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Twenty Trends Shaping The Canadian Automotive Aftermarket

I recently read an American newsletter which discussed trends shaping the automotive aftermarket South of the border. The equivalent Canadian list is a bit different and some of the trends have a different spin than in the U.S., but I thought I would borrow this concept and tackle this topic from a Canadian perspective.

1. Younger Vehicle Platforms

The age of vehicle platforms in the new vehicle market will continue to decline. The Japanese rarely sell new vehicles engineered over eight years ago, while GM, Ford, and DCX derive a third of their new vehicle sales from vehicles with older engineering. Consequently, the "traditional" aftermarket does better with GM, Ford and DCX repairs (available SKU's, training, etc.) than with Japanese and other import nameplates. In recent years, GM, Ford and DCX have begun abandoning their older "platforms" as they launch a record number of new products into the market, so the ability for "traditional" aftermarket players to hold share will diminish.

2. Vehicle Mix on Canadian Roads

The number and types of vehicles in Canada continues to change, reflecting the buying patterns of consumers in the new vehicle market. Canadian consumers never embraced light trucks to the same extent as their U.S. counterparts. In fact, Canadians are currently buying entry-level vehicles in larger volumes than any other vehicle segment. The mix of vehicles in operation will change the types of products and services comprising the light vehicle aftermarket.

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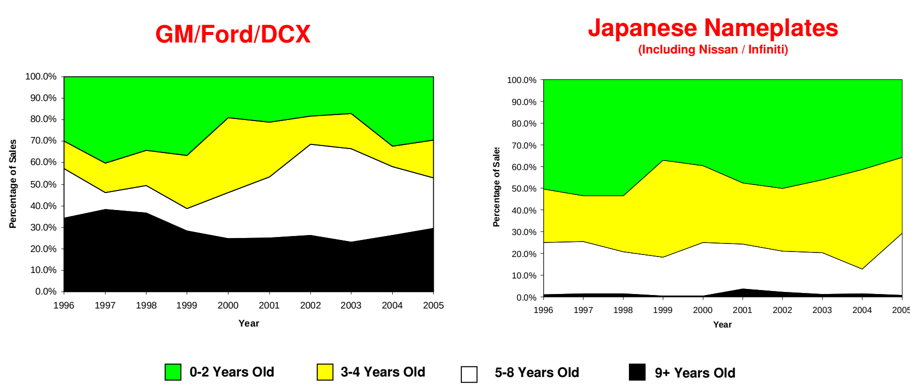
Age of Vehicle Platforms 1996-2005
Percentage of Sales by Platform Age



Source: DesRosiers Automotive Consultants Inc.

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3. Age Profile of Vehicles in Canada

Cars and light trucks are more durable today and have significantly longer operating lives than in the past. The average life expectancy of a new vehicle purchased in Canada is now over 300,000 kilometres - double the equivalent figure in 1970. Growth in the number of older vehicles on Canadian roads and the shifting age profile of cars and light trucks will change the mix of aftermarket products and the cycle of vehicle replacement.

4. Growing Vehicle Complexity and New Vehicle Systems

New vehicles will continue to increase in complexity, incorporating new and sometimes revolutionary operating systems. Powertrains will proliferate with engines using as many as ten different fuels;

- Conventional gas
- Diesel
- Bio-diesel
- Ethanol
- Propane
- Natural gas
- Methanol
- Fuel cells
- Electric
- Hybrids from the list above

The integration of new technologies will influence how products are installed (by service professionals or Do-It-Yourself) as well as the types of aftermarket products used and the frequency with which they are replaced.

5. Improved OE Parts Quality

Many original equipment parts are lasting longer than ever before, with the initial replacement of many parts taking place at a higher vehicle age or greater accumulated mileage level than in the past. The first exhaust job is now about 8 years into the ownership cycle versus 2-3 years in the 1970s. This is affecting the timing of initial replacement for many components as well as the length of product replacement cycles.

6. Do-It-For Me (DIFM) Market Share Expansion

Since the late 1970s, the DIFM market (installation by service professionals) has captured a continually-growing share of total light vehicle aftermarket volume and now accounts for close to 90 percent of the retail dollars in the Canadian aftermarket. This trend will continue, influencing the relative strength of different parts and service outlets as well as the flow of aftermarket products through specific distribution channels.

7. Import Nameplate Vehicle Growth

Import nameplate cars and light trucks are expanding their aftermarket product share. The fast-growing import vehicle aftermarket will cause changes in where products are purchased, how they are installed (DIFM versus DIY), the brands of products used, as well as the product share of specific types of service outlets, retail parts stores, and other aftermarket distribution channels.

8. Distribution Channel Volume Changes

The volume and percentage of aftermarket products flowing through each of the major aftermarket distribution channels

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Light Vehicles on the Road in Canada
Millions of Units

	1 to 5 Years Old	6 to 10 Years Old	10+ Years Old	Total
1994	5.4	6.4	4.0	15.7
2002	6.1	5.0	6.8	17.9
2003	6.3	5.1	6.8	18.2
2004	6.6	5.2	6.9	18.7
2005	6.7	5.4	6.9	19.0
2006F	6.8	5.8	6.7	19.3
2007F	6.7	6.1	6.7	19.4
2008F	6.6	6.3	6.8	19.7
2009F	6.6	6.5	6.8	19.9
2010F	6.6	6.6	7.1	20.3

Source: DesRosiers Automotive Consultants Inc. and Registration Data © R.L. Polk Canada, Inc. 2005

Who Supplies Installed Parts?

	1990	2005	2010 F
WDs	56.8%	48.3%	46.2%
Dealers	28.6%	40.5%	43.8%
Others	14.6%	11.2%	10.0%

Source: DesRosiers Automotive Consultants Inc.

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will continue to change. This will have consequences for how manufacturers and marketers reach consumers as well as the competitive strengths of brands flowing through specific distribution channels. New car dealers will continue to grow aftermarket share because of the growth of import nameplate vehicles.

Number of Unique Vehicles on the Road by Model Year

Model Year	GM/Ford/DCX Passenger Car	GM/Ford/DCX Light Truck	Import Namplate Passenger Car	Import Namplate Light Truck	Total
1981	382	315	118	33	848
1985	397	385	167	51	1,000
1990	296	452	324	86	1,158
1995	208	447	313	94	1,062
2000	161	450	253	97	961
2001	151	405	295	121	972
2002	149	444	306	112	1,011
2003	119	424	275	114	932
Total	**6,186**	**9,606**	**5,851**	**1,891**	**23,534**

Source: DesRosiers Automotive Consultants Inc. and Registration Data © R.L. Polk Canada, Inc. 2005

9. Commercial Program Sales Growth Among Retail Auto Parts Chains

Though originally focused on the DIY market, retail auto parts chains like Canadian Tire are developing ways of increasing sales to independent installers (commercial customers). This "crossover" business brings Canadian Tire (through their "PartSource" chain) into direct competition with service market wholesalers like NAPA Canada, CARQUEST and Uni-Select Canada.

10. Service Outlet Share Changes

The market shares of the major groups of aftermarket service outlets will change over the next five years, reflecting the ability of these service outlets to respond to challenges in the marketplace. New vehicle dealers and Canadian Tire are picking up share, the traditional service station is almost gone, and independents are slowly losing share. National chains have not been able to grow their shares despite respectable economic clout. How this plays out will have important consequences for the share and product volume of distribution channels.

Structure of the Vehicle Fleet

	1990	2005F	2010 F
Light Vehicles on the Road	15,128,911	19,025,318	20,309,534
Vehicles per Driving Age Population	68.9%	71.9%	73.0%
Passenger Car - units	11,100,368	11,284,888	11,784,371
Light Truck - units	4,028,543	7,740,430	8,525,164
Passenger Car - percent	73.4%	59.3%	58.0%
Light Truck - percent	26.6%	40.7%	42.0%
Import Nameplate - units	3,348,773	6,577,104	8,470,561
GM/Ford/DCX - units	11,780,138	12,448,214	11,838,973
Import Nameplate - percent	22.1%	34.6%	41.7%
GM/Ford/DCX - percent	77.9%	65.4%	58.3%

Source: DesRosiers Automotive Consultants Inc. and Registration Data © R.L. Polk Canada, Inc. 2005

11. Fewer Service Bays

As the vehicle population on Canadian roads increases, the number of service bays handling cars and light trucks is shrinking. This trend will continue, with consequences for the maintenance level of vehicles on Canadian roads as well as highway safety.

12. Shifting Aftermarket Product Mix

Replacement parts, chemicals, accessories, tools and equipment are growing at different rates and will account for differing shares of aftermarket product growth between 2006 and 2010. Replacement parts will generally decline as a percentage of aftermarket volume, while accessories - especially tuner parts, as well as chemicals, tools and equipment - will increase in market strength.

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13. Evolving Consumer Demographics

The changing age profile of consumers will have a dramatic impact on the aftermarket, with aging baby boomers boosting the DIFM Market, and fewer consumers entering the high-DIY age demographics. The DIY sector will no longer be able to depend on an aging vehicle fleet for volume growth. Changes in the consumer age profile will also influence where service is performed and where DIYers will purchase their components.

14. Declining Independent Service Market

The independent (non-dealer) aftermarket is generating a smaller share of the service market dollar. This is significant since the independent aftermarket generates most aftermarket product volume for many manufacturers, marketers, and distributors.

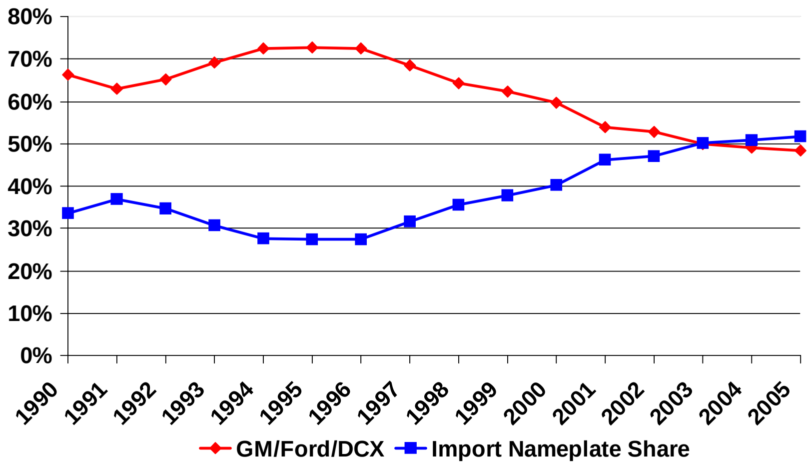
15. Proliferation of Parts

Parts proliferation will continue to escalate in the car and light truck aftermarket. The OEMs are now introducing about 50 new vehicles per year versus around 35 per year through the 1980s and 1990s. A WD may soon need to stock upwards of 1 million SKU's to fully cover the market.

16. Specialization Growth

Specialization is increasing in the aftermarket, both at the service and distribution levels, as growing numbers of unique

New Vehicles Consumers Buy
GM/Ford/DCX vs. Import Nameplate Market Share



vehicles - increasingly complex vehicles - continue to populate Canadian roads, expanding the diversity of aftermarket products.

17. Brand Proliferation

Brand proliferation has largely been overlooked, but it will be a major factor escalating competition in the aftermarket as the number of supplier brands also proliferate. This is also being driven by the growth of import nameplate vehicles on the road.

18. Overseas Parts Sourcing

Overseas suppliers, particularly Asian sources, are beginning to dominate some aftermarket categories (e.g. brake rotors) with their low-cost automotive products. While many suppliers are incorporating these products into their own brand offerings, new low-cost alternatives from overseas are threatening the viability of many remanufactured product categories and reshaping the competitive landscape at all aftermarket levels.

19. Specialty Equipment Market Growth

The specialty equipment market (products used to modify vehicle appearance, performance, and handling) is growing at a much faster annual pace than the overall light vehicle aftermarket. The specialty equipment market will generate a substantial share of aftermarket growth over the next five years, reshaping the aftermarket in the process.

20. Growing Market Disconnect Between Manufacturers and the Ultimate Consumers of Their Products

With programmed distribution and major retail auto parts chains assuming key marketing and promotional duties for many products, there is the danger that some suppliers may become "disconnected" with the needs and buying criteria of the ultimate consumers of their products the: professional installer. DAR

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