

# New rules for winners

Ensuring future automotive  
supplier competitiveness in  
the aftermarket

5th CLEPA Automotive  
Aftermarket Conference

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Cooperation of CLEPA  
and McKinsey & Company



CLEPA  
European Association of  
Automotive Suppliers



**Our recent study of the supplier industry identified 7 success factors and 4 drivers for future market growth**

Successful suppliers show clear focus on aftermarket through innovative sales initiatives and strategic organizational setup

To stay successful in the future aftermarket suppliers need to react to 8 major trends

*This study was conducted by McKinsey & Company, Inc. We wish to thank CLEPA, the European Association of Automotive Suppliers, for its support, for the access provided to member companies, and for the clarifying discussions of intermediate results.*



## Quick recap

### Learning from industry leaders

- In the increasingly **difficult and demanding environment** of the past decade, the European automotive supplier industry overall **sustained its performance** (5.7% growth p.a., 4.0% EBIT margin) primarily through **product innovation** and **substantial productivity gains**
- However, there is a significant **performance spread**. Successful suppliers had a growth advantage of over 10% and a profit advantage of over 4% p.a. This can largely be explained by **7 success factors on top of operational excellence**

## Vision 2020

### Strong growth in a volatile future

- While **growth in Europe is currently pausing**, global component **markets will almost double** to EUR 1,700 - 2,000 bn until 2020 (continued growth at around 5%) with **85% of growth coming from 4 areas** – shift to **Asia, segments A, B, C, aftermarket, and additional content**
- In addressing these growth opportunities, suppliers will be challenged by **increasing volatility, cash constraints, need for outstanding talents, and growing restructuring requirements in Europe**

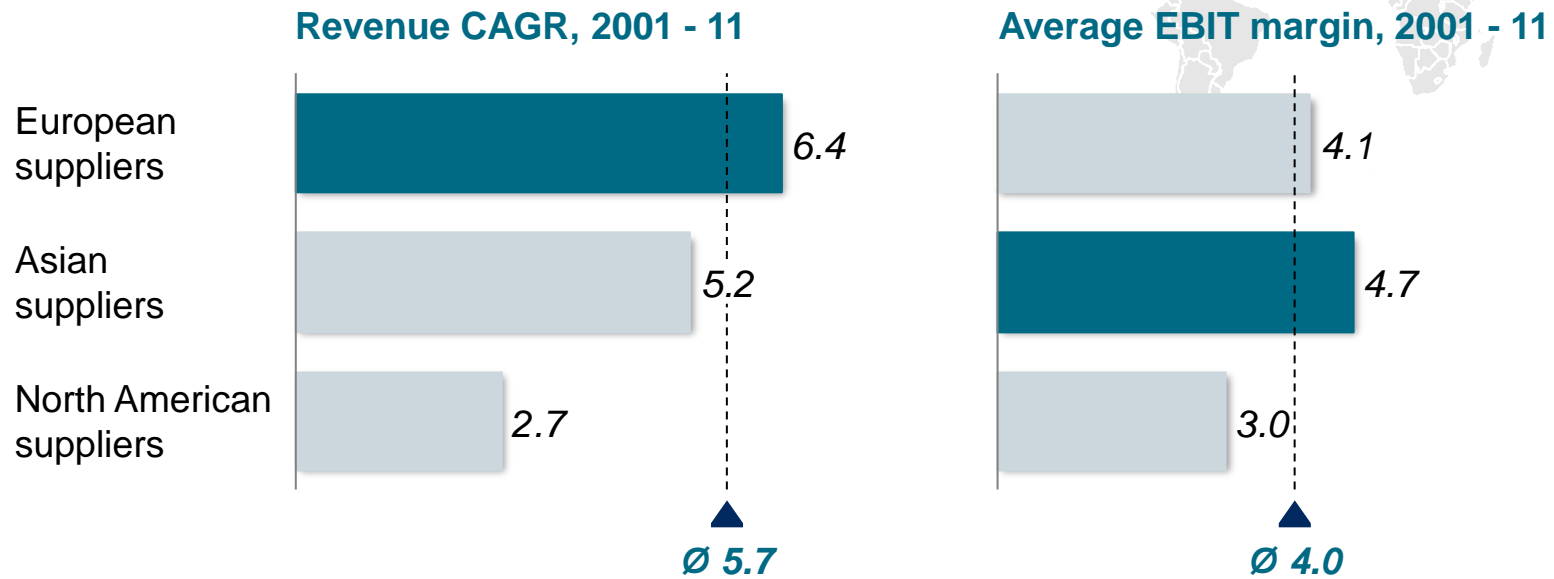
## The way forward

### Responding to 4 paradigm shifts

- **Position** to benefit from the changing **sources of growth**
- Ensure **operational excellence** even for innovative components to cope with increasing **cost pressure** from OEMs
- **Reduce risk exposure** to prepare for increasing **volatility** in many areas
- Actively address and **manage cash constraints** and **HR/talent need** as key growth barriers

# In the global supplier industry, Europe has been leading in growth while Asia was most profitable

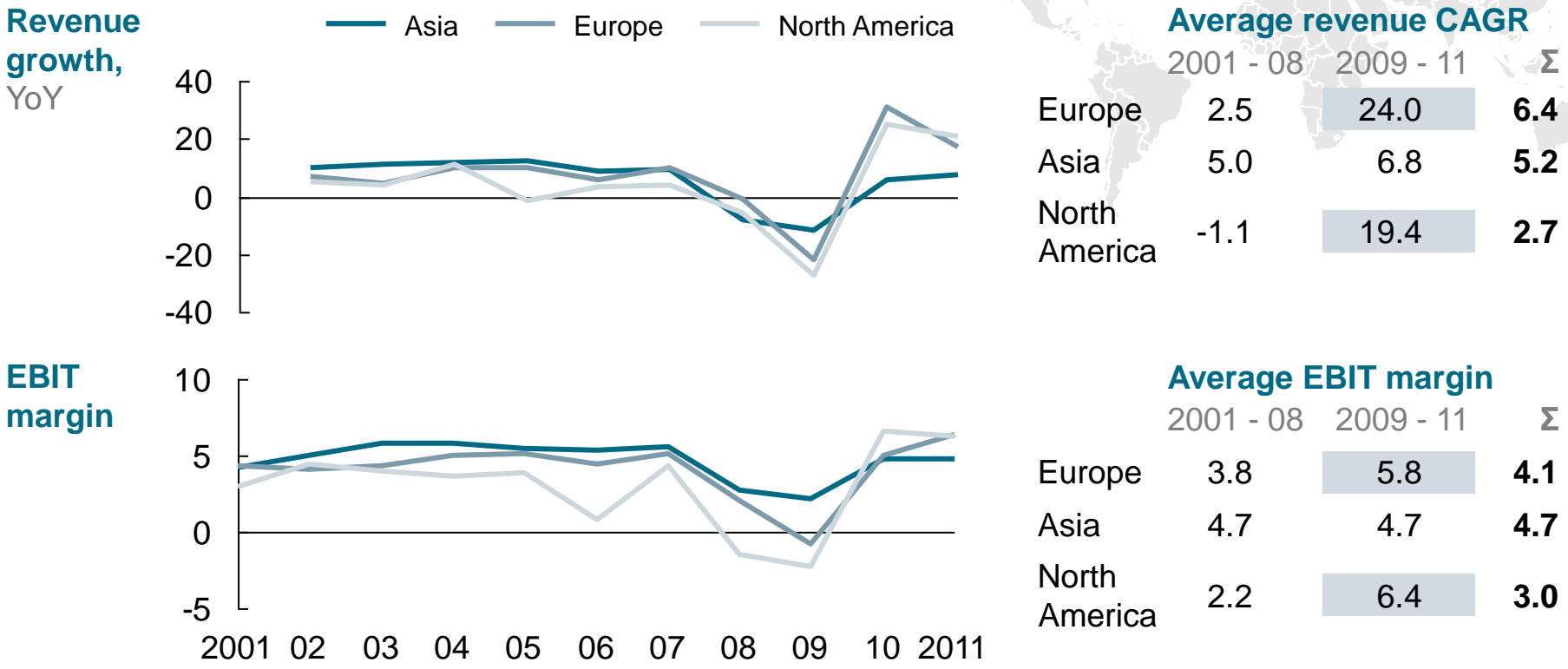
Percent



- **European suppliers** grew **almost twice** as fast as **North American suppliers**
- **Asian suppliers** with **slightly higher profitability** than European suppliers

# Asian suppliers were strong before crisis, Europeans and North American companies have very well recovered after crisis

Performance by HQ region, 2001 - 11, percent



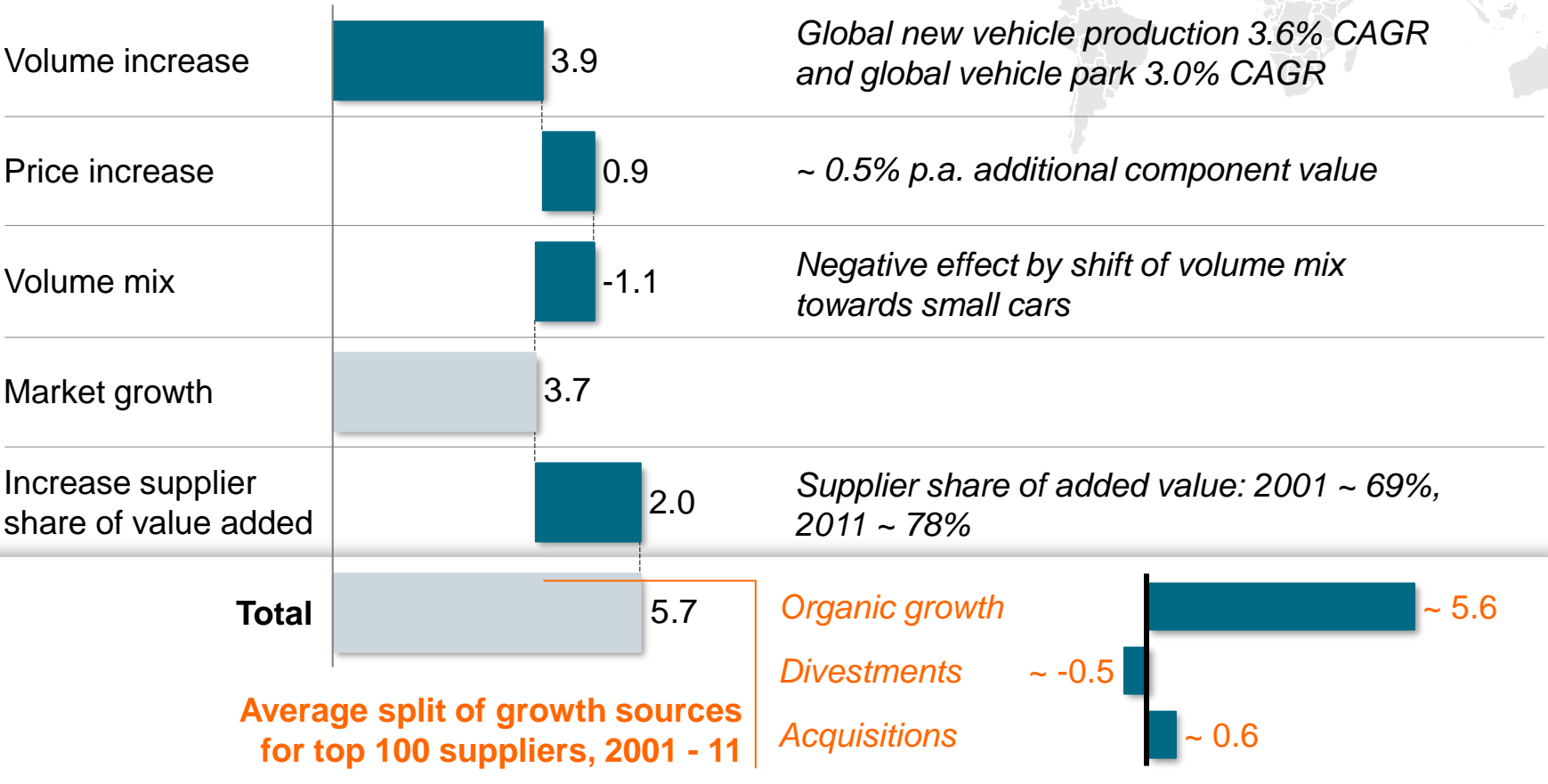
- Asian suppliers particularly strong before crisis
- European and North American suppliers with strong performance after crisis – partly resulting from successful restructuring activities

# Supplier growth was mainly driven by volume and increased depth of added value

CAGR, percent

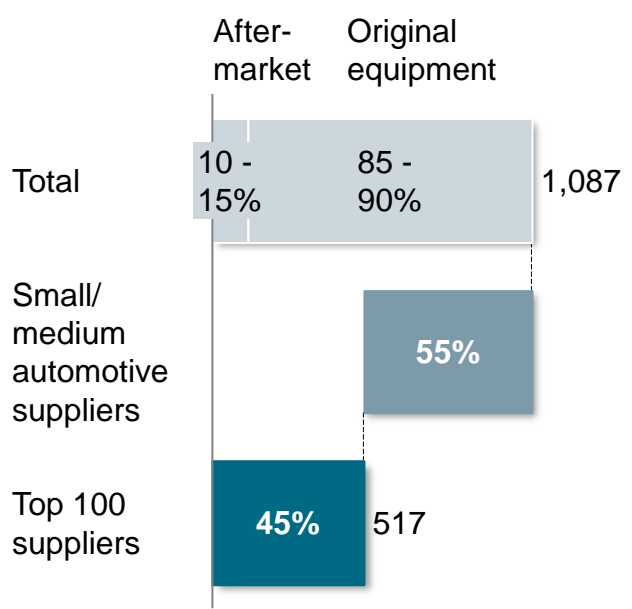
## Drivers of growth for top 100 players, 2001 - 11

## Underlying effects



# We have analyzed the top 100 worldwide suppliers, which account for 45% of the revenue pool, based on a comprehensive company database

Split of global automotive supplier revenue pool, 2011  
EUR billions



## Key facts about top 100 suppliers

2011 **automotive sales** range from **EUR 0.9 billion** (Dow Automotive Systems) to **EUR 30.7 billion** (Robert Bosch)

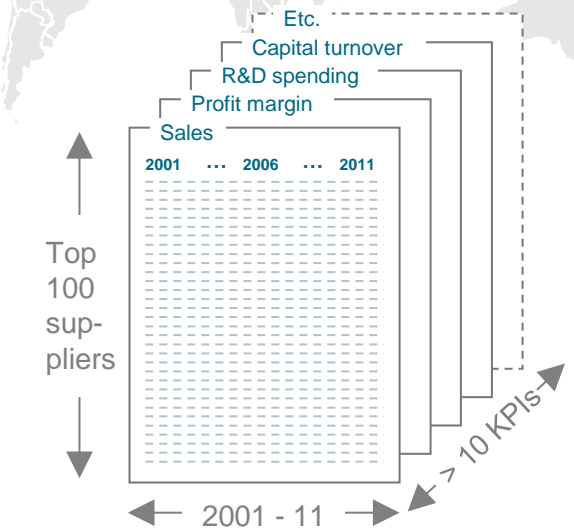
They account for **~ 60%** of global automotive supplier **profit pool**

They include **34 Asian, 35 European, and 31 North American** players

In total, they are **employing over 4 million people** globally

In total, they invested **more than EUR 20 billion** into **research and development**

## Company database



- **Over 10,000** data points
- **Numerous** public sources
- **About 1,000** supplementary macroeconomic data points
- In addition, results from **more than 40** expert interviews

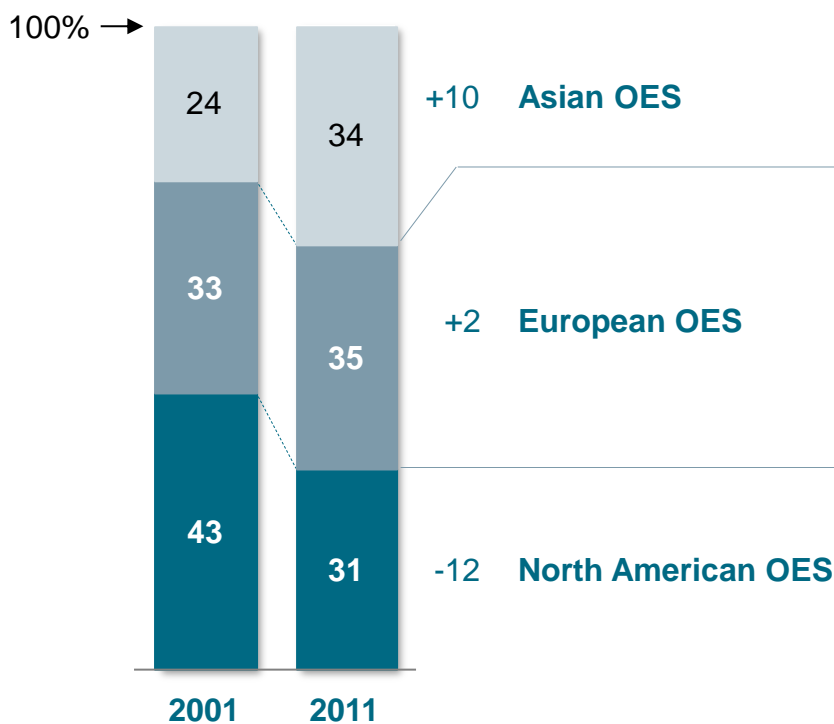
# Japan, Germany, and South Korea were the biggest winners, the US lost significantly

Global top 100 automotive OES in respective year

Development of number of OES among top 100

Change 2001 - 11

Number of OES among top 100 in 2011 by country



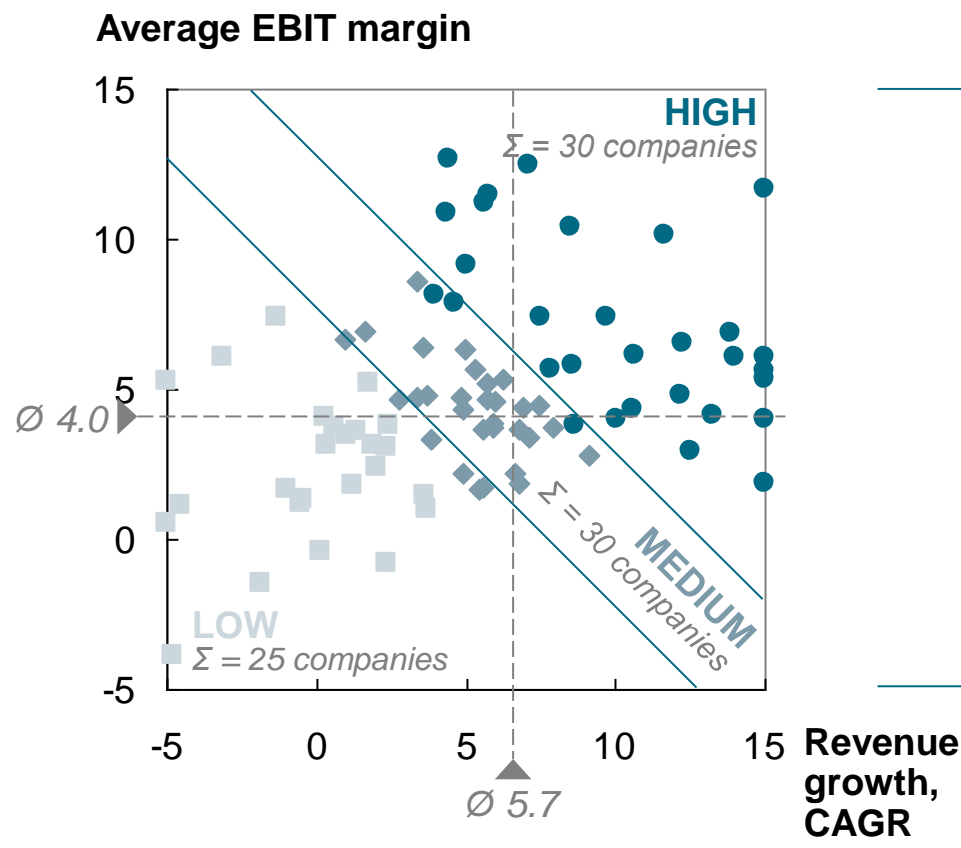
- 10 additional Asian OES among top 100 from 2001 - 11
- Increase in Asia mainly driven by Japanese and Korean OES



# Suppliers with high growth/profit grew by ~ 11% p.a. and earned ~ 6% EBIT margin on average over the past decade

Percent, 2001 - 11

Cluster by historical performance of top 85 suppliers



	CAGR	Average EBIT margin	Average annual-ized TRS <sup>1</sup>
HIGH	10.6	6.0	16.2
MEDIUM	5.1	4.1	4.9
LOW	0.7	1.8	1.4

1 Total return to shareholder (TRS) for companies listed at stock market

# On top of operational excellence, 7 key success factors have been identified in executive interviews and checked by database analyses

## Most successful automotive suppliers ...

1 Big is beautiful.

... use size to **grow ~ 50% faster** and earn ~ 1 percentage point more

2 Go East.

... increased their **share of sales in Asia to over 20%** and realized ~ 2 percentage points higher profits

3 Top or out.

... can excel in **any component group** while having ~ **60% of revenues in segments** in which they are **among the top 2** worldwide

4 Join the highflyers.

... have ~ **45% revenue share with high-performing OEMs** (above average EBIT and growth)

5 Profitable growth through lean innovation.

... drive **3 times as many component innovations** for less money by following a **balanced approach between fast follower and lead developer** and find the **right level of R&D** investment (typically between 3 and 5% of revenues)

6 Aftermarket.

... maximize the **share of aftermarket revenues (to typically > 20%)** depending on the component portfolio

7 Agility.

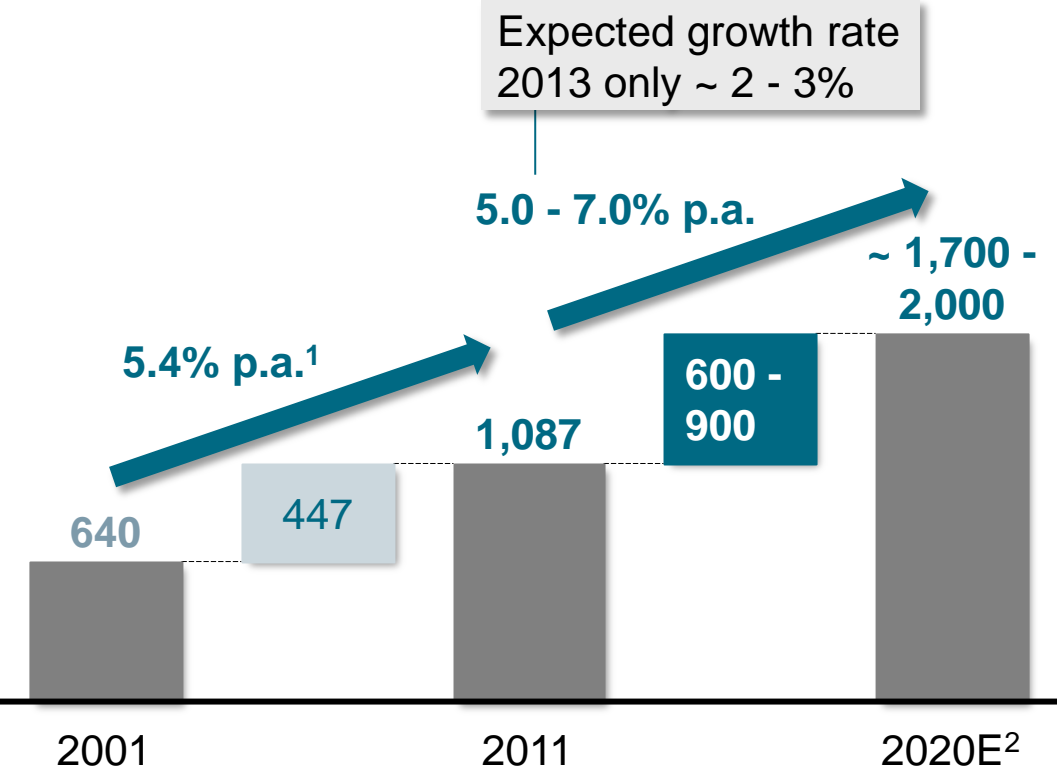
... can better compensate for revenue drops by having relatively **low break-even points around 60%** and the ability to better **adjust inventory** levels

OE Operational excellence.

... typically achieve **120% higher capital turnover**, better **adjust inventory levels** to revenue drops, and realize greater **reductions in relative capex spend**

Until 2020, the global supplier market will grow by 5.0 - 7.0% p.a.

Global automotive supplier market, 2001 - 20  
EUR billions

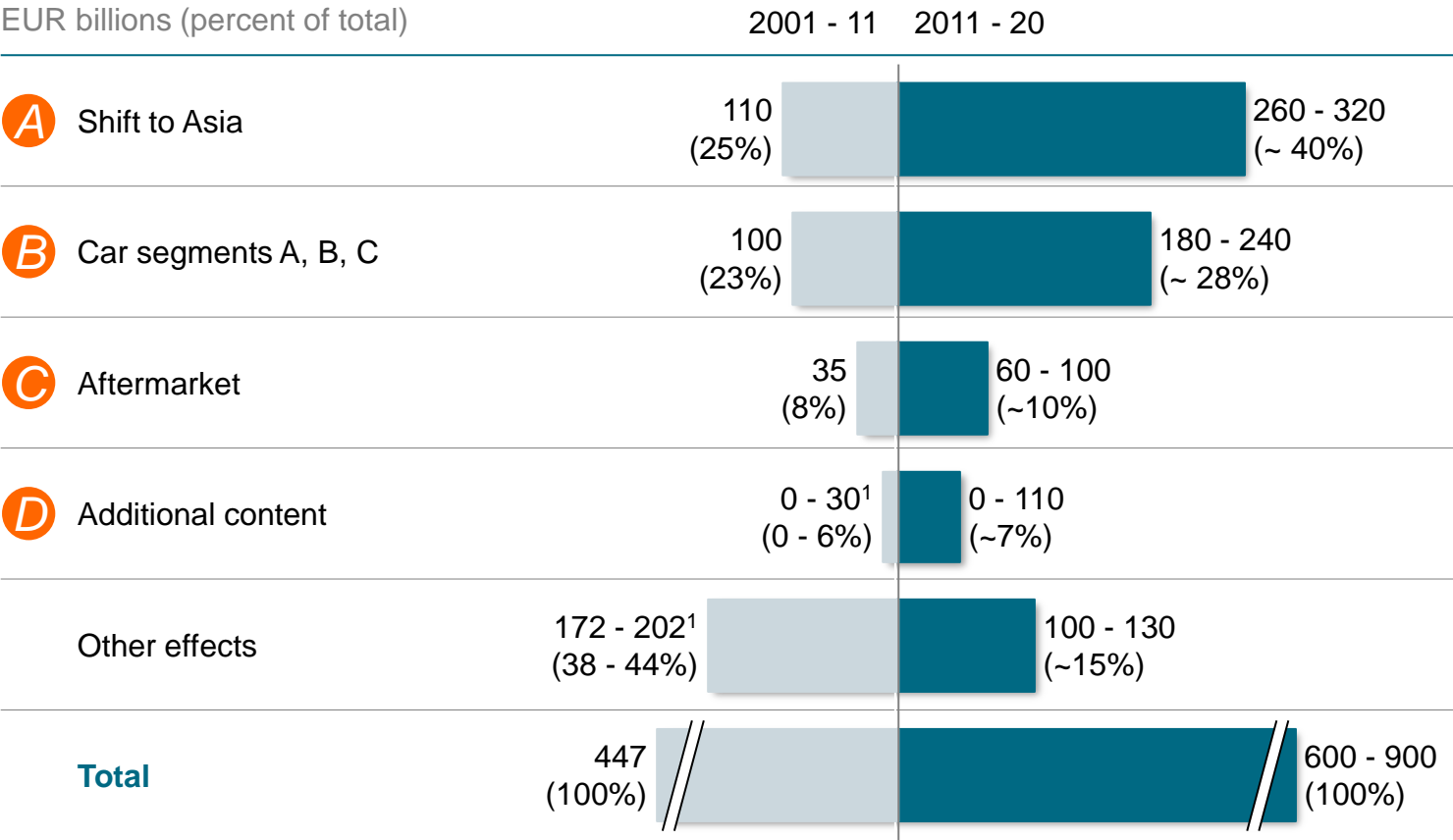


1 Industry level CAGR, arithmetic average of top 100 suppliers 5.7%  
2 Based on market model; key assumptions: 4% CAGR on car sales volume, average component value EUR 10,300

# Compared to the last decade, the identified 4 key growth drivers will gain importance until 2020 and explain ~ 85% of automotive supplier growth

## Growth global automotive supplier market

EUR billions (percent of total)



<sup>1</sup> Additional content leading to growth for supplier (i.e., additional content paid for by OEMs) very limited (0 - 0.5% p.a. 2001 - 11); increase in share of value added from suppliers included in "other effects"

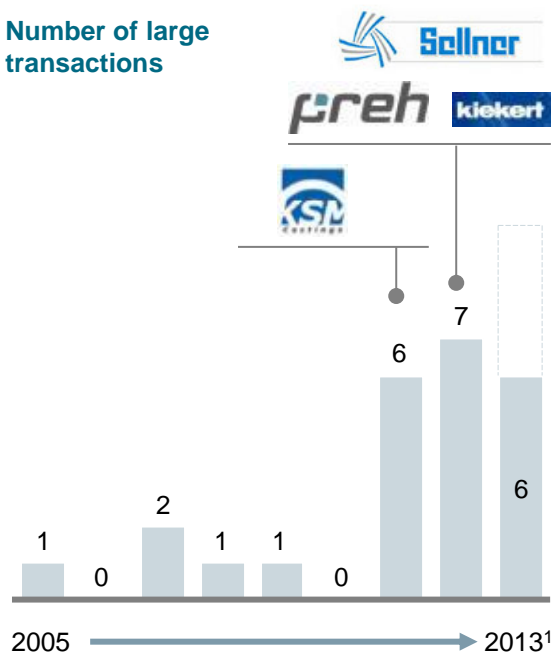


# Chinese companies are becoming increasingly active in the automotive supplier industry






## Chinese are increasingly active in M&A ...

M&A-transactions in auto supplier industry, targets from Europe and US, deal size EUR >10 mn

Number of large transactions



## ... and show high growth in recent years

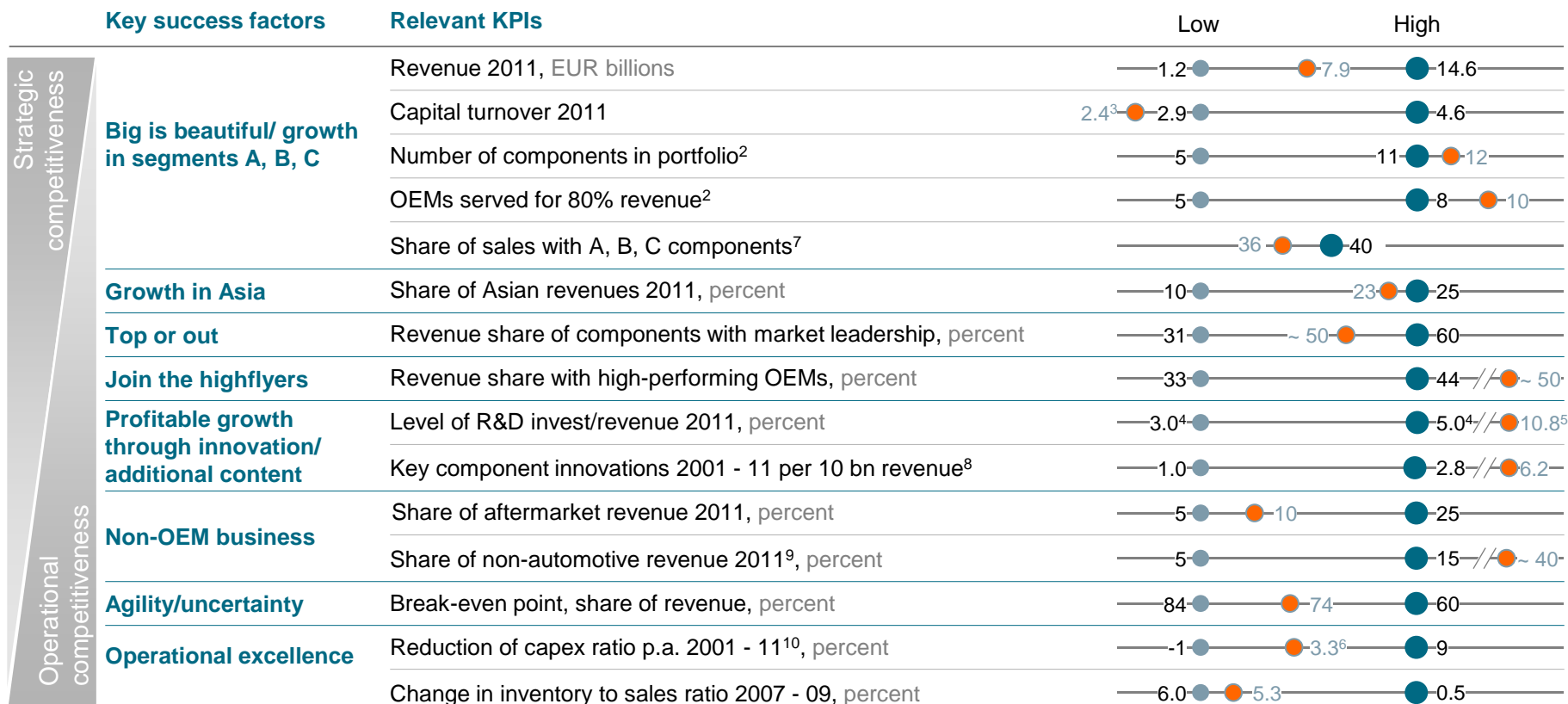
Example companies		Group revenue 2011 EUR millions	CAGR 2009-12	Component focus
	Wanxiang	9,961	18%	Powertrain components
	Weichai Power	7,280	12%	Engines, transmissions
	Huayu Group	5,806	40%	Various parts <sup>3</sup>
	Hangzhou Zhongce <sup>2</sup>	2,754	26%	Tires
	Wuxi Weifu	652	24%	Powertrain components

1 2013 includes January - June 2013

2 Private company, CARG is for years 09-11

3 Metal forming & dies, interior & exterior trimming, electric and electronics parts, function parts, hot-worked parts and new energy parts

● Example supplier

Position in performance spread of top 100 suppliers<sup>1</sup>

1 Based on 2001 - 11 data from top 100 database: upper/lower quartile of European suppliers

2 Total of 16 component groups, estimate based on Who Supplies Whom EU and NA; sample of 62 suppliers

3 Group revenue/(property, plant and equipment + current assets - current liabilities)

4 Typical range of high-profit players, selected successful players are outside of range

5 Automotive ratio, whereby the groups ratio is at 8.1%

6 Capex as stated in annual report

7 In 2011, ~ 40% of sales generated in segments A, B, C based on market model, specific supplier value derived from Who supplies Whom

8 16 key innovations and 26 billion calculated average automotive sales 2001 - 11

9 Automotive News

10 Average capex ratio 01 - 11: 7.8% (group)

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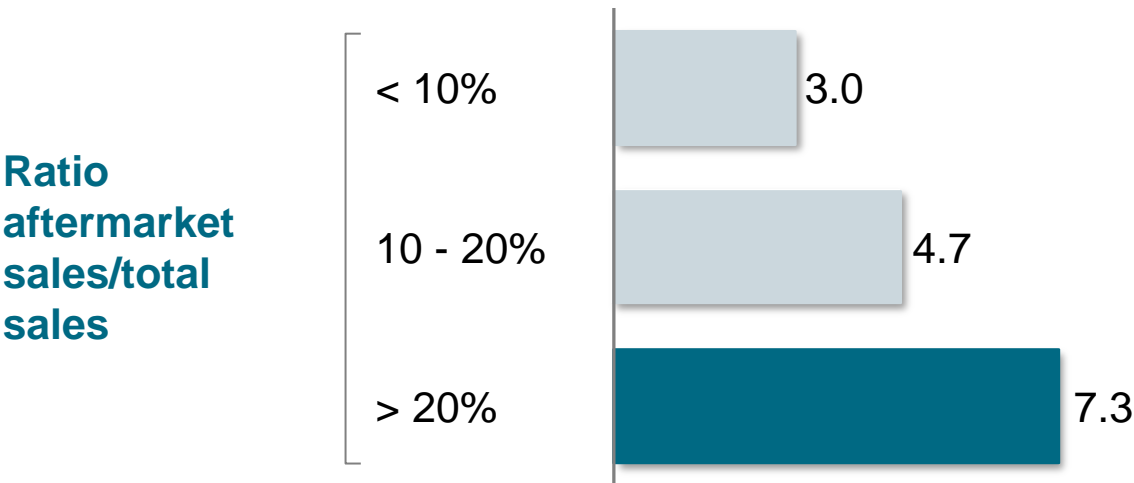
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# Suppliers with a higher share of aftermarket sales were more profitable

23 selected top 100 suppliers<sup>1</sup>, percent

## Income performance dependent on aftermarket share, 2001 - 11

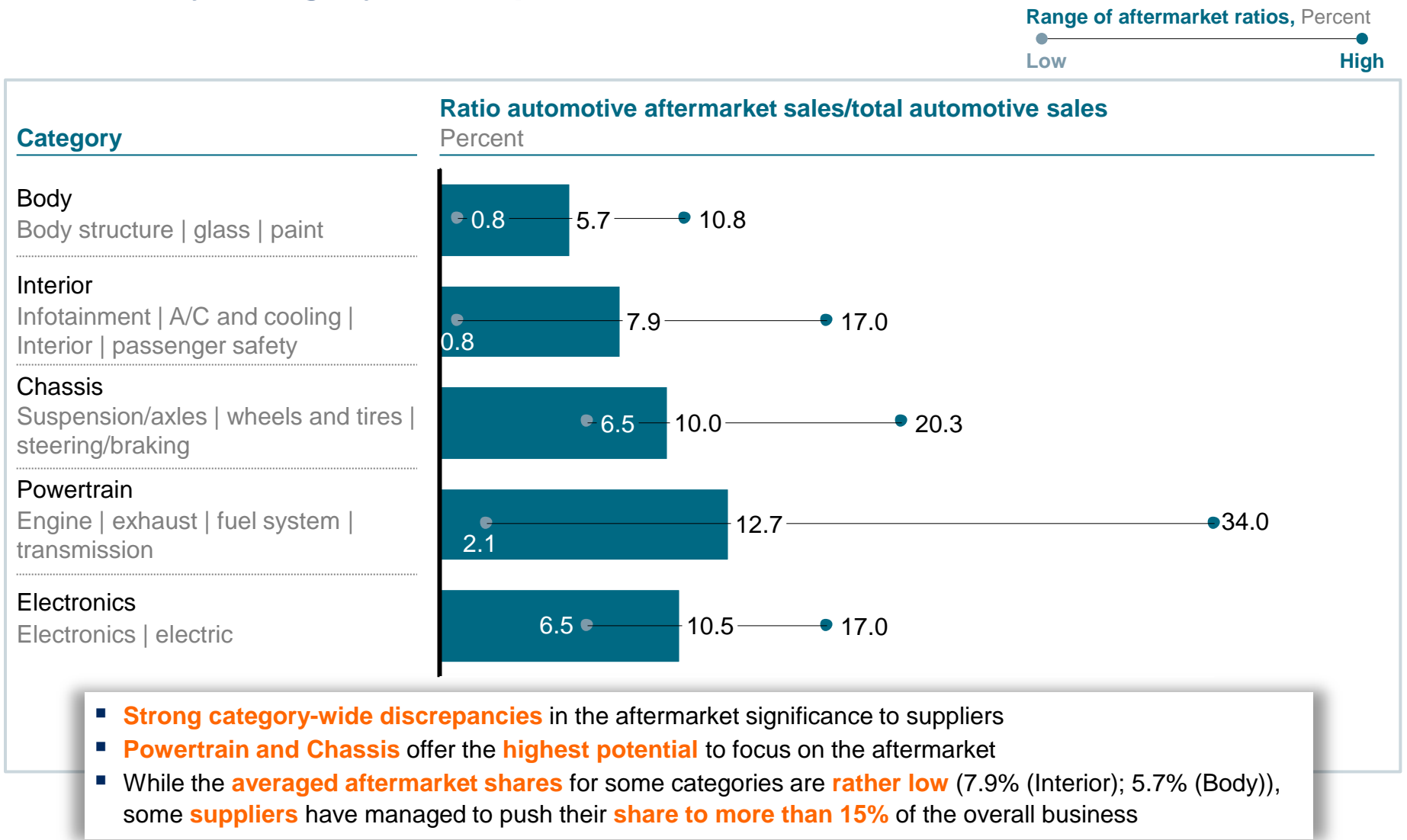
### Average EBIT margin



<sup>1</sup> Incl. 23 companies out of top 100 suppliers with aftermarket revenues available, thereof 7 with a share of aftersales < 10%, 6 with a share of 10 - 20%, and 10 with a share of > 20%



# While some categories provide more aftermarket opportunities than others, any category offers potential for >10% of total sales



# Some suppliers follow distinctive initiatives to profit from aftermarket

## Example initiatives:

Cooperate to win the market

- Joint venture provides franchise workshops with services for the cross-vehicle brand maintenance and repair



Build a dense service network

- Set up a service workshop network consisting of over 15,000 businesses



Enter emerging markets

- Serves the Chinese aftermarket with own service centers and by offering products and services to local repair shops



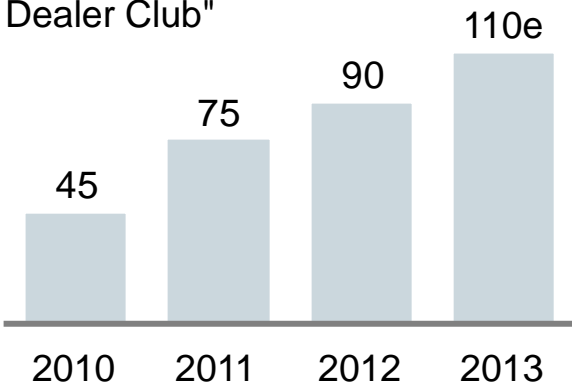
Target all customer segments

- Established a deep portfolio of brands to compete in every price category (e.g. Michelin, BFGoodrich, Kleber, Tigar)



## Example: Hella's expansion in China

Members of Hella's "China Dealer Club"



- Offering trainings to dealers and repair shops on technical skills and Hella products (Dealer Club)
- Opened a first direct sales store, Hella Maintenance Plant, in Apr 2012, and a second in May 2013
- Set up online flagship on Tmall.com (largest Chinese E-commerce platform)

# Among the players with successful aftermarket business, we observe a pattern of 5 characteristics

## Observed practices in the aftermarket

- **Dedicated organizational unit** with aftermarket responsibility
- **Prioritization of aftermarket** orders in production
- Dedicated **aftermarket products and brands**, incl. private labels
- **"Reboxing" – externally purchased components in aftermarket portfolio**
- Direct relationships with workshops
  - **B2B service points** for technical enquiries and orders from workshops
  - Offering of **trainings, software, diagnosis tools**

# Content

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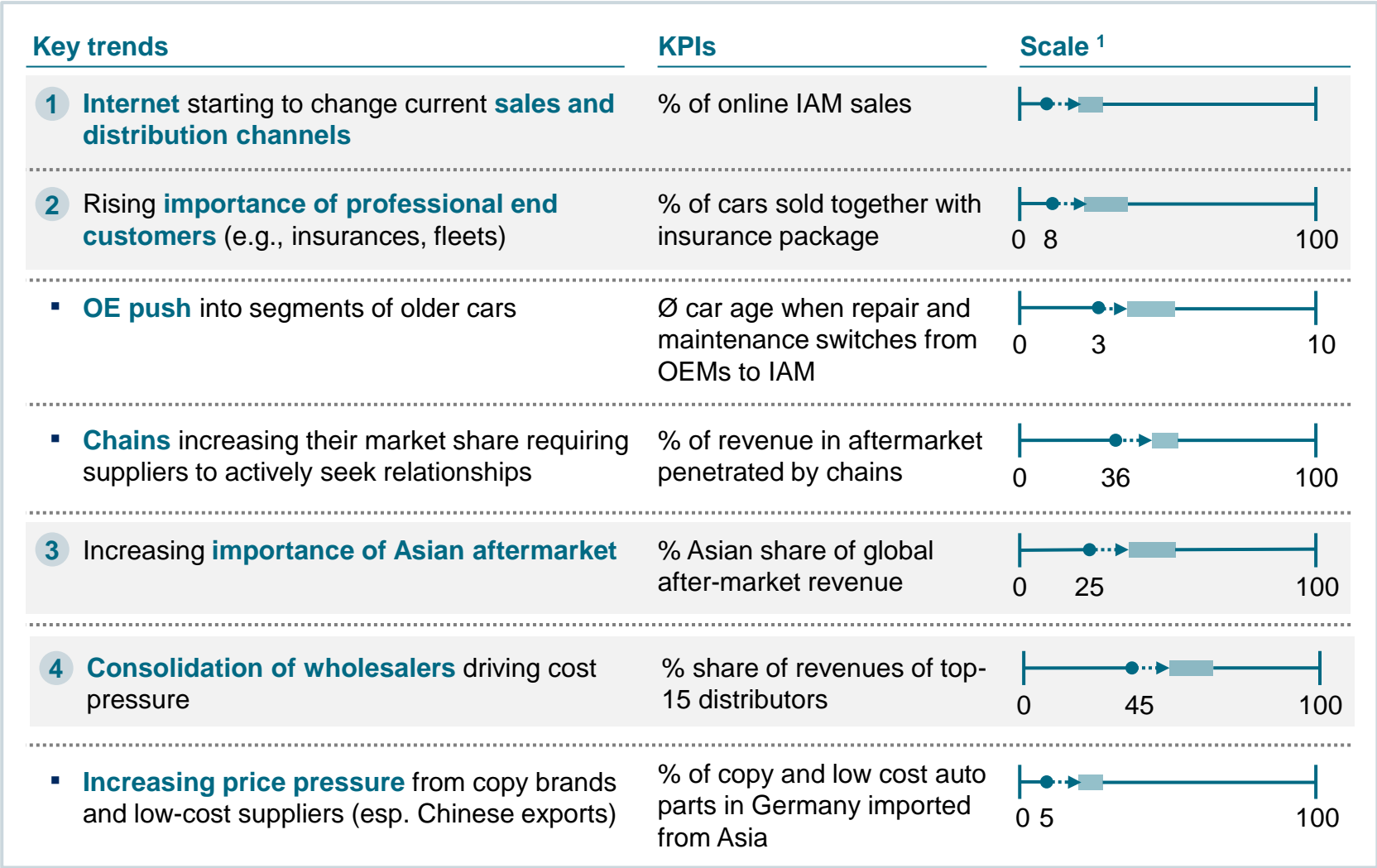
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# 7 key trends will shape the future aftermarket and possible approaches from industries provide

Detailed in the following

Value today

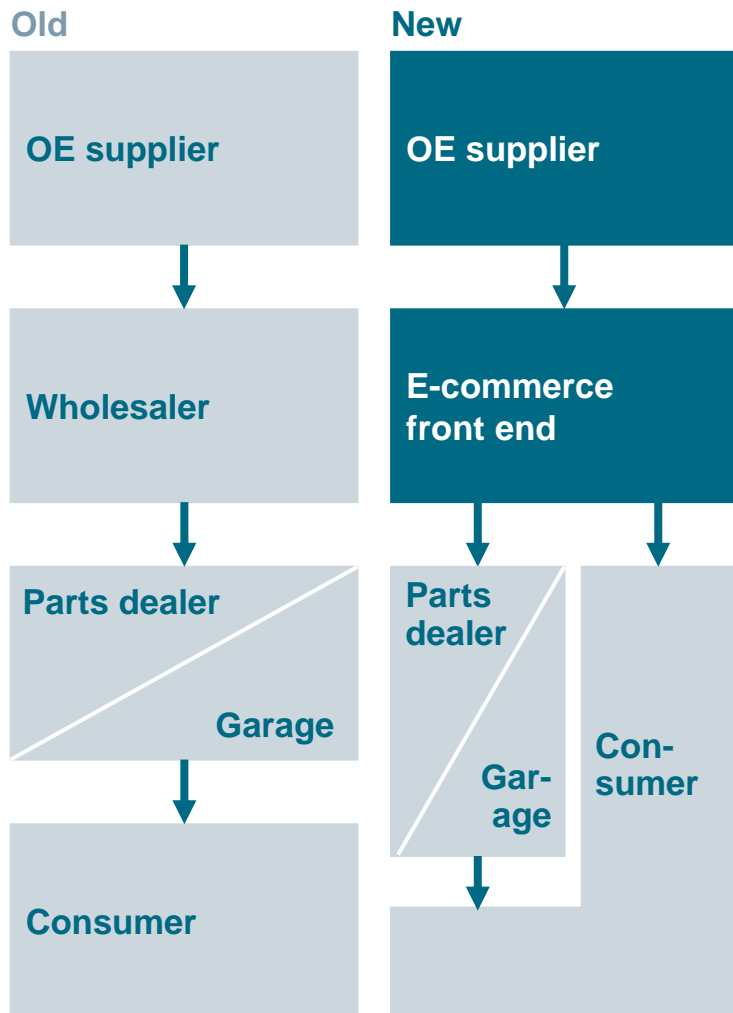
Expected trend until 2020



1 KPIs reflect expected German development – only trends "OE push" and "Asian aftermarket" show globally expected development

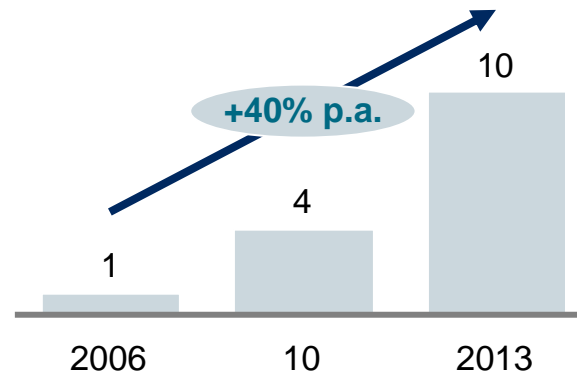
# 1 The Internet has the potential to change the distribution logic particularly for low-complexity components

## Potential value chain effects of Internet in IAM

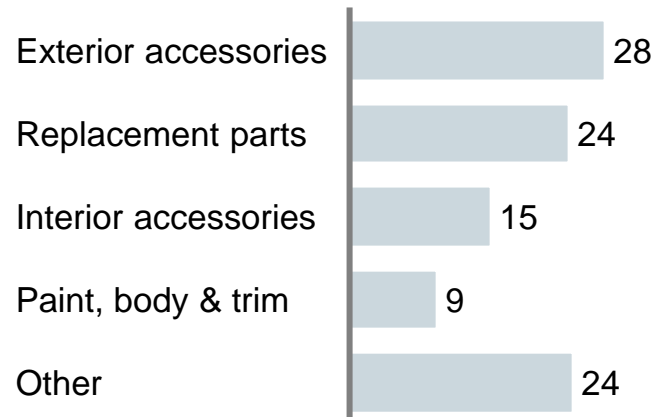


## Key characteristics of Internet wholesaler

### Automotive articles offered via amazon.com, million



### Automotive articles offered in 2013, in %



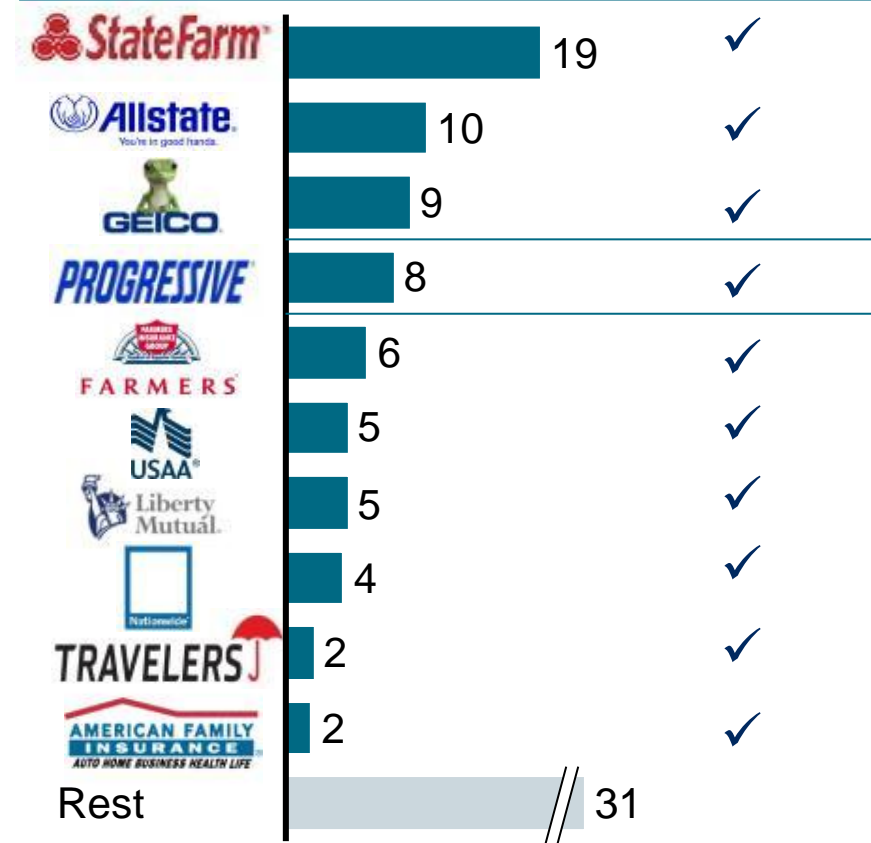
**Internet** becoming an important market place for automotive parts – internet **sales** expected to **reach 10% share** of total aftermarket revenue **by 2020**

## 2 Insurances and fleet customers increasingly restrict end customers choice on aftermarket services

Insurance companies globally offer tariffs with direct repair shops for multiple reasons

- **Lower claim repair costs** through negotiated discount rate for specific repairs
- **Faster and more convenient service** for customers
- **Standardized quality** of repair shops

Example: 2011 Top 10 US car insurances, in Percent of Marketshare

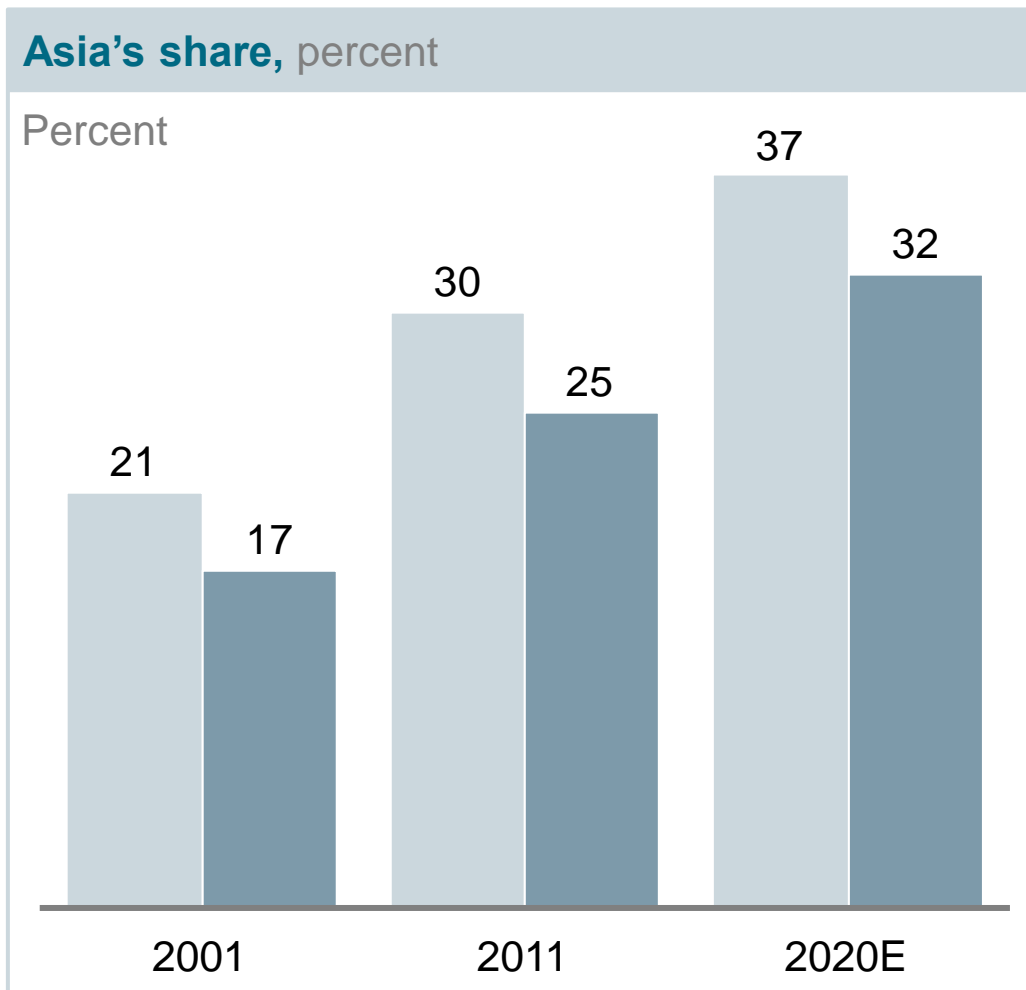


Progressive even offers final quality check within own service centers

“When the work is finished, the vehicle is returned to the Service Center where **we inspect the repairs** with the shop. When we're satisfied with the repair quality, we call you to schedule a convenient pick up time.”

### 3 Asia is steadily increasing its importance in the global automotive aftermarket

■ Global car park (truck and cars) ■ Global aftermarket revenue<sup>2</sup> (supplier share<sup>1</sup>)



#### Observations

- **Asia's car park has grown steadily** by ~7% p.a. (CAGR 2001-2011) and is expected keep growing at 6% p.a. over the next years
- **Aftermarket** with **similar growth rates**, yet experiencing a **time lag of ~5 years**
- **Asia** is expected to account for **half of realized revenue growth** in the global aftermarket **between 2011 and 2020**

<sup>1</sup> Based on supplier revenue share of 30% and consensus estimates from various sources

<sup>2</sup> Incl. aftermarket revenue (parts only) for light vehicles and medium/heavy trucks



## 4 Wholesale industry shows trend to further consolidate in future – with possible implications on the industry dynamics

### Aftermarket wholesalers in Germany

- Distributor landscape has consolidated over last 20 years – recent examples:



2013: Stahlgruber bought majority of PV automotive shares



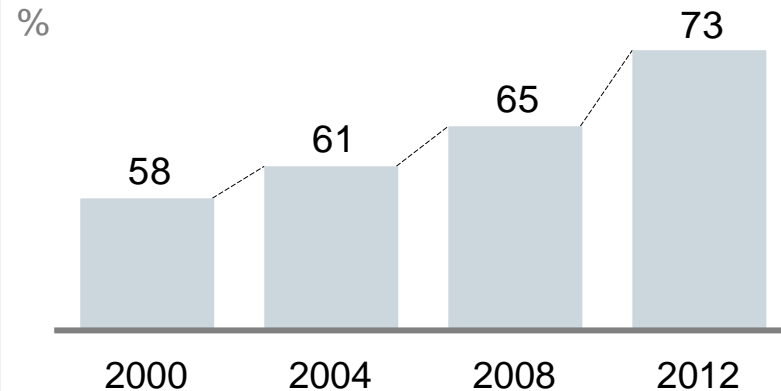
Acquisition of various small-sized companies over the past few years



2009: Merger of Trost and KSM

### Industry example: Grocery retail Germany

#### Market share of top five players<sup>1</sup>



#### Implications

- Increasing **purchasing power** of the retailers
- **High barriers** for new, mainly international players, to **enter the market**
- **Increased competition** due to limited growth potential, e.g. price wars results that smaller competitors lose out the market
- **Customer loyalty** becomes more relevant
- **Big data is gaining** more importance to achieve **competitive advantage**

<sup>1</sup> Market share on total grocery retail – Modern + Traditional

# Staying competitive in the automotive aftermarket requires answers to the following key questions

What are my **aftermarket targets** and what **strategy** should I pursue to reach them?

Where do I stand **compared to best-in-class** competitors and how can I **apply industry best practices** in my own company?

What **strategic initiatives** should I start to best **prepare for the future trends** in the aftermarket?