Stern Stewart & Co. and QVARTZ wish to pay special gratitude to Frank Schlehuber, CLEPA, for commissioning this paper and for his sparring and insights throughout the process. This study could not have been conducted without the insights gained through our interviews, and we therefore wish to thank all who participated.

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1. Executive summary

The automotive aftermarket is undergoing a gradual but profound change. In a few years, the market will look completely different – the part makers must act and prepare for this change.

Globally, the parts market will grow from currently EUR 398 billion to EUR 566 billion by 2025 – an impressive increase! Whereas mature markets like Western Europe, North America and Latin America will see growth rates of 3% or below, Eastern Europe will grow by 5.7% and Asia by 8.6%. Asia will almost double its size and constitute nearly 30% of the global market. Obviously, the growth agenda of parts suppliers must be turned towards the East.

At the same time, the parts market will be deeply affected by the shifts in the vehicle technology. With electrified, softwarised, connected and down the road autonomous cars finding their way into the car parks, the share of “traditional” product categories will decrease. Software, electronics and data-driven services will make up a quarter of the market in Europe by 2025. It is a virgin land for most of the part makers, but a big opportunity.

Not only the car technology is changing, but also the way vehicles are used. Private ownership is decreasing. Mobility services and all kinds of fleets are gaining importance. The fleets and other intermediaries will control 20% of the parts spending by 2025 – and much more in the years thereafter. Consequently, specific business models for fleets and intermediaries will be the crucial cornerstone of the aftermarket strategy.

The aftermarket value chain will face the potential of disruption. Besides the consolidation and integration of processes, the emergence of digital platforms will have the deepest impact. Given their huge convenience advantages for customers and their ability to take out cost from the overall value chain, platforms can become true game changers by controlling market access. The control of the platforms will decide the distribution of margins.

Overall, if the suppliers hold on to their current business models, their growth will be modest and margins declining. However, there is an upside scenario with significant revenue and profit opportunities. The suppliers’ aftermarket agenda 2025 is the focus of this study.

Background of this study

This white paper is a collaboration between the management consultancies Stern Stewart & Co. and QVARTZ, and is written upon a request from the European Association of Automotive Suppliers (CLEPA). Its purpose is to provide an outside perspective on the suppliers’ position in the European automotive aftermarket towards 2025. The findings were first presented on the annual CLEPA conference in March 2018. Experience from recent projects, review of existing market insight and more than 35 interviews with experts and senior executives serve as the foundation for the models and findings presented in this paper.
2. The European aftermarket will continue to grow, however, traditional suppliers will come under pressure

On the surface, the European aftermarket for parts seems to be growing at a decent pace. However, fundamental changes to vehicle technology, customer behaviour and industry dynamics mean that the market share for traditional suppliers will be growing slower than the overall market, and that the traditional suppliers will face greater pressure. Players that ‘do nothing’ will face margins deteriorating. However, players that do take action still have the chance to help shape change rather than just react when it is already too late.

Aftermarket growth mostly in Eastern Europe and outside Europe

Within the automotive industry, the aftermarket is a fundamental part, accounting for 15-20% of the total value of the sector.

The European automotive parts aftermarket is currently estimated at EUR 123 billion (2017 parts retail market value). Towards 2025, the European aftermarket is projected to grow at 2.4% in Western Europe and 5.0% in Eastern Europe annually, and it is expected to reach EUR 161 billion by 2025, driven by a growing European carpark and new sales, longer vehicle lifetime and, finally, new digital products and services.

"Towards 2020, I expect the majority of the growth to come from Eastern European countries"

European suppliers searching for traditional growth should consequently orient themselves towards firstly Eastern Europe where higher growth is mainly driven by a faster growing vehicle population. Secondly, European suppliers should consider developing markets outside Europe. Asia is expected to grow significantly in the coming years at rates exceeding 8%, meaning that its market size will jump from a Western European level in 2017 to being larger than the total size of Europe in 2025.
Figure 1: Projected 2025 aftermarket development by region

GLOBAL AM PARTS RETAIL MARKET VALUE BY REGION
bn EUR, % compound annual growth rate

North America

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>135</td>
<td>174</td>
</tr>
<tr>
<td>Growth</td>
<td>+3.2%</td>
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</table>

West Europe

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>85</td>
<td>102</td>
</tr>
<tr>
<td>Growth</td>
<td>+2.3%</td>
<td></td>
</tr>
</tbody>
</table>

South America

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>44</td>
<td>51</td>
</tr>
<tr>
<td>Growth</td>
<td>+1.9%</td>
<td></td>
</tr>
</tbody>
</table>

Global

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>398</td>
<td>566</td>
</tr>
<tr>
<td>Growth</td>
<td>+4.5%</td>
<td></td>
</tr>
</tbody>
</table>
Steady growth – not so steady industry
While growth is expected to continue, change is taking place at a high pace. The aftermarket represents a key value pool to all key players in the automotive industry – and a potential for a number of new market entrants. Thus, players across the value chain are making moves to either expand or defend their positions.

“We are at a turning point. It is impossible to predict the outcome.”
Tier 1 supplier

Structural moves take place across the entire value chain – in a number of directions. The two most common themes pursued by players are:

• To position for new technologies through acquisitions or partnerships
• To expand control over cars in the aftermarket and access to customers through downstream acquisitions and business models expanding relationships with end customers or increasing control over workshops

Suppliers have some structural disadvantages when confronting these trends. They have little experience dealing with end customers or workshops and only a few of them possess sufficient digital capabilities.

Furthermore, suppliers are naturally fragmented, driven largely by differences in:

• Technology and product portfolio
• Regional footprint
• Sales channels
### OEM’s

**Focus on gaining access to technology to design car of the future (autonomous)**

- **Intel**
- **BMW**
- **Ford**
- **Toyota**

**Fleet-lifecycle ownership**

Volvo offers a 24 months all-inclusive subscriptions through Care by Volvo.

**Downstream expansion**

Getting closer to the end customer through M&A.

- **PSA Group**
- **Mister Auto**
- **Groupauto**
- **Autobutler**

### Suppliers

**Technology driven M&A**

Focus on ensuring technology and capabilities to supply for changing parts requirements.

- **Continental**
- **Easy Mile**
- **Beespeed**

**Downstream M&A**

Building own whole sales channel and forming workshop partnerships.

- **Hella**

### Wholesale & distribution

**Garage concepts**

Professional concepts for independent workshops.

- **Nexus Auto Group**
- **Euro car Parts**
- **Autofirst Netw.**

**Consolidation**

“There is a strong consolidation trend in the German market where top four are now top two”

Former Head of BD, PV automotive

- **LKG**
- **WM**
- **TROST**
- **PV**

### Workshops

**Increased professionalization**

Workshops are to an increasing extend becoming more professional in order to meet technology and customer needs.

- **KwikFit**
- **Carglass**

### Intermediaries

**New tech leveraged directly to customers**

Many new opportunities for bypassing the traditional value chain.

- **Flinkster**
- **DriveNow**
- **Zipcar**

**New digital players offer mobility concepts for B2C and B2B carsharing**

- **Flinkster**
- **DriveNow**
- **Zipcar**

**Insurance providers move to IAM products to cut costs on service**

- **Allianz**
- **AXA**
- **Prudential**

### Figure 2: Market developments

<table>
<thead>
<tr>
<th>TYPE OF PLAYER</th>
<th>EXAMPLES OF MARKET DEVELOPMENTS</th>
<th>THREAT TO SUPPLIERS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OEM’s</strong></td>
<td>Partnerships and M&amp;A</td>
<td>Will increase pressure on suppliers through control of vehicles in aftermarket and sites providing services</td>
</tr>
<tr>
<td></td>
<td>Focus on gaining access to technology to design car of the future (autonomous)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Fleet-lifecycle ownership</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Volvo offers a 24 months all-inclusive subscriptions through Care by Volvo</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Downstream expansion</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Getting closer to the end customer through M&amp;A</td>
<td></td>
</tr>
<tr>
<td></td>
<td>PSA Group</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Mister Auto</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Groupauto</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Autobutler</td>
<td></td>
</tr>
<tr>
<td><strong>Suppliers</strong></td>
<td>Technology driven M&amp;A</td>
<td>Pressure from both sides</td>
</tr>
<tr>
<td></td>
<td>Focus on ensuring technology and capabilities to supply for changing parts requirements</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Continental</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Easy Mile</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Beespeed</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Hella</td>
<td></td>
</tr>
<tr>
<td><strong>Wholesale &amp; distribution</strong></td>
<td>Garage concepts</td>
<td>Pressure from both sides</td>
</tr>
<tr>
<td></td>
<td>Professional concepts for independent workshops</td>
<td>Professionalization will limit demand for suppliers value added services unless offering is rethinksd</td>
</tr>
<tr>
<td></td>
<td>Nexus Auto Group</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Euro car Parts</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Autofirst Netw.</td>
<td></td>
</tr>
<tr>
<td><strong>Workshops</strong></td>
<td>Increased professionalization</td>
<td>Professionalization may also mean that demand for suppliers value added services will decrease unless they rethink their position</td>
</tr>
<tr>
<td></td>
<td>Workshops are to an increasing extend becoming more professional in order to meet technology and customer needs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Focus on expanding through franchise agreements in Central &amp; Southern Europe</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Invested £5m in Portugal during 2017 as part of ambitious expansion project</td>
<td></td>
</tr>
<tr>
<td></td>
<td>KwikFit</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Carglass</td>
<td></td>
</tr>
<tr>
<td><strong>Intermediaries</strong></td>
<td>New tech leveraged directly to customers</td>
<td>New players are entering the value chain and gaining power</td>
</tr>
<tr>
<td></td>
<td>Many new opportunities for bypassing the traditional value chain</td>
<td></td>
</tr>
<tr>
<td></td>
<td>New digital players offer mobility concepts for B2C and B2B carsharing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Insurance providers move to IAM products to cut costs on service</td>
<td></td>
</tr>
</tbody>
</table>
3. If suppliers “do nothing”, the market growth will be captured by other players – suppliers can turn challenges into opportunities

A “do nothing” scenario places the majority of market growth in the hands of new players and leaves traditional suppliers with declining margins as price pressure will gradually mount. Suppliers, however, have significant potential upside opportunities. Firstly, suppliers need to position themselves technologically for future demand. Secondly, suppliers need to focus on how they can work proactively to rethink the value chain from supplier to end user and take out costs – ultimately reducing the need for absorbing price pressure.

There are three overall areas of change: Vehicle technology, Ownership models and Distribution channels. Each area of change comes with its own set of challenges and opportunities for suppliers. If suppliers do nothing to mitigate these challenges, the market will be structured as in our ‘do nothing scenario’. If the suppliers however invest in the opportunities, the ‘upside scenario’ is likely to be the reality. While the total parts market will roughly be assumed to take the same size in both scenarios, the share for ‘traditional’ suppliers and their respective profit pool will differ.

If suppliers “do nothing”, they will only realise 1/5 of actual market growth and an EBIT 10% below 2017 level because of the margin pressure

- Vehicle technology shifts will play into the hands of new players with stronger digital competences while revenue pools for traditional parts will only grow modestly
- Changing ownership models, driven by an increase of shared mobility and leasing contracts including full service plans (also for cars older than four years), will consolidate aftermarket decision power (parts and service) and increase price pressure
- Distribution channel developments towards consolidated mega wholesalers for IAM channel and increased OEM control over OES channel via stronger access to vehicle data will put further pressure on margins

If suppliers pursue opportunities, revenue pools could increase by 2/3 of overall market development and EBIT margin could stay at 2017 level – equal to 20% increase in absolute values. This requires suppliers to do the following:

- Position themselves towards growing technology segments like ADAS and retrofitted solutions such as telematics
- Leverage existing positions with customers
- Take an active role in reshaping the inefficient value chain from suppliers to end users to take out costs and limit the need to absorb price pressure
  - Create a fleet owner offering with focus on optimising whole value chain and driving down TCO for fleet owners
  - Build offerings that optimise total cost based on e.g. integrating logistics with wholesale, collaborating on use of data and implementing embedded pricing-schemes thereby creating shared incentives
  - Develop alternative IAM data solutions
  - Partner with other IAM players or strong online player to actively drive online trade
Figure 3: 2025 scenarios

**EUROPEAN AM PARTS RETAIL MARKET VALUE¹**

<table>
<thead>
<tr>
<th>BN EUR</th>
<th>Supplier revenue</th>
<th>EBIT</th>
</tr>
</thead>
</table>

**Vehicle Technology**

- Suppliers...
- Of certain traditional parts fully taken by unit value decline
- 123

**Ownership Models**

- ... are affected by price pressure through large fleet operators (OEM & 3P)
- ... secure position in growing categories
- 161

**Distribution Channels**

- ... are having margins eroded by stronger OEMs and consolidating IAM wholesale
- ... collaborate and partner to build a more efficient value chain
- 48

2017 | ‘Do-Nothing’ Scenario 2025 | Upside Scenario 2025
---|---|---
48 | -10% | +20%
123 | 51 | 58
4.
Seven trends will shape the future towards 2025

*Expert interviews and research have identified 10 trends that have the highest potential for transformation in the automotive aftermarket. Out of these, the findings point to seven trends that will shape change towards 2025.*

The seven trends shaping the automotive aftermarket towards 2025 have been selected based on their disruptive potential and the expected timeline before the impact is likely to occur.
Figure 4: Overview of trend potentials and timeline of respective influence (relative to 2025)

<table>
<thead>
<tr>
<th>AREAS OF CHANGE</th>
<th>TRENDS DRIVING CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vehicle Technology</td>
<td>Connectivity</td>
</tr>
<tr>
<td></td>
<td>Electric vehicles</td>
</tr>
<tr>
<td></td>
<td>Softwarization</td>
</tr>
<tr>
<td></td>
<td>Autonomous vehicle</td>
</tr>
<tr>
<td>Ownership Models</td>
<td>Mobility services and new ownership models</td>
</tr>
<tr>
<td></td>
<td>Intermediary power</td>
</tr>
<tr>
<td>Distribution Channels</td>
<td>Independent wholesale consolidation</td>
</tr>
<tr>
<td></td>
<td>Online platforms</td>
</tr>
<tr>
<td></td>
<td>Horizontal integration</td>
</tr>
<tr>
<td></td>
<td>3D printing</td>
</tr>
</tbody>
</table>

Short term (0–5 years)                       Medium term (5–10 years)                      Long term (+10 years)

Key trends before 2025

“Vehicle Technology
“What do customers actually need?”

“Ownership Models
“Who decides on how cars are serviced?”

“Distribution Channels
“How do we deliver to end-customers?”
New vehicle technology requires suppliers to secure new competences

Components like cameras, sensors and software will constitute an increasing part of future vehicles. The battery electric vehicles (BEVs) will impact the parts aftermarket, and although it is still uncertain how large a share of cars that will be fully electric by 2025, it is certain that the continuous electrification of components is taking place at full speed.

Increased electrification and softwarisation leads to greater complexity for suppliers and workshops, but also enables new opportunities.

2025 projections suggest that total parts will increase by 3.4% annually in the base case, predominantly due to the software/content/data category. This is driven by a range of new features adding to the driving experience, such as driver assistance systems, info- and entertainment systems, accessibility services, connectivity and a range of adjacent services.

A significant share of these products may also be delivered directly to the end user as Over-The-Air services (OTA).

Retrofitted solutions driven by demand and the opportunity to upgrade the existing car with new technologies will be a growing category.

The tyre category is also projected to increase. The growth in this category is driven by value, as BEVs demand more sophisticated and advanced tyres than traditional ICE vehicles.

Uncertainty regarding actual penetration rate of BEVs in 2025 may influence how the market will actually turn out. Two factors are hugely influencing the BEV penetration; legislation and oil price. In the base case, a 6% BEV penetration rate is expected. Even if new sales of BEVs exploded, there would be a lagging effect on the total vehicle fleet, as the existing vehicle carpark is roadworthy for many years to come. A scenario analysis on an accelerated BEV penetration of 10% of the total fleet in 2025 however shows that conclusions are robust as the differences in projection are relatively limited and confined and have the following impact:

- Wear-and-tear and maintenance will decrease by around 2%
- Tyres will go up by 1%

"If the government decides to push EVs, like in for example Norway, the trend will come much faster - there is a danger of emission regulation on traditional ICEs"

OEM
Figure 5: Projection of development in vehicle technology

**EUROPEAN AM PARTS RETAIL MARKET VALUE BY PRODUCT TYPE**

- **Software/content/data**: 34 bn EUR
- **Retrofit solutions**: 161 bn EUR
- **Tyres**: 123 bn EUR
- **Accessories**: 42 bn EUR
- **Crash repair**: 11 bn EUR
- **Maintenance**: 5 bn EUR
- **Wear-and-tear**: 28 bn EUR

General assumption: Fleet increase by +1% per year

- Fleet increase by +1% per year
- 70% of car park connected
  - ~140 EUR revenue/car/year
- Average vehicle age up by ~1 yr.
  - Electronics parts up by ~25%
- Average tyre price up by ~5%
  - EV tyre price higher by ~3%
- ~0.2% price increase
- # crashes down by ~2%
  - Cost/crash up by ~1%
- Maintenance need down by ~5%
  - Cost/repair up by ~5%
- Wear-and-tear need down by ~5%
  - Cost/repair up by ~5%
Vehicle technology shifts may play into the hands of new suppliers

Crash repair, wear-and-tear and maintenance parts suppliers face a battle for a revenue pool that is developing slower than normal price development, which may intensify competition and the need to absorb price pressure.

However, growth within software and data may be captured by new players from other markets bringing strong competences in these fields. A wide range of providers of content for infotainment systems exist today, possessing both quality content and experience in delivering this across various platforms.

Furthermore, increasing vehicle complexity puts pressure on suppliers and workshops

- Smaller to medium-sized independent suppliers with a focus on aftermarket may find it particularly difficult to invest and follow the increasing pace of technological development
- Independent workshops will need to continuously re-educate and professionalise themselves to respond to increasing vehicle complexity. Advanced training in combination with diagnostic tools and systems will be mandated to carry out service, and workshops will look for help to do this. Unless suppliers step into this role, wholesalers will. Large wholesalers are already assuming leadership roles in the independent aftermarket as the knowledge hub and training & tools provider that workshops turn to. This will in turn increase their influence and power across the value chain and ultimately towards suppliers

"Smaller suppliers will have a harder time delivering on a full range of more technological complex products”

Supplier

Suppliers do however have a number of opportunities to position themselves for new technologies and develop new and innovative revenue models. Suppliers should consider developing:

- Software and data competencies. The largest single opportunity for suppliers, is to build competences within connectivity/telematics (of components), ADAS, info- and entertainment systems, accessibility services, a range of adjacent services and generally the ability to collect, structure and utilise data. These competencies will be key for the suppliers to develop future innovative business models.
- Retrofit and features on demand systems. Besides the upside from selling the retrofit parts, access to data that such parts generate can be an opportunity for suppliers. Especially vehicle owners interested in extending vehicle lifetime and value are key customers to such solutions
- Stronger role towards garages and workshops. Particularly suppliers that depend on a strong independent aftermarket should invest in education. This may in turn also build relationships and develop competences for suppliers that allow the selling of parts directly to garages in the future.
6. Personal car ownership is declining and pushing aftermarket fate of cars into the hands of large fleet owners

The ownership models of vehicles are changing. Leasing, re-leasing and mobility services are increasing in popularity, but more importantly, they are moving aftermarket decision making from end users to professional fleet owners.

This professionalisation drives pressure through the value chain. Future fleet owners will be both independent intermediaries and OEMs. Suppliers need to develop dedicated offerings for fleet owners and take a role in optimising the entire value chain instead of only engaging in the traditional procurement game with increasing price pressure year after year.

Traditional ownership less important for car users
In 2017 more than 45% of newly purchased light vehicles in the Netherlands were leased vehicles (VNA 2017).

End users prefer convenience and limited risk of depreciation to owning their own car (notably in times of technological uncertainty). Although terms in leasing agreements vary, ‘full-service’ models are among the most frequently chosen, giving the fleet owners responsibility for service and maintenance. Leasing agreements that provide this option have been growing in popularity in recent years, primarily on new cars.

Car sharing services and other mobility services are also growing in popularity, though they are mostly an urban area phenomenon. These services similarly move aftermarket decisions to professional fleet owners.

Full lifecycle strategies drive increased fleet ownership
Re-leasing has already become a common tool for financing cars in many markets, but it rarely shifts the service and maintenance responsibility to the leasing providers. This is, however, expected to change as OEMs seek to control vehicles throughout the lifecycle, and independent leasing companies contemplate how to follow suit as customers seek these solutions. While this will take time to develop, the leasing share among second lifecycle vehicles (4-8 years old) is expected to increase by 2025. Based on this, the total share of the aftermarket in the hands of OEMs and independent fleet owners is projected to increase from -4% to 13% by 2025 and to continue the trajectory afterwards.

Insurance further adds to the consolidation of aftermarket decision power
The same professionalisation of aftermarket decisions and consolidation of power with professional players has to a large extent taken place within insurance, which is estimated to currently influence 5% of the total parts revenue in terms of selection of parts and service provider (primarily collision parts). Insurance increasingly incentivises or stipulates guidelines for aftermarket decisions in order to reduce claims cost, and this is expected to increase the share influenced by insurance to roughly 5% by 2025.
How large a role will the OEMs play as fleet owners?

While fleet ownership will increase, it remains uncertain how big a share OEMs will achieve as fleet owners. OEMs have the opportunity to utilise existing customer experience touchpoints for pushing this business, which will also benefit OEM workshops. This will in turn put the entire independent aftermarket under pressure. Furthermore, OEMs possess superior data on vehicles and cost across the lifecycle, enabling more accurate pricing of contracts. However, independent fleet owners will have the opportunity to offer multiple brands and fully leverage the normally cost competitive independent aftermarket. In the base case, both types of leasing are expected to grow significantly, making OEMs much larger players in 2025 than it is today. The role of OEMs is important as the opportunities for parts suppliers for developing more value-added offerings are greater towards the independent fleet owners.

Suppliers face increasing price pressure

Professional fleet owners and insurance controlling service and maintenance will increase price pressure throughout the value chain, e.g. by tendering service and parts in larger contracts.

Ordinary price developments are expected to positively impact the market by EUR 1 billion by 2025 (<0.5% annually including inflation), but is expected to be more than offset by price pressure from fleet owners and insurance.

Suppliers do however have a number of opportunities arising from the changing ownership models. Suppliers should consider developing:

- Products and technologies that enable fleet owners to offer “Features on demand” to their end users. Though still at a very early stage, Features on Demand will become more prominent part of fleet owned cars in the future, enabling fleet owners to customise end user experience with a standardised fleet
- Go-to-market models targeted professional fleet owners. With fleet owners growing in size and becoming increasingly professional in their sourcing, suppliers have an opportunity to develop a channel directly to the fleet owners, either in partnerships with, or around the traditional wholesaler link
- Partnerships and collaborations with other value chain players, to take an active role in driving down cost across the value chain. Resolving some of the many supply chain inefficiencies in the value chain, will be a key lever to protect margins, in an otherwise increasing price pressure game
7. The distribution channels in the automotive aftermarket will be innovated and digitalised

Several factors influence the distribution network towards 2025. OEMs will push for greater influence through superior access to in-vehicle data and may finally buck trends of increasing independent share of aftermarket. Wholesalers will, on the other hand, continue to consolidate and increase competitiveness. At the same time, the current low level of digitalisation presents an opportunity for disruption, which a strong third-party player will grab unless existing players drive this development – both suppliers, wholesalers or workshop chains could take this role. In all cases, the channels to market are moving and unless suppliers take an active role in shaping developments, they may end up marginalised and faced with increased pressure.

A slight return to the OES aftermarket towards 2025

Although the independent aftermarket has steadily been winning share over the OE aftermarket the last many years, it is expected that the OES will gain a slightly bigger share towards 2025. This is primarily driven by OEMs having superior access to in-vehicle data enabling new proactive service offerings to customers and complemented by increasing share of vehicles in fleets under OEM control. The DIYs’ share of the aftermarket is at the same time expected to almost disappear.

Increased online trade and consolidations strengthen competitiveness of independent aftermarket

Online trade is currently only around 5% and online platforms are considered immature due to insufficient product range and availability as well as an inability to assist workshops in identifying right parts.

"The current logistic chain holds too many layers, which drive up cost – online web stores may reduce the cost to workshops by up to 30%"

Trade expert

From an outside view, the logistics part of the business appears like a market ripe for digital disruption. Challenges to digitalise are manageable to the right player who can gather support for the right platform, and significant value potential exists in challenging what appears to be conservative and analogue ways of working – even though workshop dependence on support from wholesale should not be underestimated. Projections expect online trade to increase to at least 20-25% by 2025. This improves the competitiveness of the independent aftermarket compared to the OEM market.

With consolidation going on among the wholesalers – who are already starting to capture efficiency potentials – wholesale is moving into a position to take this role. In the event that no one claims this role, outside players like Amazon are well equipped in building platforms connecting suppliers and customers and taking care of distribution in between.

It is important to note that suppliers will come under pressure in either case. Stronger OEMs, stronger wholesale and increased online will all drive stronger price pressure if suppliers “do nothing”.


The channel battle between OES and the independent aftermarket depends on who wins segment 2 vehicles and who owns the largest fleets

In the base-case scenario, it is expected that OES increase their share of the aftermarket from 39% in total to 40% by 2025. This is driven by an increase in segment 2 vehicles (age 4-8) using OEMs for service and maintenance from 50% to 60%. In segment 2, the vehicles have reached an age where service and maintenance is more required than for segment 1 cars, but the vehicles are still young enough for their owners to be persuaded to use OES workshops and parts to keep the value of vehicles up. In the more radical OEM scenario, the OES channel manages to get an even stronger position in this part of the market of ~70%. This would imply that superior access to data is leveraged very efficiently and that OEMs take an even larger share of fleets than the base case. This pushes the distribution in the market by 5% towards OES. If, on the other hand, independent aftermarket successfully optimises and third-party fleets expand aggressively, a converse development may take place and reduce the OES channel to 35% in total.

Overall assumptions:
- Fleet increase by +1% per year
- Segment II growth CAGR ~1.5%

**Figure 7: Projection of development in distribution channels**
Both OEMs and wholesale will increase power and challenge suppliers

Wholesalers will increase power and ultimately pricing pressure. Firstly due to continued consolidation and sheer growth in bargaining power. Secondly by positioning themselves as knowledge powerhouses and key influencers of workshops. Wholesalers take a key role with regards to training, innovation and diagnostic analysis, which gives them an opportunity to influence choice of parts - including the opportunity to push own private label offering.

OEMs have superior access to in-vehicle data from cars as they are connected to vehicles from the day of production. Remaining players do not have the same access to vehicles due to restrictions controlled by OEMs and lack of access to customers granting access. A regulatory resolution does not currently exist. OEMs will use this advantage to develop maintenance solutions proactively steering customer to OEM workshops based on vehicle data. If OEMs manage to develop such solutions, this will increase pressure on suppliers.

Finally digitalisation of trade will typically drive transparency and price pressure towards traditional players regardless of whether it is driven by new digital players or existing players.

Suppliers do however have a number of opportunities arising from the disruptions in the distribution channels. Suppliers should consider developing:

- Vehicle data access solutions. Suppliers must find alternative ways to access vehicle data, to enable creation of alternative data-driven service offerings to the IAM, as those OEMs will be developing based on access to life vehicle data etc. Independent aftermarket needs to find answers on how to produce and obtain data. This could be via jointly investing in devices to get access for vehicle data or via reduced models based on access via a mobile phone.
- Digital distribution platforms. With considerable value to be gained from optimising supply chain redundancies, reducing inefficiencies and developing EU-wide price management, emergence of such digital platforms is a matter of time. There are potentially three groups that can take this role; large wholesalers, new digital entrants (like Amazon) or a collaboration of suppliers
The UK pharmaceutical distribution market serves as a perfect example of how digitalisation changes the wholesale business model.

This change must be seen in the context of the huge cost pressure in the chronically underfinanced system coupled with break-through innovations in drugs and treatment methods. They gave room for an astonishing digitalisation trend in the entire healthcare system.

For the traditional “full line” wholesale, the result was discouraging. Within the last decade, their share in distributed drugs (by value) went from 90% down to some 50%. Instead, three models have been on the rise:

- Direct deliveries from drug manufacturers to pharmacies, hospitals or patients
- Different agency models where drugs are just physically handled by wholesalers on behalf of the manufacturers against a handling fee
- Reduced wholesale (or solus) agreements under which the drugs are still sold by wholesalers, but just by one or two of them, at a much lower margin, and under the precondition of total transparency of inventories and sales

All this has had a dramatic impact on the wholesale profit pools. The median gross margins have been halved from 12.5% to between 6% and 7%.

The EBIT margins in the traditional wholesale model do not exceed 1% or 2% anymore. At the same time, the value-added services allow the suppliers to earn EBIT margins of 15% or higher. Most of these services are based on software or data-driven platforms which control the customer interface and data access. They create a superior value proposition by orchestrating the entire value chain, using infrastructure operators as “sub-contracting” partners, and taking margins from them.

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### CASE STUDY: UK PHARMA VALUE CHAIN DISRUPTION

**bn EUR**

- **Full-line wholesale**
- **Others**
- **Branded median wholesaler margin**
- **Wholesaler EBIT margin by segment 2016**

### MEGATRENDS

- Huge cost pressure in the system
- Consolidation (manufacturers, pharmacies, competitors)
- Vertical integration
- Manufacturers striving for supply chain control
- Battle for patient data
- Managed / home care
- Personalized drugs
- Biologicals

### TRADITIONAL WHOLESALER REVENUE POOL EVOLUTION

<table>
<thead>
<tr>
<th>2010</th>
<th>2016</th>
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<tbody>
<tr>
<td>Agency</td>
<td>100%</td>
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<tr>
<td>Direct to pharmacy (DTP)</td>
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<tr>
<td>Direct to hospital</td>
<td>60%</td>
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<tr>
<td>Reduced wholesale agreements (RWA)</td>
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<tr>
<td>Solus agreements</td>
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<tr>
<td>Direct to patient</td>
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<tr>
<td>Short-line distributors</td>
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### DIGITAL BUSINESS MODELS

- E2E inventory transparency
- Robot dispensing
- Digital prescription
- AI-based qualification
- App-based ordering
- Telemedicine
- Patient risk monitoring
- Central fill for pharmacies
- E-pharmacies
- Predictive analytics (e.g. demand forecast)
- AI-based supply chain optimization

### TRADITIONAL WHOLESALER PROFIT POOL EVOLUTION

<table>
<thead>
<tr>
<th>2010</th>
<th>2016</th>
<th>Trade</th>
<th>Digitized value added services</th>
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<tbody>
<tr>
<td>Full-line wholesale</td>
<td>12.5%</td>
<td>6-7%</td>
<td>1-2%</td>
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<td>Others</td>
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<td>Wholesaler EBIT margin by segment 2016</td>
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8. Supplier agenda 2025

Suppliers must address the changing landscape in the automotive aftermarket and actively engage in shaping the future, ensuring that they have the ‘ticket to play’. If they do nothing to reinvent themselves in the coming years, a significant share of today’s supplier profit-share will be carved out, and left to both OEMs, wholesalers, intermediaries and possibly new entrants to the scene.

Based on the scenarios and projections for the development in the automotive aftermarket, it has been estimated that the suppliers will be left with EUR 51 billion in revenue and a decrease in profit if no major initiatives are initiated. Suppliers have an opportunity to take a larger share of the future value chain – in 2025, suppliers can control 14% more revenue – with a steady profit margin. Suppliers should:

.. develop a strategy for growing markets in Eastern Europe and Asia

- Eastern Europe is growing solid and is a ‘near’ foreign market with a high share of Europe-an-produced cars in segments 2 and 3
- Asia has overall very high growth, but not all markets are relevant for all European suppliers

.. ensure that competences are updated for the future technologies and business models – especially within softwarisation and use of data

- Secure competences by either M&A efforts, knowledge clusters with peers or internal knowledge development
- Expand knowledge profile with both technical, data and business competences
- Join innovation eco-systems and form partnerships with relevant start-up companies

.. keep technological platforms up to date and tap into growing categories

- Build and market retrofit and features on demand programmes
- Ensure cost competitiveness – notable in traditional parts categories with low growth

.. prepare for a B2B shift – OEMs, fleet owners, intermediaries and workshops are professionalising

- Develop go-to-market approach for OEMs and independent fleet owners
- Partner with IAM to develop competitive IAM service offering for fleet owners focused on availability and Total Cost of Ownership

.. build the next generation digital platform in collaboration with other suppliers and aftermarket actors

- Ensure access to car and driver data
- Prepare for online – pricing, distribution and services
- Enter into partnerships to actively drive optimisation of value chain, e.g. online supplier platform
Figure 8: Build-up of effects of the do-nothing-scenario and the upside scenario

<table>
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<tr>
<th>Year</th>
<th>Supplier revenue bn EUR</th>
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<th>Ownership models market effects</th>
<th>Sales channels market effects</th>
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