AASA Thought Leadership:

Digital Disruption: e-Tailing in the Automotive Aftermarket

AASA exclusive update and summary of the groundbreaking 2013 report by AASA and Booz & Co., “e-Tailing: Supplier Success Strategies for the Fastest Growing Segment of the Aftermarket”

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Aftermarket e-tailing is one of the current hot topics affecting AASA members and the aftermarket supply chain. While this niche market is still a small portion of overall business, suppliers are concerned about the long term effects this could have on their business.

The key for aftermarket suppliers is to stay informed of this growing segment and take note of implications to support models for channel partners and potential e-tail partners. By bolstering an online presence, suppliers can secure an effective spot online in the purchase process to capitalize on the opportunities of e-tailing in the DIY and DIFM markets.

The Basics: Basic Definitions and Markets

Let's begin with defining what e-tailing is and is not. Aftermarket **e-tailing** refers to parts sold through the Internet to do-it-yourselfers (DIY) and service professionals through public websites.

e-Tailing is not e-commerce. **Captive B2B**, through e-commerce and e-catalog systems, currently has high use in the aftermarket and will continue to grow; however, this is not what is disrupting the aftermarket business. e-Commerce has been around for decades in many industries, including the automotive aftermarket.

In the late 90s, during the Internet bubble, the automotive aftermarket was expected to follow other industries and see increased adoption of e-tailing. However, this was not the case. More than a decade later, the aftermarket is starting to experience some digital disruption. In recent years, aftermarket e-tailing has grown dramatically, with an estimated 60 percent of the growth occurring in the past four years. With the introduction of new major players (Amazon, eBay Motors, etc.) and the increased use of mobile devices, aftermarket e-tailing is just beginning to take off.



		Estimated Share of e-Tailing Market (Booz)
Bricks and Clicks	<ul style="list-style-type: none"> AutoZone, Advance, Pep Boys, etc. offering home delivery, or pick up in store 	~20-25%
Online Marketplace Platform	<ul style="list-style-type: none"> Amazon and eBay facilitating anyone to selling online 	~10-15%
Pure-Play Generalist e-Tailers	<ul style="list-style-type: none"> Amazon 	<10%
Pure-Play Auto Specialist e-Tailers ¹	<ul style="list-style-type: none"> High fragmented, from broad to highly focused by part type, vehicle, or application 	~50-60%
Manufacturer Direct to Customers	<ul style="list-style-type: none"> Not many companies within AASA are going direct today 	<1%

Source: Booz & Company

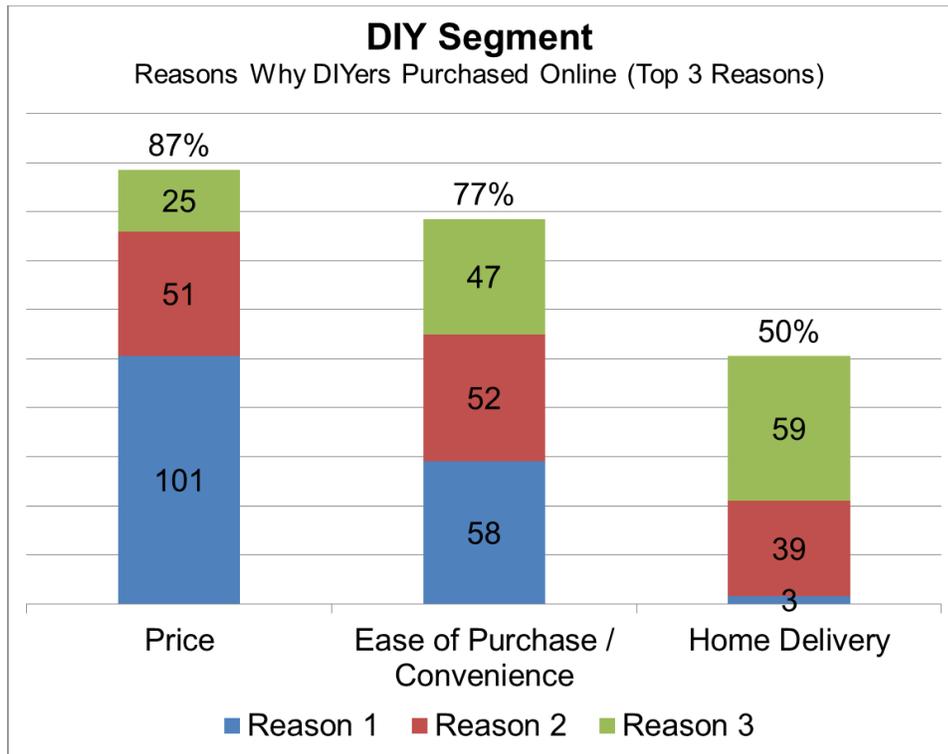
Despite e-tailing becoming a recent disruption in the aftermarket, many models are already in play.

“Bricks and Clicks” have existed for some time now, with major retailers continuing to sell stock online as well as in their store fronts. Booz & Co. estimates this to account for nearly a quarter of e-tailing in the aftermarket.

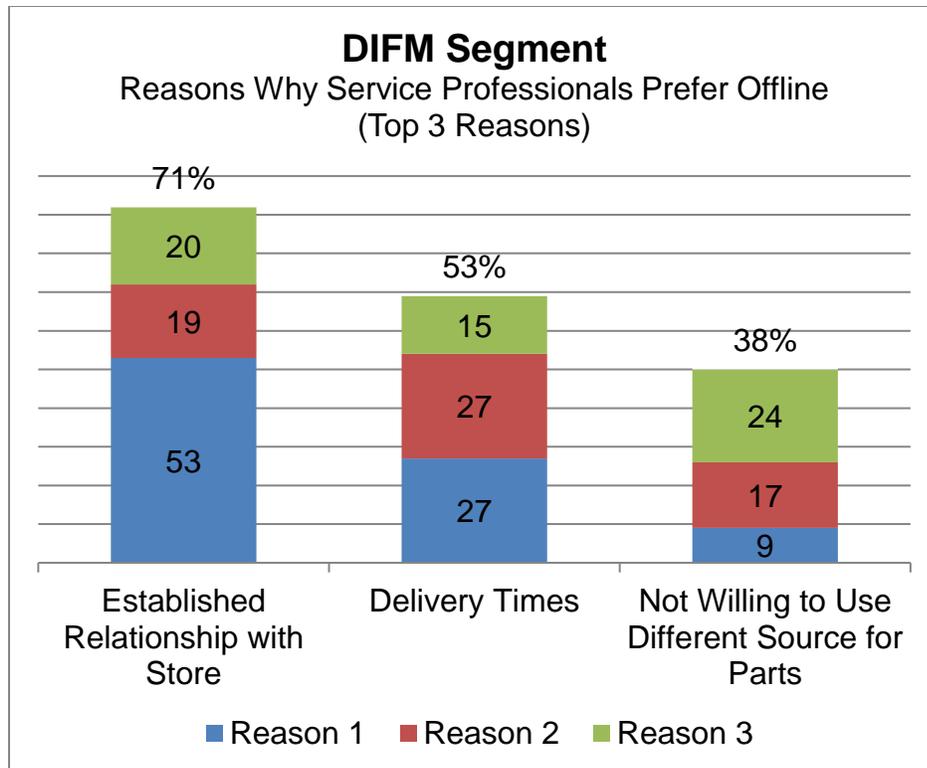
The majority of e-tailing in the aftermarket is dominated by pure-play auto specialist e-tailers. Their stock is very diverse ranging from broad categories to highly specialized.

Less than 1 percent of the e-tailing market consists of the manufacturer-direct-to-consumer model.





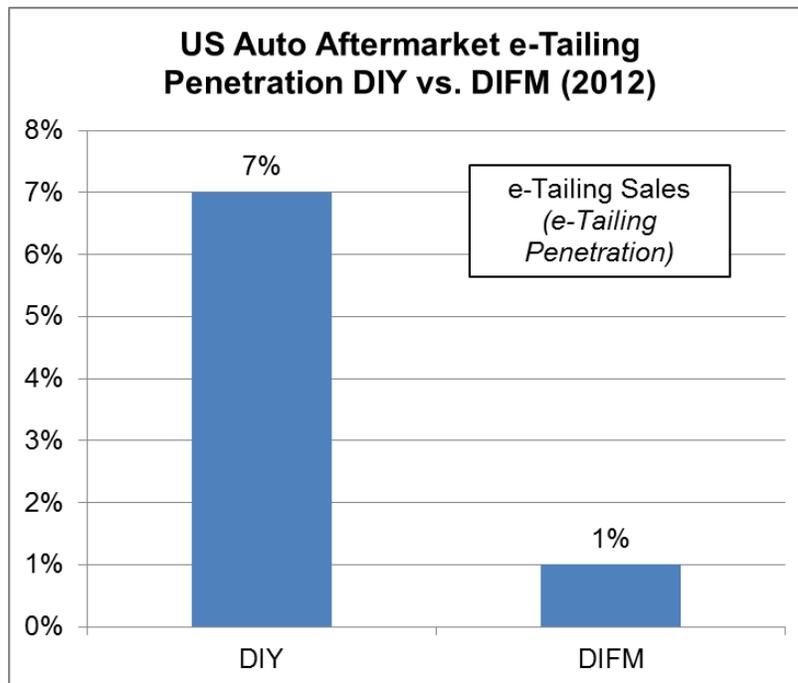
For the DIY segment, price, ease of purchase/convenience, and home delivery are the top three reasons for consumers to purchase an aftermarket product online. These reasons are not surprising, and are consistent with the top reasons for other industries.



For the “do-it-for-me” (DIFM) segment, the number one reason why service professionals prefer offline is the “established relationship with store.” Many service professionals have been ordering parts from the same distributor or retailer for decades and have now moved to ordering them through a technology based approach such as captive B2B e-commerce. Many in the aftermarket do this well and have superior models. Trust and an established relationship trump a slightly cheaper price for most service technicians. In addition, the distribution model for decades has provided rapid delivery to their door.

e-Tailing Penetration: Low but Growing

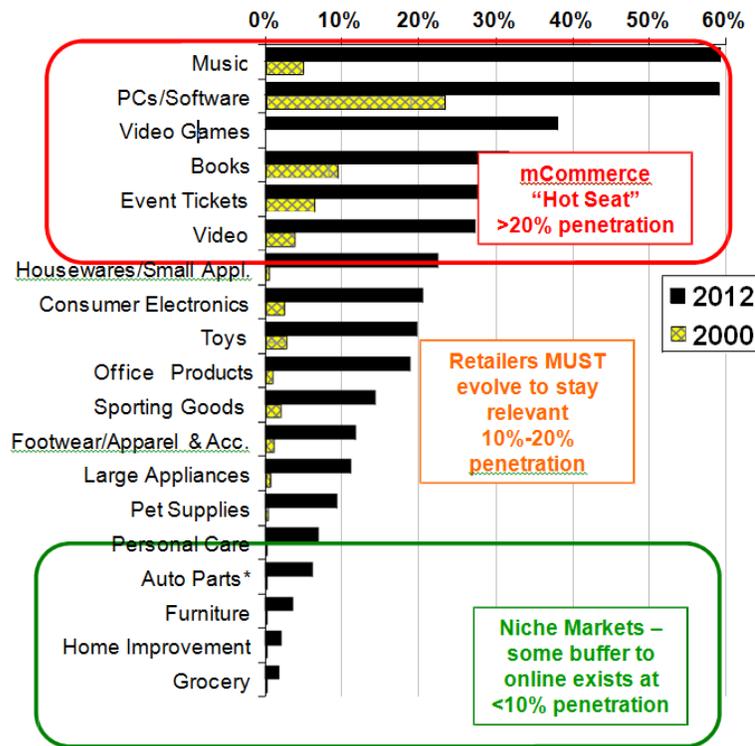
Booz & Co. estimates that as of March 2013 e-tailing sales account for 4 percent of all sales in the automotive aftermarket – still quite low as compared to other industries.



Source: Booz & Company

However, penetration is much higher with DIY than DIFM, accounting for 7 percent of the DIY market and only 1 percent of the DIFM market.





Source: ISI

In comparison with other markets, the auto parts industry still falls in the niche e-tail market range along with furniture, home improvement and grocery. Many of these industries' products are time sensitive, costly to ship and difficult to assemble or install.

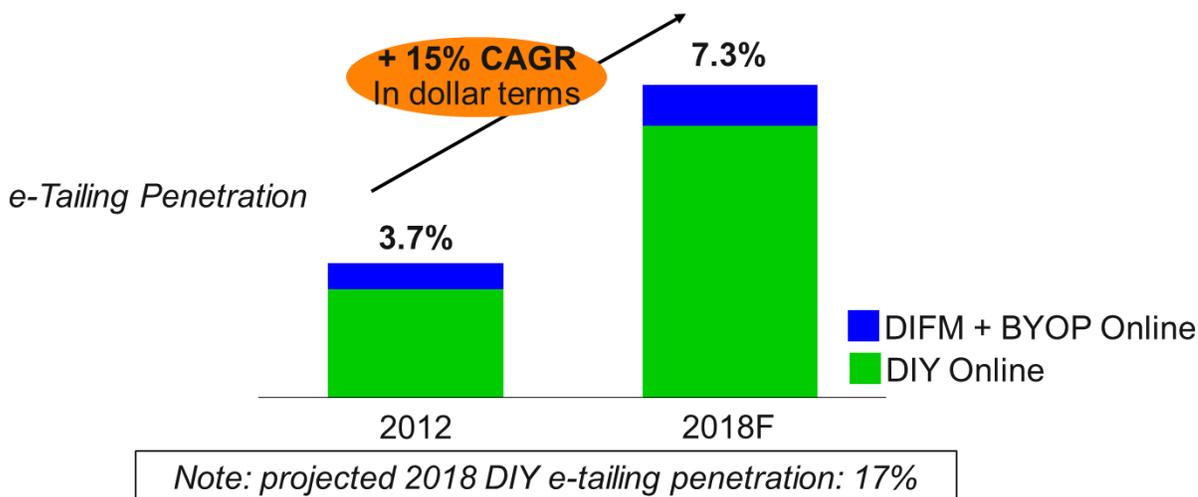
Auto parts generally fit these characteristics:

- Many of the parts ordered are needed the same day to complete the repair.
- Most DIY end consumers seek tips or instructions on how to install the part.

For these reasons, AASA believes that, although some growth can be expected in e-tailing, the automotive aftermarket has a structural characteristic that inhibits a quantum penetration into the sector.



Forecast for US Auto Aftermarket e-Tailing Market Size (2012-2018)



Source: Booz & Company

Booz & Co. estimates that by 2018, the e-tailing market size could reach 7.3 percent of market penetration. Online DIY purchases will be the largest contributor, projected to grow from 7 percent of the DIY market in 2012 to 17 percent of the DIY market in 2018.

Scenarios That Could Increase e-Tailing Penetration

Given these estimates from Booz & Co., other factors could lead to increased penetration for e-tailing in the automotive aftermarket. Some examples include Amazon's same-day service, express delivery model. Another change agent is the growing "Bring Your Own Parts" service mode.

Aftermarket e-tailing also will be impacted by technology changes such as:

- Advanced telematics and the shift from diagnostics to prognostics
- Smarter applications or appliances (e.g., Google glasses)
- Amazon integration into repair shop systems

The Real Impact of e-Tailing

However, the biggest impact from e-tailing does not lie online, but in the effects it will have on the "off-line" market. If the focus is solely on e-tail sales, the aftermarket industry will miss the point – **and** the potential for growth.

The impact on the aftermarket is not just about how many parts are sold online, but how e-tailing, online information and transparency impact "off-line" selling markets. e-Tailing provides a platform for engaging with customers and helping guide them along the path to purchase -- on **and** offline.

The impact of e-tailing has already proven to be a game changer with continued dramatic effects on:

- Research / buying behavior of consumers
- Digital content and analytics available to consumers
- Brand awareness, enhancement, and even creation
- Channel changes
- Pricing



Impact on Buying Behavior of Consumers

Remarkably, almost half of all DIYers start their purchase process online today. Booz & Co. estimates DIY will be around 90 percent in five years. It is important to note that less than 10 percent of DIYers make purchases online currently.

DIFM will be impacted as well. DIFM end consumers – car owners – are informed by online research, affecting conversations with service technicians. Professional technicians, today's primary DIFM consumer, also are increasingly influenced by their online experiences and information gathering. This is altering training models, technical materials and digital cataloging.

Aftermarket suppliers must have an effective presence online in the purchase process to capitalize on the opportunities in DIY and DIFM.

Information, Data and Analytics

Today there is a range of quality of online product information – simple product listing, product description, product photos, features and benefits, image manipulations / mobile viewing, informational videos and much more.

Booz & Co. estimates the sales difference between parts with basic versus best practice information (according to major channel partner) is 17 times that of the basic information provided. Even if suppliers do not sell direct to consumers, providing best practice information for both DIY and DIFM gives them an advantage in the industry.

Brand's Role in e-Tailing

Consumers shopping online for automotive parts are drawn to brands for assurance of quality. However, brands are being built up or broken down with unprecedented speed online.

Companies that do not actively and aggressively support their brand propositions online will see their brands diminished. Likewise, nimble new entrants are leveraging brands online. Right here... right now. As one aftermarket e-tailer noted in the Booz & Co. study, "You want to take advantage of this tremendous branding and marketing opportunity."

Channel Changes

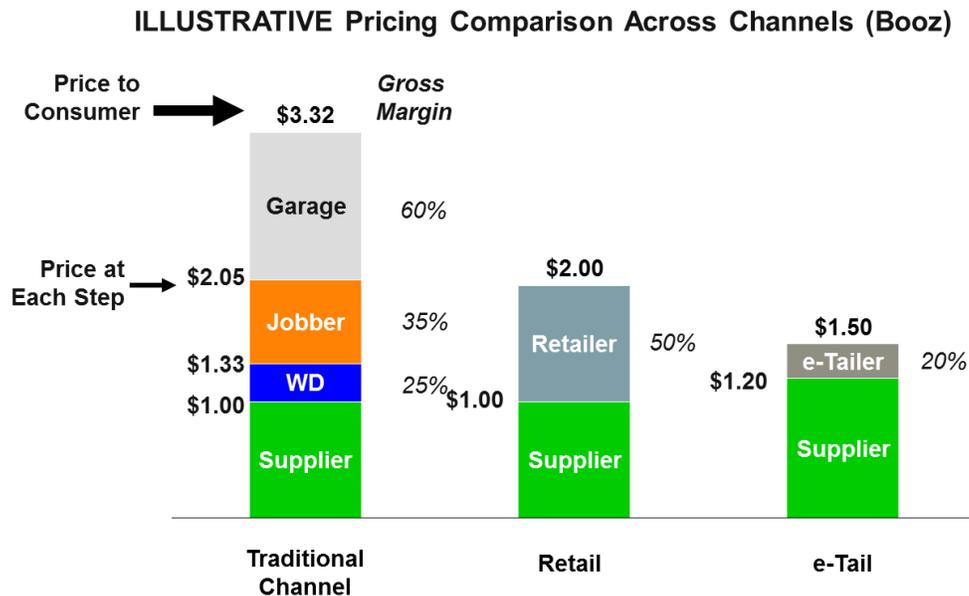
With the growth of pure-play e-tailers – generalist and auto specialist – the aftermarket can expect some channel changes as e-tailing penetration increases.

There is a possibility that the retailers could lose share to e-tailers. The growth of the pure e-tailers in DIY space has to come from somewhere. Consolidation is possible across the industry involving e-tailers, traditional distributors and other areas of the supply chain.

Channel conflict is not new for the aftermarket nor is unique to within our industry. It is manageable with smart pricing, communication between the value chain, differentiation and e-commerce support.



e-Tailing and the Threat of Price Transparency



Source: Booz & Company

One of the greatest threats that e-tailing offers to the automotive aftermarket is price transparency. Since very few suppliers sell direct in any industry, there is inevitably mark-up of the part.

With the e-tailing model, there is less cost needed to maintain solid margins. Most e-tailers store excess inventory in warehouses in the strategic low cost areas instead of on the expansive real estate on the corner of a busy intersection.

The e-tailing price effect has been large in other industries. Categories with higher online penetration (consumer electronics, home goods, office products, etc.) have seen more gross margin pressure compared to categories with lower penetration (home improvement, auto parts, etc.). This matters that much more in a market where price equals growth.

With price transparency in the market, there will be new sources of price pressuring in the aftermarket including inter-channel competition, investing e-tailers, low-cost-country direct importers, distressed merchandise, and consumer power and the phenomenon of price checking.

What Companies Need to Do

Booz & Co. presented a five step plan in “e-Tailing: Supplier Success Strategies for the Fastest Growing Segment of the Aftermarket.”

1. Create a vision
2. Build up the basics offline
3. Exploit e-tailing and online opportunities
4. Invest in digital content and analytics
5. Execute, execute, execute



For more details about what your company can do to prepare for the digital disruption of the e-tailing market, AASA encourages you to read the full study by Booz & Company, “e-Tailing Supplier Success Strategies”. [Click here for your member-only download.](#)

As with any sea change, it is inevitable that some suppliers and companies will succeed with their e-tailing strategy and others will fail to compete.

The winners will include consumers, e-tailers in growing market segments, differentiated warehouse distributors (WDs) and jobbers, good repair shops and technicians, and savvy suppliers who have an e-tailing strategy.

As e-tailing continues to grow over the next decade, your company must work to stay ahead of the curve. The key is to create your strategy **now**.

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