EUROPEAN AUTOMOTIVE AFTERMARKET

FACTS
TECHNOLOGIES
STRATEGIES

Josef Frank
Director Aftermarket CLEPA

CLEPA European Association of Automotive Suppliers

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

Profile of CLEPA

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

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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

www.clepa.eu

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CAN'T FIND IT?
HUNDREDS
MORE IN STORAGE

CLEPA 50 years
European Association of Automotive Suppliers

Current crisis and the consequences

Reduced forecast in car sales will intensify overcapacity and affect the whole chain downwards.

Sales Worldwide:

Worldwide Capacity : 90 Mio Vehicles

69 Mio Vehicles

63 Mio Vehicles

50-55 Mio Vehicles

2007 **2008** **Forecast 2009**

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

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50 years

Current crisis and the consequences

But also:

- **Insolvencies**

Result:

- **Loss of companies and bail out (equity)**
- **Loss of employment**

Less players

But stronger ones

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Current crisis and the consequences

From a suppliers perspective:

Chances and challenges for remaining automotive suppliers

Acceleration of new technologies forced by law and competition.

Additional growth potential

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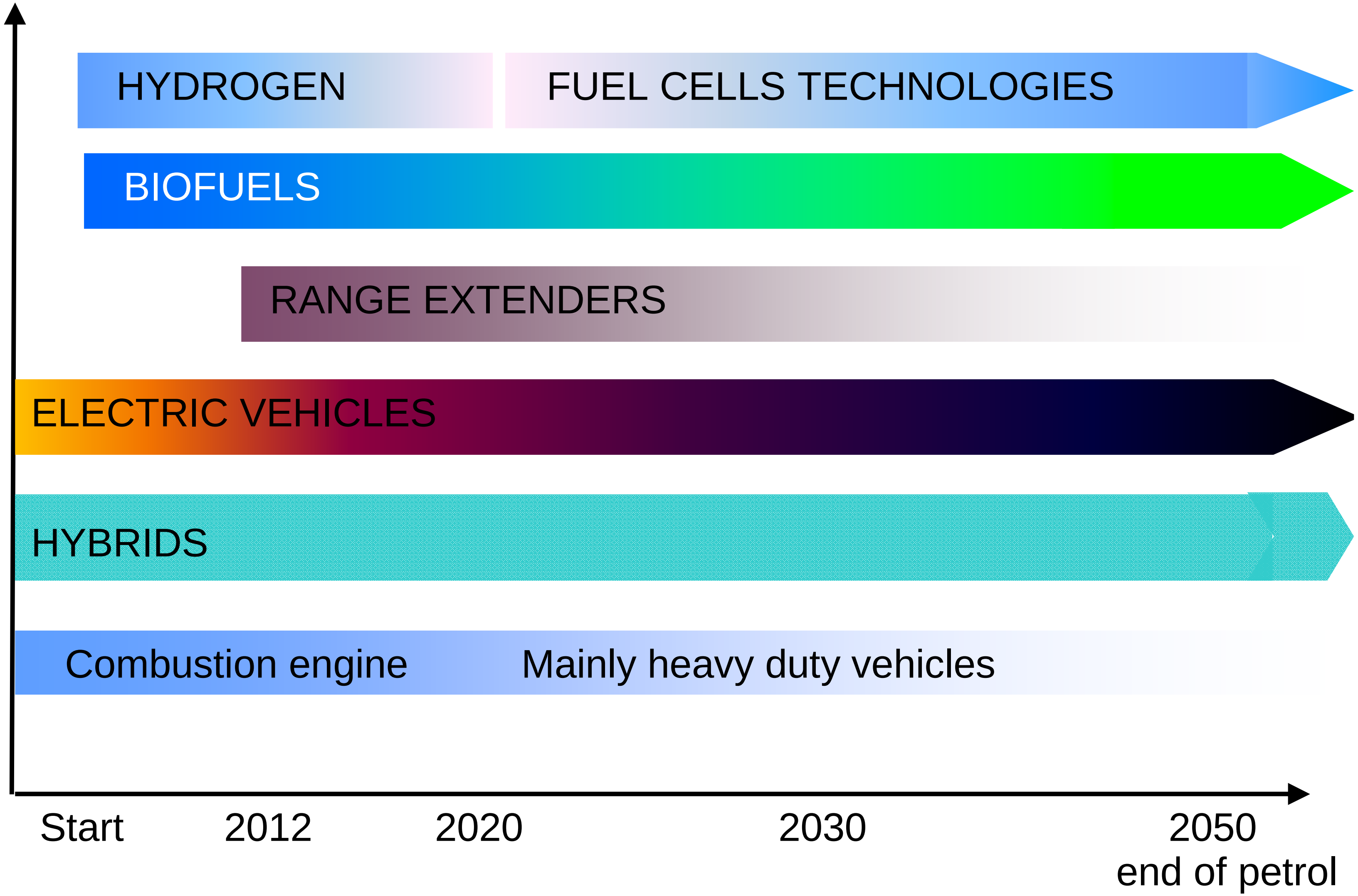
Original Equipment (OE)

ROAD MAP OF POWER SOURCES



Original Equipment (OE)

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

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Original Equipment (OE)

REGULATIONS FOR SAFETY AND ENVIRONMENT

- **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 passengar cars 2012/2014

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New technologies: Message to the authorities and the industry

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**

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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*

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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.*

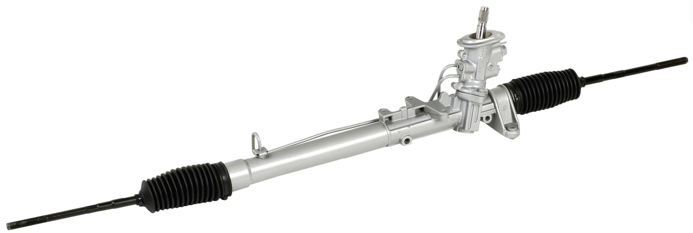
** Source : European Commission, 2006*

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



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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**

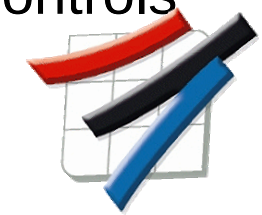
Consumers have an environmental choice and at the same time cost saving.

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.



France

Germany

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

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CLEPA code against counterfeiting

Possible measures from the Aftermarket

- 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
- 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

TecIdentify First Movers

Ate TRW LUK INA FAG GKN ZF BOSCH FEDERAL MOGUL WABCO TENNECO

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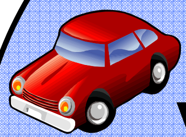
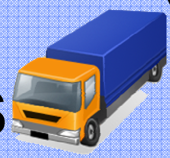
1. SIZE AND STRUCTURE OF THE EUROPEAN CAR PARK.



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

Microsoft PowerPoint Slide

Source: ACEA pocket guide, figures of 2006

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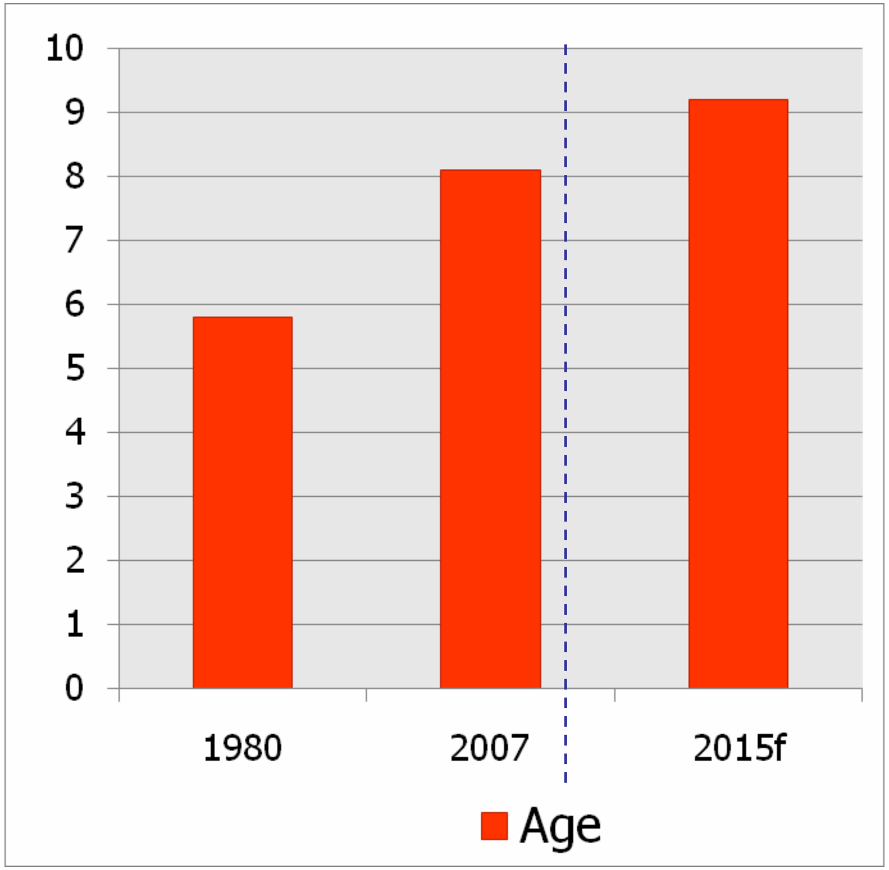
A shifting and aging park …



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

In collaboration with

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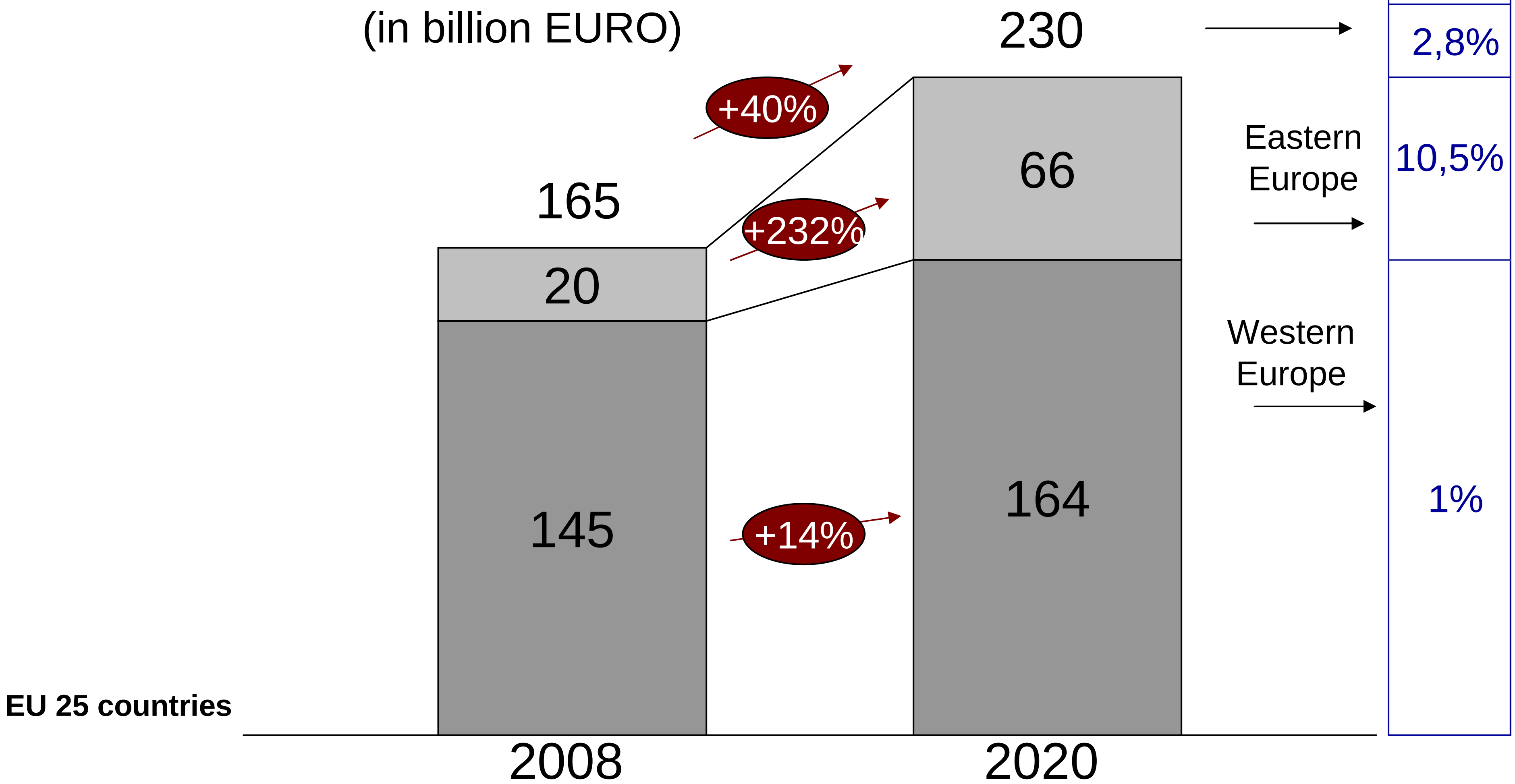
Key Elements

2. SIZE OF EUROPEAN AFTERMARKET

(in billion EURO)



Source: A.T. Kearny, SupplierBusiness Consumerprice level including labour and VAT, passenger cars

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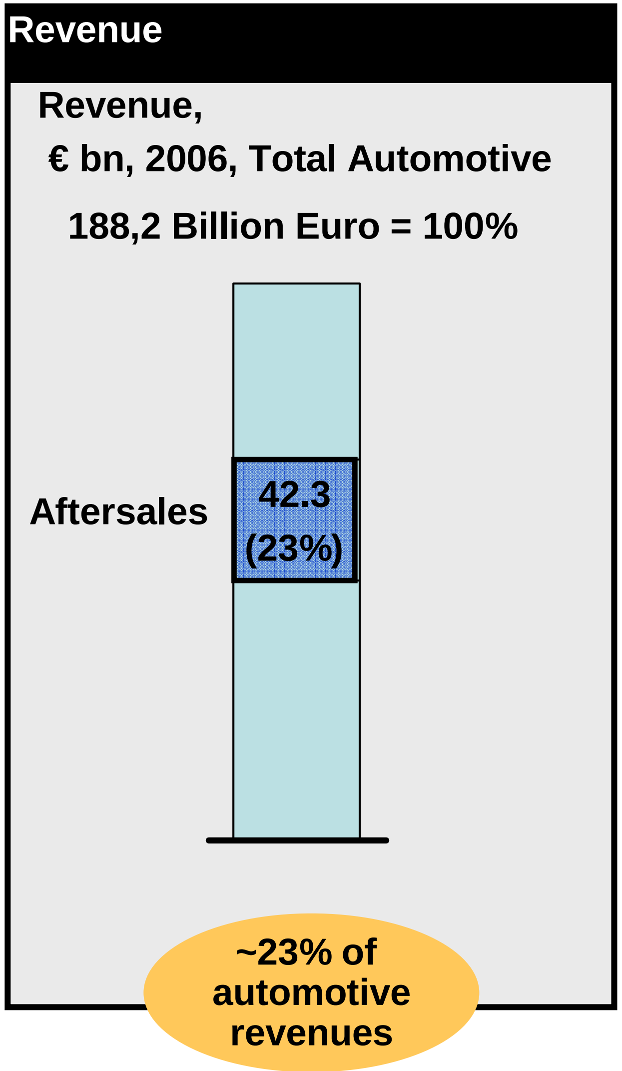
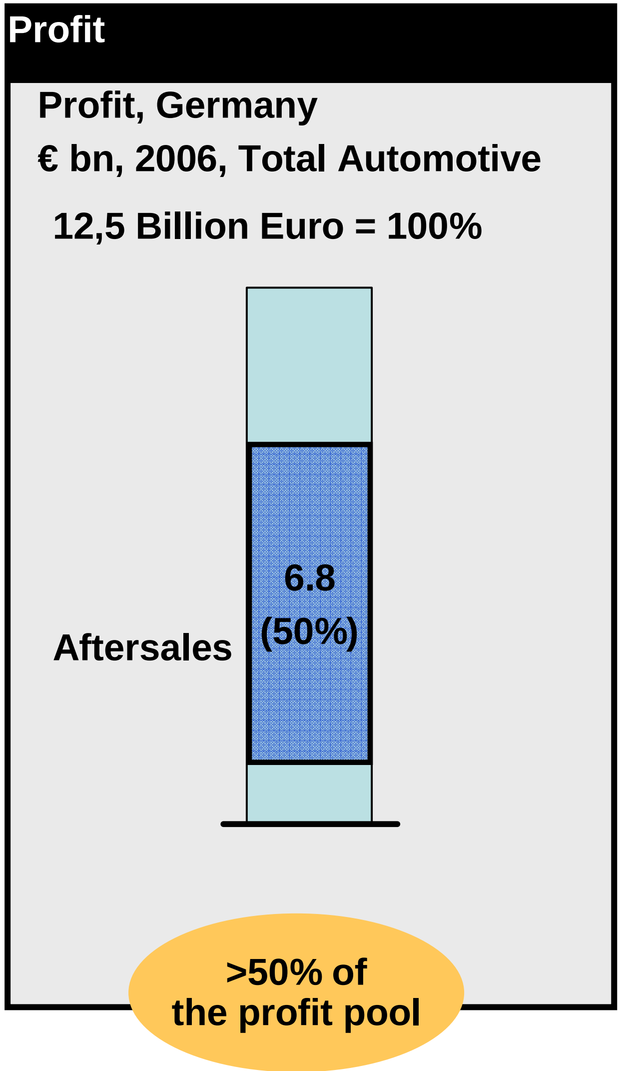
3. PROFITABILITY OF THE AFTERMARKET
(example of German market in 2006)

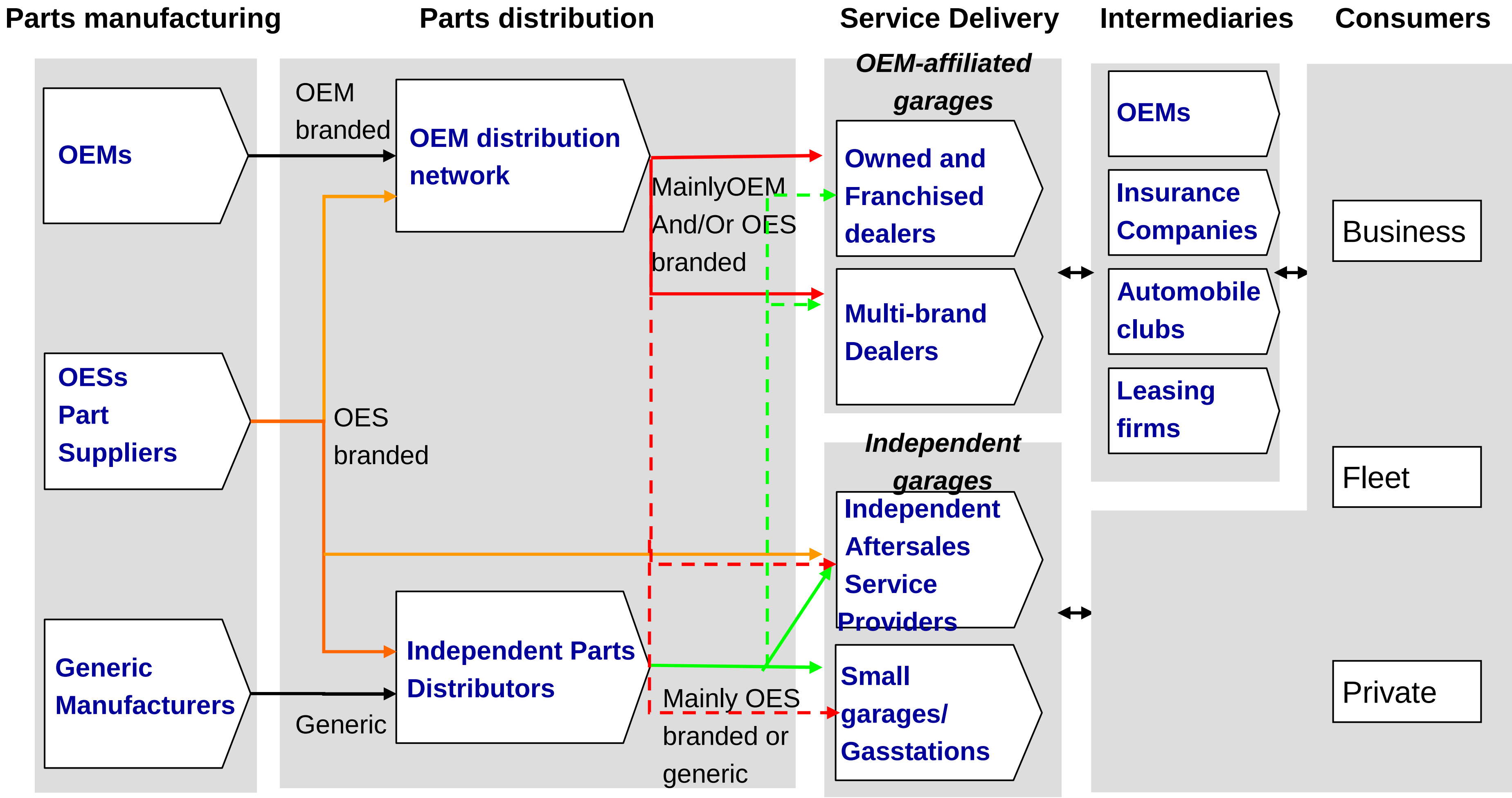




Sources:McKinsey CARE Initiative; Datamonitor; AAIA Factbook 2005/06; DAT 2005 ZDK 2005; IFA Nürtingen, (CLEPA)

4. THE LANDSCAPE of the European Aftermarket

The large variety of players makes the landscape complex



Source: McKinsey CARE Initiative, (CLEPA)

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Key Elements

5. KEY DRIVERS OF CHANGING DEMAND UNTIL 2020

Decreasing demand

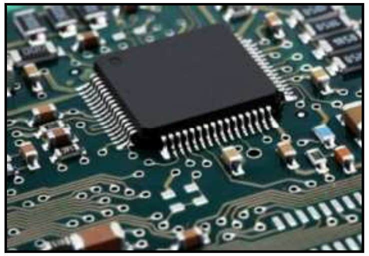
Increasing demand

Increasing parts longevity

Lower car usage

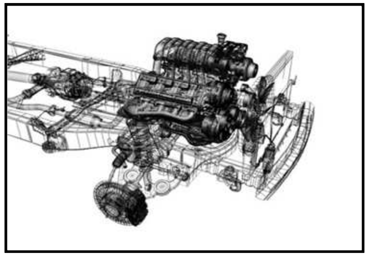
Wear & tear/ service parts app. - 20%

Share of auto electronics



Electronics parts

New power train concepts



Power train compo- nents

Source: A.T. Kearney, SupplierBusiness

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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

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.

Framework in the EU

IMPORTANT LEGISLATION

3. Motor Vehicle Block Exemption (MVBER EC 1400/2002)

→ 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

Framework in the EU

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 Commision Notice from 12.1978)

6. Recast-Directive (EC 46/2007)

   - 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.

Parts manufacturing

Suppliers

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

Wholesale

Retail

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

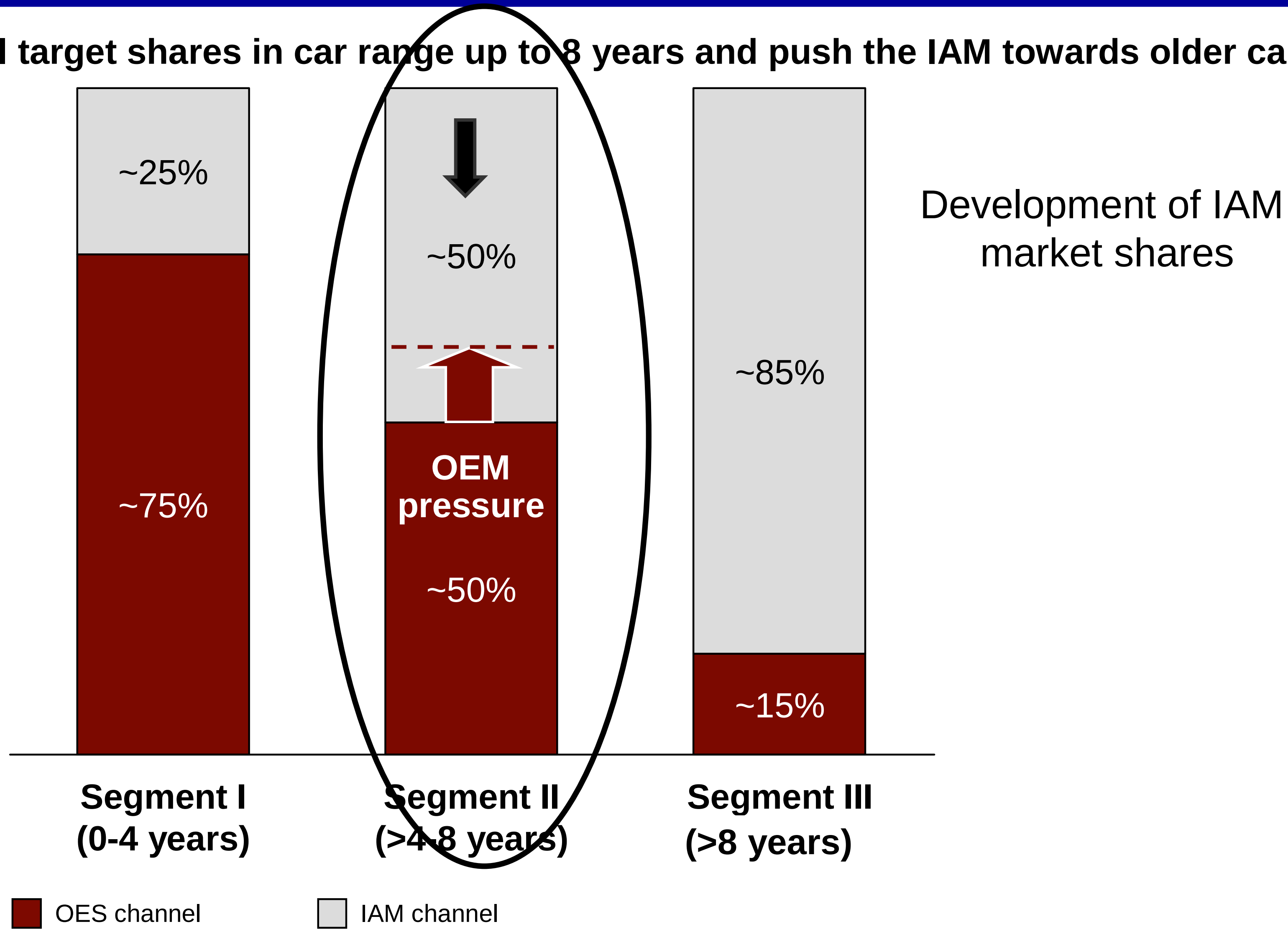
1. International franchise concepts
2. Dealer concentration (M&A)

End customer

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



Source: A.T. Kearney, SupplierBusiness (CLEPA)

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Most likely strategies

CUSTOMERS BUYING FACTORS BY CAR AGE

≤ 2 years	3 – 4 years	5 - 7 years	≥ 8 years
1. Personal Experience	1. Personal Experience	1. Personal Experience	**1. Low price**
2. Brand Expertise	2. Single Contact Person	2. Single contact person	2. Personal experience
3. Use of Original Parts	**3. Waranty and goowill support**	3. Comprehensive explanation of necessary repairs	3. Single contact person
4. Warranty and goodwill support	**4. Brand Expertise**	4. Quick service	4. Adherence to cost estimate
5. Single Contact Person	**5. Use of original parts**	5. Friendliness of staff	5. Quick availability
		14. Low price	
22. Opening Hours	22. Opening Hours	**22. Brand Expertise**	**22. Use of Original Parts**
23. Low price	**23. Low price**	**23. Use of original parts**	**23. Brand Expertise**

Source: McKinsey, Customer Survey in Germany with more than 4.900 respondents, (CLEPA)

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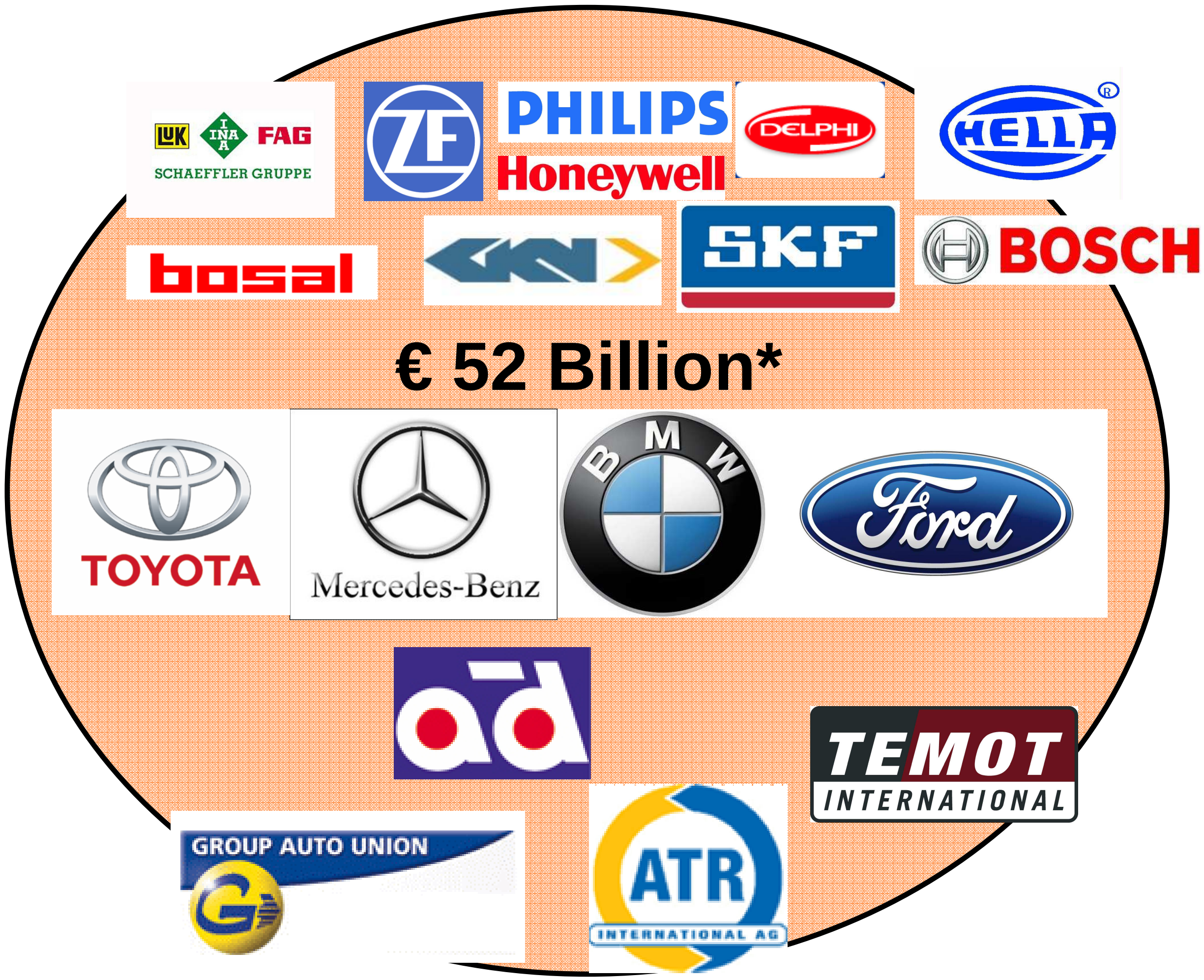
Conclusion

THE INDEPENDENT AFTERMARKET WILL STILL BE A BIG « CAKE »



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

* Euro 27 in 2007, Passenger Cars,Consumerprice level without VAT and labour, source: Wolk & Partners

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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

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Conclusion

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 …

Josef Frank
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50 years CLEPA European Association of Automotive Suppliers

Conclusion

THANK YOU

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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