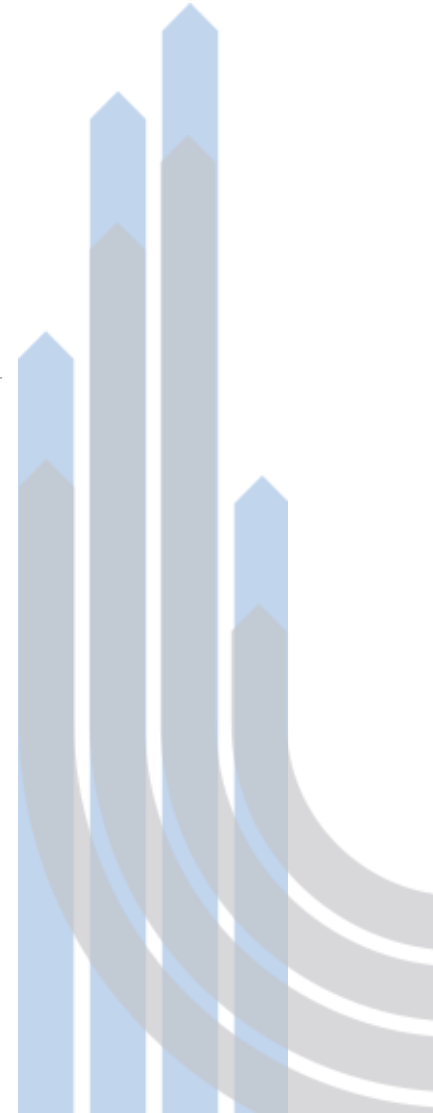


SMMT Aftermarket Report Webinar, Tuesday 20 September

Peter Lawton
Senior Section Manager
SMMT

Stephen Spivey
Programme Manager
Frost and Sullivan



- During presentations (14:00 – 14:30) everyone will be muted so that only the presenters will be heard.
- The presentation will be followed by a Q&A session. Click on the hand symbol to show that you have a question.
- If you are experiencing any technical problems please call 020 7344 1673.

Your hosts today



Peter Lawton
Senior Section Manager
SMMT

- 18+ years automotive experience covering aftermarket topics
- Two years + B-2-B focus on independent sector before joining SMMT in 2014
- Developing IAM section agenda at SMMT and with stakeholders on items including:
 - Connected car
 - MOT
 - Type Approval
 - REG90
 - Reman
 - Digital Radio



Stephen Spivey
*Program Manager,
Automotive &
Transportation*

Frost & Sullivan
North America
San Antonio, Texas

Functional Expertise

- Strong research and reporting background, which includes more than 15 years of combined experience in growth consulting, market research, journalism and consultative sales.
- Focused expertise in:
 - Market Sizing and Forecasting
 - Market Entry and Strategy Development
 - Competitive Analysis

Industry Expertise

- Experience working in multiple industries, including leadership, managerial and advisory roles in:
 - Automotive Industry and Automotive Aftermarket
 - Public Transportation and Logistics
 - News Media

What I Bring to the Team

- Deadline oriented team player
- Strong writing and presentation skills
- Success in client management and research presentation

Career Highlights

- Successful market entry and strategic consulting engagements with Tier 1 automakers and suppliers, including Ford, ITT, Gates, DENSO, Ferrari North America, Toyota Canada, NAPA Auto Parts and TRW, as well as various private-equity clients
- European aftermarket sizing and strategy
- Numerous appearances on Fox Business News and Bloomberg Television and citations in articles published in the Wall Street Journal, USA Today and the New York Times, among others.
- Numerous awards in journalism from Associated Press Managing Editors

Education

- MBA from St. Mary's University, Distinguished Graduate (San Antonio, Texas)
- BA in English from the University of Texas at San Antonio (San Antonio, Texas)

Why do an aftermarket report?

- SMMT carries and produces a lot of data in a lot of sectors





Numbers are a great way to engage with stakeholders

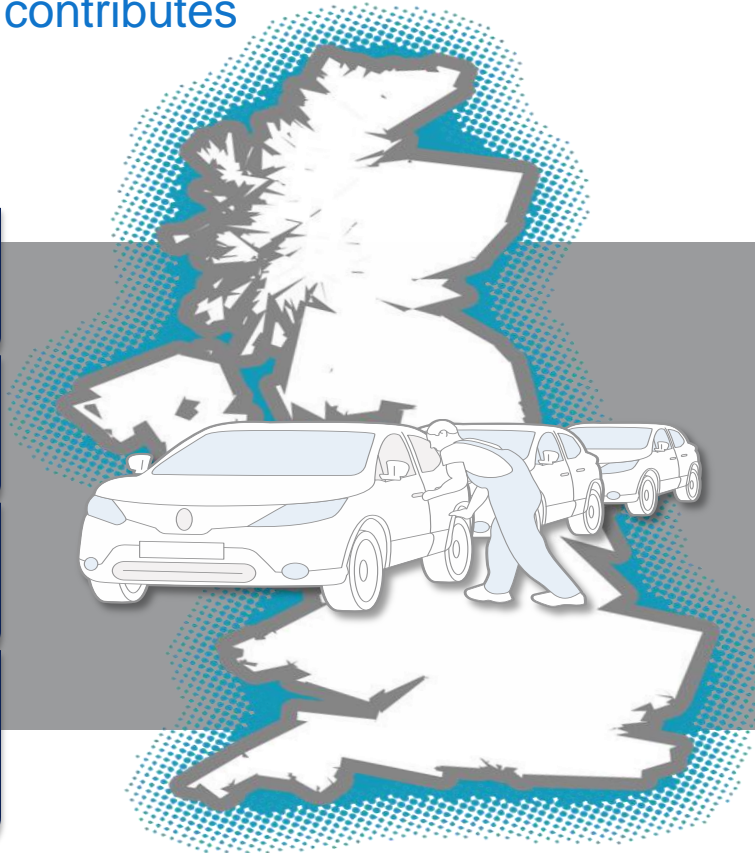
How UK automotive contributes

£71.6 billion
turnover

£18.9 billion
value added

814,000
jobs in automotive

1.68 million
vehicles manufactured
annually



94,479
commercial vehicles
manufactured

2,000
component providers

2.37 million
engines manufactured

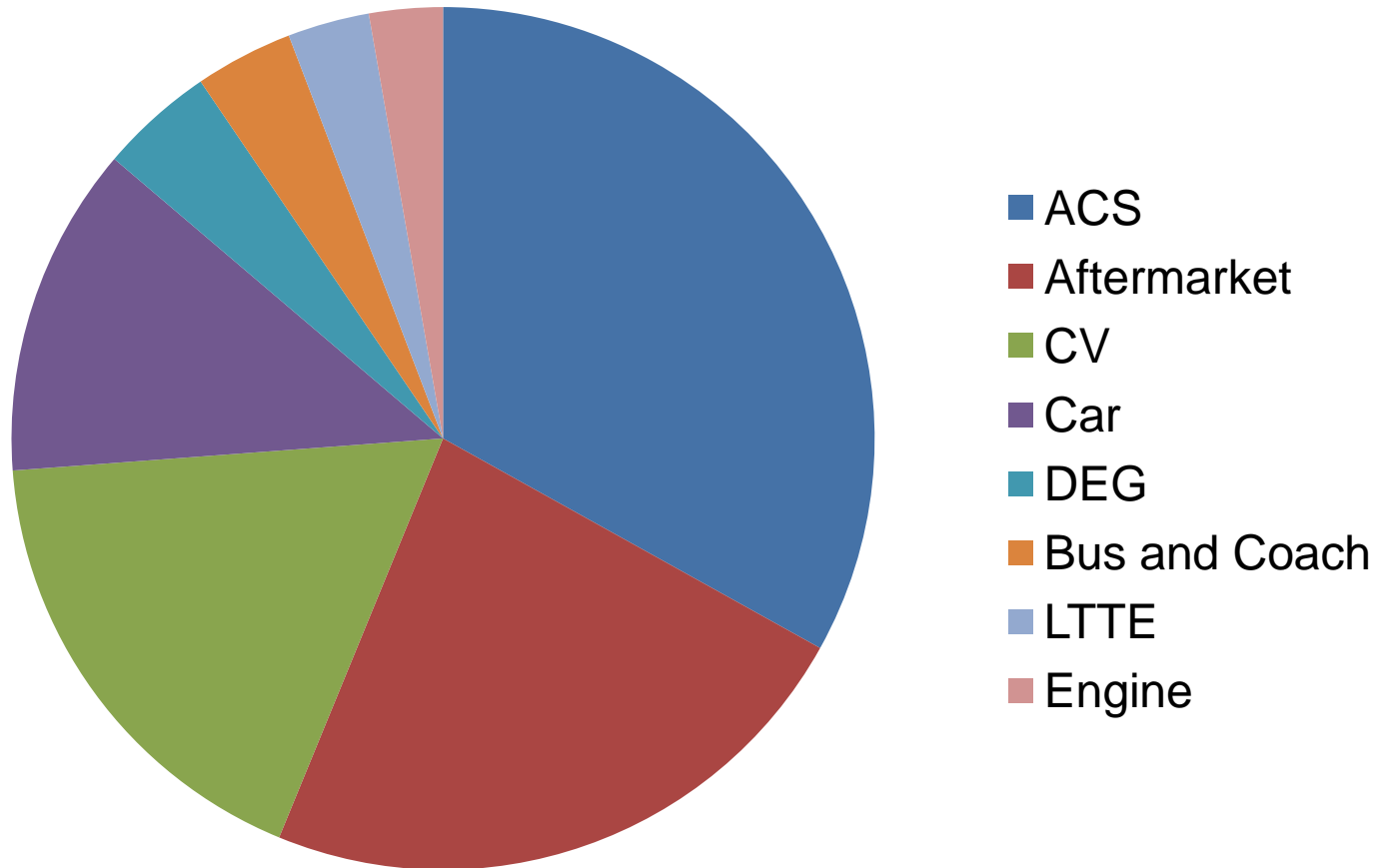
169,000
jobs in manufacturing

We lacked aftermarket numbers

- The aftermarket section lacked proportionate clout
- Figures do exist, but they're often inconsistent – is the IAM worth £10 billion or £26 billion?
- And the figures are often not accessible by all
- So we wanted to produce a report which gave all of the sector figures it could use in dialogue with customers and stakeholders



After all, the aftermarket is important to the UK and the SMMT



It has important parts members



TMD FRICTION

SCHAEFFLER



It has important
distributor members



And important workshop members

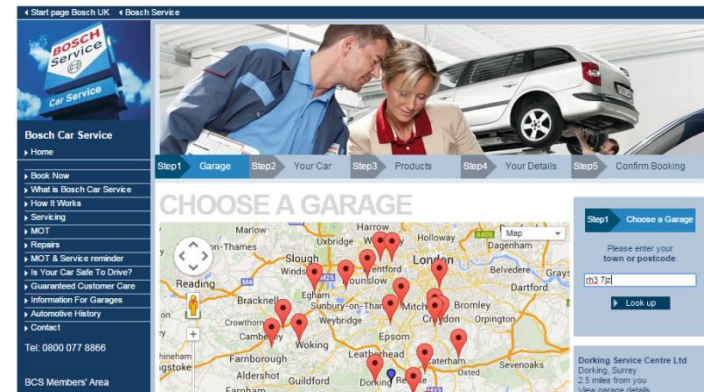


The Trusted Network



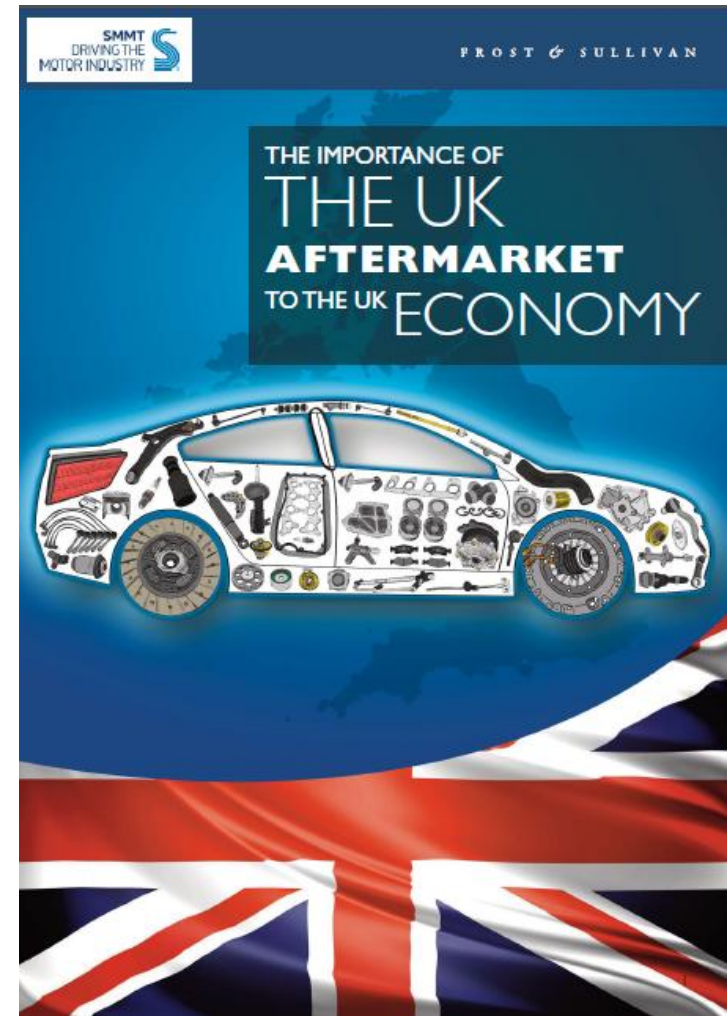
MOTOR CODES

Peace of mind for motorists



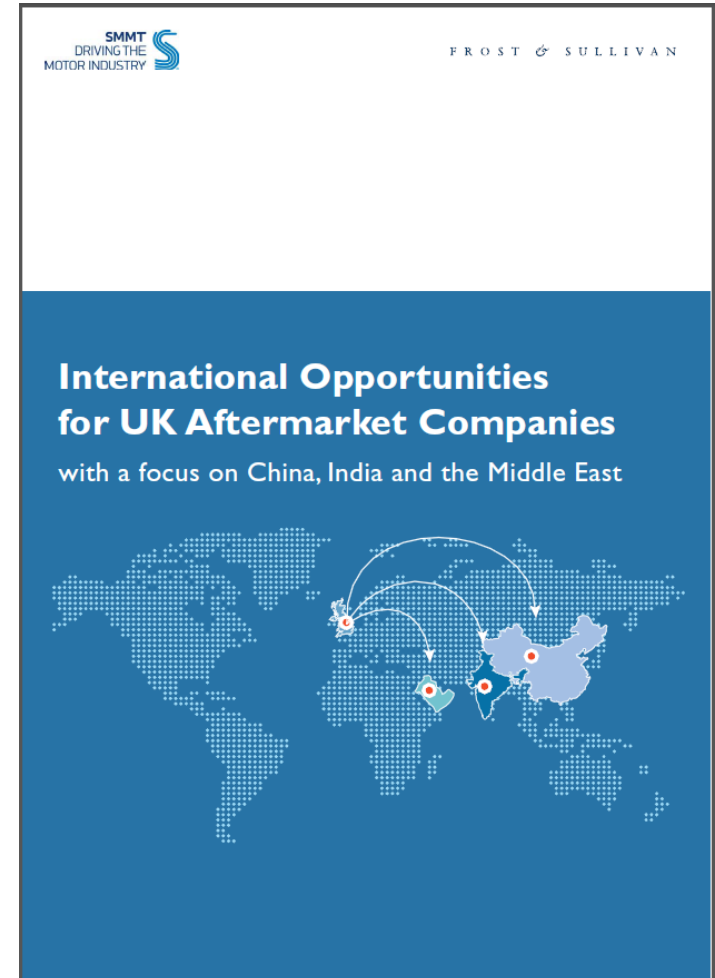
SMMT Aftermarket Report

- This is an inaugural report and will be updated each year
- It was produced in partnership with Frost and Sullivan
- It provides the aftermarket with key figures for engagement and recognising its own value
- But also highlights the opportunities and challenges facing the sector in the future
- And provides key recommendations for both those working in the sector and for policy makers who can support it



And an international report too

- We also launched an international aftermarket report at Automechanika Frankfurt
- EU had been an intended topic, but Brexit put a spanner in the works
- So we focussed on looking at three other markets instead - China, India and the Arabian peninsula
- Three very different markets with different aftermarket opportunities
- But here we will talk about the importance of the aftermarket to the UK economy in the main



So what are the numbers?

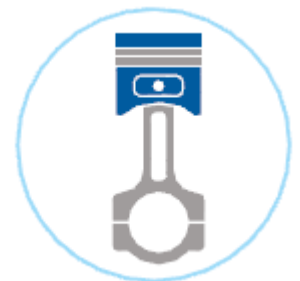


~~324326100~~



~~billions in~~

~~revenue added~~



The Frost & Sullivan story



Pioneered Emerging Market & Technology Research

- Global Footprint Begins
- Country Economic Research
- Market & Technical Research
- Best Practice Career Training
- MindXChange Events

Partnership Relationship with Clients

- Growth Partnership Services
- GIL Global Events
- GIL University
- Growth Team Membership
- Growth Consulting

Visionary Innovation

- Mega Trends Research
- CEO 360 Visionary Perspective
- GIL Think Tanks
- GIL Global Community
- Communities of Practice

What makes us unique

Focused on Growth

All services aligned on growth to help clients *develop and implement innovative growth strategies*

Industry Coverage

Continuous monitoring of industries and their convergence, giving clients *first mover advantage in emerging opportunities*

Global Footprint

More than 40 global offices ensure that clients *gain global perspective to mitigate risk and sustain long term growth*

360 Degree Perspective

Proprietary TEAM™ Methodology integrates 7 critical research perspectives to *optimize growth investments*

Career Best Practices

Career research and case studies for the CEOs' Growth Team to *ensure growth strategy implementation at best practice levels*

Visionary Innovation Partner

Close collaboration with clients in developing their *research-based visionary perspective to drive GIL*

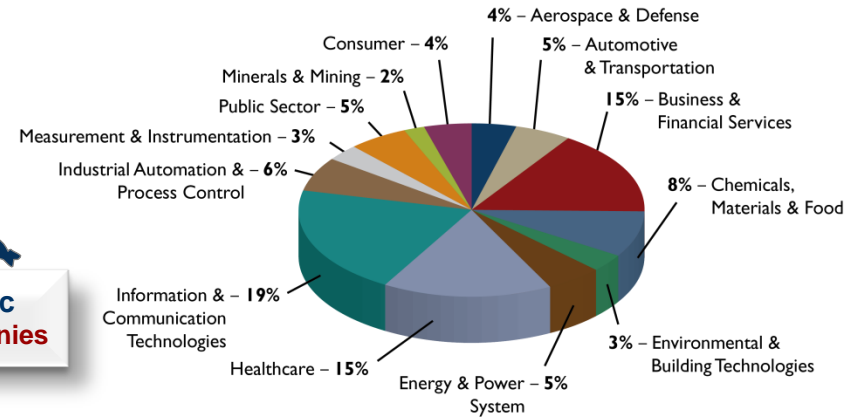
Our Global Client Base

By Region

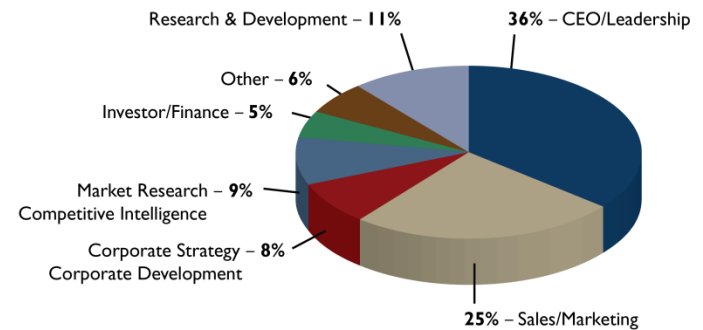
250,000 SME & Global Companies, 2 million executives



By Industry



By Career



Our industry coverage



Aerospace & Defense



Measurement & Instrumentation



Consumer Technologies



Information & Communication Technologies



Automotive Transportation & Logistics



Energy & Power Systems



Environment & Building Technologies



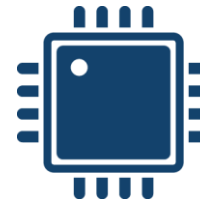
Healthcare



Minerals & Mining



Chemicals, Materials & Food



Electronics & Security



Industrial Automation & Process Control

Our services



**Growth Partnership
Services**



Growth Consulting

GIL Global Community



GIL University



Events



Volume 1: The Importance of the UK Aftermarket

The Importance of the Aftermarket



Key characteristics of the UK aftermarket



The UK in the context of the global aftermarket



The independent and franchised aftermarket in the UK

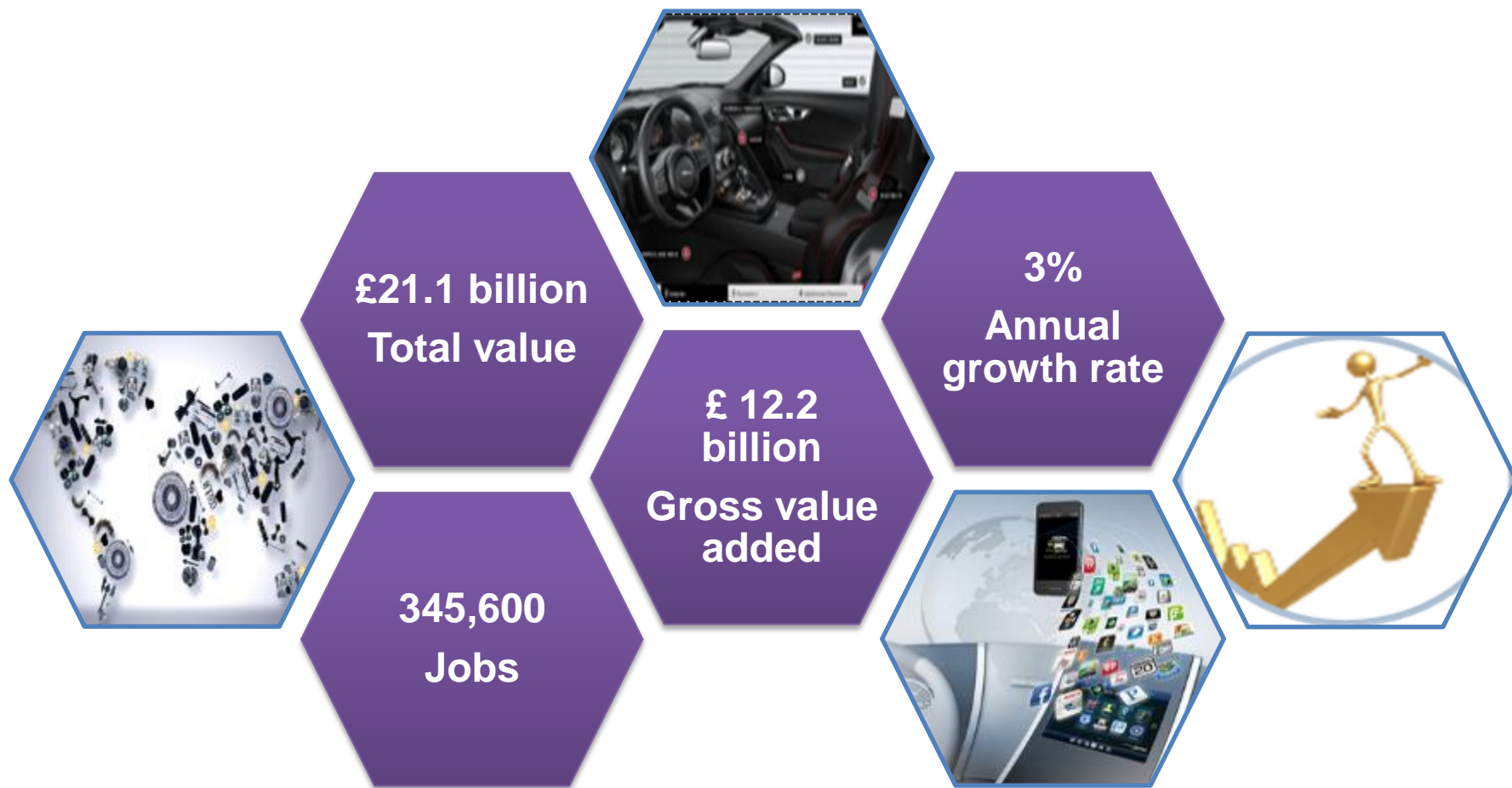


Outlook, trends opportunities and challenges for the UK aftermarket

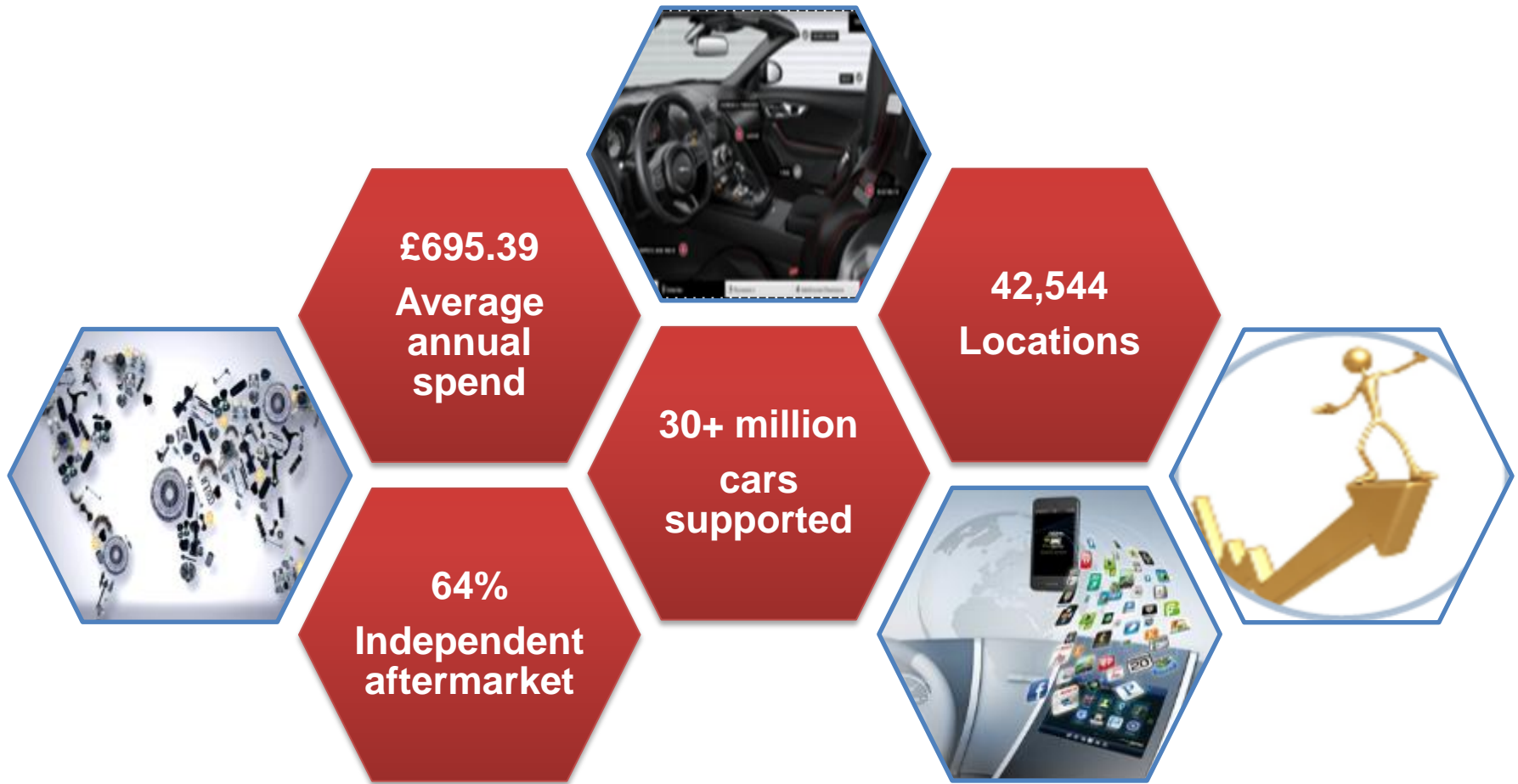


Conclusions and Recommendations

The UK aftermarket in numbers

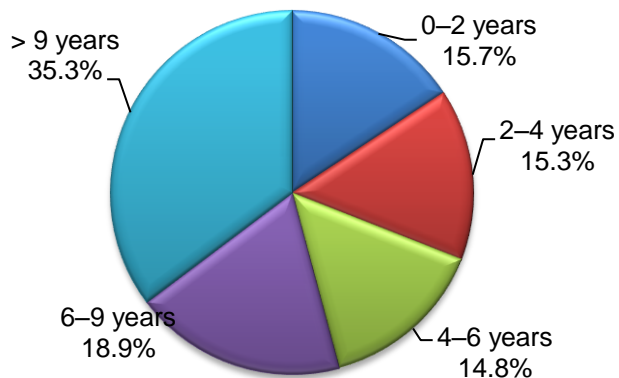


The UK aftermarket in numbers

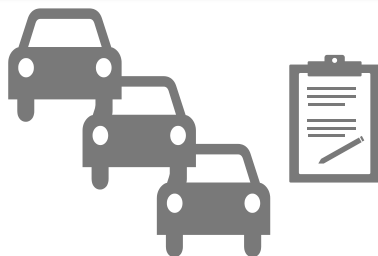


What sets the UK aftermarket apart?

1 Average vehicle age 7.8 years



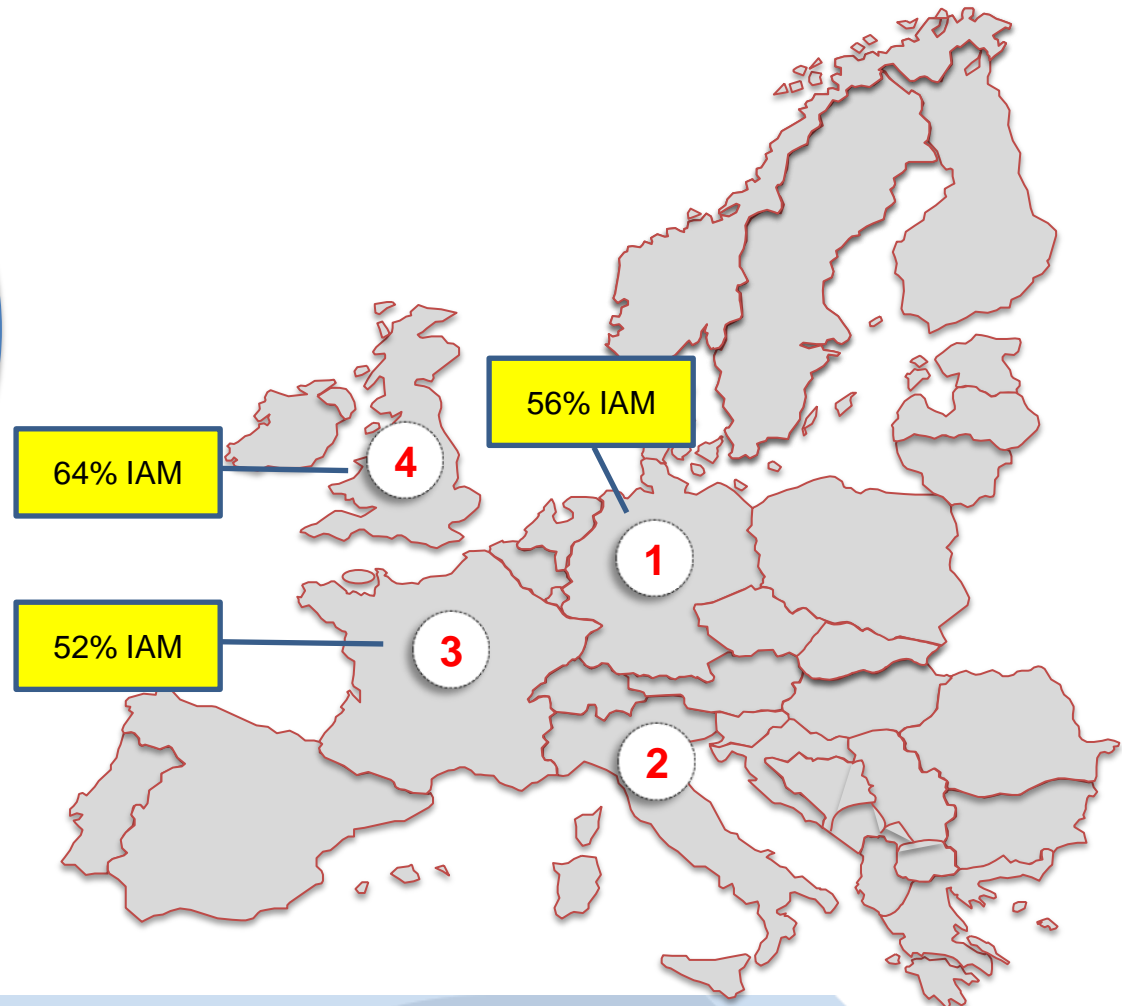
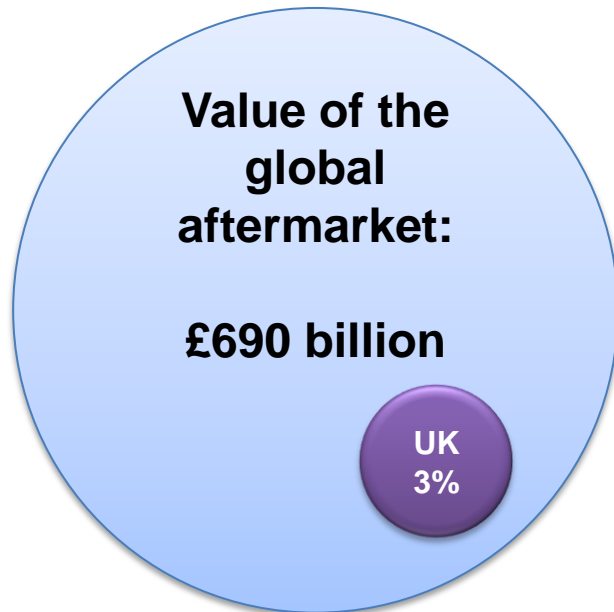
3 Fleet & leasing



2 Broad range of brands

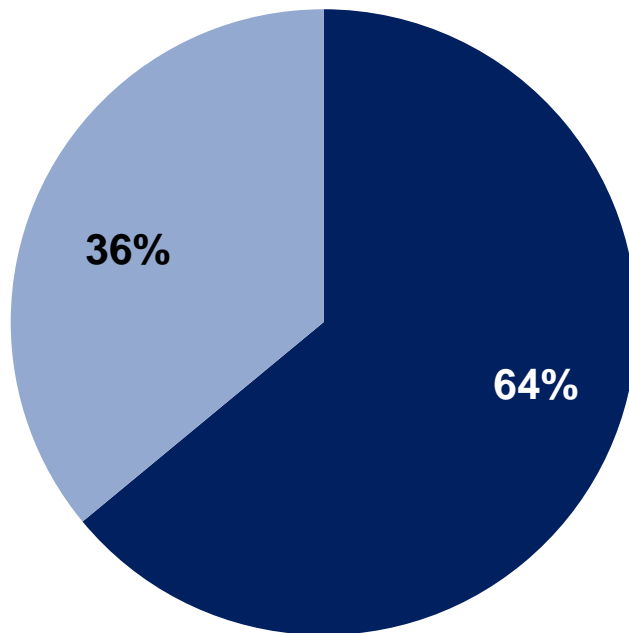
Vehicle Brand	UK VIO (%)
Volkswagen Group	15–16%
Ford	13–14%
General Motors	11–12%
BMW Group	9–10%
Renault-Nissan Alliance	8–9%
PSA Group	8–9%
Hyundai Motor Group	6–7%
Toyota	5–6%
Daimler	3–4%
Fiat Chrysler	2–3%
Others	14–15%

The UK in the context of the global and European aftermarket



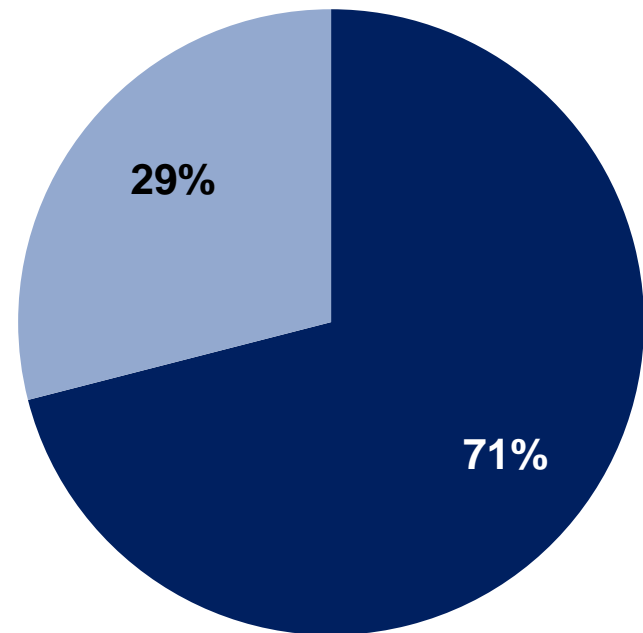
The independent and franchised aftermarket in the UK

2015



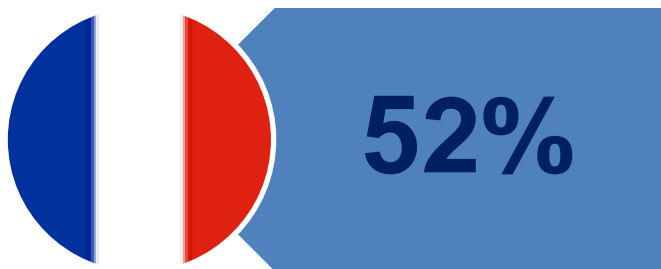
■ IAM ■ Franchised

2020



■ IAM ■ Franchised

The UK has the strongest independent sector in Europe



Domestic car brands



Consumer preference for local convenience

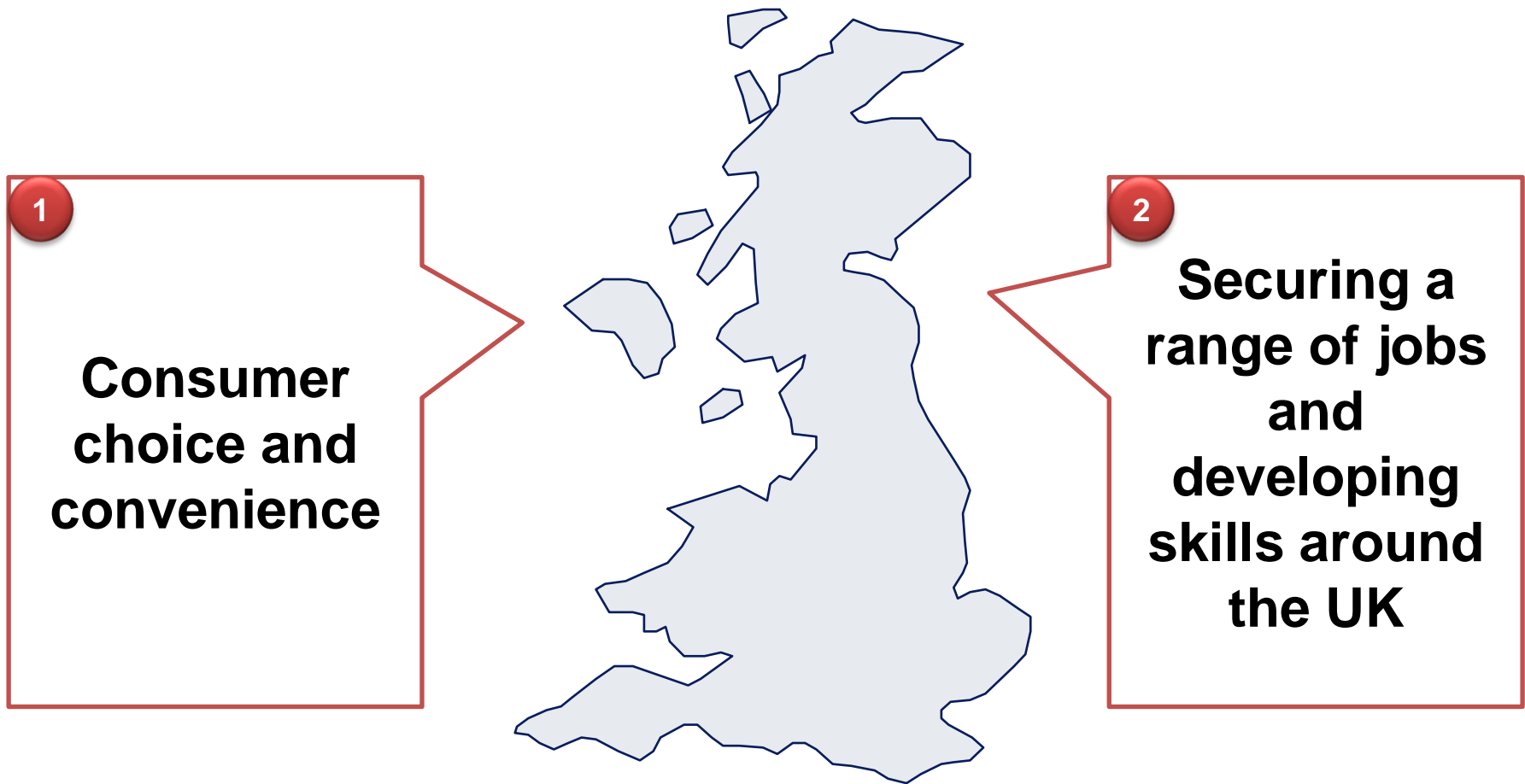


Growth of private labels in the UK

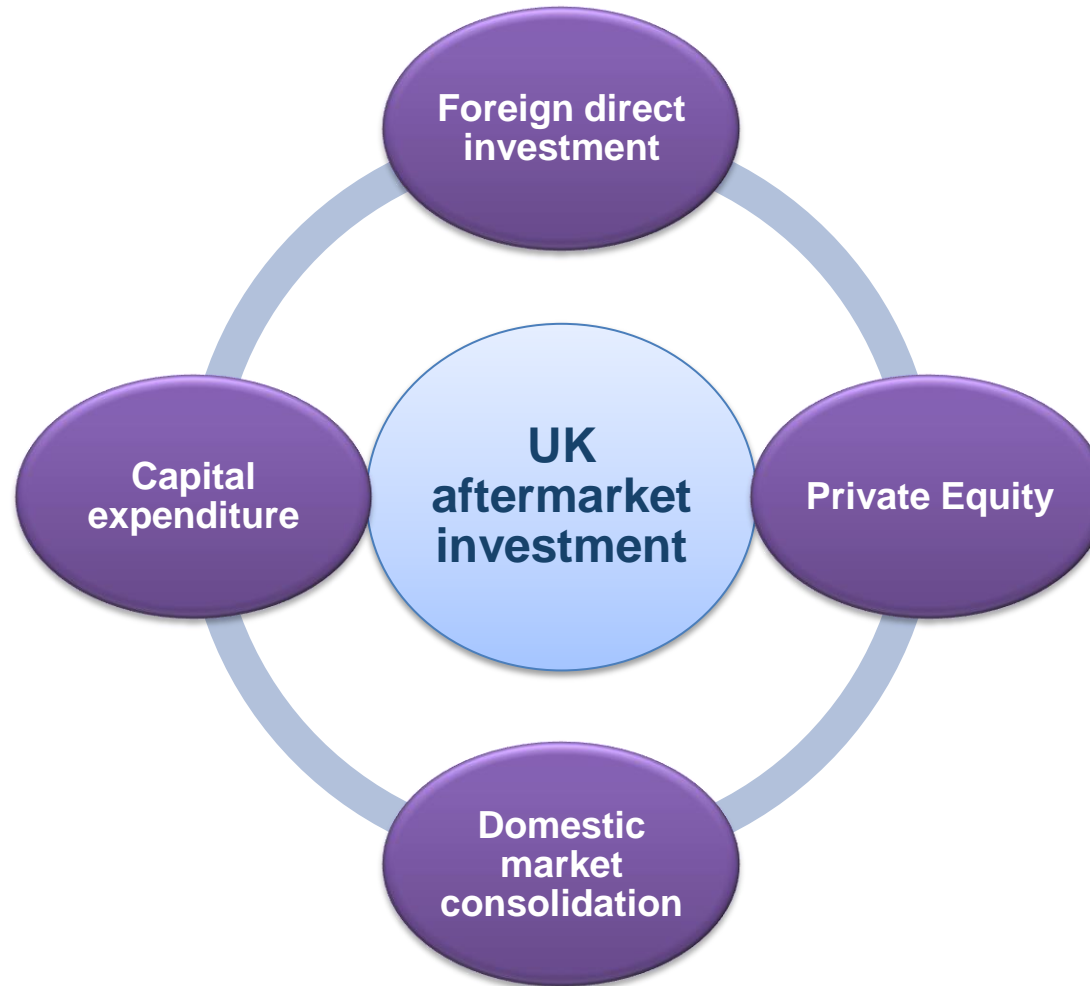
Independent and franchised prices in the UK

	IAM average price	Authorised network average price	Percentage difference
Tyres	£ 47.98	£ 79.26	65%
Batteries	£ 68.13	£ 99.50	46%
Brake parts	£ 62.42	£ 102.28	64%
Starter motors	£ 128.83	£ 236.10	83%
Labour (average hourly rate)	£ 63.74	£ 92.37	45%

Why is the independent aftermarket so important to the UK?



Aftermarket investment trends and opportunities



8 Key opportunities and challenges for the UK aftermarket



Shift from car ownership to usership



The mobility mindset



Connectivity



Telematics



Online retail



Remanufactured parts

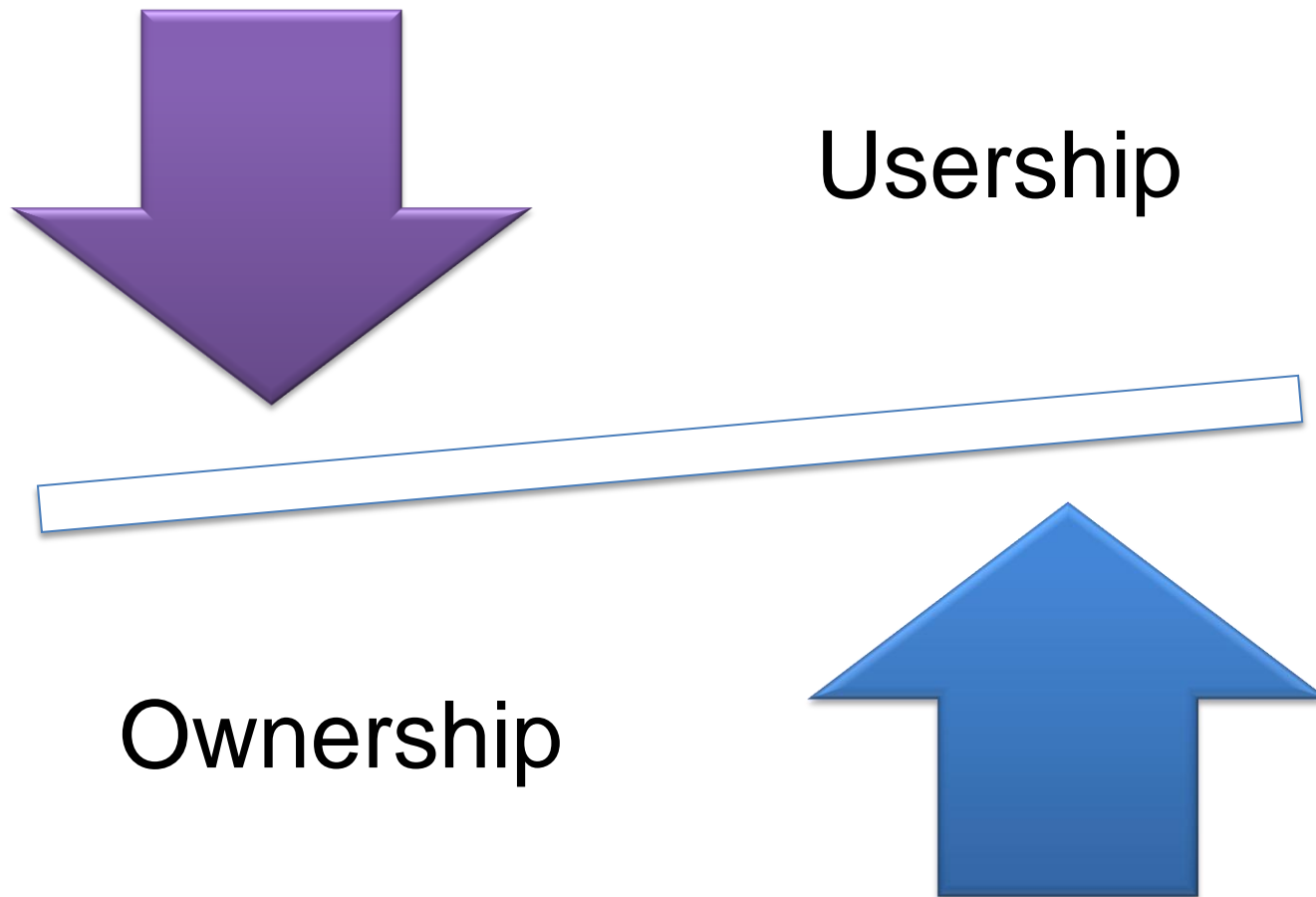


Electrical and electronic repairs

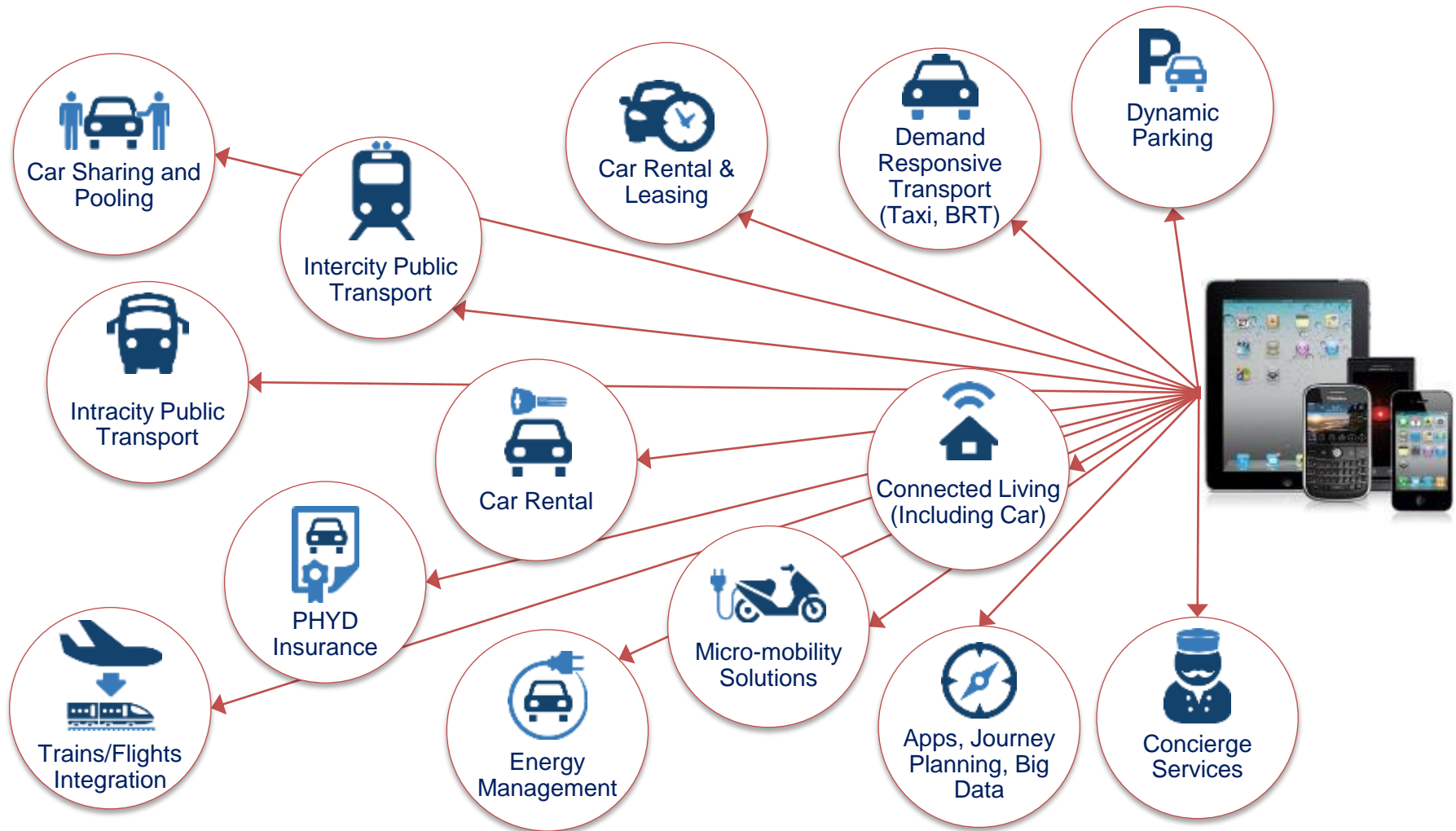


Exports

1. Shift from car ownership to usership



2. The mobility mindset



3. The connected car

Connected Car



Infotainment

Prognostics

eCall

Remote Updates

Navigation

Vehicle Tracking

Service Booking

In-vehicle Sales

Insurance

Diagnostics

Connected tools will create an additional layer of customer interfacing and value, competing in the connected service environment.

Revenue Impact

- Premium service packages
- End-to-end fleet management
- Third-party technology licensing

Connected Tools



Augmented Reality

Virtual Reality

Tablets

Diagnostic Tools

Wearable Technology

4. Telematics and in-vehicle sales/ services

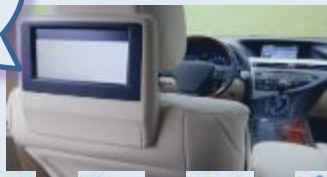
DIY OBD-II module installed in post MY96 cars



Data is shared over a wireless network for interpretation.

In-vehicle information is relayed to the potential customers.

"Hello, vehicle service is due, book appointment by pressing here."



Retailers, repair shops, backend services

Range of integrated service offerings could include oil or battery change, general repair, and service appointments.

5. UK the online retail capital of Europe, even in aftermarket

Bricks (pre-2000)

Department Stores Supermarkets Hypermarkets



Advent of Clicks (post-2000)

Online Mobile Payments Mobile Apps



The Future—Bricks & Clicks (2015 and Beyond)

Virtual Stores
(Ambient mobile retail)



Interactive Stores
(Motion sensor displays)



Virtual Hypermarkets
(Amazon)

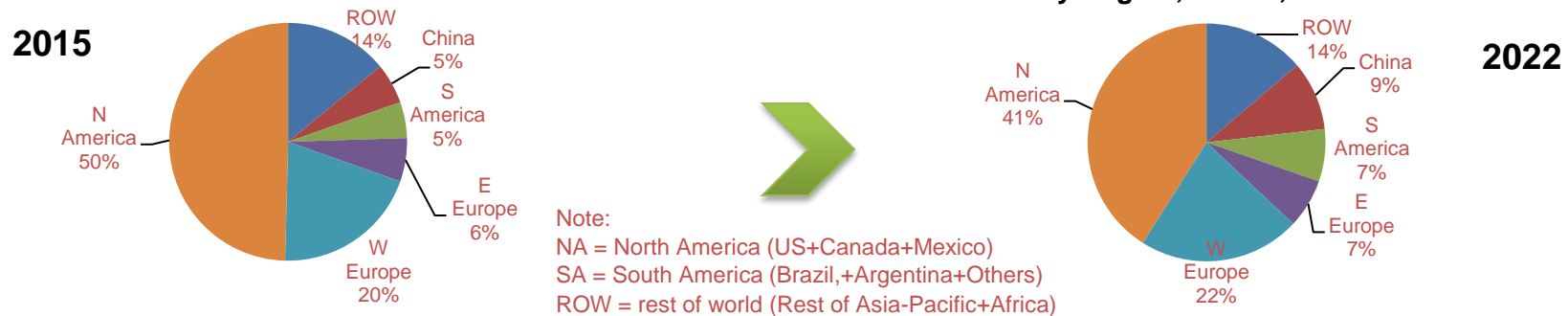


6. Remanufactured parts

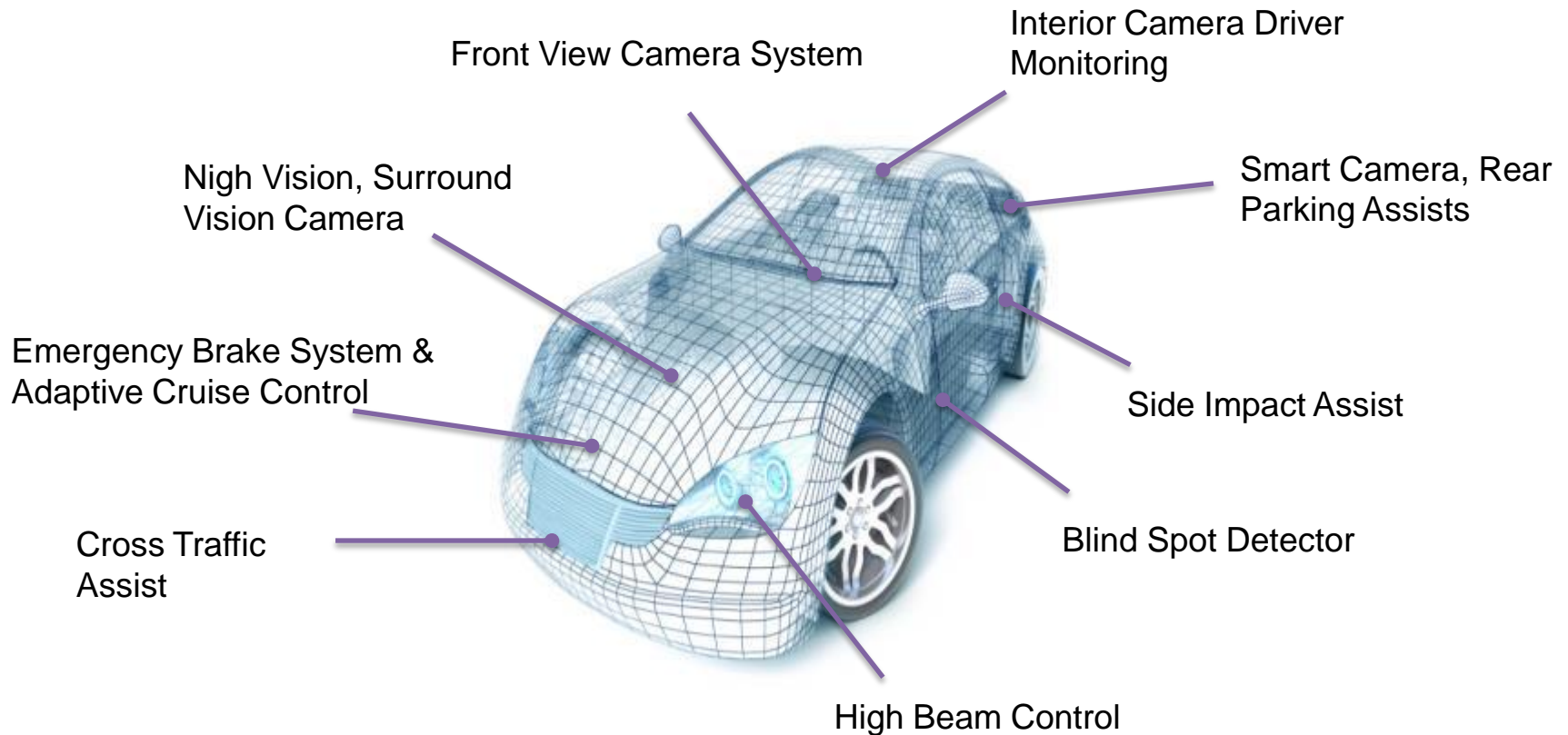


Before - After

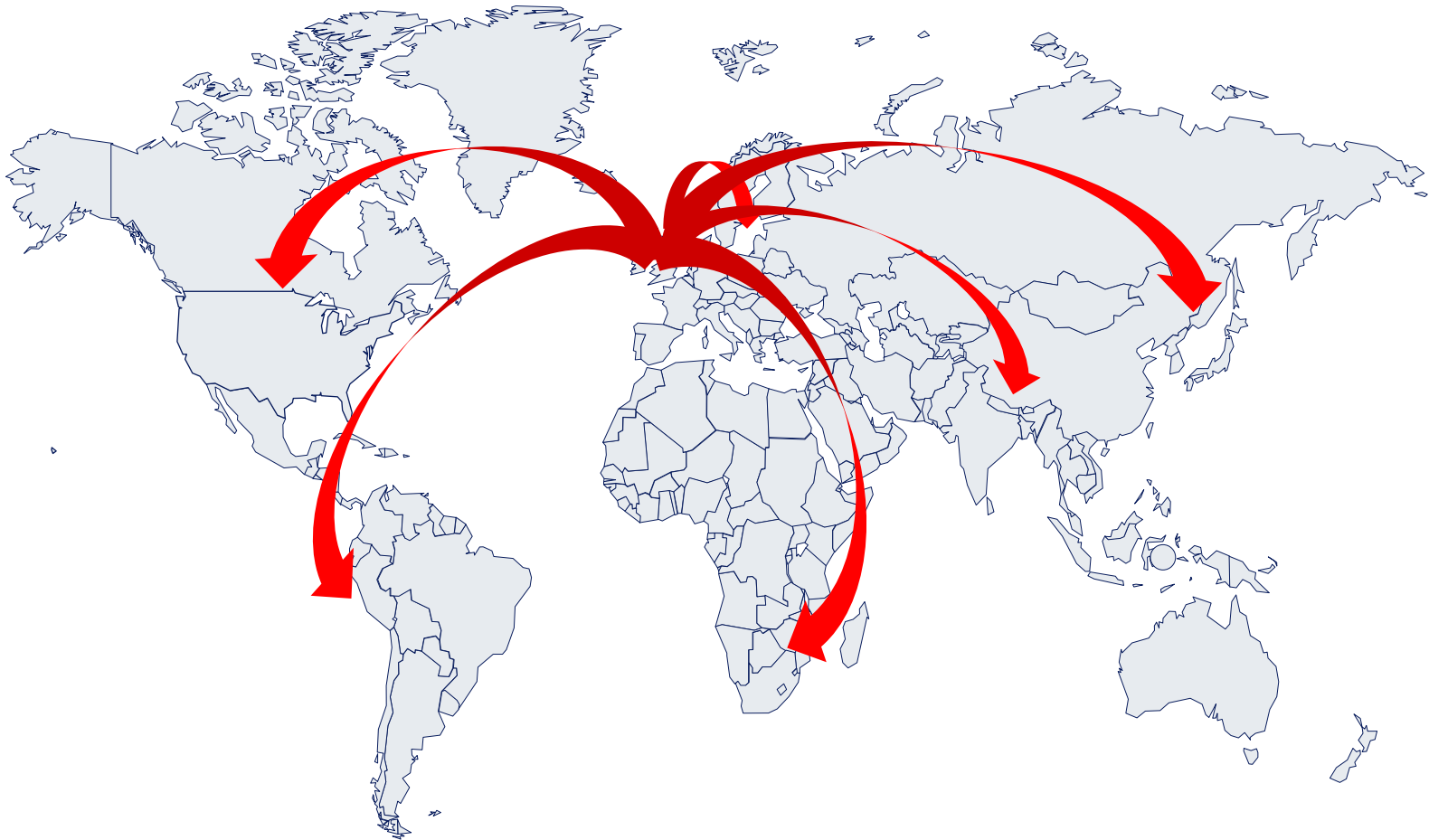
Remanufactured Automotive Aftermarket: Reman Market Share by Region, Global, 2015 and 2022



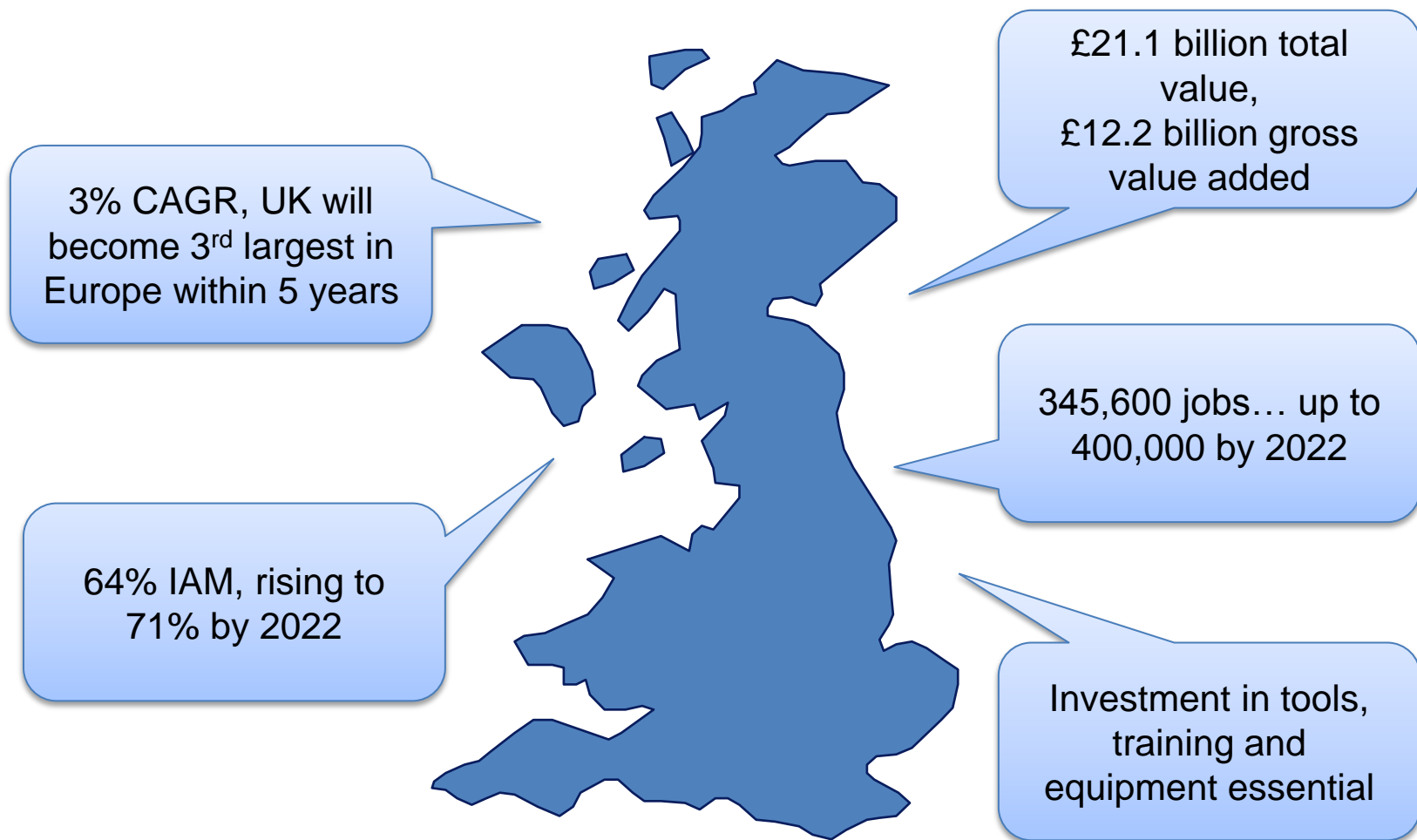
7. Electrical and electronic repairs



8. Exports



Conclusion



Recommendations for aftermarket companies in the UK



Supply fast-growing parts



**Offer a broad range of parts
but specialise in service**



Embrace digitalisation

Recommendations for UK Government



**Support access to
vehicles' electronic data**



Skill the workforce

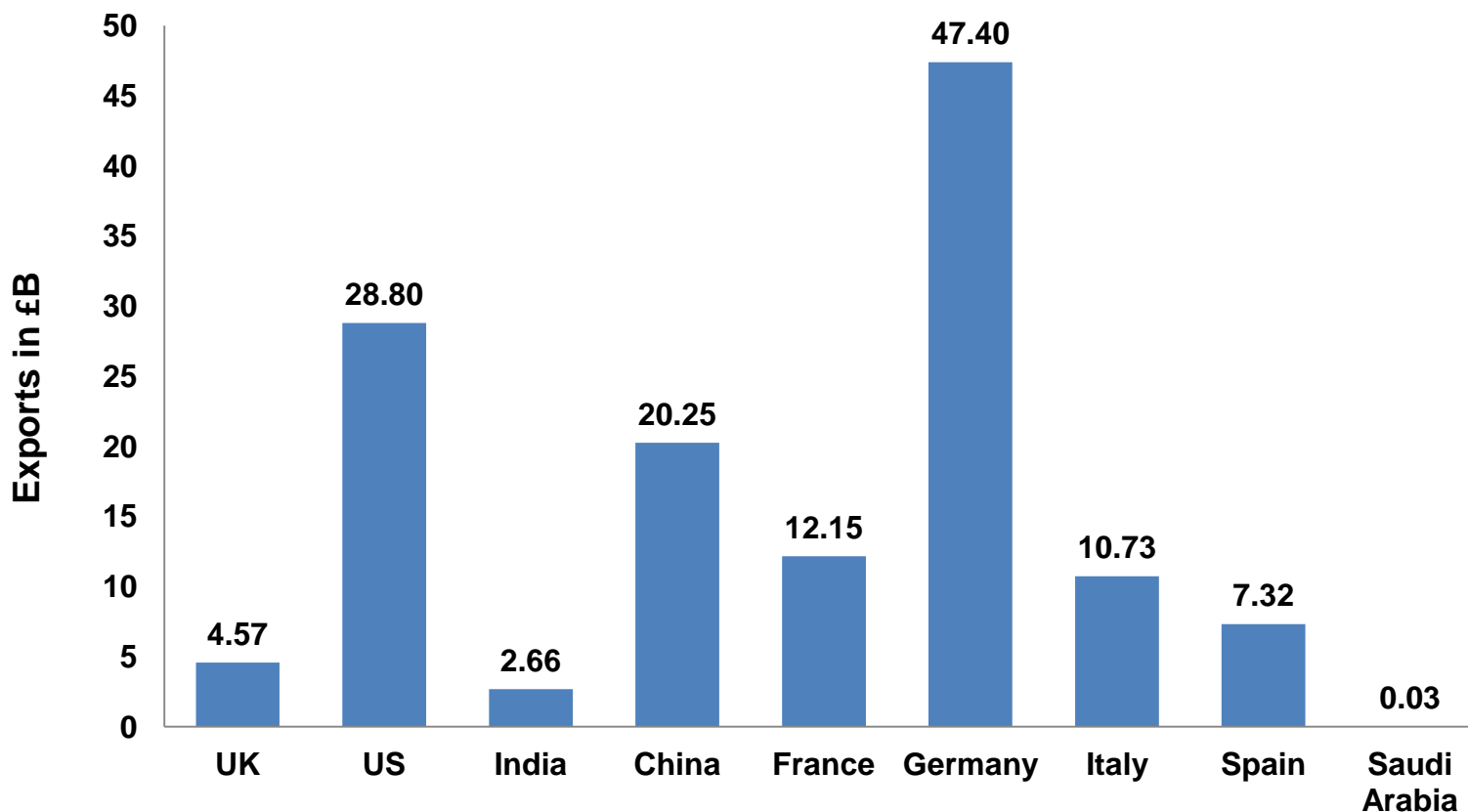
International Opportunities for UK Aftermarket Companies

with a focus on China, India and the Middle East



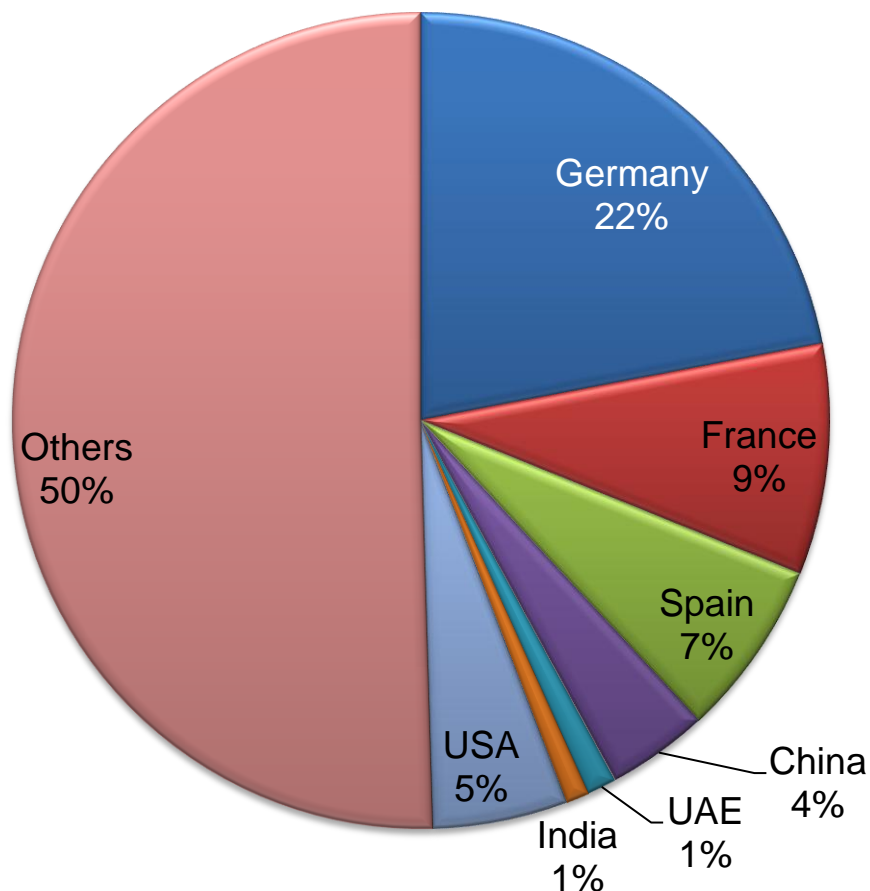
Volume 2: International Opportunities for UK Aftermarket Companies

Value of global parts exports by country



Note: Vehicles include PV, CV and off-highway vehicles
Source: International Trade Centre and Frost & Sullivan.

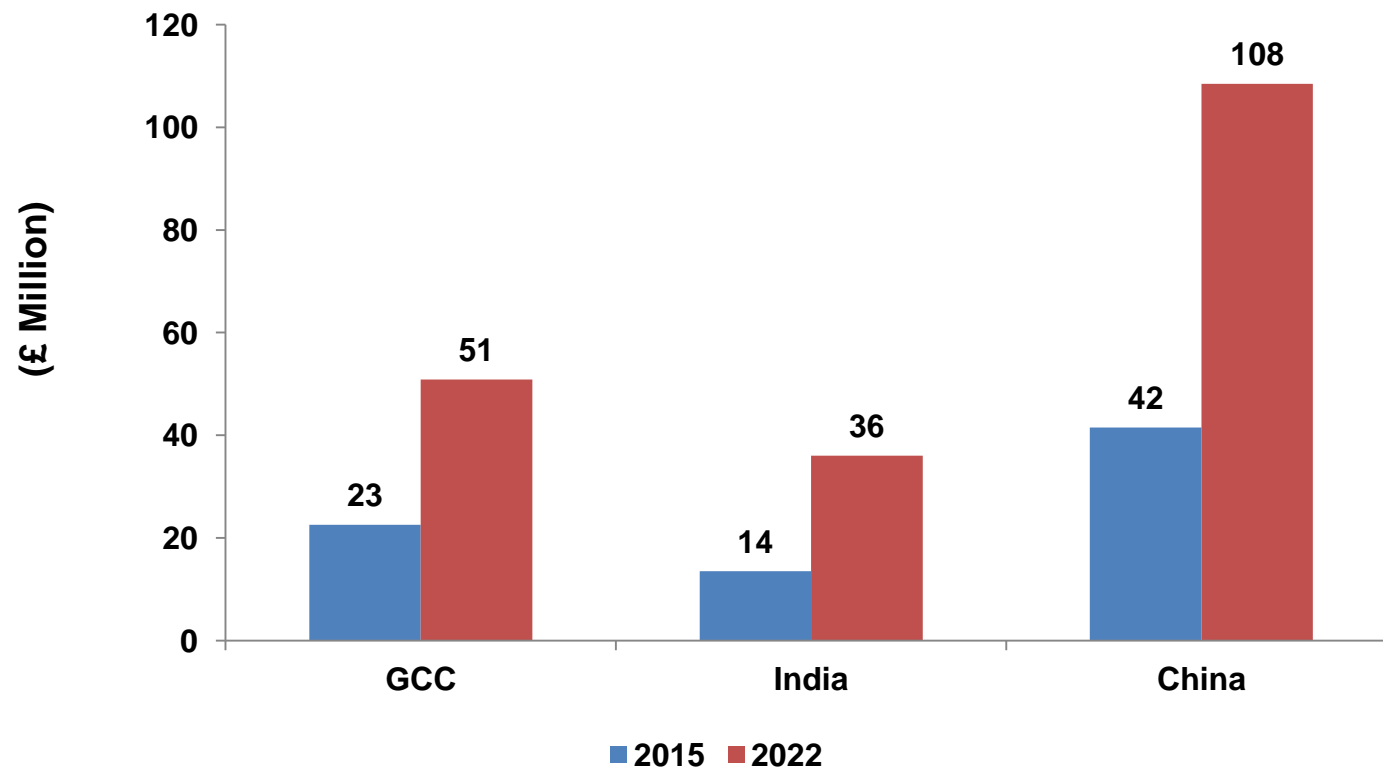
Where the UK aftermarket exports to



Source: International Trade Centre and Frost & Sullivan.

High growth potential for UK companies

Value of British Aftermarket Parts by Region



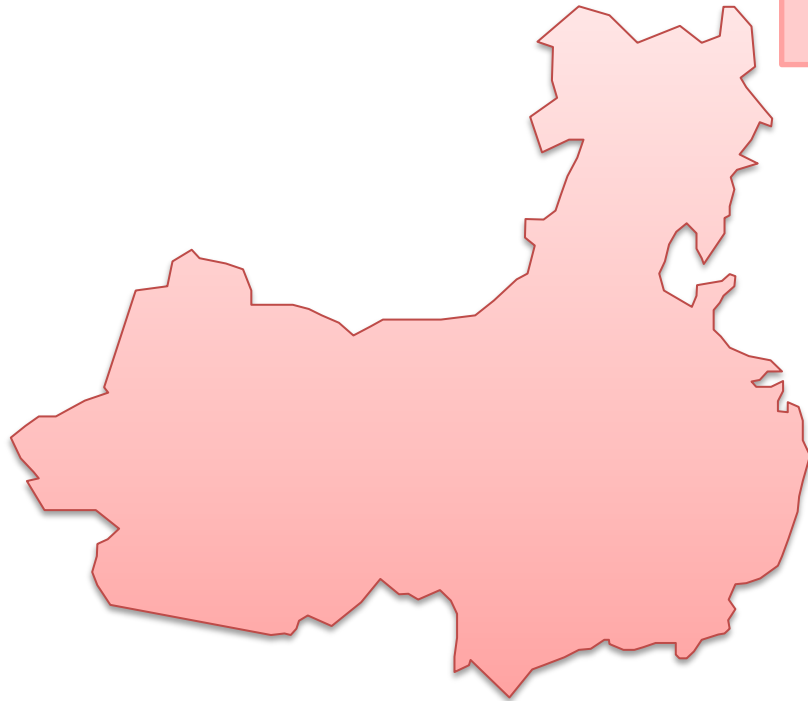
Millions of people to become new vehicle owners

Vehicles in Operation, 2015 (million)	
United States	253.3
China	151.6
Japan	62.5
Germany	45.2
Brazil	41.9
Russia	40.7
Italy	37.9
France	32.8
United Kingdom	32.7
Canada	23.8
India, Spain	23.1
GLOBAL	1,106.9

Note: Includes light commercial vehicles

Source: Frost & Sullivan and LMC Forecasting

Chinese Aftermarket—Key Takeaways



New vehicle sales are forecast to grow at an annual rate of 6.2% from 2013 to 2021

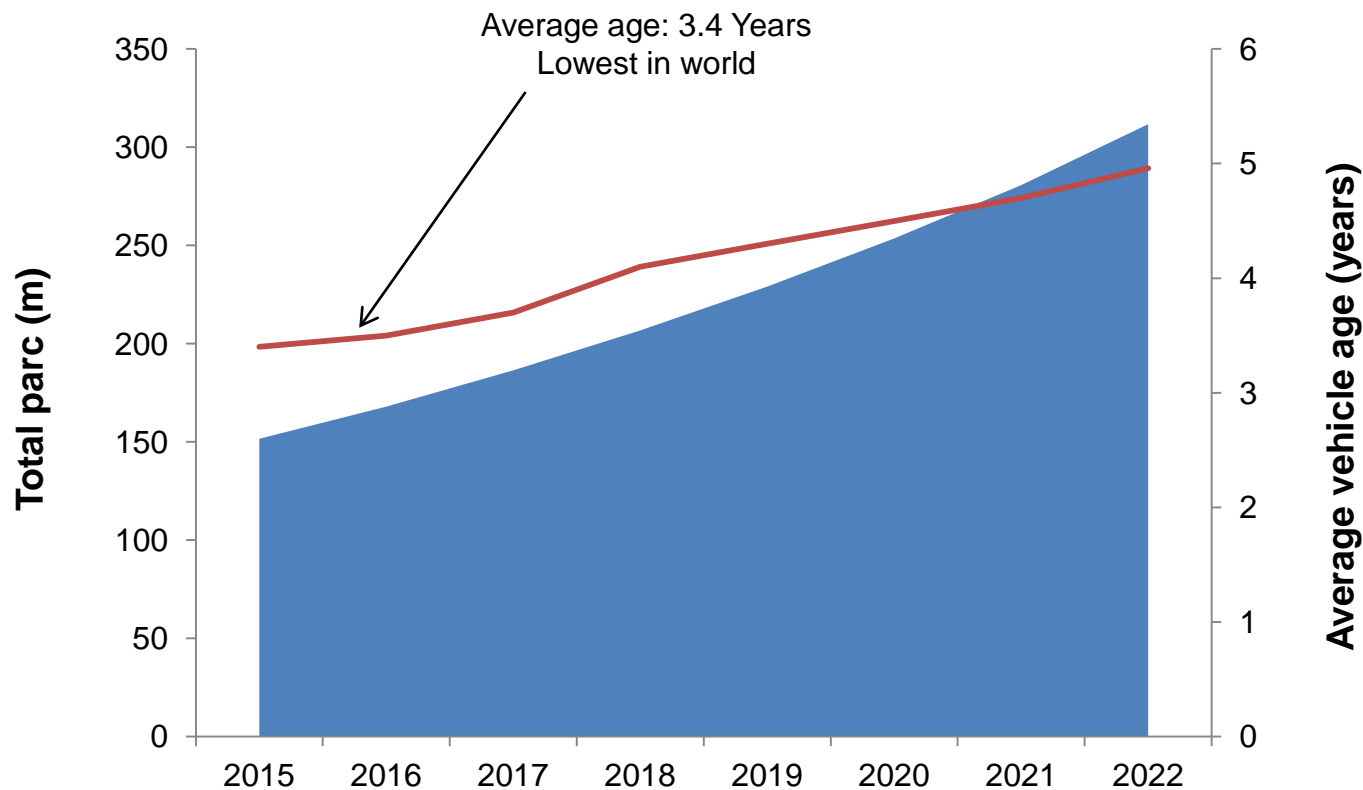
China's car parc will double in size from 2015 to 2022, creating vast opportunities for UK-based suppliers

Average parts spend will rise from £267.07 in 2015 to £347.97 by 2022 as consumer demand for proper maintenance grows

UK suppliers produced parts worth some £41.5 million for the Chinese aftermarket in 2015—less than 1% of the country's £41.5 billion consumption

With the right conditions, parts production from UK suppliers could grow annually by 15%—far exceeding the potential of domestic markets

China to have world's largest VIO by 2022



More than half of China's workshops are unorganized

Type of Repairer	Sub-Type	Number of Locations
Motor Vehicle Dealers		24,000
General Repair Garages		
	Organized Sector	116,892
	Unorganized Sector	265,638
Tire Dealers		14,000
Specialty Repair Shops		
	Repair Specialists	2,341
	Import Specialists	200
Oil Change and Lubrication Shops		12,500
Independent Body Shops		21,320
Mass Merchants		0
Auto Parts Retailers with Service Bays		3,750
Others		0
TOTAL		460,641

Recommendations

Identify coverage gaps: With more than 100 vehicle brands present in China, it is impossible for suppliers to meet the industry's all-makes-and-models benchmark. The high degree of fragmentation means there are many hard-to-find parts that offer opportunities to fill coverage gaps or identify niche segments.

Find a local partner: A Chinese joint-venture partner is legally required for foreign entities doing business in the country. A strategic partnership will also help the exporter navigate the cultural differences effectively.

Defend intellectual property: Theft or infringement of intellectual property by competitors and even partners is a common concern for companies doing business in China. With active lobbying, exporters can push for stronger protections of their product specifications and tooling.

Indian Aftermarket—Key Findings



India's vehicle population will double over the next 5 to 7 years to more than 50 million cars.

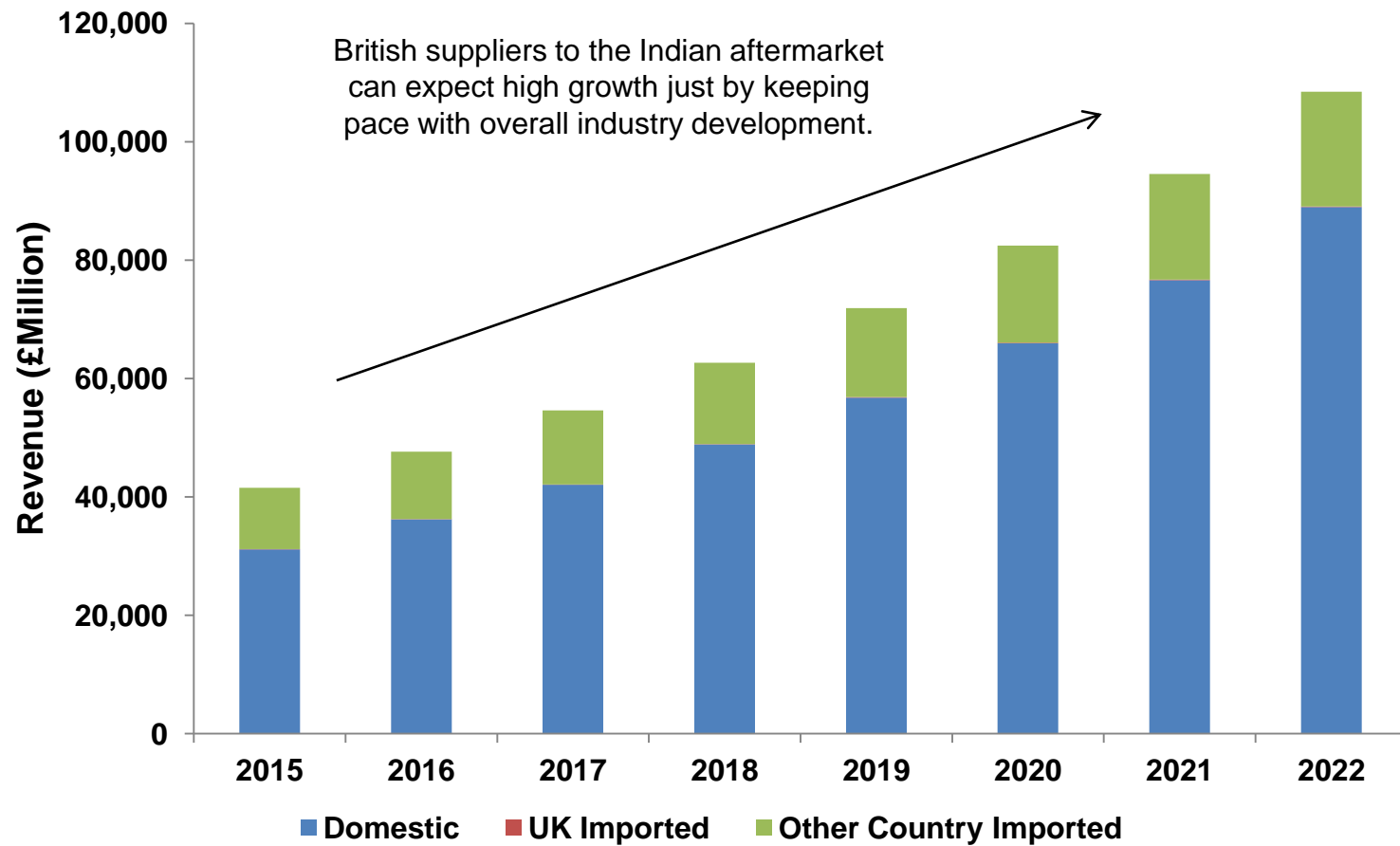
Total parts revenue will grow from an estimated £6.69 billion to £14.98 billion over the 2015-2022 period, with tyres, lubricants and other parts replaced early in the vehicle lifecycle driving most of the growth.

India has a higher share of company-owned vehicles than personal use automobiles, suggesting that UK parts suppliers should target fleets rather than consumers to grow their sales.

UK suppliers sold parts worth about £14 million to the Indian aftermarket in 2015—less than 1% of the country's £6.69 billion consumption

Frost & Sullivan expects parts sales of UK-based companies to India will grow by as much as 15% annually over the 2016-2022 period, or about five times more than the domestic British aftermarket.

The UK's share of India's aftermarket is too small to see



India has three times as many repair garages as the UK

Type of Repairer	Sub-Type	Number of Locations
Motor Vehicle Dealers		7,000
General Repair Garages		
	Organized Sector	33,468
	Unorganized Sector	76,057
Tire Dealers		2,131
Specialty Repair Shops		
	Repair Specialists	2,341
	Import Specialists	200
Oil Change and Lubrication Shops		1,903
Independent Body Shops		3,245
Mass Merchants		0
Auto Parts Retailers with Service Bays		571
Others		0
TOTAL		126,916

Recommendations

Focus on Indian nameplate coverage: Maruti Suzuki, Tata Motors and Mahindra & Mahindra make up more than 60% of the passenger vehicles driven India. UK-based suppliers must be able to support these brands to gain market share.

Multi-brand service chain outlets: Bosch Car Service, Mahindra First Choice, myTVS, Carnation, Castrol Pitstop and others are growing quickly across India to service the fast-growing car parc. Part suppliers should align with this growing customer base.

eCommerce: Indian consumers will increasingly use the Internet to find the parts and service they need for lower prices and access to brand-name products. UK-based parts suppliers should make themselves available online to find customers searching for British brands.

GCC Aftermarket—Key Findings



The GCC automotive aftermarket will enjoy double-digit growth of about 12% once oil prices rebound, but for now growth rates have been cut in half, over the last two years.

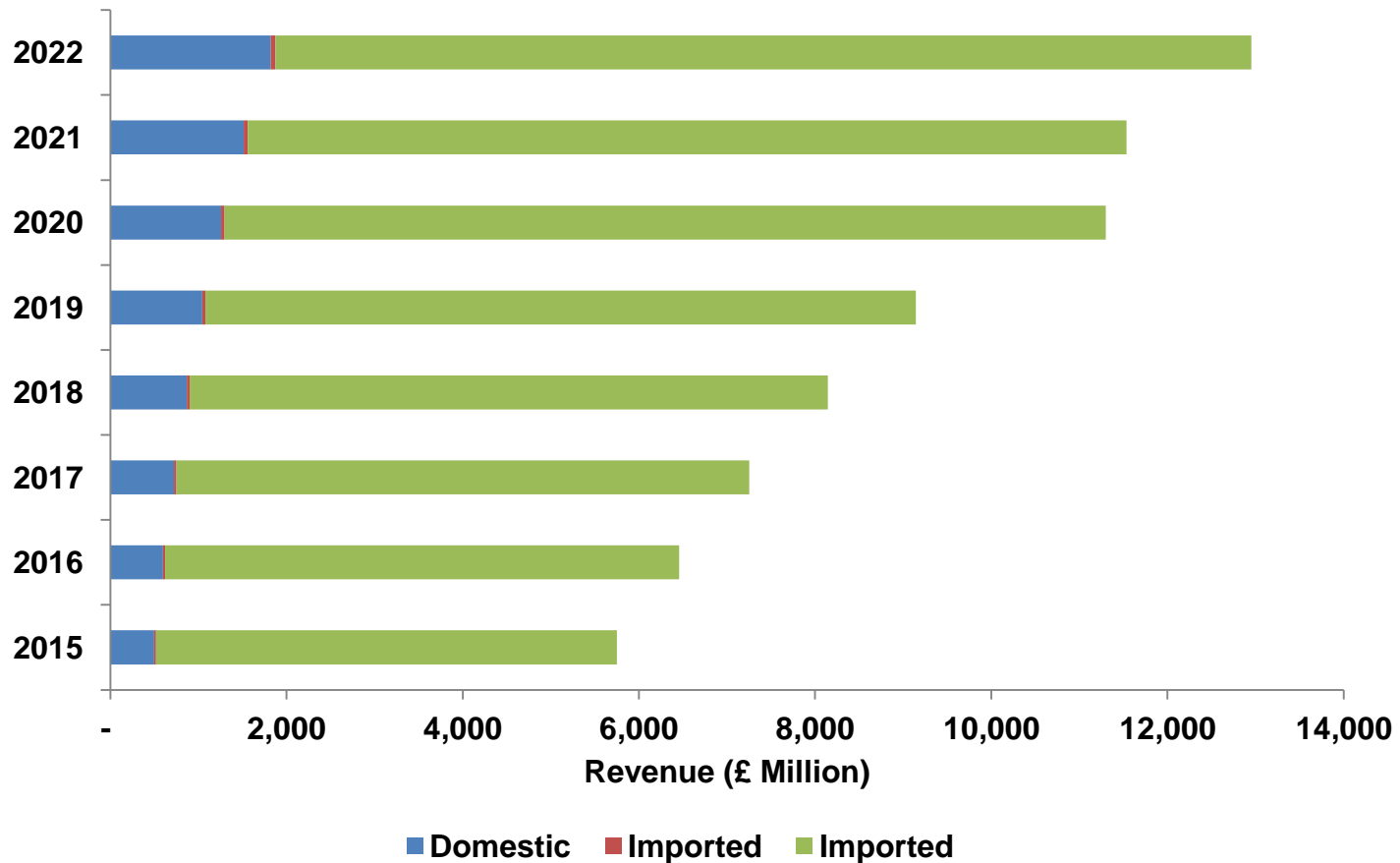
The total vehicle population will increase by 50% over the 2015-2022 period, reaching 21.2 million

Average spend per vehicle will grow sharply over the forecast period, driven mainly by demand for collision repair parts and a rebound in oil prices.

Frost & Sullivan expects UK-based suppliers to increase their parts sales to the GCC region by an average of 12% to 15% annually over the next 5-7 years, which is four to five times faster than the domestic British aftermarket.

UK suppliers produced parts worth about £23 million for the GCC aftermarket in 2015—about 0.4% of the country's £5.75 billion consumption

UK suppliers only capture about 1% of the GCC aftermarket



Market and Cultural Trends

Market Trends:

Not many large distributors→Customers may lack the size/scale of operations of parts sellers in other regions

High degree of specialization→Many distributors carry parts for only a few selected nameplates/vehicle brands.

Demand for collision parts→Saudi Arabia's highways are known for high speeds and poor road conditions. Accident rates are higher in the GCC region than in the UK, and suppliers aligned with insurance companies are enjoying higher growth

Low oil prices→Reduces government spending and limits disposable income of vehicle owners

Cultural Conventions:

High per-capita incomes→The standard of living in the GCC is comparable to the best in the world, so price sensitivity is less an issue than in China and India

High ratio of cars per household→Many households have more than two cars at their disposal. This has led to congestion on the cities' roads and highways

Aggressive driving→Some regions are known for high speeds, sudden braking. This drives demand for routine maintenance parts like tyres and brakes

Recommendations

Target coverage gaps: There are no significant all-makes-and-models parts seller in the GCC aftermarket, so there are coverage gaps for UK-based suppliers to fill.

Focus on Japanese brands: Toyota brands account for about 30% of the vehicles in operation across the GCC, making Japan the largest exporter of auto parts to the region. Market share growth is limited for suppliers that cannot cover

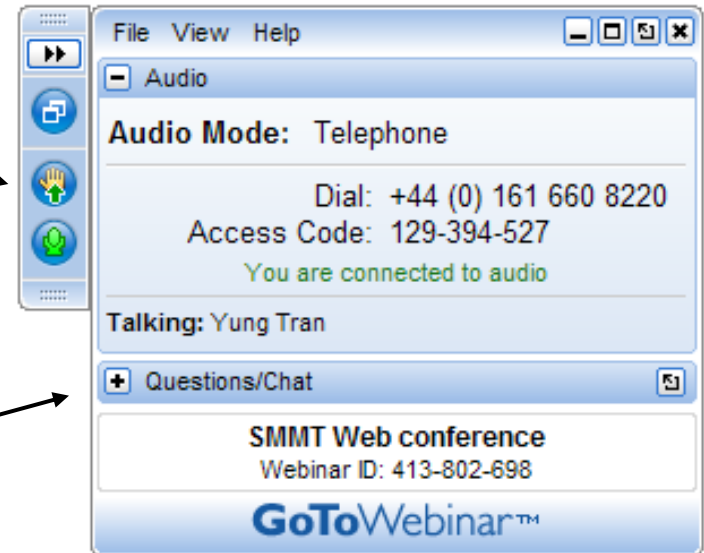
Cater to the premium segment: Despite the high income levels of many GCC motorists, there are many counterfeit parts sold in the aftermarket. Consumers will buy premium, high-margin auto parts if properly educated. British brands are highly regarded in the GCC aftermarket.

Questions and Answers

Please click on the hand symbol to raise your hand if you have a question.

Please ensure that you are connected to the audio to ask a question.

Alternatively, you can type your question.



Email: **memberservices@smmt.co.uk** with your questions after this session.

Slides emailed to participants after this session.

Thank You

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71 Great Peter Street, London SW1P 2BN

www.smmmt.co.uk

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