Service and repair: exploitation of the industry's last profit resort?

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Questions to address today

- What is the position of different types of repairers in the independent service and repair markets?
- What are the impacts of technology and the related aspects on the future evolution of the different independent repairer types?
- What are the evolving strategies and business models in the independent repair sector?

Glossary of terms

- VM: Vehicle manufacturer
- OES: Original equipment supplier
- ARs: Authorised repairers, with a VM branded franchise
- Fast-fit: No wait service concept, focussing on simple operations (e.g. Speedy, Midas)
- Auto-centre: outlet with a self-service area + a workshop focussing on simple operations (e.g. Norauto, ATU)
- Service chain: generic term for fast-fit and auto-centre chains
- Independent repairer (IR): 'traditional' mechanical garage, truly independent or member of an independent franchise
- Independent franchise: franchise dedicated to independent repairers. Can be backed by parts distributors, OESs…

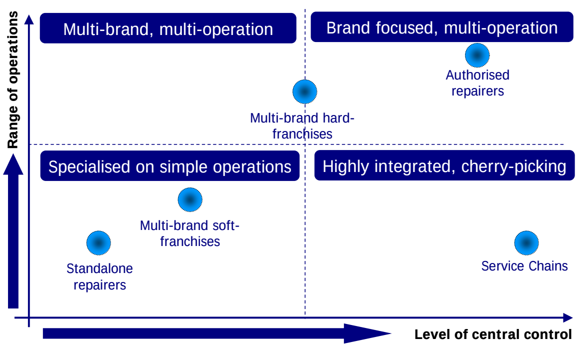
Agenda

- The competitive universe
- The technology issue
- Competitive analysis and strategic evolution of business models
- Conclusions

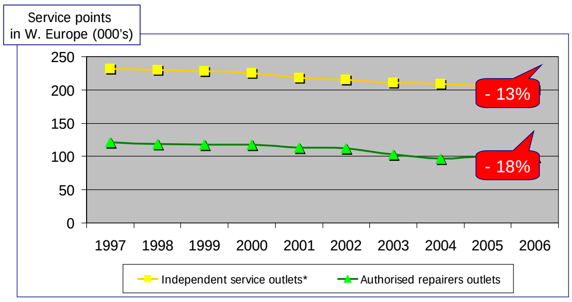
General trends in the after-market

- A stable, mature market, but structural changes
  - Older cars, vehicle technology, legal environment
- A variety of initiatives for the independent sector
  - Manufacturers trying to grow franchised activities
  - Some actively building independent repairer networks
  - Also players trying to secure channels and improve their position in independent sector
    - Parts manufacturers (Bosch, LuK)
    - Parts distributors, both individual (Motoo) and co-operatives (Groupe Auto Union)

Competition of after-sales business models



Decreasing number of service points

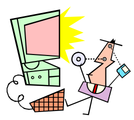


Source: ICDP & HWBi, 2006

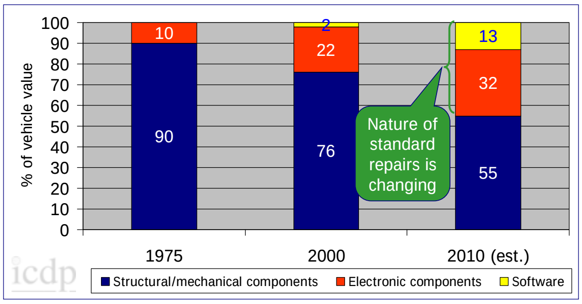
* IRs and service chains, excluding body repairers and petrol stations

Technology in service and repair
Need for a clear definition

- Technology is a very broad term in relation to vehicle service and repair
- Technology refers to all electric, electronic and software components, modules and systems
- It also covers mechanical parts when electronically connected
  - part of system/module



Mechanical components declining as a proportion of vehicle value

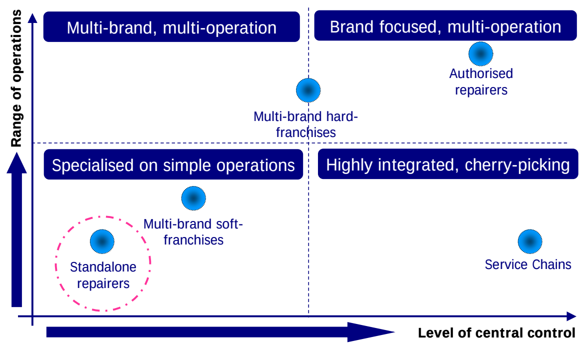


Source: Aachen University

Resources and cooperative networks are vital to cope with technology

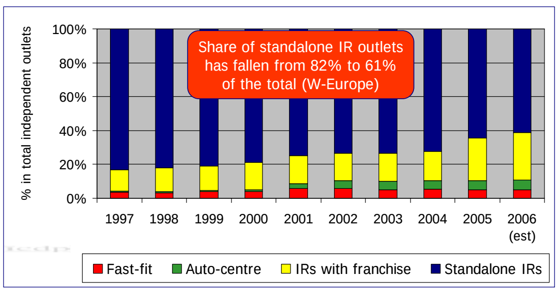
- Availability of technical information and diagnosis tools depends strongly on the resources/ equipment and the partnership network
  - Specialised branded partnerships (e.g. with VMs) and the use of specialised repairers seem to be contributing
  - Many small repairers do not have the equipment (e.g. ICT equipment) to be prepared for the future
- VMs and OES will mainly decide about overall conditions to access information, software etc.
- Resourceful, organised repairer models are well placed to master the technology issue

Competition of after-sales business models



Fewer standalone IRs

% by type of independent outlet *



Source: London Economics, ICDP

* IRs and service chains, excluding body repairers and petrol stations

Key business characteristics

Main business principles
- Price leadership
- Traditional entrepreneurship

- Repair and service focus is still on standard mechanical repairs
  - Frequent repairs with low diagnosis requirements
  - 90% of vehicles visiting IRs are out-of-warranty
  - Service and repair are 75% of total turnover on average
- Most independent repairers report a stable business during last three years – in particular the larger ones
  - E.g. 76% of UK repairers with growing turnover

Increasing competition for IRs

- Core competitors from IRs' perspective
  1. VM networks (all markets)
  2. Fast-fits and auto-centres (Germany, France and UK)

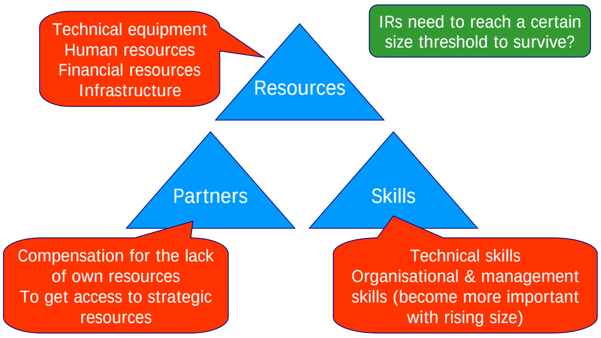
Fellow IRs not seen as core competitors

- Opportunities and threats from VM strategies
  - Opportunities through improved cooperation and open points in rural areas
  - Threats from extended warranties, service agreements and in particular through stronger market protection
- Ongoing consolidation is seen as positive, in particular by larger, resourceful repairers

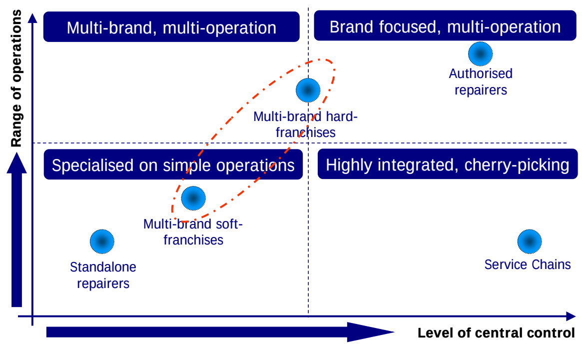
Future challenges
Improve electronic and organisational skills

- Rising demands on repairers (technology, competition, management) require a certain size
  - Size, resources and partnerships are decisive
  - Stronger repairers expect stable business
- Increasing proportion of independent repairers trained in electronics/software
- Diversification into new business fields
  - To compensate for losses in traditional areas
    - E.g. Body repair, media systems, road assistance
  - Further steps into new and used car sales

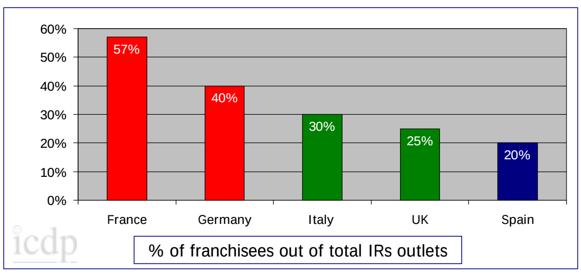
Conclusions - strategic requirements



Competition of after-sales business models

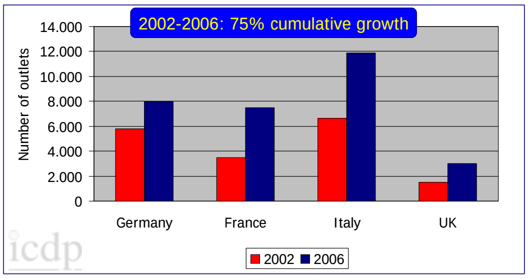


Relevance of multi-brand franchises
EU-5 markets



Source: ICDP

Franchised independent repairers: a high growth sector…



Source: ICDP

Classification by franchise requirements

Typical conditions	Hard franchise	Medium franchise	Low franchise
Size of workshop/ workshop equipment	400+ m^2 lifts, bays, diagnostics		
Business turnover/ number of mechanics	Min. €300k minimum 3		
Compulsory training	Yes	No (often recommendation)	
Annual fees	€2000 +	€500 to €2000	€0 to €500
Minimum parts purchase per annum	Yes (E.g. minimum €50,000 purchase)	Either none or agreed with local parts distributor (E.g. 20%-30% clause)	Normally agreed with local parts distributor
Corporate identity (mainly exterior CI and signage)	Full CI kit	Some logos, totems	Basic CI elements

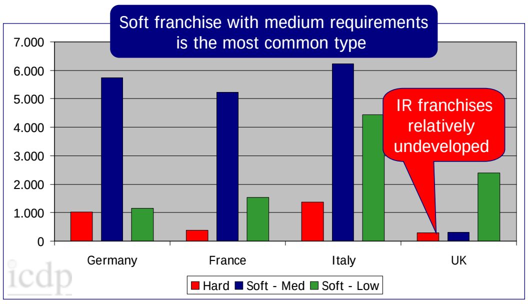
Source: ICDP, 2007

Soft-Franchise: Motrio Outlets

Hard Franchise: Stop+Go Pilot Outlet

Franchise categories

Number of outlets



Source: ICDP, 2007

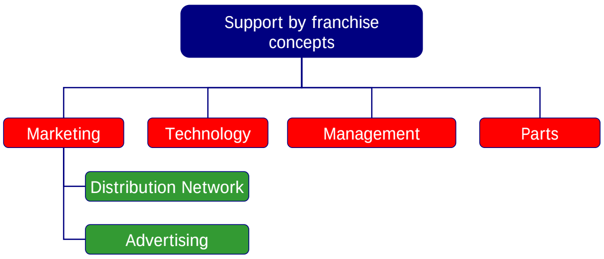
The main franchise players

icdp	Germany	Italy	France	UK
Hard	Bosch Partner System (Stop+Go) VM (Automeister)	Bosch Car Service (Stop+Go) VM	Bosch Car Service (123 Auto Service)	Bosch Car Service
Medium	AD AutoDienst AutoFit 1a Autoservice Coparts (GAU) Meisterhaft	Magneti Marelli Punto Pro (GAU) A Posto (Rhiag) Garage AD	Eurorepar VM Motrio VM Garage AD Top Garage (GAU) Motorcraft VM Precisium	[Autocare(GAU)]
Low	AutoCrew	Point Service Cecauto Riparauto	Auto Primo	Unipart Autosafe

Source: ICDP, 2007

VM = VM franchises for IRS

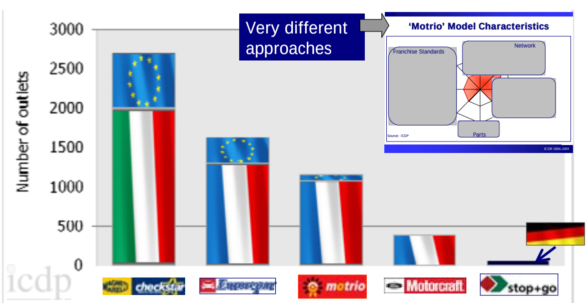
Added value from independent franchises for standalone repairers?



Franchise concepts – Conclusions

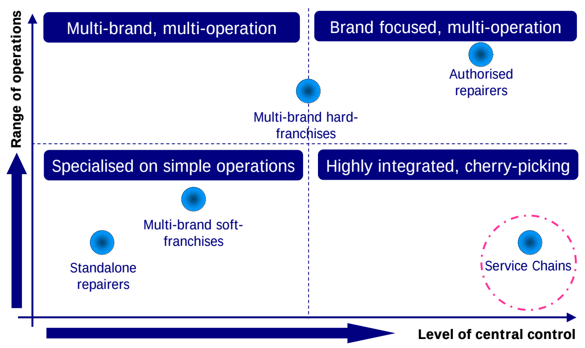
- Benefits of a franchise membership not always clear for repairers
  - Need for comparison between costs and benefits:
    - Reduction of entrepreneurial freedom, fulfilling franchise standards
    - Benefits of support through franchise system
- Need for clearer franchise control and support
  - But hard franchises struggle to get enough repairer partners
- “It is a parts distribution channel for many franchisors” – that is the core strategy
  - Limited skills to steer a service and repair organisation

Forward integration: OEM multi-brand concepts



Source: ICDP

Competition of after-sales business models



Repair and service chains

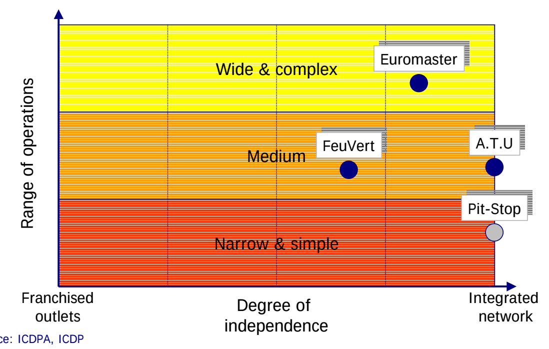
- Auto-centres
  - International: Norauto, FeuVert, L'Auto (F), ATU (D)
  - National: Roady, Etape Auto (France); Aurgi (Spain); Nationwide (UK)
- Fast-fit chains
  - Two major chains in Europe
    - Speedy and Kwik-Fit - Midas
- Tyre chains — Main focus is tyre sales!
  - Operated by tyre manufacturers
    - International: e.g. Euromaster/ ATS, First Stop
    - National: Central Tyre (UK), Vergölst (Germany)
  - Operated by tyre wholesalers/others

Low- medium complexity service, wide range + retail

Low - medium complexity service

Different organisation models

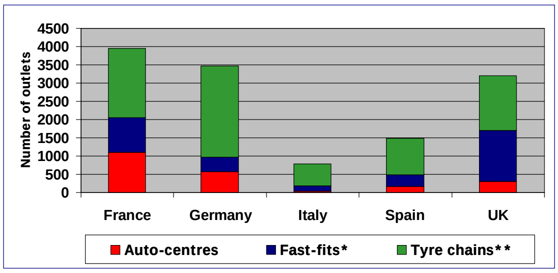
Type of ownership & range of operations



Source: ICDPA, ICDP

Auto-centres & fast-fit chains

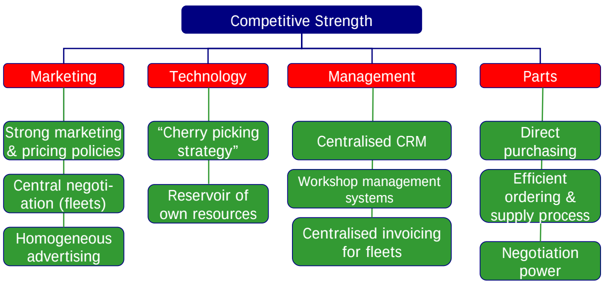
Contrasts across Europe



Source: ICDP, 2007

*Excluding VM fast-fits (e.g. Renault Minute)
**Sites doing operations other than tyre change

Competitive strengths of leading fast-fit & auto-centre operators



But customer satisfaction seems to be a problem for chains

French Survey

Category	% of fully satisfied customers
Independent garages	52%
VMs franchised networks	37%
Fast fit and auto centre chains	28%

Source Ipsos, 2005

German Survey

Category	% satisfied customers
Meisterhaft	59%
VM dealers: brand A	55%
Bosch Service	52%
1a Autoservice	51%
VM dealers: brand B	41%
VM dealers: brand C	38%
VM dealers: brand D	36%
VM dealers: brand E	34%
Pit-Stop	34%
ATU	25%

Source: Puls 2005 / ACI Trendmonitor

Strategic competitiveness of business models

icdp	Standalone IR	Independent franchisees	Chains
Key advantages of the model	Entrepreneurial motivation & performance	Strong franchises compensate lack of IR model resources	Large, powerful competitors
Key disadvantages of the model	Most crucial aspect is size & resources	Many (parts driven) franchises do not have experience with network management	Low motivation at outlet level
Business evolution	Larger IRs (>3 mechanics) see positive evolution	A consolidation of the number of 'brands' is foreseen	Expansion, focus on high profit segments – limit reached in some markets
Strategic challenges	Survival despite size – find the right partners	Need for organisational improvement & clear strategy	Management of complexity, especially operating issues

Competition of after-sales business models