

THE IMPORTANCE OF
THE UK
AFTERMARKET
TO THE UK **ECONOMY**





EXECUTIVE
SUMMARY BY
MIKE HAWES

THE IMPORTANCE OF THE UK AFTERMARKET TO THE UK ECONOMY

The automotive aftermarket is a vital component of the UK economy. Through the franchised and independent networks, it provides motorists with choices over how they service and repair their vehicles. By keeping the country moving, the aftermarket delivers both direct and indirect financial benefits to the country.

To enable a deeper understanding of the aftermarket's contribution to the UK economy and its growth potential in the coming years, we commissioned Frost & Sullivan to undertake an independent study. This report examines the fundamental structures of the aftermarket, the key factors which shape its operation, and the challenges and opportunities facing it in the future.

The conclusions are telling: with a turnover of £21 billion, a gross value add of £12 billion and 345,000 UK jobs dependent on the sector, the aftermarket makes a huge economic and social contribution to the UK.

This contribution is set to grow in the coming years. With new car registrations in the UK hitting an all-time high in 2015 – and the average age of cars on the road increasing with ever-improving reliability – the sector's value is set to rise to £28 billion and jobs to more than 400,000 by 2022.

The report also explores why the UK's independent aftermarket takes a greater share of the £21 billion work than in most other countries in Europe, with opportunities for further growth by all players in the coming years.

With such significant opportunities ahead, the aftermarket looks certain to enhance its status as a major player within the UK's increasingly vibrant automotive industry.



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GLOSSARY



AUTOMOTIVE AFTERMARKET

This refers to the whole automotive aftermarket, including franchised businesses and independents, comprising service and repair workshops, retailers, wholesalers, parts manufacturers, importers and distributors.



ORIGINAL EQUIPMENT SUPPLIER (OES)

Parts manufacturers which supply car manufacturers with original parts and also provide parts for aftermarket purposes are known as original equipment suppliers (OES).



FRANCHISED NETWORK (Franchised and Authorised dealers)

For the purposes of this report, the term “franchised network” refers to both franchised and authorised repairers. Franchised and authorised repairers have a(n) agreement(s) with a specific car manufacturer(s). These dealers represent car brands such as Ford or BMW and will specialise in service, repair and parts supply for those brands.



INDEPENDENT AFTERMARKET (IAM)

Independent aftermarket (IAM) companies carry out a range of services, supply a variety of parts options, and are not tied to a particular car manufacturer or brand. Typically cars are more often serviced by the franchised network during their warranty period, but this is not a legal requirement and independent operators are free to compete for this work. Independent operators supply and use parts from both OES and non-OES suppliers.



AFTERMARKET SERVICE LOCATION

Companies which carry out aftermarket work and/or supply aftermarket parts. They can include franchised workshops as well as independent garages.



SERVICE BAY

This is an area in a service location where vehicles are lifted for service and repair work.



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INTRODUCTION TO THE UK AFTERMARKET

The UK automotive aftermarket is the eighth largest market globally and the fourth biggest in Europe after Germany, Italy and France. With a healthy growth rate of 3% per annum, the UK is set to overtake France by 2020 to become the third biggest market in Europe. The industry provides more than 345,000 jobs in the UK and has the biggest independent aftermarket (IAM) in Europe.

Although the German and Italian industries generate higher revenue, consumers there are more loyal to car manufacturers' franchised networks. By contrast, the UK has more discount parts sellers, private-label brands and independent service providers, giving UK motorists access to a wider selection of products at varying price and quality/performance levels.



The UK aftermarket is at the forefront of mobile and connected vehicle technology uptake and continues to thrive despite increased pressure caused by the need to constantly invest in tools, training and equipment to support the evolving industry.

This report examines how the aftermarket operates globally, the importance of the aftermarket to the UK economy and where opportunities for growth lie.

The size and value of the aftermarket in each country is driven by the number and average age of vehicles on the road. However, the opportunities for, and challenges to, growth in the aftermarket can vary for different types of business. Government and regulation play a key role in ensuring customers are free to choose where they have their cars serviced and repaired.

The aftermarket is comprised of parts and services which include the manufacturing, remanufacturing and distribution of all vehicle components and the maintenance and repair work provided throughout the life of a vehicle. Major parts in this market are tyres, brakes and batteries, while key services include regular maintenance, MOTs, ad hoc repair requirements and parts distribution.

Two key distribution channels exist in the aftermarket. Businesses in the franchised network are tied to one or more particular car manufacturer(s) so they specialise in providing parts and services for those brands.

Independent aftermarket (IAM) companies, meanwhile, offer a range of parts and services to support many brands. Typically, cars will be serviced by the franchised network for the first few years, during the warranty period, but this is not a legal requirement and independent operators are free to compete for this work.

Both the franchised and independent aftermarkets face different opportunities and challenges in the context of the global aftermarket. Franchised dealers can be insulated by having a parent company when vehicle owners reduce their spending, but their growth can also be limited when new opportunities emerge. IAM companies operate independently which can create opportunities but they must work harder to engage with customers who are linked to the franchised network when they buy a new car. This link is being strengthened by technology, connectivity, servicing plans, longer warranties and financing, which could encourage customers to stay within the franchised network, and this is why government support is required in order to ensure fair competition for all aftermarket participants. This preserves freedom of choice for consumers regarding where they are able to take their car for service, maintenance and/or repair.

The scope of this report is limited to the aftermarket for passenger cars and excludes motorbikes, commercial vehicles, buses and off-highway vehicles.



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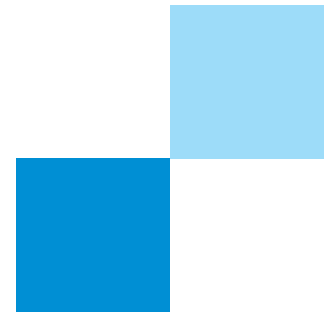
THE IMPORTANCE OF THE UK AFTERMARKET

- 1. Total value of the UK aftermarket: £21.1 billion**

The revenue generated from parts and services at the end-user level in the UK is currently estimated at £21.1 billion. This value includes the retail market size of all automotive parts and accessories, plus the service revenue realised by both franchised and independent companies.
- 2. Total economic impact (gross value added): £12.2 billion**

The total value of the aftermarket (£21.1 billion) includes gross value added of £12.2 billion, once the costs of materials and wages required to deliver these parts and services to the consumer have been deducted. With more than 42,000 service locations responsible for generating this revenue and contributing to the economy, the impact of this value is felt throughout the UK.
- 3. Total UK aftermarket jobs: 345,600**

The UK automotive aftermarket directly and indirectly supports the jobs of 345,600 people. As such, it plays a major role in the UK economy and society as a whole. Because the aftermarket is spread evenly across the country, so, too, is the impact of these jobs on local communities and the national economy.



THE CONSUMER IMPACT

More than 30 million vehicles are serviced annually in the UK aftermarket, including personal cars and company cars. Consumers enjoy several important benefits from the size and diversity of the UK aftermarket, including choice, convenience and competitive cost of ownership.

Private labels, remanufactured parts, direct-sourced components and multi-brand retailing tend to be more common in the UK than mainland Europe, giving consumers more choice as to how they maintain their vehicles.

Motorists receive service through a network of more than 42,000 independent workshops, franchised repairers, autocentres, fast fits, collision centres, tyre stores and specialty garages. This extensive national network provides convenience and consumers are never far from a service location. The overall number of locations has held stable in recent years. Despite the closure of some independent workshops and collision centres there has been a growth in the number of fast fits, tyre stores and specialty garages.

UK consumers are also driving the growth of online sales channels, click-and-fit service, crowdsourced delivery and other technology-based trends which further increase customer choice and convenience.

Most motorists are now looking up parts prices, comparing offers, scheduling services or researching diagnostic questions over the internet before they buy anything. This will have important implications for how UK aftermarket companies interact with their customers in the future.

The average annual spend per car is approximately £695.39 in the UK. Whilst the average spend on a personal car is often lower than this, fleet and leasing companies tend to spend more and may be more likely to follow the manufacturers' recommended maintenance schedules. Spending has been stable in recent years, rising about 1-2% annually, consistent with vehicle parc growth and the overall rate of inflation. Compared to the rest of continent - which is still in recovery from the Eurozone crisis that reduced jobs, driving and spending - the UK aftermarket is among the most resilient and a model for growth.

By providing this level of choice, convenience and competitive pricing to consumers, the UK automotive aftermarket also generates important environmental and safety benefits for consumers and British society as a whole. Compared to other markets, there are fewer cars in disrepair, generating excess pollution or needing new brakes on British roads.

KEY CHARACTERISTICS OF THE UK AFTERMARKET

In 2015, the UK was home to approximately 12.7% of all passenger cars in the EU28, making it the fourth largest aftermarket in terms of vehicles in operation (VIO) in Europe. The number of passenger cars in operation in the UK is currently more than 30 million million and this is set to increase to more than 32.0 million vehicles by 2022.

The number of cars on UK roads has been growing steadily since 2009. Although this is positive news for the aftermarket as whole, the impact on the aftermarket differs for each channel; some dynamics are in favour of the independent aftermarket (IAM), while others support the franchised network.

1. Relatively low, but growing, average vehicle age

The average age of UK vehicles is approximately 7.8 years, lower than the European average of 9.4 years. Frost & Sullivan predicts that the average age of cars in the UK will reach 8.1 years by 2022 as car manufacturing processes and quality further improve and cars in general become more durable. As the average age of cars rises over seven years, the franchised aftermarket opportunity reduces because owners of older cars are more likely to migrate to the IAM for cost reasons. However, it should also be borne in mind that the increasing use of more expensive technologies in cars has a downward influence on the point at which ageing vehicles are cost effective to repair.

2. Broad range of car brands

The UK has a more diverse mix of brands and vehicle types than the rest of Europe. For example, North American brands make up a higher share of the UK vehicles in operation (VIO) than in other European countries, and Asian brands are growing quickly. This fragmentation makes it more challenging for aftermarket suppliers to offer all-makes-and-models parts coverage.

The varying types of vehicles being serviced in the UK aftermarket also creates a challenge for suppliers. It increases the number of different parts, or stock-keeping units, they must source and the inventory needed to meet the industry's all-makes-and-models benchmark. A parts manufacturer, distributor or installer that carries parts for all types of cars but is missing coverage of MPVs, SUVs and other models, for example, is at a distinct disadvantage against a supplier who has everything a workshop would ever need.

Hence, aftermarket companies in the UK need to provide parts and services for a relatively broad range of vehicle brands and types. This dynamic generally favours companies in the IAM, which are able to choose which brands to provide parts and services for.

Automotive aftermarket: Vehicles in operation by brand UK, 2015

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%

3. High proportion of fleet and leased vehicles

Franchised aftermarket companies benefit from the high proportion of cars that are leased, often as company cars, in the UK. These cars often have maintenance and service contracts which are linked to the franchised network.

A dynamic which works against both the IAM and franchised network in the UK is that more cars are owned by fleets than individuals. Some company fleets will insource their cars' service needs, in which case neither independent nor franchised repairers are capturing revenue.

THE UK IN THE CONTEXT OF THE GLOBAL AFTERMARKET

The value of the global aftermarket is currently estimated at £690 billion. With a value of £21.1 billion, the UK aftermarket represents 3% of the global aftermarket and is the eighth largest market. The UK has a bigger aftermarket than Brazil, Korea, India and Canada, and nearly the same size as France.

The relative size of the UK aftermarket is driven by the number of cars on UK roads, which is showing steady growth, meaning the aftermarket is also expected to grow steadily in the coming years.

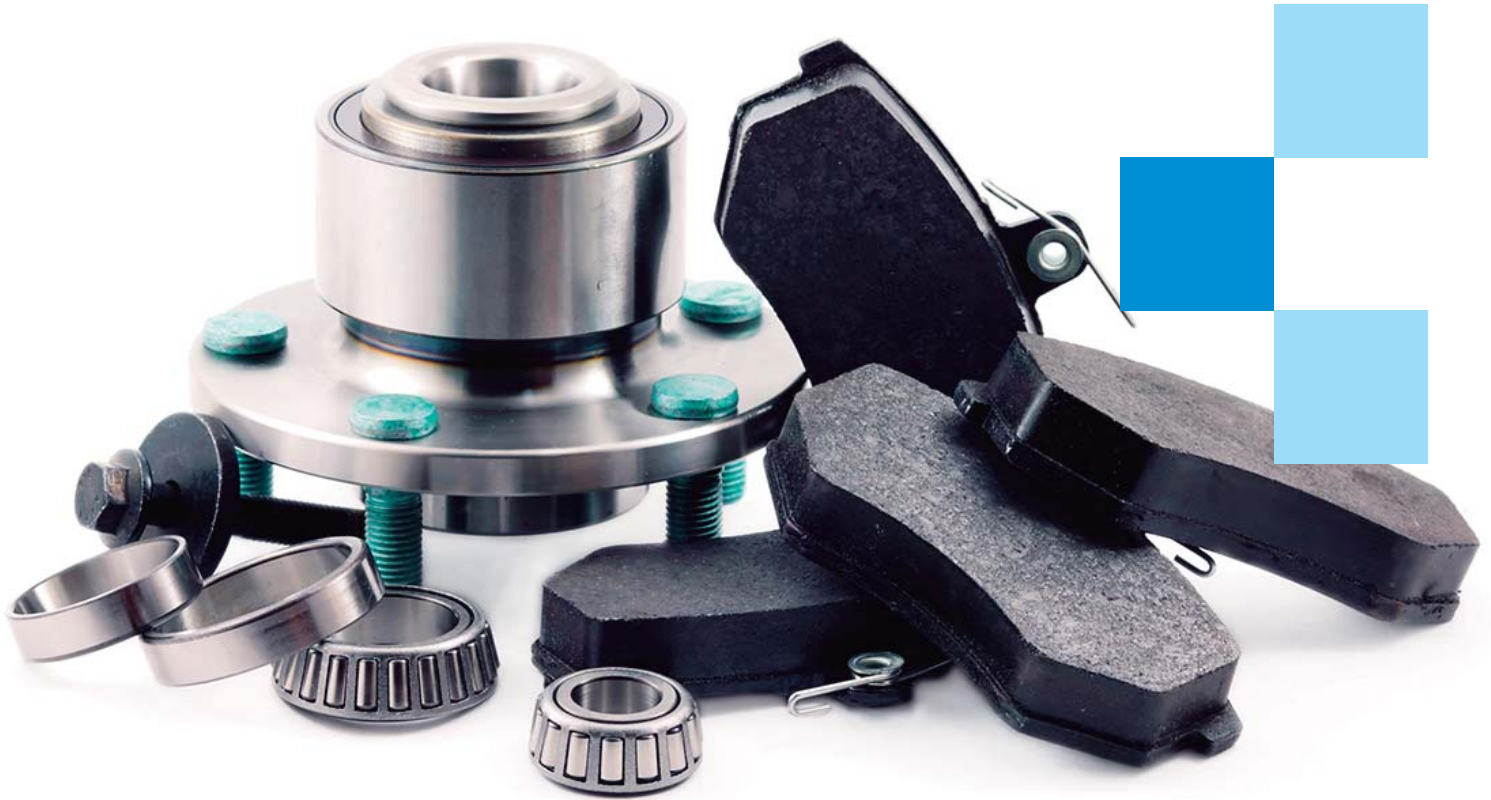
The average spend per person is another key factor which influences the relative size of the UK aftermarket. In comparison with China – now the world's largest automobile market and home to more than five times as many cars as the UK – the British spare parts aftermarket is more than half its size (57%) by revenue.

In addition, the average aftermarket spend per vehicle per year is more than three times higher in the UK (£695.39) than China (£240.14). This high average spend is partly due the fact that the UK is a developed country where parts are more likely to be replaced when they fail rather than repaired or refurbished, and partly due to the popularity of leased vehicles in the UK, which are typically maintained on a regular schedule rather than as needed.

The other distinguishing feature of the UK aftermarket is the relatively strong presence of the independent aftermarket, which will be explored in detail later in this report. Compared with the rest of Europe, the UK is a more competitive environment for IAM parts and service suppliers. There are more tyre centres and fast fits, while discount and private-label parts are also more common. There is greater competition than in other markets and motorists subsequently tend to have more choice as to where and how to have their vehicles serviced. With a robust retail distribution network, the UK is more similar to the North American aftermarket than other European countries.

There are an estimated 42,544 service locations in the UK, including dealers and authorised repairers, independent workshops, specialists, tyre stores, autocentres and fast fits. Compared to emerging regions, for example, the number of locations is relatively low because there are fewer “unorganised sector” shops. In countries like Brazil and China, there are hundreds of thousands of repair points, but many are single-bay shops with counterfeit parts, fewer tools and generally lacking the operational standards of a UK-based business.



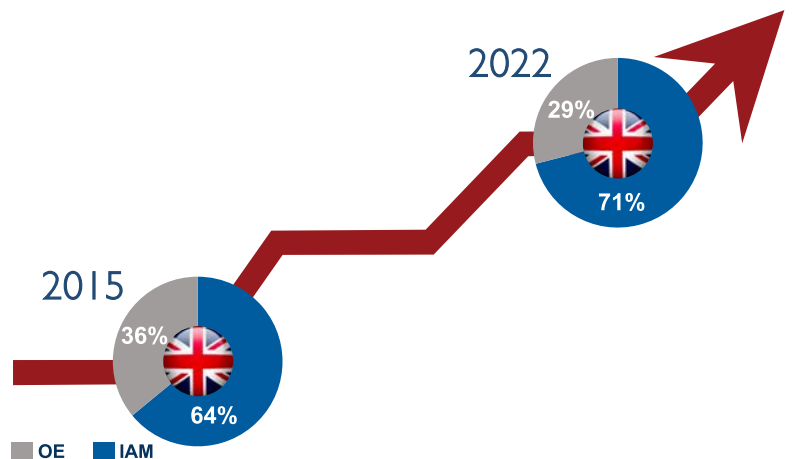


THE FRANCHISED NETWORK AND INDEPENDENT AFTERMARKET IN THE UK

In 2015, the total value of the UK aftermarket was £21.1 billion and supported jobs for around 345,600 people. The independent aftermarket (IAM) – made up of independent parts sellers and non-franchised workshops – was estimated to hold a 64% share of this market. The remaining 36% was held by the franchised network.

However, the proportion of the market served by the IAM is forecast to rise to 71% by 2022. This section of the report will explore the market dynamics that are contributing to this shift and how important it is to the UK.

Split between the independent aftermarket and the franchised network in the UK



Franchised networks have lost significant market share over the past decade as consumers have migrated to competitively priced parts and service providers in the IAM. This trend is expected to continue in favour of the IAM as the average vehicle age rises over the next five to seven years.

The independent sector generally offers vehicle owners routine maintenance and mechanical repairs at a lower cost. Independent workshops have lower overheads than franchised workshops and the distribution chain is often able to leverage better prices for parts than franchises, whether they are OES parts or not.

Another factor supporting the growth of the IAM is the rise of online retail, which is providing significant opportunities for independent parts suppliers. Tyre companies are leading the industry’s migration to internet-based channels – growing at about 15% annually, with “click-and-fit” sellers offering on-site installation at the car owner’s home or business. Accessories and high-performance upgrades are also fast-growing on sites such as Amazon.uk and eBay.

How each aftermarket channel contributes to the UK

	IAM network	Franchised network	UK Total
Value of the UK aftermarket	£ 13.5 bn (64%)	£ 7.6 bn (36%)	£ 21.1 bn
Gross value added to the UK economy at basic prices	£ 7.8 bn	£ 4.4 bn	£ 12.2 bn
Number of aftermarket jobs	253,249 (73%)	92,351 (27%)	345,600
Number of aftermarket service locations	35,099	7,445	42,544
Average annual aftermarket spend per car	£552.40	£792.80	£ 695.39 per year (national average)

The IAM is larger in the UK (64% of the total aftermarket) than other leading European automotive markets such as Germany (56%) and France (52%). This is due to three key factors:

1. Domestic car brands and their franchised networks

France and Germany have more domestic brands such as Renault and BMW, which have a greater share of franchised dealer networks. In contrast, the UK market has many international car brands which are serviced by various franchises and IAM companies

Customer loyalty to domestic manufacturers such as Volkswagen, BMW and Mercedes-Benz is particularly high in Germany, and formal technician training is part of the country’s education system for employees entering this field. Consumers there are less likely to use discount parts and service. In France, IAM growth is more likely to be hindered by higher tax and regulatory costs.

2. Consumer preference for local convenience

The strength and growth of the IAM in the UK is also driven by customers becoming increasingly service and convenience conscious. Independent businesses are smaller and more numerous than franchised dealers (35,099 IAM compared with 7,445 franchised locations), which means customers in the UK are more likely to find an independent garage conveniently located near to where they work and live.

3. Growth of private labels in the UK






Private label parts manufactured for companies that apply their own brand(s) to the product(s) have helped to proliferate the variety of components available to the end user for the same purpose. The greater variety of parts available in the UK compared with many other markets has put downward pressure on prices across the board and made the IAM more attractive to value-conscious consumers as a result.

FRANCHISED NETWORK AND IAM PRICES

Prices differ between the franchised network and the independent sector. For the top four parts sold in the UK, the average parts cost is 65% lower in the IAM than in the franchised network. Similarly, the average hourly labour rate is 45% lower in the IAM. These differences are mainly due to the higher property overheads and restrictions in part options in the franchised network.

IAM workshops and parts sellers compete on the basis of price, choice and convenience. Some independent companies specialise in particular areas, such as electric or hybrid vehicles, and this approach is expected to be a key source of competitive advantage for the IAM sector in future. Franchised networks, on the other hand, tend to highlight customer and brand experience.

Price of the top four parts and labour in the IAM vs. franchised network

	IAM average price	Authorised network average price	Percentage difference
 Tyres	£ 47.98	£ 79.26	65%
 Batteries	£ 68.13	£ 99.50	48%
 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 IMPORTANT TO THE UK?

It is important for the UK to have a thriving independent aftermarket (IAM) as well as a strong franchised network in the aftermarket. This mix of companies offers consumers choice, ensures a healthy level of competition and provides jobs throughout the UK. There are two fundamental reasons why the IAM is important to the UK consumer and the UK economy.

1. Consumer choice

Typically, owners of older cars gravitate to the independent aftermarket because parts and service costs are generally lower, and are therefore more affordable relative to the value of the car. As the average age of cars is expected to increase, thanks to ongoing improvements in manufacturing techniques and quality, it is crucial that the UK has a strong IAM in order to meet customer expectations and provide choice.

While the IAM may be the preferred choice for owners of older vehicles, owners of premium brands and vehicles still under warranty tend towards the franchised network. However, these customers are not necessarily limited to the franchised network, which has 7,445 service locations in the UK, compared with more than 35,000 IAM service locations. The IAM network has more location across the UK, and thus provides convenience to customers who may not live or work near a franchised service location.

2. Securing a range of jobs and developing skills around the UK

Currently the UK aftermarket provides 345,600 jobs, 73% of which are in the independent aftermarket. Each IAM service location typically employs 7.2 people per workshop, including technicians and support staff. Hence, the IAM network provides a wide range of job opportunities for people with various skills throughout the country.

The number of jobs in this segment of the aftermarket is set to become more significant as the IAM grows its market share from 64% to an estimated 71% by 2022. Frost & Sullivan expects that UK parts sellers and service providers will need to hire another 30,000 skilled service technicians, parts retailers and support staff over the next 7 years to keep up with industry growth. Total IAM employment will grow from an estimated 253,249 to approximately 284,000. As the aftermarket evolves, the UK is in a position to develop cutting-edge skills – if the required investment into training is provided. In addition to the traditional technician and part seller roles, the automotive aftermarket now supports a wide range of new stakeholder groups, including electronic device manufacturers, app developers, investment bankers, IT professionals and even telecom providers.

Frost & Sullivan believes that the UK's automotive aftermarket industry will continue to generate new, exciting career opportunities within the UK as vehicle architectures continue to evolve from mechanical to electrical, and as the aftermarket's supporting infrastructure becomes less dependent on physical stores, offering consumers a more digital experience.





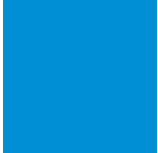
OPPORTUNITIES AND CHALLENGES

The UK aftermarket is facing a number of opportunities and challenges. Some are driven by changes in the way people use cars and evolving vehicle technology. Other opportunities and challenges are the result of evolution in the aftermarket itself. This report will explore all of these and will highlight how each aftermarket channel will be impacted by these opportunities and challenges.

I. Shift from car ownership to usership

The number of new cars bought on finance rather than outright has risen significantly in recent years. Approximately 80% of new cars in the UK were bought on finance in 2015, 76% of which were funded by Personal Contract Purchases (PCPs). Increased transparency in funding options, improved consumer protection and ease of access – both online and at the point-of-sale – will lead to a rise in the percentage of new and, particularly, used cars purchased using motor finance.

In addition, leasing is growing fast; from year-end 2015 to the end of February 2016, the share for Personal Contract Hire (PCH) increased from 5% to 7%. This trend is set to continue as consumers become increasingly comfortable with treating vehicles as a utility cost with consistent monthly payments covering both the cost of the vehicle and its upkeep (ie service and maintenance cover).



While restrictive clauses around service and repair through warranty periods are not permissible, motor finance and vehicle leasing providers are free to dictate where the vehicle they still own is serviced and repaired. Independent and franchised workshops both have to demonstrate value for money and quality of service in order to tap into this lucrative portion of vehicles in operation.

Growth of vehicles in this category will continue to drive total industry revenue higher, but that could come at the expense of smaller, independent parts sellers and service providers that do not have contracts to participate in this segment.

In addition to financial agreements for new cars, the number of manufacturers offering other financial products such as extended warranties and maintenance and service contracts has been increasing. Customers who choose to include these options with the finance agreement for the new car will remain in the franchised network for even longer, which increases the challenge faced by IAM companies.

2. The mobility mindset

In addition to the shift from ownership to usership (ie leasing), a trend to avoid car ownership altogether is emerging, as consumers opt for pay-as-you-go or on-demand mobility solutions. This approach is especially prevalent among the younger generation, millennials, who have grown up in a world where mobility options such as car sharing, carpooling and eHailing are readily available in addition to public transport. In light of this trend, the challenge for aftermarket companies could be a reduction in business due to fewer cars being owned by individuals. However, the cars being used for mobility solutions such as car sharing will still require aftermarket parts and services and could require more regular and robust aftermarket provision with greater inherent margins. Also, new business models are being formed to help maintain vehicles which are “always available”.

As such, aftermarket activity is increasingly moving out of the workshop and being delivered to the customer at a time and place of their choosing which is presenting both opportunities and challenges to the incumbent industry.

Although the mobility mindset may reduce personal car ownership, the impact on the aftermarket is not expected to be significant. Cars will continue to be a popular mobility solution and so will still require parts and service to keep them on the road.

3. The connected car

Today's world is connected. People have multiple connected devices such as smartphones and tablets and can access endless information and services at the push of a button. Hence, customers expect their aftermarket experience to be more on a par with other retail experiences. Customers increasingly expect to be able to communicate with aftermarket parts and service providers digitally and to be able to buy parts and services online. Over-the-air diagnostic alerts and updates will regulate the maintenance schedule of car owners, and the added convenience will support those who wish to invest more in maintenance and repairs for their car.

The opportunities associated with connectivity depend on companies being able to access customer data via the connected car and developing digital solutions to offer both parts and services. Car manufacturers and franchised dealers are well placed to capitalise on this opportunity because the connected car system will be installed and managed by the car manufacturer in the first instance. This means that car manufacturers and franchised dealers will have easier direct access to customer and vehicle data than independent companies. This poses a key challenge for IAM companies as it reduces their opportunity to engage with the consumer via the car, and they may consequently miss out on opportunities to promote their parts and services to the consumer.

Many vehicle owners already use the internet to determine what is wrong with their car, compare prices and product offerings, view tutorials and schedule maintenance. Many are using mobile technologies; the most common architecture is a smartphone loaded with apps that send and receive data via the car's Bluetooth receiver. Parts manufacturers, distributors and service providers that are not connected to this digital environment will be at a distinct disadvantage in the UK's aftermarket of the future.

4. Telematics and connected car systems

Telematics components and services are generally available in three ways – in-dash units, those connected to on-board diagnostics devices and smartphone apps with Bluetooth. These connected car systems are creating new markets for services including user-based insurance, driver monitoring, stolen vehicle tracking and, of course, maintenance and repair diagnostics.

Many of these services are available via subscription and are supported by a host of non-traditional stakeholders, including device manufacturers, app developers and telecom providers.

Frost & Sullivan expects telematics services to emerge as a key offering and differentiator for the independent aftermarket over the medium to long term.

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

Online retail has matured significantly, which is influencing the aftermarket across Europe where online expenditure is set to increase from 5% in 2015 to 15% by 2022. The UK has the highest penetration of online retail for automotive parts and services at 7%, while Germany and France have a share of 5% and 4% respectively. This is in part due to the significant proportion of independent companies in the UK aftermarket, each of which can develop an online retail channel.

Traditional aftermarket participants such as Halfords, Euro Car Parts and The Parts Alliance have responded swiftly to the digitisation of automotive parts retailing and have introduced their own online retail channels. This trend has also led to new business models and new companies such as Blackcircles and Goodyear's direct eStore being launched to capture online opportunities. Amazon and eBay are also key players, with an estimated 10% share of the £0.8 billion online UK automotive parts and service market.

As online retail matures further, geographic boundaries become less significant and customers have the choice to shop from local or international sites. UK-based aftermarket companies will need to tailor their offline business strategy to cater for local needs and preferences, as well as develop an online retail channel for domestic and international customers.

In addition to the opportunities and challenges resulting from changes in the way people use cars, consumer behaviour and new car technologies, there are three specific trends which are set to present significant opportunities and challenges to UK-based companies.

6. Remanufactured parts

The growth in remanufactured parts presents one of the most significant opportunities for the aftermarket. Remanufactured parts are pre-used and recycled components that have been cleaned, refurbished, retested and repackaged. For many mechanical and some electrical components - including starters and alternators, brake calipers, drive axles, whole engines, and transmissions - customers can buy remanufactured parts that are restored to original specifications, and sometimes improved, for less than the price of new parts. Remanufacturing also reduces the industry's environmental impact.



Historically, remanufacturing has been slower to develop in Europe than in the United States. The main reason for this has been the lack of cross-border core collection programs to make it possible for a product sold in one country to be replaced in another. However, progress is being made on this front and the UK aftermarket could benefit. Turbochargers, engine control units, instrument clusters, clutches and steering pumps and gears will be among the fastest-growing product lines for remanufacturers.

Remanufactured parts are common across both franchised and independent networks, so each channel stands to gain equally from any rise in remanufactured parts use.

7. Electrical and electronic repairs

Electrical and electronic repairs are becoming an increasingly large proportion of the work carried out by the aftermarket as technology evolves. These repairs include a wide range of parts and services that are just starting to make their way into the aftermarket: hybrid and electric powertrains, microprocessors, in-dash telematics and a growing network of sensors, actuators, and related componentry that ensure all systems are communicating with one another.

In most cases, these are life-of-vehicle components that should not be replaced due to regular wear and tear. However, electrical systems can malfunction and problems can be difficult to diagnose. As vehicles age, more of them will develop short circuits, collision damage or code errors that lead to the replacement of electrical parts.

Although volumes remain low, growth rates are generally much higher for electrical than mechanical replacement parts. This development will provide growth opportunities for aftermarket companies who are able to invest in training, tools and equipment to carry out increasingly complex electrical repairs.

8. Exports

In some emerging regions of the global automotive aftermarket, there is no domestic supply base for automotive parts. Therefore, all of the products sold in these regions are imported from another country.

Africa and the Middle East, in particular, are regions where UK companies may find new markets for their aftermarket products. For example, Saudi Arabia imports 100% of its spare auto parts from Germany, Japan, and the United States, among other countries. Meanwhile, African nations are importing millions of scrapped vehicles that have been traded in and auctioned from Western countries.

UK parts sellers have an opportunity to develop their presence in these emerging markets, where the vehicle parc is growing rapidly but there is little or no traditional aftermarket infrastructure to support mechanics and workshops looking for spare parts.



AFTERMARKET INVESTMENT TRENDS AND OPPORTUNITIES

The UK aftermarket has proven to be an attractive market for foreign direct investment and continues to see consistent increases in capital expenditure in line with some of the trends around the increased use of electronics and software within the modern vehicles. Investors are attracted to the aftermarket for several reasons. One is that it tends to be more resilient to economic downturns than other sectors, because consumers and fleets will continue to keep their existing vehicles up and running. Also, the pace of technological change has resulted in more aftermarket suppliers and distributors looking for new investors to keep up with the changing nature of the service, maintenance and repair industry.

Aftermarket investment in the UK is being directed to four key areas: foreign direct investment, private equity, domestic market consolidation and capital expenditure.

1. Foreign direct investment

Foreign direct investment in the aftermarket occurs when a non-British company takes a stake in an aftermarket business based in the UK. This happened in 2011 when Euro Car Parts - the UK's largest supplier of aftermarket parts and accessories for independent service locations - was acquired by LKQ, a US-based collision repairer, remanufactured and salvaged parts supplier.

More recently, Edinburgh-based online tyre retailer Blackcircles was acquired by the French company Michelin.

British aftermarket companies continue to attract interest from global competitors who see the value and growth potential of the domestic industry. To some, it is seen as a gateway to the rest of Europe.

2. Private equity

Private equity also plays an active role in helping the UK automotive aftermarket respond to evolving technology and business model requirements. In mature markets such as the UK, investors are trying to enhance profit margins through consolidation and new management. The Parts Alliance, Andrew Page and Kwik-Fit are all leading UK aftermarket companies that have either been bought or sold by private equity companies in recent years.

3. Domestic market consolidation

Domestic mergers and acquisitions market consolidation is another trend shaping the direction of the UK aftermarket, with London-based HgCapital particularly active in the industry. To date, these have mainly involved smaller transactions with local service providers selling assets to larger, better funded competitors; or local wholesalers that do not own the warehouse being taken over by super wholesalers and trade or buying groups.

The Parts Alliance, for example, has recently negotiated deals to bring GSF and the IFA within its business.

Responding to the changing nature of the parts and service industry is a major factor driving consolidation in the UK aftermarket. In particular, mobile and connected vehicle technologies are rapidly changing how the automotive aftermarket industry will operate in the future.

The next decade will see more service technicians and consumers purchasing parts and services online. In-store technologies will evolve to feature virtual assistants, self-service kiosks and customised fulfilment options. Service professionals will increasingly carry tablets equipped with apps allowing them to diagnose maintenance and repair needs, receive technical support and communicate the work done with their customers.

Smaller workshops and parts sellers are less likely to have the means to keep pace with the industry's evolving technology requirements. For this reason, aftermarket companies which do not invest in tooling and skills are likely to go out of business or merge with and/or be acquired by better-financed competitors. Without this investment activity, some UK aftermarket companies may find it too costly to buy modern equipment, add new products and services, or expand geographically.

4. Capital expenditure

Capital expenditure on tools and equipment is essential to ensure the aftermarket keeps pace with evolving technology in the automotive industry. UK service providers spend millions of pounds annually to buy new wheel balancers, alignment racks, car lifts, brake lathes and shop tools, along with other capital expenditures. This is an adjacent market sector and is not included in Frost & Sullivan's revenue market size calculation of the UK automotive aftermarket. However, the impact of this spending further highlights the importance of the aftermarket industry to the rest of the UK economy.



HOW REGULATION WILL IMPACT THE UK AFTERMARKET

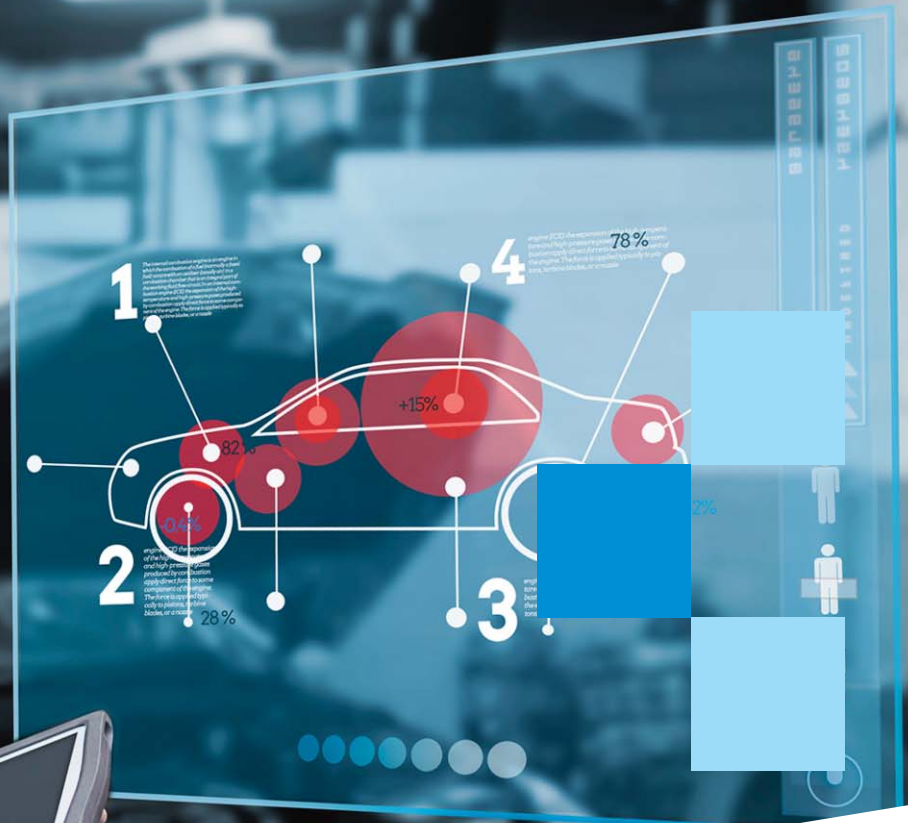
Alongside trends impacting the evolution of the aftermarket, regulation plays a key role in shaping the industry. The UK aftermarket has been impacted by EU regulation promoting an open and competitive aftermarket. Block Exemption 2010 provisions allow OES and alternative parts suppliers to supply components to independent distributors and repairers. Therefore, customers are likely to find greater choice, including original spare parts, through IAM channels. OES companies can also use this opportunity to brand and promote their products directly to consumers.

One of the major changes in the legislation compared with the expired regulation of 2002 has been the clarification that vehicle manufacturers may not make warranties conditional on the repair and servicing of a vehicle within their network, or on the use of their own branded spare parts. The customer is free to use any repair shop for non-warranty work, during both the statutory warranty period – two years in most EU member states – and any extended warranty period.

The impact of this is that new car owners can now choose to buy parts and have their vehicle serviced in the IAM, rather than be obligated to remain within the franchised network.

Finally, access to technical information, tools and training is recognised by the European Commission as being essential for healthy competition. A regulation known as Security-related Repair and Maintenance Information (SERMI) was recently signed off by the European Accreditation (EA), which states that access to a vehicle's security features can no longer be restricted to the manufacturer. IAM companies should therefore have better access to crucial information and be able to develop better technical training in order to provide customers with a level of service equivalent to a franchised dealer, but regulation will continue to play a vital role in ensuring free and fair competition between service and repair providers, and providing security insurance to consumers as connected vehicles develop and new Type Approval Regulation is introduced.



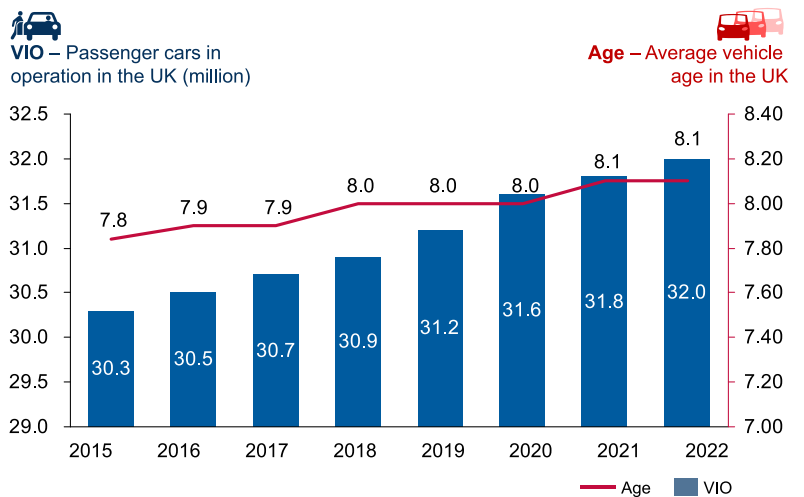


OUTLOOK AND RECOMMENDATIONS FOR THE UK AFTERMARKET

Outlook: Growth forecast in the UK aftermarket

The UK aftermarket is likely to grow at an annual rate of 3% per year between now and 2022, with higher growth in services and repair compared to the retail of parts. This growth will be driven by a powerful combination of an increasing number of cars on the road, from more than 30 million in 2015 to 32.0 million by 2022, and the increasing age of cars in the UK from 7.8 to 8.1 years over the same period.

Forecast vehicles in operation (VIO) and average vehicle age in the UK



As highlighted previously in this report, the IAM has a strong market presence in the UK (64%) compared with other leading automotive markets in Western Europe such as France (52%) and Germany (56%). As one of the key drivers of growth, increasing vehicle age is directly correlated to the IAM, which is the predominant channel for the owners of older cars. Thus, the IAM is well-placed to develop further its presence in the UK.

While this growth is positive for the IAM, competition is expected to intensify as more companies seek to take a share of the repair and maintenance work for older cars on the road. The UK aftermarket is already fragmented, with intense competition between distributors' retail chains, independent garages and online retailers. However, the IAM is expected to experience continued consolidation and specialisation as companies seek to gain commercial strength and target services at specific consumer needs such as electric or hybrid vehicles.

However, other evolutions in the aftermarket present significant challenges for independent companies. The rise of connectivity, which offers car manufacturers a way to strengthen their link with car buyers, could reduce the opportunities for IAM companies to compete. Similarly, the shift away from car ownership and outright purchase means that individuals are no longer potential IAM customers; their aftersales needs will come mostly from businesses and fleet operators which may be more likely to work with the franchised network.

RECOMMENDATIONS FOR AFTERMARKET COMPANIES IN THE UK

The UK aftermarket is well established and set to grow. The key for UK-based companies is to understand the trends which will impact the market and develop strategies to cater for changing market dynamics, new customer needs and the emergence of new business models. Frost & Sullivan recommends that aftermarket companies in the UK focus on three particular areas: fast-growing parts, specialised services and digitalisation.

1. Supply fast-growing parts

Most of the new parts entering the aftermarket in the coming years will be electronic components, a broad segment that includes sensors, microprocessors, and related circuitry, as well as once-mechanical products like fuel and power steering pumps, or even air conditioning compressors, which are now powered by vehicles' electrical systems. The increasing use of driver assistance technologies such as automated cruise control and lane keep assist, which will ultimately lead to autonomous vehicles, will require calibration and maintenance to work effectively.

Tyre pressure sensors, integrated control arms, wheel hubs and bearings, and premium wiper blades will be among the fastest-growing parts, based on Frost & Sullivan's ongoing analysis of replacement rates. New regulations (eg for tyre pressure sensors), increased modularisation (eg ball joints integrated with control arms) and changing original equipment designs (eg wheel hub and bearings, and premium wiper blades) will be the main factors driving demand for these products in the aftermarket.

To this end, parts suppliers and service providers will need to invest in the tools, training and equipment to properly support these new products. Small independent competitors not on the radar of larger rivals or institutional investors may find strength in numbers, pooling their resources to address labour and capital needs.

2. Offer a broad range of parts but specialise in service

Large parts sellers, autocentres and fast-fits should aim for all-makes-and-models coverage of the products they sell, and they should differentiate themselves on the basis of customer service and after-sales support. Tiered pricing and multi-brand strategies for fast-moving products will allow these businesses to deliver the "right part, at the right place, at the right time, at the right price" for their customers.

Even dealerships and franchised service workshops aligned with a particular car manufacturer have shown interest in expanding vehicle application coverage and offering a wider range of lower-priced aftermarket brands and private-label parts to attract customers.

For smaller competitors, particularly independent workshops, specialisation may be the best strategy. Focusing on services for specific vehicle brands or types (eg 4x4 or hybrid) or particular service lines (eg brake shops, radiator shops, and transmission shops) may allow them to develop expertise and profitable niches built on referrals, rather than competing head-on with large retail chains and wholesalers.

3. Embrace digitalisation

Mobile and connected vehicle technologies are rapidly changing how the aftermarket will operate in the future. The next decade will see more service technicians and consumers purchasing parts and services online. In-store technologies will evolve to feature virtual assistants, self-service kiosks and customised fulfilment options. Service professionals will increasingly carry tablets equipped with apps allowing them to diagnose maintenance and repair needs, receive technical support, and communicate the work completed to their customers.

Keeping up with the rapid pace of change will require parts manufacturers, distributors and installers to invest in the development of digital infrastructure and form alliances with technology partners. Strategic alliances with device manufacturers, app developers and telecom providers could help the independent sector, in particular, to develop a parallel connected vehicle ecosystem to compete in the future.

As part of this digitalisation strategy, aftermarket companies will need a strong online presence in order to remain competitive. Online retail is forecast to be the most significant area of growth within the UK aftermarket. Companies such as eBay and Amazon have already demonstrated how online retail can disrupt the parts market. Tyres are the best example of this as they are already being bought online in significant volumes (£2.54 billion in 2015 out of a total parts and services online retail market of £5.97 billion in Europe). Frost & Sullivan forecasts growth in the online sales of other car parts as well as financial products such as maintenance and service contracts. Embracing digitalisation can support the growth of UK-based aftermarket companies.





RECOMMENDATIONS FOR UK GOVERNMENT

Government can play a key role in supporting the growth and development of the UK automotive aftermarket. The aftermarket is becoming an increasingly important and dynamic industry, but several emerging barriers to growth could challenge the ability of manufacturers, parts sellers and service professionals to remain competitive. Two key barriers are access to electronic vehicle data and the need for skilled labour.

1. Ensure access to vehicles' electronic data

New cars are equipped with dozens of microprocessors which regulate engine performance and many other vehicle systems. These microprocessors constantly capture and transmit data which service providers need in order to read fault codes and make repairs to the vehicle.

It is important that the UK's ecosystem of independent parts manufacturers, distributors and service providers have ongoing access to vehicles' electronic data in order to compete with franchised repairers over the medium to long term. This will ensure a high level of choice, convenience and access to competitive prices.

Recent European Union (EU) regulations should be favorable in ensuring ongoing equal access to vehicle data and the UK government needs to ensure this support is maintained as technologies evolve.

2. Support skill development in the workforce

The evolution of modern vehicles from mechanical systems to sophisticated computers has made them more complex to repair, contributing to a skilled labour shortage which is exacerbated each year. Frost & Sullivan expects hundreds of small, family-owned workshops to close across the UK in the coming years, in part because they cannot hire and retain or equip employees with the necessary skills and experience to stay open, but also because of increasing competition and rising costs for tools, training and equipment.

Parts manufacturers often offer technician training and continuing education to workshops to ensure they know how to use the company's products. Also, various industry initiatives are supported by large suppliers which aim to address skills shortages. However, there is still a clear need for more work in this area. In addition to employers led training Support from government to help educate and train more vehicle repair professionals, through vocational programmes or other initiatives, would strengthen the growth and competitiveness of the UK aftermarket.



CONCLUSION

The UK automotive aftermarket is a dynamic industry that plays a key role in the British economy, contributing £21.1 billion in revenue (£12.2 billion in gross value added) and generating nearly 350,000 jobs for people throughout the UK. Healthy competition and a strong independent sector (currently 64% of the market) has reduced the cost of vehicle ownership and maintained a high level of choice and convenience for consumers. This market offers stability in times of economic challenge and consistently attracts new investment into the UK.

The UK aftermarket will grow by approximately 3% annually over the next five to seven years, with revenue increasing even faster for independent workshops, wholesalers, autocentres, tyre stores and quick fits, compared to the franchised network. Slow, stable growth in the number of cars on the road (currently more than 30 million and growing to an estimated 32.0 million by 2022) and increasing average car age (currently at 7.8 years, rising to 8.1 years by 2022) are the main industry fundamentals underpinning this growth. Online retail, remanufactured components and exports to the developing world will create new opportunities for UK-based parts and service suppliers.

When compared to other countries in Europe, the UK aftermarket is the fourth largest, behind Germany, Italy and France, but is expected to become the third biggest by overtaking France within five years. One of the distinguishing features of the UK aftermarket is the relatively dominant independent sector, which accounts for 64% of the UK market, compared to 56% and 52% in Germany and France respectively. The broad range of car brands available in the UK, which requires an equally broad range of aftermarket parts and services, is the key reason for this characteristic of the UK aftermarket.

Despite the relative strength and expected growth of the UK aftermarket, the industry must strengthen its relationship with government, bankers, technology vendors and consumers to ensure fair and open competition remains, so that consumers can continue to benefit from choice, convenience and competitive prices. The industry's short-term focus should be expanding access to labour and capital, the maintenance of favourable EU regulations and the development of new mobile/digital platforms for small wholesalers and workshops.

The industry is in the process of a significant transformation brought on by changes in technology, vehicle architecture, supply chains and consumer behaviour. Independent workshops and parts sellers, in particular, are at risk of being left behind as the low supply of skilled labour and costs of digital transformation erode their ability to compete effectively. Support and investment is required in the form of tools, technology and training to ensure the UK can retain the thriving aftermarket it has today, and realise the growth opportunities of tomorrow.

METHODOLOGY AND SOURCES

The value of the UK aftermarket is based on the total value of parts and services purchased for passenger cars in the UK, ie the total amount paid by consumers in a year.

The value added to the UK economy by the aftermarket relates to the total value of parts and services purchased by consumers, minus the cost of materials and wages required to deliver these parts and services to the consumer. Data from the UK Office of National Statistics was used as the basis for this calculation.

Key sources

www.smmmt.co.uk

www.theimi.org.uk

www.ons.gov.uk

www.fla.org

www.frost.com

Frost & Sullivan combined in-house data and secondary sources with primary research for this report. Interviews were held with a variety of aftermarket participants in the UK to validate findings and confirm key figures. Our thanks go to all who contributed.



