EUROPEAN AUTOMOTIVE AFTERMARKET

FACTS
TECHNOLOGIES
STRATEGIES

Josef Frank
Director Aftermarket CLEPA
# GENERAL VIEW ON THE AUTOMOTIVE BUSINESS

## Profile of CLEPA

## Current crisis and the consequences

# TECHNOLOGIES AND REGULATIONS FOR SAFETY AND ENVIRONMENT

## Original Equipment (OE)

## Possible measures from the Aftermarket

# THE EUROPEAN AUTOMOTIVE AFTERMARKET BUSINESS

## Key Elements

## Framework in the EU

## Most likely strategies

## Conclusion
EUROPEAN ASSOCIATION OF AUTOMOTIVE SUPPLIERS
REPRESENTS:
• 20 National Associations

• 3000 Companies with:
  – 3 Million Employees
  – € 12 Billion Annual R&D Spend
  – € 300 Billion Annual sales
  • 50% of total R&D spending comes from suppliers
  • Majority of patents come from suppliers
  • 75% of the Car-value comes from suppliers

• 50 Years of experience
• Accredited partner to:
  – EU
  – UN

Josef Frank
Director Aftermarket CLEPA
Profile of CLEPA

CLEPA WORKING GROUPS

→ Which cover all relevant topics for the automotive suppliers

- Aftermarket Policy
- Human Resources & Development
- Legal Advisory Group
- Research and Technology Development
- SMEs
- Technical Regulations
- Trade
- Warranty
Profile of CLEPA

CLEPA is the European umbrella membership organisation for the global Automotive Supply Industry

CLEPA is the European umbrella membership organisation representing the interests of the global automotive supply industry. It is comprised of the world’s most prominent suppliers for car parts, systems and modules and 27 national trade associations and European sectoral associations. Its members are CLEPA, representing more than 3,000 companies employing more than three million people and covering all products and services within the automotive supply chain. Based in Brussels, Belgium, CLEPA is recognised as the natural discussion partner by the European Institutions, United Nations and fellow associations (ACEA, JAMA, MEPA, etc.).

Technology Day / ILIPT Conference: 11.02.2009

www.clepa.eu
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CAN'T FIND IT?
HUNDREDS
MORE IN STORAGE
Reduced forecast in car sales will intensify overcapacity and affect the whole chain downwards.

**Sales Worldwide:**

<table>
<thead>
<tr>
<th>2007</th>
<th>2008</th>
<th>Forecast 2009</th>
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<tr>
<td>69 Mio Vehicles</td>
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<tr>
<td>63 Mio Vehicles</td>
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<tr>
<td>50-55 Mio Vehicles</td>
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Worldwide Capacity: 90 Mio Vehicles

This will lead to crowding out, with following implications:

- Concentration and internationalisation/globalisation
- Various models of cooperation (risk sharing)
- Shifting of production
- Streamlining of management structures
- Further Flexibilisation of employment

Source: ACEA, PWC
Current crisis and the consequences

But also:
• Insolvencies

Result:
• Loss of companies and bail out (equity)
• Loss of employment

Less players
But stronger ones
From a suppliers perspective:
Chances and challenges for remaining automotive suppliers

Acceleration of new technologies forced by law and competition.

Additional growth potential

Josef Frank
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ROAD MAP OF POWER SOURCES

- **HYDROGEN**
- **FUEL CELLS TECHNOLOGIES**
- **BIOFUELS**
- **RANGE EXTENDERS**
- **ELECTRIC VEHICLES**
- **HYBRIDS**

**Combustion engine**
- Mainly heavy duty vehicles

**Original Equipment (OE)**

- Start 2012
- 2020
- 2030
- 2050
- End of petrol
REGULATIONS FOR SAFETY AND ENVIRONMENT

• C02 reduction legislation passed in December 2008:
  – New cars ≤ 120 g/km CO2 by 2012 in average
  – Including penalties from 15 to 95 Euro
  – Long term target of ≤ 95 g/km CO2 by 2020
• Electronic Stability Control (ESP/ESC): Mandatory on passenger cars & Heavy Duty 2011/2014

• Advanced Emergency Braking and Lane Departure Warning: Mandatory for bus & Heavy Duty 2013/2015

• Tyre Pressure Monitoring Systems Mandatory for passenger cars 2012/2014
The competitiveness of R&D in Europe

- We need to keep EU at the forefront of technology advancement in order to maintain the competitiveness of our industry
- Industry needs generous funding from public sources to meet this challenge

Research focus on the development of:

- Hybrid technologies
- Electrically powered (plug-in)
- 2nd generation biofuels (biomass to liquid form)
- Hydrogen and fuel cell technology
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Possible measures from the Aftermarket

The existing car park can contribute to the road safety and environment protection:

- Retrofit products
- Remanufactured products
- Consolidated periodical technical inspections
- CLEPA code against counterfeiting
Possible measures from the Aftermarket

RETROFIT EXAMPLES

EcoVision Halogen Lamp

“Simply by switching from a normal set of automotive lamps to EcoVision there will be a saving of up to 14 liters of fuel during the lamps lifetime, the equivalent of driving 200 kilometers completely free; or you will save up to 36 kg of harmful CO2 emissions going into the atmosphere. »*

* Philips Automotive Lighting
Possible measures from the Aftermarket

RETROFIT EXAMPLES
Tyre Pressure Monitoring System

- Around 65% of European cars are currently driven with under inflated tires.
- Savings of up to 2.1% of fuel consumption, CO2 and other pollutant emissions.
- Increase of up to 12% of tyre lifetime.*

* Source: European Commission, 2006
Possible measures from the Aftermarket

REMANUFACTURING EXAMPLES

Main product lines:
- AC compressors
- Alternators
- Brake calipers
- Diesel Particulate Filters
- Drive shafts
- ECU’s
- Engines
- Gearboxes
- Injection parts
- Instrument Packs
- Starters
- Steering racks & pumps
- Turbos
- Wiper motors
Possible measures from the Aftermarket

Remanufactured products

BENEFITS

• **Energy saving** causes yearly 8.4 million tons of CO2 reduction.
• Usage of old parts saves **raw material**

Consumers have an environmental choice and at the same time cost saving.
Possible measures from the Aftermarket

Consolidated periodical technical inspection

Situation:
• All member states exercise different technical controls
• Different homologation of test equipment
• Different timing and scope of testing.

Proposal:
• Homogenous periodical technical inspections over time and scope (European homologation)
• Make use of existing up to date diagnostic-tools and test equipment
• CLEPA supports the activities of CITA (International Motor Vehicle Inspection Committee)

Benefits:
• Safer and cleaner vehicles
• Forcing to scrap non roadworthy vehicles
Counterfeit products have a negative influence on the safety of a vehicle. In 2007, customs registered over 43,000 cases of fake goods seized at the EU's external border. Source: European Commission.

Possible measures from the Aftermarket:

- Standardised code to fight product piracy
- CLEPA code on products and packages
- Highest Security + Easiest Handling = 2D barcodes
- Code developed by Swiss security specialist (VESDO)
- Security through check of codes at IT platform, e.g. TecCom TecIdentify
- Worldwide standardisation bodies (GS1/ISO) approved
- RFID ready, track & trace functionality
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**Key Elements**

**1. SIZE AND STRUCTURE OF THE EUROPEAN CAR PARK.**

- **265 Mio Vehicles**
- **Average Age:** 8.5 Years
- ≤ 5 years: 35 %
- 5-10 years: 33 %
- > 10 years: 32 %

Tendency: Increasing car park age

Example France

Source: ACEA pocket guide, figures of 2006
A shifting and aging park ...

Source: ICDP, CCFA. Passenger cars and light commercial vehicles (LCVs)

In collaboration with
2. SIZE OF EUROPEAN AFTERMARKET (in billion EURO)

Key Elements

- CAGR: 2.8%
- Eastern Europe: 10.5%
- Western Europe: 1%

Source: A.T. Kearny, SupplierBusiness

Consumer price level including labour and VAT, passenger cars
3. PROFITABILITY OF THE AFTERMARKET
(example of German market in 2006)

Revenue

Revenues, € bn, 2006, Total Automotive
188.2 Billion Euro = 100%

Aftersales
~23% of automotive revenues

Profit

Profit, Germany € bn, 2006, Total Automotive
12.5 Billion Euro = 100%

Aftersales
>50% of the profit pool

Sources: McKinsey CARE Initiative; Datamonitor; AAIA Factbook 2005/06; DAT 2005 ZDK 2005; IFA Nürtingen, (CLEPA)
4. THE LANDSCAPE of the European Aftermarket

The large variety of players makes the landscape complex.

**Parts manufacturing**
- OEMs
- OESs Part Suppliers
- Generic Manufacturers

**Parts distribution**
- OEMs branded
- OES branded
- Generic

**Service Delivery**
- OEM-affiliated garages
  - Owned and Franchised dealers
  - Multi-brand Dealers
  - Independent garages
    - Independent Aftersales Service Providers
    - Small garages/Gasstations

**Intermediaries**
- OEMs
- Insurance Companies
- Automobile clubs
- Leasing firms

**Consumers**
- Business
- Fleet
- Private

Source: McKinsey CARE Initiative, (CLEPA)
5. KEY DRIVERS OF CHANGING DEMAND UNTIL 2020

**Key Elements**

- **Decreasing demand**
  - Lower car usage
  - Decreasing demand
  - Decreasing demand
  - Increasing parts longevity
  - Wear & tear/service parts app. - 20%

- **Increasing demand**
  - Share of auto electronics
  - New power train concepts
  - Electronics parts

Source: A.T. Kearney, SupplierBusiness

- **Electronics parts**
  - New power train components
# General View on the Automotive Business

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## Current Crisis and the Consequences

### Technologies and Regulations for Safety and Environment

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### The European Automotive Aftermarket Business

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Framework in the EU

FOCUS

1. **Competition** for the sake of the consumer *

2. Increasing **Safety** on European Roads *

3. Protection of **Environment** *

4. Regulatory **Simplification** and internationally recognized rules *

* Extracts from CARS 21

Josef Frank
Director Aftermarket CLEPA
Framework in the EU

IMPORTANT LEGISLATION

1. European Commission Treaty Rules, Article 81-85
   - Common Rules on competition, taxation and approximation of laws

2. Euro 5/6 (EC 715/2007)
   - Access to information for inspection, diagnosis, servicing or repair for new car models compulsory from 2009.
   - Necessary information required for the manufacturer of diagnostic tools and publishers.
IMPORTANT LEGISLATION


→ Expires in 05.2010, Position CLEPA beyond May 2010:

- Maintenance and Repair information (RMI) in a usable form for IAM and OES workshops, generic diagnostic tools providers and publishers for the whole vehicle park.
- Supplier branded OE parts for OES and IAM
- Free flow of spare parts (no restriction from OEM)
- No restrictive Warranty terms
IMPORTANT LEGISLATION

4. Design protection:
   CLEPA advocates for Implementation of Repair Clause as voted in the Parliament in 12.2007

5. Subcontracting:
   Reformation of guidelines in vertical BER to avoid abuse (concerns Commission Notice from 12.1978)

   - Protection for safety- and environmental related products.
   - Use of Article 31

7. UN/ECE Regulations (WP29)
   Simplification & Internationalisation, for example R90
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Most likely strategies

Internationalisation, co-operations and M&A are the key succes factors for suppliers, wholesalers and retailers.

Suppliers
1. Sales and logistics co-operations between suppliers
2. Development of specialized IAM aftermarket productions

OEMs Wholesale and Retail
1. Extended warranties
2. Extension of full service contracts
3. Investments into IAM service business

IAM Wholesale
1. Intensified "global sourcing"
2. Increased internationalization
3. Higher concentration (M&A)

IAM Retail
1. International franchise concepts
2. Dealer concentration (M&A)

Source: A.T. Kearney, SupplierBusiness
Most likely strategies

OEMs will target shares in car range up to 8 years and push the IAM towards older cars

Segment I (0-4 years) ~75%
Segment II (>4-8 years) ~50%
Segment III (>8 years) ~15%

Development of IAM market shares

Source: A.T. Kearney, SupplierBusiness (CLEPA)
Most likely strategies

CUSTOMERS BUYING FACTORS BY CAR AGE

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<tr>
<th>≤ 2 years</th>
<th>3 – 4 years</th>
<th>5 - 7 years</th>
<th>≥ 8 years</th>
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<tbody>
<tr>
<td>1. Personal Experience</td>
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<td>1. Low price</td>
</tr>
<tr>
<td>5. Single Contact Person</td>
<td>5. Use of original parts</td>
<td>5. Friendliness of staff</td>
<td>5. Quick availability</td>
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Source: McKinsey, Customer Survey in Germany with more than 4.900 respondents, (CLEPA)
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Conclusion

THE INDEPENDENT AFTERMARKET WILL STILL BE A BIG « CAKE »

The « cake » will remain, but may taste differently.

* € 52 Billion*  
* Euro 27 in 2007, Passenger Cars, Consumer price level without VAT and labour, source: Wolk & Partners
Conclusion

The welfare of the car-owner must drive all thoughts and actions.

The car-owner decides where to go.

By mind  ✓ distance  ✓ quality  ✓ cost

By feeling  ✓ convenience  ✓ trust  ✓ relationship

Josef Frank
Director Aftermarket CLEPA
The European Commission will / (has to) assure the right framework for: - fair competition
- safety, environment and simplification of rules

CLEPA supports the interests of the automotive part suppliers towards the European Institutions and the UN...

... the rest is business ...
Conclusion

THANK YOU

Josef Frank
Director Aftermarket CLEPA
Since January 2007 Director Aftermarket in CLEPA, the European Automotive supplier association, based in Brussels.
-6 years with an automotive wholesaler in Germany
-33 years with Bosch, always Aftermarket. Responsibilities in Sales, Marketing and General Management. Based in Germany, France and Singapore.
-Last assignment General Manager IAM for Western Europe