

2022 Talk from the Top

Confidential



ENGAGE

SHIFT

ACCELERATE

Who We Spoke With

“Big 4”



Buying Groups



Distributors



E-tailers



2022 Talk from the Top



CONFIDENTIAL

Who We Spoke With

Levels / titles:
CEOs & Presidents



Rules

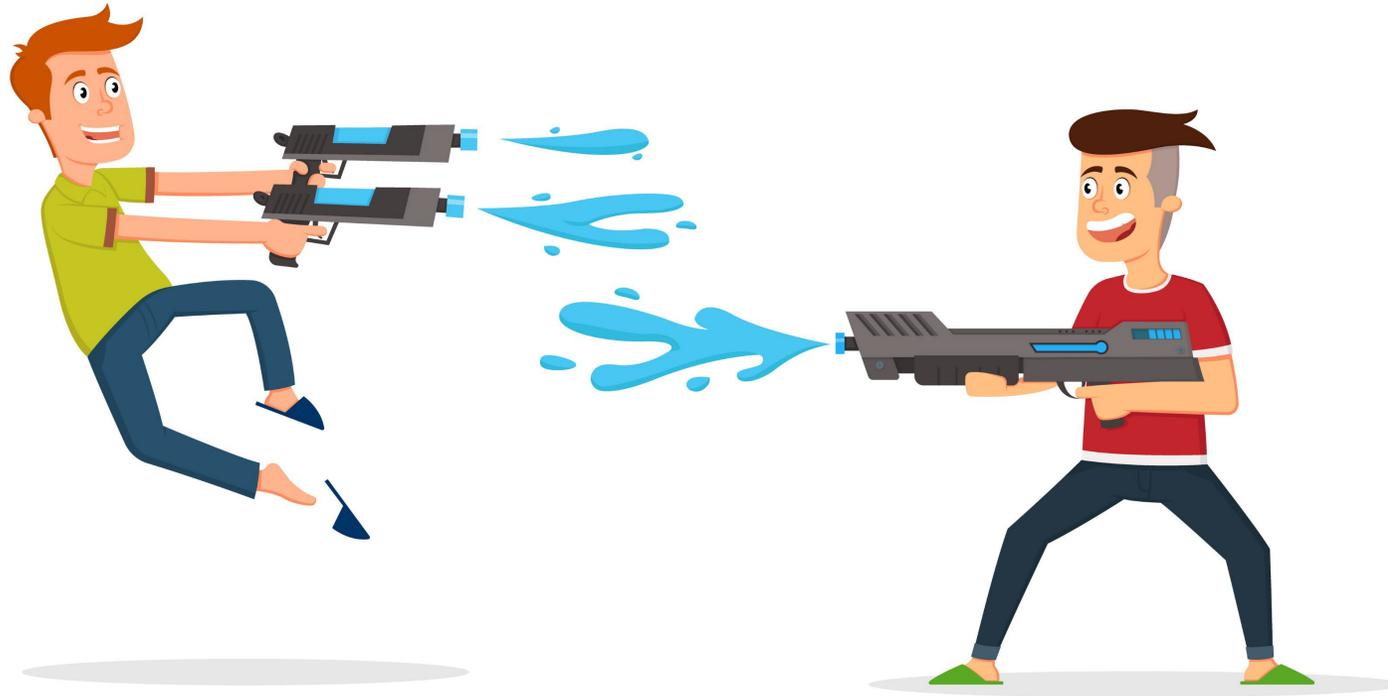
For Them

- Off-the-Record
 - Anonymous
- Candid Conversations
 - No punches pulled

For Us

- Keep these topics within the supplier community
- Within this member meeting
- So we can keep this channel of communication open





Please
Don't Shoot
the
Messenger!



**While we may
disagree with
what was
sometimes said...**

**May be worth
thinking about:
Why is the
customer saying
this?**



Topics that were raised

Supply Chain

- Supply Chain Crisis
- Sourcing Shifts
- Inventory

Channel Shift

- Omnichannel
- Brands and Private Label

Structural Shifts

- EVs and ADAS
- Consolidation
- Sustainability

Outlook

- Inflation
- 'Age of Uncertainty'
- Market Outlook



Supply Chain



Supply Chain Crisis: How Did We Do?

POSITIVE FEEDBACK

“I probably have more sympathy for suppliers than I ever have.”

“Suppliers did a great to pretty good job in a difficult time.”

“No one wants to not be able to ship.”

“Suppliers had a tough time the last couple of years.”

“Some suppliers reacted really well.”

“We understand fill rate improvement is challenging.”

“We’re trying to be as understanding as possible.”

“I told our folks to stop beating up on suppliers.”

“We saw 5 years of growth in 2 years. We get that.”

“We need healthy suppliers.”

NEGATIVE FEEDBACK

“Manufacturers communicated poorly during the earlier part of the pandemic. The rest was better.”

“Some suppliers were business as usual. That won’t work.”

“We had to think differently. Whose who didn’t, failed.”

“Distracted by the crisis of the day or month. Refocus on the end consumer.”

“Capacity needs to catch up.”

“Unfortunately, not a lot of suppliers have changed. No change in strategy.”



Status of the Supply Chain Crisis

“An ongoing challenge.”

“We’re now spending more time chasing parts than anything else.”

“Some suppliers are pretending it is getting better when it is not.”

“It’s a mad scramble to get hands on product.”

“Is it getting better? Yes.”

“Seeing some improvements in fill rates.”

“We don’t expect the turmoil to slow down.”

“Running through 3-4 vendors to fill holes. A lot more work.”

“Compliance is out the window for groups.”

“This supply chain environment here through the end of the year and potentially beyond.”

“On fill rate penalties, we’re trying to be fair. The big issue: we’re afraid if we let up, we will lose out versus others.”

“Oil and filter issues affecting all of us. If we can’t do oil changes, we lose sales of everything else. That’s the bread and butter.”

“Feels like it will be around forever.”



Supply Chain: What Did the Best Suppliers Do?

BEST

“They were transparent.”

“Many started to examine the customer base and identified the customers they want to do business with.”

“Where we had transparency, we have a better relationship.”

“Some continued to focus on customers, reacted quickly, and quickly executed alternative supply and transportation.”

“Some were reasonable on communication and price increases; the best had open and honest communication.”

“Best handled price changes in a manageable and orderly fashion.”

“Best in class operate a routine with new number announcements and on prices. Predictable.”

“Some were fantastic; learned how to navigate the waters. 90%+ fill rates, communicated; learned how to manage through cost issues.”

“People who performed well already were agile; they do better.”



Supply Chain: And the Not-so-Good Suppliers?

WORST

“We’re now spending more time chasing parts than anything else.”

“A large variance in how suppliers are dealing with it. Some really struggling.”

“Some suppliers are pretending it is getting better when it is not.”

“Some suppliers fell behind at the start and never caught up.”

“Some suppliers didn’t adapt. They played ‘wait and see’ on a changed reality.”

“Your excuse still can’t be COVID anymore.”

“Force majeure is not a business plan.”



Supply Chain: What Will It Look Like Post-Crisis?

“Never going to get back to how it was pre-COVID.”

“I don’t know what normal is anymore”

“We don’t need to get back to normal; we need better than what normal was.”

“Inventory is king.”

“All our technology was built to maximize efficiency, not the flexibility we now need.”

“We weren’t as good as we thought. If we were better then [pre-crisis] we wouldn’t be in the mess we’re in now”

“Some of the technology made us less flexible.”

“People, fuel, other factors affect everyone.”

“Lead times and safety stocks will change. They will come down, but never back to where it was.”

“Amount of inventory is a problem. It is not great that we are putting in even more inventory.”

“How long until the next disruption?”



Supply Chain: Multi-sourcing

“Commodity items will be multiple sourced, forever, by everyone”

“Before, we aligned with suppliers. Now: as many suppliers as possible.”

“Forced us to open up to more suppliers in a category.”

“Where sole-sourced, biggest problems. If branded, a big problem [given disruptions].”

“We’re doing business with more suppliers now than we ever have; coming about due to failures from existing suppliers.”

“One supplier for a line is an obsolete philosophy.”

“Most notable change? We no longer rely on one supplier for any product. You can’t.”

“Not always about who is going to be the cheapest guy. Focus shifted more to service and how can you support me?”

“Don’t be offended if we have to source from another supplier or two.”

“You need to end your single source dependence for parts, components and inputs. It’s not just about supply from Asia.”

“No more single-source anymore. Can’t do it.”

“One supplier for a line is an obsolete philosophy.”



Supply Chain: What we need to improve post-crisis

FORECASTING

“Some forecasting was really bad.”

“We absolutely need to get better at forecasting.”

“Forecast: everyone talks about it, no one does it well”

“Our orders are wrong. Computer says you’re selling it, but it is a weird one-off. E-tailers are the worst.”

“Suppliers should lead forecasting. Have planning meetings with each customer.”

“Some suppliers planned for lower volume, just because they didn’t get the sale.”

“Line review is a big deal for us. To grow the business together, let’s be in it together.”

“Every quarter, let’s meet and decide what to stock!”

HOW WE HANDLE THE LONG TAIL

“Are we ever going to figure out how to handle the long tail?”

“Our order systems mean that when there is one sale in an area, then all six in the area now have a part that will never sell.”

“We stock too much slow-moving inventory. Does this model do suppliers more harm than good?”

“Do we need a slow mover repository for everyone?”

“Share inventory across customers for all parts past A&B.”



Supply Chain: What we need to improve post-crisis

WHAT WE NEED TO IMPROVE, GENERAL:

“Need transparency. I want to know the truth!”

“Learn something from this. Always need to be prepared for the next shoe to drop.”

“Suppliers need to pull out all stops.”

“Make price changes more of a manageable process.”

“We will have more safety stock than ever before.”

“Whole thing shows us how the collaboration between distributors and manufacturers is so important.”

“How do we work together to improve communication?”

“Could come out of this in better shape if we can see that some things are more important than price.”



Sourcing and Manufacturing Shifts



Shifts in sourcing location: China

“Not really excited about our industry being reliant on China.”

“#1 trend is country of origin diversity. Need to be less dependent on China.”

“If I were in China, I would be looking for a Plan B.”

“Look at manufacturers across the globe, not just China and Taiwan.”

“We’ve been talking about the over-dependency on China for the last 3-4 years. But the last 2-3 years it’s been hard to do anything about it.”

“Reduce your dependence on China.”

“I feel bad for suppliers. All that investment to move to China over the last 20 years, and it was wrong.”

“China is a known risk factor. Should we continue to depend on them for the things we depend on them for?”

“Supply chain issues will remain until suppliers understand they need a source other than China.”

“You can’t just be sitting back and waiting for everything in China to straighten out. Just leaves you vulnerable to the next thing.”

“Not just COVID that taught us; Donald Trump taught us.”

“I’d rather have supplier geographic diversification and single source than multiple suppliers all coming from China.”

“China will be less and less competitive in 2030 and 2040.”

“If China moves on Taiwan, expect more stringent rules on business out of China.”



Shifts in sourcing location: Near-Shoring

MEXICO

“Mexico needs to play a bigger role.”

“We’re hearing more and more Mexican products, which is good for us.”

“Mexico is an opportunity.”

“If I could get good quality products from Mexico, my problem would be solved.”

RE- AND NEAR-SHORING

“Would love to see a more local supply base.”

“Near-shoring means faster delivery. Maybe higher COGS, but lower inventory.”

“Goal is same cost with less risk and downtime in U.S. or North America.”

LATIN AMERICA

“If I was a manufacturer, I’d be looking at Central and South America. Along with Mexico, offer better transport and less risk.”

“Look at hard-up neighbors like the Caribbean, not just Asia.”

“South America, Mexico, will be bigger.”

“I would be expanding capacity if I had a factory in Latin America.”

“I would encourage suppliers to do research on the rest of Latin American beyond Mexico.”

“Source Mexico and Latin America.”



Shifts in sourcing: Implications

WHAT IS FUTURE OF SOURCING?

“Supply base will be less about location and more about predictability and reliability.”

“You can’t have all your eggs in one basket.”

“Geographic diversification as important as supplier diversification.”

“We will see lots more movement of production facilities. But this is a 3-5 year process.”

“We know moving production is a lot of work and investment.”

WILLING TO PAY MORE?

“We will pay more for location and supply chain resiliency. You have to.”

“We don’t think we have to pay more for geographic diversity.”



Inventory



Inventory Risks Coming Out of Supply Chain Crisis

“I think we will come out of this with overstock”

“False demand driven by short orders will continue until the supply base is healthy.”

“You’re building everything you can; we’re buying like drunken sailors.”

“You guys are just trying to hit the numbers.”

“We’re being forced to depend on suppliers more for inventory.”

“Volume doubled, but orders tripled.”

“Returns in the future are a concern. We don’t want excess inventory down the road.”

“Returns might not be an issue; I don’t think we’ll go overboard.”

“We have a miserable time controlling inventory right for e-commerce. It is not for the faint of heart.”

“If I buy too much, I just send it back. Be careful of my motivations.”

“We’re an industry with 20 million SKUs.”

“Not enough room in stores and WDs for SKU growth and proliferation.”

“Are we taking out SKUs as fast as we put in new SKUs? If not, will be a problem.”



Inventory: What To Do About It?

DATA

“Need to get better at utilizing data.”

“Don’t look at what we’ll buy, look at what’s selling. Not always the same thing and you need to do that data analysis.”

“We need better data understanding: not just what is on the shelf. Need to understand what is in transit and on order.

“You need to be managing us on the front end of new SKUs.”

WHAT WILL IT LOOK LIKE POST-CRISIS?

“Just-in-time inventory is never coming back.”

“Suppliers will be responsible for back-end, slow-moving SKUs.”

“VMI [vendor-managed-inventory] or pay-on-scan is a better long-term solution.”

“To help independents compete with Big Box, we need more inventory.”

“You need to figure out inventory; we can’t compete with 365-day terms.”

“Technology will alter the inventory model.”



Inventory: Rising Interest Rates & Extended Terms

NEAR-TERM

“Factoring has been great for suppliers.”

“Even with 4-5 Fed increases, interest rates are very cheap.”

“We’re such a slow-turn industry. Some products turn in 3-4 years. We wouldn’t have invested in all this inventory without it.”

“Interest rates are just a function of cost.”

“When interest rates declined, how much price decrease did we see?”

“Interest rates are a commodity, no different than oil and steel.”

“Interest rates are still historically so low. We’ll talk about it when we’re above where we started.”

LONGER TERM

“I do have concerns about the sustainability of our model. Will it make sense forever?”

“We need to be more creative about what is sustainable for our industry.”

“Pay on scan just pushes borrowing costs on weaker players.”

“Remember, interest rates make vehicles more expensive. Positive for aftermarket.”

“At some point, the cost of product will be impacted by the cost of those terms.”

“It is hard to change the model.”

“We have zero vision of a change in terms but could be cost changes over time.”



Age of Uncertainty



What may be the next “black swan”?

WHAT SHOULD BE KEEPING US UP AT NIGHT?

“Disruptions: 2019 was tariffs; 2020 COVID; 2021 inflation, labor, COVID, supply chain; 2022 geopolitical. This is a once in a lifetime deal.”

“What’s keeping me up at night? War and conflict.”

“So much is happening politically.”

“Big black swan I worry about? A national/state cyber event.”

“A big blackout that will change minds on EVs.”

“One potential wild card: government regulation to keep old vehicles off the road due to environment or climate.”

“I would take what we know is going to happen and do something about it. For example, automakers will go around dealers to sell. What will that mean?”

“Macro trend that worries me: Very active regulatory environment.”

“My biggest fear? Suppliers’ ability to supply.”

“Something more will come this year. Don’t know what. We’ll have to figure it out.”

“China is a wildcard for us.”

“We know something is coming down the pike ...”

IMPLICATIONS

“With all these things happening, people don’t know how to run their business anymore.”

“You need to keep your employees happy.”

“For all these things, we don’t have a manual.”

“You need to be flexible.”



Omnichannel



Omni-Channel

“Pandemic accelerated shifts from offline to online.”

“We will not give back the shift to omnichannel, e-tailing, and BOPUS. Will continue.”

“Omnichannel is changing buying patterns.”

“Everyone checks if the product is there before they pick it up – particularly true in the aftermarket.”

“Drive customers, drive interest to us.”

“Omnichannel is not going anywhere. We need supplier’s continued support.”

“Internet has allowed anybody in the world to sell auto parts. We’re fulfilling a lot with Home Depot, Walmart and Tractor Supply.”

“E-commerce and omnichannel will explode.”

“Consumer expectations continue to rise. They want everything at their fingertips.”

“Omnichannel in 2030 will be whatever the consumer wants it to be.”

“Online opportunity will be significantly different five years from now.”

“Soon, consumers will shop with a clear and transparent price for service.”



Omni-Channel

“Consumers expect every website to be better than Amazon’s.”

“Others are still 3-5 years ahead of aftermarket players.”

“Convenience of it will only make the trend go faster.”

“Omnichannel will continue to go up.”

“The role of the internet is to educate consumers on the value of your product.”

“Think of the end customer. They can’t order online and have no fill. It is unacceptable; terrible to consumer.”

“One stop – omnichannel – will win in the end. Not bricks and mortar, not e-tailing.”

“The end goal of omnichannel is get access to the product close to the customer. Get the part on the vehicle however the customer wants.”

“Manufacturers don’t understand omnichannel and the changing channels at all.”

B2B

“5 years ago, ordering electronically was 15-20%. Now it is 90%+.”

“E-tailing has made all of us better.”

“We now have separate buildings for B2B and e-tailing fulfillment.”



Channel conflict: Bricks vs. Clicks

“Need to avoid a price in the marketplace where your channels can’t compete.”

“We’re taking the value out of the aftermarket.”

“Don’t undermine the value: what else is in the box.”

“You can’t see Amazon at the same price as WDs. Not the same services.”

“Are all A items going to be online at WD price? What does that mean for your business? Long-term, as we shooting ourselves in the foot?”

“Suppliers must take a long view.”

“Your product doesn’t need to be on every website. Pick who you want to partner with.”

“Seems like a different playbook and different set of rules for Amazon vs. other players. That’s a mistake by suppliers.”

“If manufacturers’ strategy is to have one account at the end of the day, you’re doing a good job.”

“Manufacturers are working so hard to prop up old customers rather than position with future winners.”

“Amazon is increasingly all low-cost Asian import. Cutting manufacturers out.”

“Most manufacturers are over-distributed. If you don’t like what customers are doing, raise the cost of that channel.”

Amazon’s 3P model is not healthy for aftermarket brands.”



Channel Conflict: WDs vs. Retailers Online

CHANGING RETAIL COMPETITION

“Retailers now play more in our space; e-tailing allows us to play more in theirs.”

“Twenty years ago, the average jobber was 60/40; they had a lot of retail. They lost that. Now traditional is the internet fulfillment.”

“This is a way a lot of retail has come back to traditional.”

“Some WDs are e-tailing fulfillment centers; some WDs are highly opposed.”

“A lot of ecommerce folks don’t need to exist. They don’t solve any problems.”

“A wide spectrum of WD attitudes on ecommerce. Some want nothing to do with it; some wish it were the whole business.”

“Some ecommerce folks are just marketplaces for WDs. They do nothing for manufacturers.”

“Independents are the natural partners of e-tailers; give the service, etc.”



Views on Suppliers Selling Online

SUPPLIERS SELLING DIRECT?

“All suppliers distribute on the internet somehow.”

“Selling direct to internet guys disrupts the supply base.”

“Unless we’ve sold your goods poorly, don’t do it.”

“Remember your distributor partners are your partners on this side, too We are positioned to fulfill that demand.”.

“E-tailers don’t like you to sell to the consumer. They want to sell the whole job – the hub plus all the parts. Why the WD handles e-commerce.”

“Online As are often brick and mortar Ds. So you can’t just rely on WDs.”

BRAND IMPLICATIONS

“Your brand is the ‘bullet in the chamber’ to have any leverage in the marketplace.”

“Protecting your brands is even more important with omnichannel.”

“To help us win in omnichannel, you need strong brands.”

“Branded product is more vulnerable. You can find it all over the internet.”

“We’re leaving a lot on the floor, not being creative on what to stock [online]. Manufacturers are afraid to do directly.”

“You make it very hard to buy your product.”



Omni-Channel: What They Need from Suppliers

“The same things we asked for 3 years ago – just with different suppliers. Now it is smaller suppliers. We need the data, images, and how-to.”

“Suppliers are doing the right thing: educate customers, training videos, talk with customers; this is my product and why you should buy it.”

“What some people are putting in the files just doesn’t cut it anymore in an omnichannel world.”

“Still a large gap between suppliers who do data very well and another group that misses the boat.”

“Give customers everything they need to succeed. They are buying sight unseen. Make it easy for the customer.”

“We need a customer relationship, and to be more than a marketplace.”

“We’re so much more than ordering a part; you get so much more from us. Suppliers need to help.”

Manufacturers don’t have a digital-first mindset. You’ll be left behind.”

“Too many suppliers are old school on technology. You need APIs, real-time inventory feeds, real-time pricing.”

“Most manufacturers miss that you need full assortment coverage on websites.

“Those investing in catalog and customer experience will win.”



Omnichannel: What the Future May Look Like

“Stores will just become fulfillment centers.”

“Amazon will eat our lunch – including the Big 4.”

“A lot of repairs are planned. That’s where ecommerce is moving. The model exists. Tire rack has done it in tires; it just needs to be extended to other product sectors.”

“Manufacturers beware of a potential monopoly in the e-tailing space.”

“What will win is 1P/3P hybrids like Amazon and Walmart *[note: comment not from either company]*.”

“Either way, it is not about what we want to do – it is what consumers want.”



Fulfillment: What should be expected from us?

“One-off fulfillment expectations for suppliers are getting crazy.”

“We don’t want to stock slow-moving in our warehouse. Brands will have to build that drop-ship capability for slow-moving parts.”

“Most manufacturers are not well set up for one-off drop-ship.”

“Individual pick, pack and ship is what we do best. A very different job.”

“Suppliers need to focus on what you are best at.”

“Let distributors distribute. Don’t support the guys who want something different.”

“If suppliers did direct e-tailing fulfillment, it would put 50% of WDs out of business.”

“We would have a problem is suppliers starting doing that direct e-fulfillment.”

“Stock ship and drop ship need to have different economics.”



Brands and Private Label



Private Label Comments (1/2)

“#1 reason for private label is that it is easier to source different vendors.”

“Inflation make going private brand easier and easier.”

“We promote our private label as a brand.”

“In DIY, not sure consumers know the difference between national brands and proprietary brands any more.”

“Private label is fine for a retail customer. They don’t know or aren’t the most sophisticated.”

“Repair shops want to trust. Even for PL, what a good PL that can guarantee quality.”

“Just because it is private label, not necessarily lesser value.”

“We strengthened private label in the crisis.”

“Buyers have margin targets in plans. If change mix to PL, hit that margin target. I’m incentivized to increase price of branded parts to shift share to my higher margin PL parts...”

“Ask, how much cost can I pass through so I don’t incentivize channel partners to go private label even more than they are now.”

“A lot of WDs big enough that they can direct source. They choose not to. A lot of hidden costs; not as easy as an invoice!”

“Private labelers continue to grow. OEs moving more in from the top; aftermarket brands feel crunched.”



Private Label Comments (2/2)

MOVE TO PREMIUM PRIVATE LABEL

“Seeing more premium private label.”

“Ten years ago, private label was entry level. As more high-quality parts are in PL boxes, it has blurred for consumers.”

“Down the road, there will be more private label in better and best.”

BE OUR BRAND & OUR PL ... BEWARE?

“You can be both our branded and private label supplier. Makes it easier for us.”

“We don’t mind paying a bit more for you to private label versus us sourcing from China.”

“Brand loyalty is declining because of the quality of the product in the PL box. Often the same supplier.”



Brands

“Your brand is the ‘bullet in the chamber’ to have any leverage in the marketplace.”

“Brands are irrelevant.”

“Protecting your brands is even more important with omnichannel.”

“Professionals want brands. It is easier to sell them what they want.”

“In DIFM, there are still some customers that want brands.”

“Brands vs. PL is increasingly becoming the same as Big Box versus independent channel.”

“Suppliers aren’t listening on the real position of their brand ... the market will tell you if you have a real brand.”

“A lot of brands have no reason to exist.”

“We are a very long-tail business. You can’t private label everything. Will always be room for a brand to fill gaps in assortment.”

“I haven’t seen a shift from brands when selling to repair shops and jobbers.”

“Brands need to offer some premium to offset the cost.”

“A lot of mechanics still have their own brand preferences.”

“It goes back to what the service center wants.”

“If a shop or customer has a brand preference, we’ll respect it. So if you have a brand, need to invest in generating shop or customer demand.”



Brands (2/2)

“The best brands can be used as a selling point.”

“Brands need to be better than OE. That’s what brands once were.”

“Professionals are not clamoring for the cheapest part; it’s not happening.”

“Branded aftermarket being squeezed. Usually wanted to be premium or low-end. Never caught in the middle.”

“Manufacturers need to do a better job to explain quality difference, especially on safety parts. It hurts all of us; they just go with OE dealer.”

“Increasing vehicle technology. You think shop quality concerns aren’t increasing more?”

“Cars more and more sophisticated. Could be more relevance on branded parts.”



Impact of New Vehicle Technologies (Electrification, ADAS, etc.)



EVs: Less Impact Than Conventional Wisdom?

“EVs will take a lot of time to impact demand.”

“Very politically motivated”

“Tires are more expensive; we’re already seeing used Tesla batteries online.”

“It’s farther down the road. The timeline is a moving target.”

“EV is an evolution, not a revolution.”

“Still a large fossil fuel lobby and U.S. grid is not ready.”

“Remember, in 2005, hybrids were all the rage.”

“Still such a small part of VIO in aftermarket years.”

“In 2050, we’re still selling ICE.”

“I think still less than 10% EVs in 2029.”

“2039 before major impact on auto parts biz.”

“EVs still have wash, wipers, suspension, tires, brakes, wheels.”

“What’s resale value and total cost of ownership if the vehicle lifespan is only 12 years, not 25?”

“We’re going to get a backlash when we see pollution from lithium, mining and end-of-life; backlash once people realize we’re not saving the world.”



EV Counterview: Don't Count it Out

“With electrification and EVs, I would tell you to get engaged now. Be first to market.”

“Electrification? We're excited. Just the next change in the industry, like carburetors to fuel injection.”

“Electrification could be a hockey stick that comes sooner.”

“Let's get there as fast as we can.”

“EVs mean less consumable parts.”

“There are 11 cooling hoses on a Tesla. That is growth.”



ADAS Impact: Excitement About The Market

“ADAS is already a great sell.”

“Blind spot monitoring is already a big deal.”

“We can diagnose. We can repair. Calibration is scary.”

“ADAS requires different mindset and different facilities for shops. Training is vital.”

“We’re already doing a lot of ADAS training.”

“ADAS has a lot of the same vendors, so easy transition for us.”

“ADAS is everywhere on vehicles.”

“ADAS means very expensive and sophisticated parts. They are good for us.”



Other Technologies

“Future is more diagnostics.”

“Diagnostics in the driveway is the change agent. Consumers will have a list of parts and work to do and where to go.”

“Plan now – we are very reliant on OBDII. It will go away and it will all be wireless and encrypted.”

“Vehicle technology is both a threat and an opportunity.”

“We will have better data on when vehicles wear out.”

“New technologies will open new avenues of opportunity for us.”

“The elephants in the room are EVs, ADAS, and embedded software.”

“Products are just getting more expensive. That is growth.”

“OEs looking for more control. Looking at Tesla – how can I do more of that? Much more control of their parts, not relying as much on dealers.”

“If you’re afraid of Tesla vertical integration, make parts that fix Teslas and undercut them like we did everyone else.”

“Focus on right to repair. The OE mantra is to weaponize the data coming off of the vehicle to keep dealer bays full and lock out the aftermarket.”

“All about bringing new people into the industry with technology. Tech doesn’t scare them; its what they live on.”

“If we are better, cheaper, easier then we’ll win, whatever the technology.”



What Do They Need from Suppliers to Win on New Vehicle Technologies? (1/2)

“Suppliers should be more proactive.”

“ADAS is a gigantic education problem for the shops.”

“We need to be ready for more diagnostics and connectivity. Vehicle will communicate with the tech or consumers; it will connect with part stores and manufacturers. The sooner we get to it the better.”

“We need better demand curves on where tech is coming.”

“Retraining the techs is a big issue.”

“Vendors helping with ADAS training is vital.”

“Training is #1. Number 2 is availability of tools.”

“Need to make shops understand they can work on these systems, and that you can get these parts now.”

“Training and education. Need suppliers to help educate us; and educate those facing the customer.”

“Product development for the aftermarket on these new technologies, not just OEs.”

“We – including manufacturers – have a role to prepare and train shops.”

“You need to help us with the technology.”

“Educate us on how we can remain and take this technology to the aftermarket.”



What Do They Need from Suppliers to Win on New Vehicle Technologies? (2/2)

“We don’t expect the manufacturers to be very helpful as they never are.”

“We need training to work on these vehicles now on ADAS.”

“ADAS is in the now.”

“We need to increase awareness that we have ADAS parts.”

“Give us the resources to sell this type of product.”

“Help us educate the shops to work on these vehicles.”

“Partnership: let’s help each other in this transition.”

WHERE TO GO FROM HERE?

“This changes repair. We need government money to support the changes.”

“Technology does change the industry. Makes things look different and operate differently.”

“It will come. We’re always a little behind. We fulfill the need when the need arises.”

“Big concern is liability if it is not done properly.”

“Look at the coasts and learn.”

“Fight for the aftermarket to keep this place vs. OEMs.”

“Right to Repair is a big part of helping shops with technology.”



Consolidation



Consolidation: Big 4

“Name another industry opening 300 retail stores in the U.S. per year; you can’t find it.”

“Any industry with greater than 20% operating margins will be disrupted.”

“Isn’t happening soon: all Big 4 are doing so well.”

“Only consolidation scenario I see is if Advance fell out of bed, and PE facilitated splitting the baby.”

“The Big 4 compete on inventory and speed of delivery. That’s a 30+ year old model and not a good model for the future.”

“The Big 4 and their margins are ripe for disruption. All the start-ups are solving a new problem.”

“Shops have a lot more power, as the tools they have are so much better. They can see everyone’s inventory.”

“In hardware and other sectors there is only a Big 2; I see a chance for one more move.”

“Advance or NAPA – which one will acquire which?”

“Will not be a Big 4 ... Big 3 eventually.”



Consolidation: WDs and Groups (1/2)

“We’re seeing rapid consolidation.”

“A lot of change the last 3-5 years, and a lot more to come.”

“All are making lots of money; valuations are very high.”

“In 20 years, independents may be dead, just 4 big guys left; maybe 4-5 independent hold-outs.”

“In 15 years, I will be surprised if there are independents; 4-5 big guys?”

“Will continue. Will be 6-7 monster WDs.”

“Even if you weren’t thinking about selling, can’t refuse the kind of money being offered.”

“Today, buying groups are all about technology, not just reducing costs.”

“Will continue to be strong independents in certain regions;”

“The last mile will get consolidated. You just can’t make any money.”

“Why some of the WDs had to consolidate; they couldn’t handle inventory and pricing for e-commerce.”

“Back in the day, WDs had considerable differentiation: depth and breadth of product, whatever brand you wanted, same day, very strong sales force, and low price. All eroded.”

“There is a lot of redundancy in the distribution network.”

“The Big 4 putting a lot of pressure on inefficient players. Why consolidation will accelerate from here.”

“I think WDs are nervous about digital and technology. You need significant investment or align with someone else.”

“WDs are nervous about omnichannel. They need to get in or get out.”



Consolidation: WDs and Groups (2/2)

“Many families are gone.”

“I think we know who the Top 4 WDs will be. We’re figuring out the next bracket of four.”

“If you’re not strong and doing things right, there is not the leeway to survive anymore.”

“The e-tailers that are pure drop shippers or just Amazon alternatives? Amazon will win and they will go away.”

“If you finish third or fourth you will be consolidated.”

“I think there will always be room for some independents.”

BUYING GROUP CONSOLIDATION

“Buying groups should consolidate; vendors have all the program groups on the same page.”

“The groups will come together.”



Consolidation: Suppliers

“Keeps happening.”

“Spooky for us.”

“Manufacturer consolidation is not always good.
Leads to years of distraction.”

“When in consolidation mode, manufacturers are bad on rebates; fill rates are even worse.”

“Some supplier mergers have been terrible.”

“I just hope there are 2-3 suppliers left in every category.”

“Consolidation will continue at a blistering pace up and down the value chain, from suppliers to shops.”

INCREASING SUPPLIER COLLABORATION?

“Suppliers are also going to see more collaboration like we see from distributors in their groups. There will be more cross-supplier technology collaboration, just to be able to afford it.”

WHO CONSOLIDATES MATTERS

“Foreign ownership can really change manufacturers.”

“Means we are losing the people we know.”

“We’re petrified: sometimes people who don’t know the aftermarket.”



Consolidation: Shops

“All of us should look out for consolidation at the shop level.”

“Shop consolidation is going to accelerate.”

“So many aging shop owners.”

“Rural will be individual independent shops forever; chains will dominate in urban areas.”

“We’re going to see a lot of shop roll-ups.”

“National accounts will get even more important.”

“We’re seeing shop consolidation by regional guys.”

“Some are seeing money thrown at them by PE.”

“Tech shortage adds to the pressure.”

“Investment in tech, equipment, and scan tools adds to it.”

“Technology is driving consolidation. It is hard to keep up with.”

“Progressive shops are the only ones able to handle the technology.”

“Service centers consolidating much quicker today than we’ve seen in many years. We’ll continue to see.”

“Sad to see with some folks.”

“Has been a lot and will be more.”

NOT ALL TRENDS SAY SHOP CONSOLIDATION?

“Maybe less than people think. Mobile diagnostics and other tech will allow independents to compete.”

“There are so many old vehicles that it is not forcing the average shop to change.”

“There is still a good case for independent shops. A lot of the chains are not that tough. Good repairs shops do well.”

“I think there will be a new guard of shop owners coming in. A lot more appealing than being an Uber driver.”



Sustainability



Sustainability

WHAT'S HAPPENING

“We appreciate what suppliers are doing.”

“Every year, we’re doing more on sustainability; always something to add to our sustainability report.”

“Carbon footprint compliance and timelines growing in importance.”

“Reman is neutral or negative on GHG.”

“We think we have a lot of good things to tell.”

WHAT DO THEY NEED FROM SUPPLIERS

“Suppliers need to partner with us on sustainability.”

“Suppliers need to tell the sustainability story of their parts.”

“Over time, we may need EVs for transport to address the carbon emissions of our distribution.”

“ESG – help us. We’re feeling tons of pressure.”

New SEC Guidelines (3/22) will require a lot of information from suppliers for our public customers:
“Indirect emissions from upstream and downstream activities in a registrant’s value chain”



Aftermarket Outlook



Optimism on the aftermarket outlook (1/2)

“2022 and 2023 are going to be strong.”

“Reopening leads to big demand everywhere.”

“No one would have predicted how strong the industry has been. Unprecedented strength.”

“Before sales were held back because we couldn’t get enough products. Now we’re held back by not enough techs.”

“We’ll have high demand as long as new vehicles are not available.”

“The dollars are misleading a little bit.”

“Public transport is down for 10+ years.”

“Growth isn’t just COVID, it is also the sweet spot.”

“Industry doing very, very well.”

“Cars from the new car boom are coming through. We had the headwind removed of the great recession.”

“In 2021, we saw a lot of maintenance and deferred maintenance, and a lot of vehicles in the sweet spot.”

“No new car options in 2021 helped sales.”

“We have two customers. One who will pay more for convenience. One who will sacrifice time for better value.”

“DIY is still well above pre-pandemic. It is on a slow coast down on its return to more normal.”

“For the last 1.5 years, very strong and surprisingly stable DIFM.”



Optimism on the aftermarket outlook (2/2)

“Do we have any volume to give back? So hard to know.”

“We had money and time to work on cars. Drove DIY. Then we can't buy new cars and used cars so expensive. That drove repair. Then inflation. What will be our new driver?”

“Once OEs can manufacture to demand, that could be our negative driver.”



Inflation



Inflation: Is It Good? ...

“Inflation is a wonderful thing.”

“Tipping point may be gas prices.”

“We’re seeing more price than unit growth”

“First time in my very long career I’ve told folks it is OK to raise prices.”

“We’ll be fine as long as gas prices don’t spike too far.”

“Nice to see the growth it has brought.”

“Inflation is a tailwind.”

“Has not yet impacted units.”

“We have not seen yet the increasing pricing impact demand.”

“Inflation is our friend in the short term.”

“Some price increase not a bad thing.”

“Price is not close to the top of the list of the issues we are dealing with.”

“Loved early inflation ...”



Inflation: ... Or Is It Bad?

“...Now I’m starting to get concerned. When consumers get squeezed, they will push back.”

“Need to keep in mind: how much of this growth is inflation and how much is growth?”

“Issue isn’t our inflation, it is general inflation.”

“Overall inflation is bad; not good for the bottom line.”

“Haven’t seen impact of inflation on purchasing patterns yet, but it is coming.”

“Our prices are up faster than wages. That is unsustainable.”

“Inflation is a bigger problem than the economists are thinking.”

“Inflation may be masking how well you’re really doing. Are you counting units? Are you being honest with yourself?”



Inflation: Causes

“Increase in prices driven by the supply chain.”

“Every industry’s pricing has gone crazy: freight, containers, etc.”

“**Labor** is now the biggest issue playing into inflation.”

“We have to pass on the costs.”

“Inflation probably 20% the last two years.”

“**Labor** costs are up and continue to go up.”

“**Labor** costs are huge. People are jumping.”

“Until **workforce** stabilizes, we’ll have inflation.”

“**Wage increases** are a huge part of the inflation.”

“We’ve had to increase prices several times this year due to unexpected wage increases on top of manufacturer cost increases.”

“Will be hard for freight companies to walk back profits.”



Inflation: Customer View on Implications

“We may see more inflation in 2023 than 2022.”

“Never seen a need for an immediate price increase before in my long career.”

“Inflation is with us for a while.”

“More price changes in the first 40 days of the year than in years combined.”

“Do I buy milk or car wax? Could hit some things.”

“Premium manufacturers could have a glut if shift to good in good/better/best.”

“What are things we can do together to reduce costs?”

“We need transparency; show us what’s causing inflation.”

“What we can’t manage through is the surprises. Some said they need to raise prices tomorrow; we can’t do that.”

“Give me some notice on price changes!”

“Consumer downgrading. We haven’t seen it yet, but we think it is coming. Older average age of the vehicle will drive mix more and lower.”

“Auto is a priority, but will consumers be forced to return to deferred maintenance?”

“We need to challenge it more. We can’t just pass it on.”

“We can’t just absorb 100% of your cost increase. Try that and it will cost you future business.”

“Customers may cut back.”



What the Best Suppliers Do that I'd Like to See All Suppliers Do



Improvements Needed from Suppliers:

“I wish more of you were using the data that we make available.

“We see better sales and fill rates from those who use data in a sophisticated way.”

“Work closer with customers on the purchase plan.”

“Build a business forecast together going into a new year. *Start the conversation in August.*”

“The best are much better at getting in front of bad news. You don’t want to hear the bad news from the customer.”

“There were some suppliers that really stood out and offered us ways to improve.”

“Innovation in product, tools and training!”

“We depend on suppliers to listen to the customers and tell us what consumers want. **Refocus on the end customer** once we are past the current challenges.”

“Innovation is important. How do we develop the parts and services to satisfy customers?”

“We lost some of that product innovation muscle the last couple of years. We need to innovate and differentiate vs. OEs.”

“We’re falling behind in new parts on late model vehicles.”



Winners and Losers Emerging Among Suppliers

CLEAR MESSAGE: WINNERS AND LOSERS EMERGING

“Are winners and losers among suppliers. We are clearly seeing that.”

“We had to think differently. Whose who didn’t, failed.”

“The last two years separated the winners from the losers.”

“Best are forward thinking, adapted to the times, and always seek improvements. The Worst treated this as business as usual and waited for the trends to change.”

“Not all suppliers created equal. Some knew exactly what to do; some were wait and see.”

“The good suppliers are doing better.”

“Some vendors bounced back very quickly; some haven’t bounced back at all.”

“So many suppliers fell short.”

“Supply chain will continue to exacerbate winners and losers.”

“Your business may not be as strong as your sales figures.”

“Numbers may look OK as you can sell whatever you have. But it will come to roost for those who care less once we’re past this availability issue.”

“A lot of new supplier relationships. Will be interesting to see who comes out of this as winners on the other side.”



Takeaways



Final words of wisdom?

“Just ship the product already!”

“Biggest improvement needed?
Communications.”

“One word: Transparency! Want to get back to some of that partnership.”

“Every WD said customer service has fallen off. We cannot continue with this consistent, bad service in a post-pandemic world.”

“Right to Repair is the most important thing.”

“Support for industry initiatives and CARE is vital.”

“Talk to your political representatives!”

“Our ultimate goal, together, is to satisfy consumers.”

“Big dynamic now is that no one wants to lose share.”

“Innovation needs to rise back up again. Need to start working on the business again.”

“The battle will shift from availability to share growth.”

“Recruit people and leaders. We need to paint a better picture that we have opportunity, stability, strength, appeal, and that we are high-tech.”

“Don’t keep waiting until it gets better. Do what is necessary to be successful. Because we need you to be successful.”

“So exciting – a great time to be in our industry.”





2023

VISION CONFERENCE

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APRIL 11-12, 2023

SAVE THE DATE