CBI Channels and Segments:

Automotive Parts and Components
Introduction

The European OEM (original equipment manufacturer) automotive market is saturated, especially in Western Europe. Future growth will be driven by both Eastern European demand and the aftermarket (maintenance and parts replacement). The most attractive way to access the aftermarket is through the independent distribution segment, while the OEM segment is best accessed through Tier 2 and Tier 3 suppliers. Automotive players in all segments and channels are increasingly looking to increase supplies from neighbouring countries so as to avoid stretching the supply chain and to reduce costs. This creates opportunities for suppliers located close to Europe or willing to create hubs where European buyers can be served.

Definitions

This document looks at the different channels and sectors in the automotive industry in Europe. ‘Segments’ in this context refer to the buyers of parts and components, such as automotive manufacturers or automotive service providers, while ‘Channels’ refer to the distribution pathways through which the products reach the customers, such as an independent distribution network or OEM distribution network.
Figure 1: European Automotive Market Segments

**OEMs** (Original Equipment Manufacturers) are the vehicle manufacturers (e.g. Volkswagen, Peugeot and Fiat).

1st Tier suppliers supply directly to the OEMs and in recent years have become system integrators, meaning they are involved in the design, development and testing of the modules and systems they supply.

2nd Tier suppliers supply primarily finished parts and components to Tier 1 suppliers, as well as directly to OEMs.

3rd Tier suppliers (indirect suppliers) supply raw materials and basic parts and components to the 2nd Tier suppliers, mainly through subcontracting agreements.

Dealers sell cars at the retail level through dealership contracts with OEMs or their sales subsidiaries and provide maintenance services and spare parts.

Parts refers to the spare parts market.

Fleet Management is the management of a B2B client transportation fleet. Lease companies are an important example.

Mobility services are different kinds of mobility concepts for urban regions (e.g. car renting, parking, etc.)

Service Providers are the organizations that provide any sort of automotive service and operate under a given name/brand, (e.g. Volkswagen, Peugeot or Fiat).

Service Suppliers are the organizations that can be the subcontractors of the brand name service providers.

The aftermarket segment exhibits the greatest potential, as do the supply contracts with the Tier 2 and Tier 3 OEM supplier segment

The two major European automotive customer segments for DC exporters include the OEM segment, composed of the original equipment manufacturers (OEM) and Tier 1-3 suppliers, and the Aftermarket segment, composed of those providers that supply accessories, spare parts, second-hand equipment, and other goods and services used in repair and maintenance of existing vehicles.

**OEM Segment**

In Europe production is set to be focused in production clusters (areas with concentrated production, which comprise OEMs, 1-3rd Tier suppliers, design engineers, university and research institutes).
Tier 1 suppliers are increasingly gaining bargaining power and their role in the supply chain is becoming more important. It is expected they will be the future leaders in lightweight materials and automotive R&D.

In 2014, Tier 1 suppliers had a record year in terms of profitability, which was even higher for the leading global supply companies. The most profits are realised with powertrains and tires. The first half of 2015 was more stable, with stagnating market growth and reduced margins.

Tier 2 and 3 suppliers usually act as the entry points for developing country exporters. They are expected to become more involved in the design and development of parts and systems in the future.

As the economy recovers, the consumer market for new cars is increasing in Europe. In the long term, consumers in Eastern and Central Europe will be the primary drivers of growth.

The automotive market is becoming increasingly polarized, with the premium and the urban car divisions experiencing the most growth. The premium cars are characterized by a high level of technology and telematics, while the commodity cars are characterized by fewer accessories and being environmentally friendly. Premium trends and accessories are adopted in the commodity division after a lag of a few years.

Aftermarket Segment

The European aftermarket is complex and holds a multitude of different players, which ultimately creates opportunities for those who are familiar with the market structure.
The aftermarket segment is expected to experience continuous growth due to the saturation in the new car market and the increase in the average vehicle's age.

**Tip:**
- In order to gain access to the European aftermarket sector, exporters must be aware of the complexity of the supply chain and also of the complexity of the vehicle’s machinery.

Contracts and prices in the aftermarket sector are negotiated every year.

**Tip:**
- Arrange your production in the most optimal way so as to cater to the aftermarket needs and to make sure that you are able to increase production volumes on short notice.

In Eastern and Central Europe, the average age of a vehicle is higher than in Western Europe, creating more opportunities for aftermarket sales.

**Tip:**
- Just-in-time delivery is crucial in the aftermarket sector, as customers want their vehicles quickly repaired and back on the road.

**Tip:**
- Consider targeting Eastern and Central Europe with those parts destined for the aftermarket.

**Tip:**
- Terms and conditions must be aimed at the aftermarket suppliers. Visit European trade shows to become acquainted with them and to learn about their demand and supply preferences.

**Tip:**
- Ensure you can offer and deliver products at competitive and reliable lead and delivery times.

The service industry is changing to accommodate the need for of specialised diagnostics. Telematics in high-end cars may give vehicle makers an advantage over their competitors by alerting and advising drivers on maintenance requirements and directing them to the nearest franchised dealership for maintenance. Independent operators are also integrating these solutions within their channels.

**Tip:**
- Ultimately, all aftermarket providers will have to provide parts that are in line with the more advanced available technologies. It is important that you are forward-looking in the organisation of your production process and that you plan for any expansions and upgrades.

Tires and other parts are increasingly being sold online. Whereas consumers bought parts almost exclusively from dealers a few years ago, online sales are now expected to rise to around 15% of the total market. Online shops have become an important channel for both consumers and independent operators.

**Tip:**
- Use the internet as a channel for selling your parts. This could be especially effective for companies in developing countries, as competition on the internet is based predominantly on price.
OE Part Manufacturers produce parts and components that are later retailed under the vehicle manufacturer’s brand name as being suitable for that brand.

Independent Part Manufacturers are typically independent small and medium sized companies that produce non-branded parts.

OEM Distribution Network includes OEM-owned distributors tasked with selling parts to authorised, independent and traditional repairers and parts distributors.

Independent Distribution Network distributes an extensive range of replacement parts of different types and brands, ranging from original spare parts, parts that are of matching or higher quality or parts modified for the age of a vehicle. Independent distributors mainly supply commercial end users, such as multi-brand repairers, roadside patrols, fleet owners and other retail companies. They manage stock, incoming orders, outgoing deliveries.

Owned/Franchised Dealers are dealers that sell a particular automotive brand and provide original parts and guaranteed services for that brand of vehicles.

Multi-brand Dealers are dealers that sell a number of automotive brands and typically provide original parts and guaranteed services for those brands.

Independent service providers are service providers in the aftermarket that are not attached to any OEM brand.

Small Garages/Service Stations are non-brand providers of small repairs and selected automotive parts.

The aftermarket is best accessed through the independent channel.

Distribution Channels

Spare parts are distributed via two basic channels, the OEM distribution network and the independent distribution network, both competing for aftermarket sales.

Tip:
- Exporters targeting the aftermarket might find it easier to access the market through independent distributors, as they tend to stock a greater variety of parts.
Vehicle part manufacturers and OEMs have traditionally supplied most of the spare parts used by the dealer network. When vehicle manufacturers supply to the aftermarket sector, they charge high premiums.

**Tip:**
- Providing extra services (e.g. logistical services and pre-assembly services) to an OEM distribution channel can create additional competitive advantage.

The independent channel has traditionally had less access to OEM-manufactured parts, preventing it from offering a complete range, but in recent years the type and range of parts distributed through this channel has increased. This is creating pressure on the traditional authorised workshops (owned/franchise dealers and multi-brand dealers).

**Main sources**
- **ACEA** - European Car Makers Association - included on the website are annual statistics on car registrations, historical series and economic forecasts.
- **OICA** - the International Organisation of Motor Vehicle Manufacturers
- **CLEPA** – the European Association of Automotive Suppliers
- **CECRA** – the European Council for Motor Trades and Repairs
- **FIGIEFA** – the International Federation of Automotive Aftermarket
- **Distributors Just-Auto**
- **IAAF** – the Independent Automotive Aftermarket Federation
- **AutoNews**
This survey was compiled for CBI by Marktonderzoekbureau Molgo in collaboration with CBI sector expert Peter Nagel,

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