2013 Australian Auto Aftermarket Industry Report

Australian Automotive Aftermarket Association
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Preamble

With in excess of 16 million vehicles in the Australian market place and our proximity to Asia, many companies now see Australia as a valid location for expansion into Asia. We are also seeing substantial change in the ownership, structure and landscape within the sector, as large corporate investment has increased recently.

With multiple converging factors in the sector occurring at the same time, the following report was commissioned by the Australian Automotive Aftermarket Association, with the key objective of identifying trends and influences that will affect future business in the Australian automotive aftermarket both short and medium term.

Data provided in this report was gained and aggregated from various sources including but not limited to IBIS World Data, Deloitte Motor Industry Services, ABS Data, Motor Vehicle Census, VFACTS, Citibank, interviews with industry stakeholders and the AAAA Online Member Survey (Jan 2013).

This report was authored by PDH Business Consultancy in close consultation with the Australian Automotive Aftermarket Association.

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Executive Summary

The Australian automotive aftermarket has its roots and traditions based on a business model that has been trading for around 90 years, kick started when the Ford Motor Company became the first major Original Equipment Manufacturer (OEM) to commence new vehicle sales in Australia. At this time and driven by a need to offset the high costs associated with our isolated geographic position, Australia operated under a high trade tariff policy, this also meant that companies incurred and operated a high-cost business model, all with little or no competition due to our geographic isolation. The flow on effect also meant consumers were both oblivious, or had no option other than to pay high prices by international standards.

Commencing in the early 1980's and gathering greater pace in later decades, successive Governments have adopted an open trade liberalisation policy. Today, Australian business is very much competing as part of the global network and for some the associated pressure and factors including Australia's high exchange rate, very high minimum wage, internationally high rent costs and the need for a very broad inventory required to support 68 brands, are all placing great pressure on the aftermarket sector.

The automotive aftermarket sector cannot change globalised factors, so like other sectors, many of which have already adapted (fast-moving consumer goods and hardware), the sector will have to find productivity, supply chain and system gains to reduce costs. We will also have to find ways to reinforce consumers acceptance of a slightly higher retail price in Australia.

Major change is inevitable given the aforementioned and with the influx of corporate and international business partners entering the aftermarket, it is forecast the rate of change will become rapid so unless we become early adopters, the risks may be high.

On a positive note, many in the industry have adapted, as have Australian consumers who still have an affair with driving; they are just driving imported cars as opposed to locally produced models. Market analysts forecast the greater automotive sector is currently performing well and rebounding from the downturn experienced during the Global Financial Crisis (GFC). In fact, Australia set a new record for vehicle sales in 2012 of 1.112 million but locally produced vehicles only represented 12.5% of these sales.

This view by analysts is for the sale of motor vehicles and once we factor in each element that makes up the total automotive sector there is exposure to the same issues affecting other sectors operating in the manufacturing and distribution channels. These include declining consumer sentiment, a high Australian dollar, declining competitiveness of traditional 3-step distribution models and lastly, reseller direct sourcing of product (house brands).

Rationalisation of supply chains is driving some resellers while others are adopting systems and process change to improve productivity and remain competitive. Others, particularly manufacturers and distributors, are looking to diversification as the answer with many focused on other sectors including industrial and mining.

Manufacturing is seeing specialists continue to open new opportunities driven by Australia's innovative approach and 'can-do' mind set. But some in this sector are also finding it very difficult to compete with their high costs so are responding by moving some production offshore while retaining Research and Development (R&D) in Australia.

Repairs and maintenance is a sector that should be seeing growth as the car parc continues to grow (now reported at 16.7 million vehicles) and continued growth is forecast to 19 million by 2018 and the average age of vehicles still above 10 years. OEM retention of vehicles for maintenance is steady, estimated at 4.5 years. The limiting factor is the ever increasing complexity in vehicle technology and lack of information sharing by the OEM network, hence the need to drive the adoption by Government of the AAAA Choice of Repairer Campaign.

1.0 About the Industry

The first major Australian car retailer was the Ford Motor Company in 1925 and the first Australian-designed mass production car was produced by Holden in 1948.

Since 1948, Australia is best known for the design and production of 'large' sized passenger vehicles. However, this category has suffered a steady downturn in the Australian market resulting in a series of cutbacks and plant shutdowns and with that we have seen the ever expanding growth of imported vehicles; in 2012 local production fell to just 12.57% of total sales according to ABS data. With Australia's growing affair with imported vehicles we now have some 68 brands represented in Australia offering around 413 different models (this includes commercial vehicles).

2012 saw the return of strong new car sales growth with a new record of 1,112,032 vehicle sales; Toyota secured the largest share of sales with nearly 220,000 new vehicles followed by Holden, Mazda, Hyundai and Ford rounding out the top five. This points well for continued growth in the aftermarket segment in the coming years as new car sales generally take up to four years to work their way into the aftermarket as vehicles are generally retained by the OEM service network for an average of 4.5 years (higher for luxury). The average age of vehicles in Australia is reported at 10.1 years according to the ABS Motor Vehicle Census 2012 (MVC), hence the greater part of a vehicles life is maintained by the aftermarket sector and with a growing vehicle parc the aftermarket should see broad growth in the coming years.

1.1. Industry Definition

The automotive aftermarket industry encompasses mechanical repair & modification services, manufacturing, re-manufacturing, wholesaling, distribution and retailing of all vehicle parts, accessories, tools, equipment and services, except those products which are used in the manufacturing of original equipment.

1.2. Main Activities

The automotive aftermarket sector focuses on providing ongoing support to all vehicles on Australian roads however, the greater part of this support occurs to vehicles greater than 4.5 years old. Specialist services are also provided to the enthusiast wanting to enhance the appearance or performance of their new vehicle.

1.3. Similar Industries

Many in the industry perceive the automotive aftermarket as a unique sector, but many similarities can be drawn between certain FMCG and retail sectors. The globalisation pressures applied in the last 10 years to hardware, electrical and supermarkets can be strong lead indicators to the changes ahead for the automotive aftermarket, particularly around sourcing and warehousing best practice.

1.4. Additional Commentary

The automotive aftermarket is now experiencing changes that faced the aforementioned sectors including globalisation, consolidation of competition, margin pressure, rationalisation in supply chain, direct sourcing and staffing skill shortage. While it is acknowledged there are some unique complexities and specialist requirements the core functions do share both historic and trend factors.

2.0 Industry Performance

Accurate reporting data is difficult to find due to the structure of the industry and lack of uniform reporting. All available data indicated a similar growth averaging 3.5% per annum over the last two years. This was consistent across the main three sectors of the aftermarket (manufacturer, distributor and reseller).

When the industry was specifically surveyed about the likelihood of growth in their business over the coming year, a resounding 76% of respondents expected their businesses to grow. Further discussions regarding growth in various sectors of the industry can be found later in the report.

2.1. Key External Drivers

To understand the external drivers currently impacting we must first wind the clock back 30 years when the competitive landscape in Australia was vastly different. Every service station had a workshop and sold car parts and accessories, 3-step distribution models were the norm and independent automotive resellers were prolific.

The universal business model under which the majority operated (manufacturers, distributors and resellers) utilised high margins (40% - 50%), carried high cost infrastructure for doing business which then drove high sale prices to achieve a sustainable business profit of 4% - 8% net, all with very little resistance as the market knew no other and globalisation was not even being discussed in Australia.

Today however, consumers are better informed and utilise the global market place to either purchase or research, including price. In response, over the past 10 years we have seen business consolidation and a sizable drive to rationalise supply chains, including the larger players adopting a 2-step supply chain model. We have also seen the large supermarket chains become the dominant owners of service stations and remove workshops and replace them with mini supermarkets. Independent operators have reduced in numbers replaced by franchise or company operated business models.

Our high cost business model is also under pressure from a number of factors including Australia's very high minimum wage, high rent costs and the need for a very long tail in inventory to meet Australia's broad model lineup.

In the short term, the industry cannot change these factors, so like many sectors, the automotive aftermarket will have to find productivity and system gains to reduce costs. We will also have to find ways to reinforce consumers acceptance of slightly high prices in Australia.

2.2. Current Performance

While there has been a major shift in the ownership in the aftermarket resellers (GPC, Metcash, Quadrant and AHG), it is felt by many in the sector that unless the majority of independents start working together the corporates will become so big the smaller groups and local distributors will lose relevance and critical mass.

Corporate Retail / Reseller Groups		Outlets
Repco		281
Supercheap Auto		274
Coventry		26
Burson Auto Parts		102
Total		**683**
Independent Retailer Groups		**Outlets**
Auto One		64
Sprint Auto Parts		35
Veals		16
Pep's		11
Autobarn (Automotive Brands)		98
Autopro (Automotive Brands)		120
Total		**344**
4WD Specialist		**Outlets**
ARB Stores and Stockists		120
TJM Stores and Stockists		62
Opposite Lock		49
Total		**231**
Independent Retailers		
Combined estimate		500
Total Retail / Reseller		**1758**

Currently, corporate retailer/reseller groups represent 683 outlets and the independent reseller groups 344 outlets.

Resellers in Australia, while grouped together offer four very distinct retail models that are best summarised by the following description; Trade plus DIY, Retail plus DIY, Trade only and finally Specialist outlet.

With sales of 4WD vehicles now representing 27.5% of all new car sales, it is understandable why we have 231 specialist 4WD retail stores within Australia and around 500 specialist 4WD workshops that also sell retail 4WD equipment and off-road accessories. 4WD also represent one of the larger sales categories within non-specialist retailer/ resellers. Commentary was also made that 4WD enthusiasts were predominately driven by quality rather than price.

There are estimated to be in the region of 500 small independent retailers within the reseller sector however, the majority of these are located in small regional townships servicing niche markets with less than 500 households.

Over the last ten years we have seen a large decline in service station based workshops as both Westfarmers and Woolworths transitioned traditional service stations into fuel and quick service mini-markets.

As has been the case with resellers, we're starting to see a migration of small independent workshops to join supported major groups, either Franchised groups or supported relationships such as Repco Authorised Service and Bosch Authorised Service.

Repairer Groups		Outlets
Repco Authorised Service		330
Midas		80
Auto Masters		43
Kmart Tyre and Auto		260
Ultra Tune		200
Goodyear Auto Care		125
ABS		52
Bosch Authorised Service (approx)		300
Repairer Chains Other (approx)		400
Total		**1790**
Tyre Retailers		**Outlets**
Includes - Beaurepairs, Dunlop Super Dealers, Bob Jane, Tyrepower, Coopers, Jax, Bridgestone and independents		**1960**

With such a broad model lineup in Australia, we are also seeing a strong return to specialist repair groups covering areas like suspension, cooling, brakes or specialist technical areas like performance. It is forecast this sector will grow, driven by the increased complexity of modern vehicles limiting the wider industry's ability to keep up.

If we apply the average age of vehicles in Australia of 10.1 years and industry retention figure for OEM dealerships of 4.5 years, we can estimate that 9.2 million vehicles are maintained within the independent aftermarket sector. This leaves 7.5 million vehicles being maintained by 3500 dealerships, 2152 vehicles per dealer as opposed to and average of 687 per aftermarket workshop.

Specialist Workshop Groups		**Outlets**
Pedders		64
Carline		91
Natrad		63
Total		**218**
Other Specialists / Mobile repairers		**Outlets**
Combined (approx)		**3400**
Other Segments		**Outlets**
Independent Repairers (approx)		10000
Service Stations Workshops		1450
Service Stations all		5560
OEM dealerships		3500
Importers / Wholesalers / Distributors		600
Total (minus Service Station Workshops)		**19660**

Sales Data

The total Australian Automotive retail sector is estimated at approximately $108.8 billion (IBIS World). This incorporates new vehicle sales at $61.2 billion and all services required to maintain vehicles at $14.6 billion (both OEM and aftermarket). It also includes $13.38 billion for manufacturing of vehicles.

Aftermarket parts and accessories reseller sales are estimated at $5.6 billion per annum. However, with so many very small independent businesses in this sector it is felt this number may be understated and could be as high as $6.1 billion.

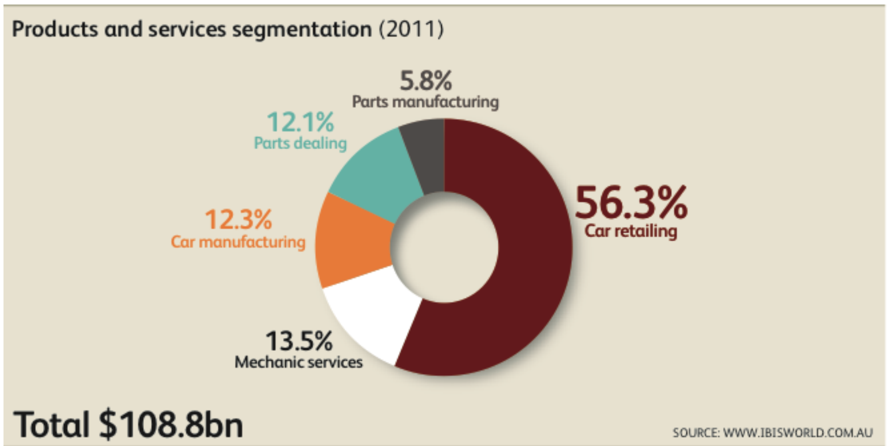
Total parts manufacturing is estimated at $5.4 billion. It is very difficult to value the aftermarket as a proportion of manufacture, but given the decline in Australian new car production one could assume a large part is within the aftermarket.

Total wheel and tyre sales in Australia are estimated at $4.9 billion. This incorporates both commercial and passenger vehicles and the car parc is estimated to continue growing at around 2.9%.

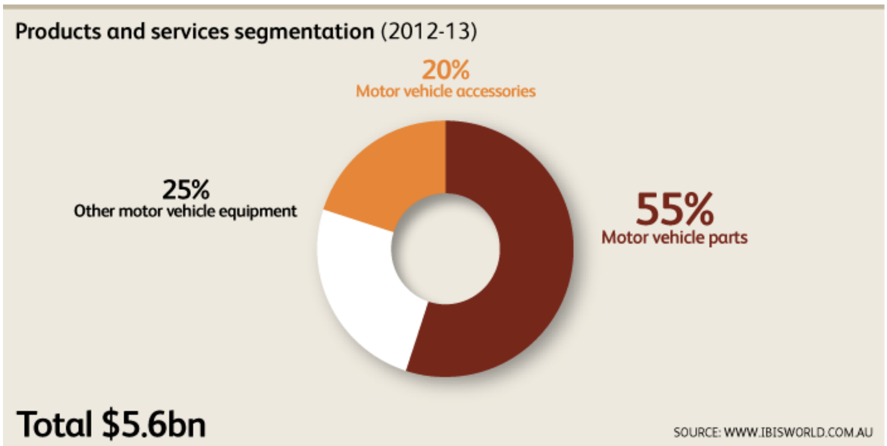
Aftermarket motor vehicle service and repair is estimated at $13.9 billion. This includes both parts and labour in both the OEM and aftermarket sector. Automotive electrical is measured as an independent sector and is estimated at a further $2.3 billion taking the total to $16.1 billion.

Note: Collision repair is a separate segment and estimated at $5.6 billion.

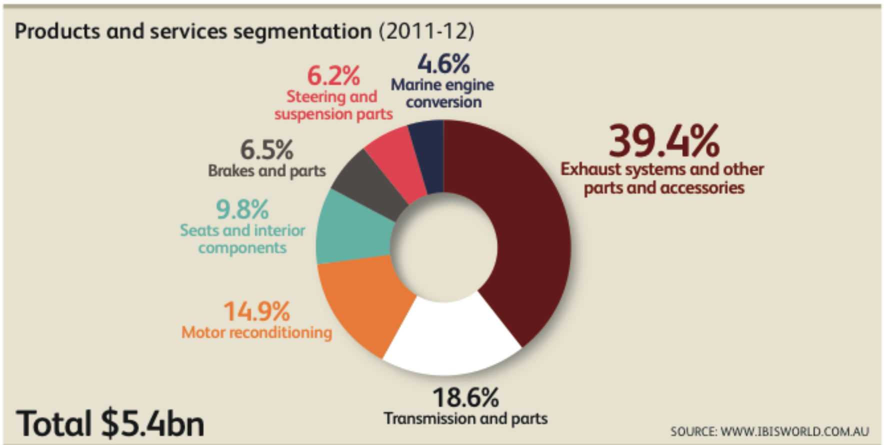
Total Automotive Industry



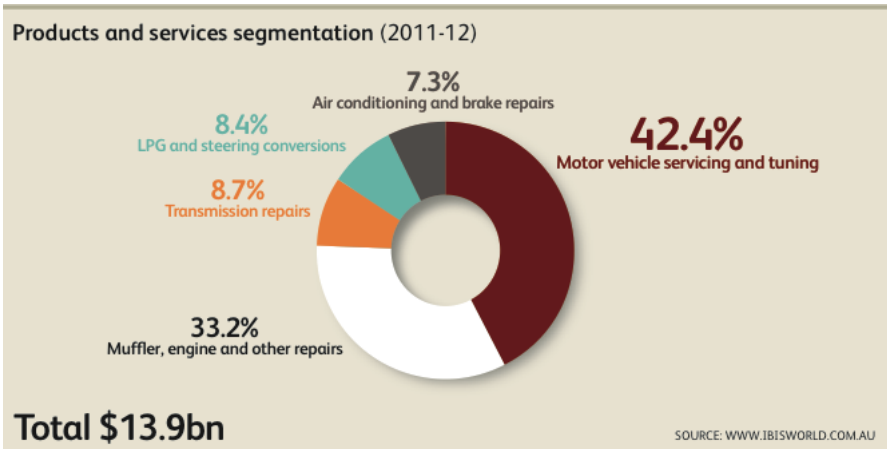
Aftermarket Parts and Accessories Sales



Automotive Parts Manufacturing



Motor Vehicle Service and Repair



2.3. Industry Outlook

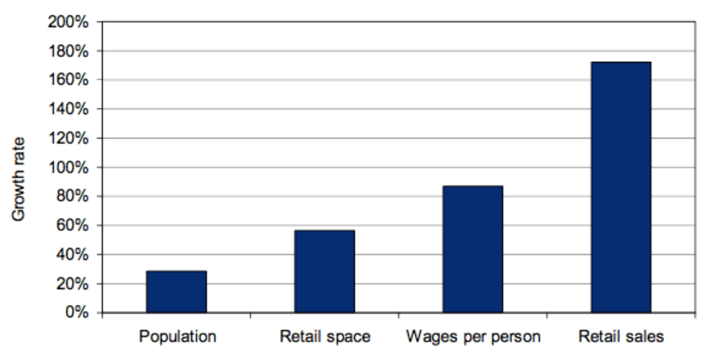
To produce a quantifiable outlook we must look at what has driven the current position. With this we believe there are four core factors that have shaped the change of the last decade. These are:

A. **Economic:** the impact of globalisation, the GFC, high exchange rate, low consumer sentiment and market consolidation.
B. **Technology**: advancement in computerisation within vehicles, increased shared system communication, advanced material integration, increased need for special tools to perform standard tasks. Online and multi-channel paths to market, making access to products and information at both B2B and B2C far more accessible.
C. **Changing Capabilities:** it is felt that the younger generation are less likely to have the mechanical skills required for DIY, they are comfortable replacing motherboards but not ball joints.
D. **Access to Technical and Diagnostic Information:** The absence of any regulatory framework to protect competition in the vehicle repair and service sector.

Economic

The best economic forecasts suggest that the majority of countries in Europe, the US and certain parts of Asia will continue to apply economic reforms for the next five years and for some it will take 10 to fully recover from the 2008 GFC. This in turn will continue to generate a high Australian dollar and strong commodity prices. Considering this economic outlook, the aftermarket will see best gains centre around productivity and sourcing improvements as the Australian dollar is forecast to remain around parity for the foreseeable future.

Figure 5. Total growth rate between 1992 and 2011



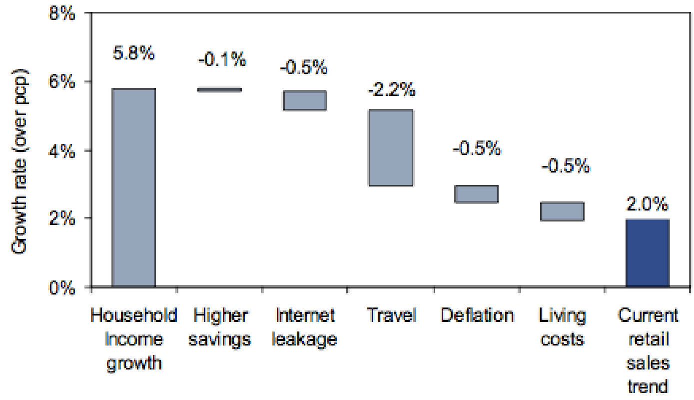
Source: ABS, Citi Research

In the last 20 years (1992 - 2011), retail in Australia has grown by 173%, driven by additional retail space, higher wages per person and population increases, however, this growth in retail has shifted in the last two years and has moved to travel.

Household income growth is forecast to increase by 5.8% in 2012/2013. However, of this only 2% is forecast to be consumed by increased retail sales with 2.2% going in travel. In short, many of the changes we are seeing in consumer discretionary spend have simply moved from a traditional basis, to those that generate the best return for the consumer and with a high Australian dollar and low airfares, travel has been the biggest benefactor with over 8 million trips last year. What this is leading to is a change in the shopping and spending habits of Australians and unless we attract them back, retail growth will stay low by historic rates and they will continue to spend discretionary monies on travel and leisure.

Industry sales are set to rise by 3.0% over 2013-14. Retail demand for the automotive aftermarket is expected to trend upwards during the year as a result of continued income growth and a rise in sentiment levels, albeit at a more modest pace compared with 2012-13. In the years that follow, industry sales are forecast to post steady growth, rising from $5.93 billion in 2014-15 to $6.32 billion in 2017-18 (IBIS World). Trading conditions across the industry over the next five years are also likely to benefit from the specialised nature of products sold by operators. This tends to suggest that while operators are likely to continue experiencing competition across the industry, the impact of competition from external players is expected to be minimal. Nonetheless, profit levels are expected to be affected by continued price-based competition between the industry's key players and the range of products on offer by retailers.

Figure 3. Discretionary retail sales headwinds (FY12)



Sources: ABS, Citi Research

Motor vehicle parts and accessories retailers are expected to continue trading in the mature stage of their life cycle through 2017-18. As a result, enterprise numbers are forecast to post annual growth of 1.6% over the next five year and are likely to continue to be driven by the launch of franchised operations. Growth in player numbers is set to give rise to an increase in establishment numbers, which is expected to support an increase in employment levels and wage costs throughout this five-year period.

Technology

Greater technology integration into motor vehicles is forecast to continue at an exponential rate, while lead-times from concept to market release will continue to shorten. It is forecast that OEM's will embrace the greater use of Wireless telematics technologies such as car to car, car to dealership and car to home communication placing greater limitations on the aftermarket.

Wireless telematics technologies are quickly becoming part of the new evolution of modern vehicles – we are entering the world of the 'smart connected car'. The 'smart connected car' is about to change the way we drive and think about our driving experience. New vehicle technologies support safety functionalities such as emergency assistance (eCall) and also breakdown assistance (bCall), but can also provide a wide-ranging array of entertainment and information services, such as route navigation, traffic information, e-mail, web browsing, social media, hotel bookings or directions to the nearest available parking space or petrol station.

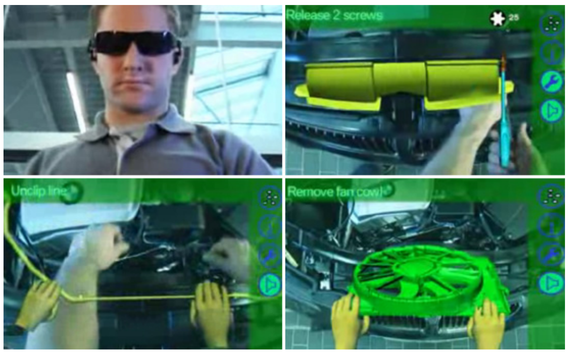
Currently, only vehicle manufacturers are able to access the full set of in-vehicle data when remotely communicating with the vehicle through their proprietary vehicle telematics systems and proprietary software formats.

This data can be used for remote diagnostics, for predictive maintenance or for checking if a service is required. This latter aspect becomes progressively more important as a vehicles' service intervals are increasingly based on actual usage patterns, rather than on the traditional fixed mileage. Vehicle manufacturers are also able to remotely communicate with the vehicle to update vehicle settings or software applications without even having to bring it into a workshop (and often without the vehicle owner even being aware).

It is critical that the aftermarket stay at the forefront of this technology to make sure that consumers understand that they have a clear alternative when servicing their vehicles despite the communication advantage for the dealership networks. Already aftermarket telematic solutions have been developed in Europe and USA, and these may offer advantages to Australia in the coming years.

Many OEM's are investigating the use of cutting edge technology, not only in the operation of vehicles but also the repair. For example, BMW is researching the use of augmented reality for automotive technicians.

They produce a video where a BMW technician uses AR glasses to look at an engine, identify what parts need to be replaced and then is shown step-by-step instructions on how to fix it.



Technology from a sales and marketing perspective must also be closely monitored. Further in the report these technological changes will be reviewed for the individual sectors of the aftermarket, however from a general industry-wide perspective, despite 95% of companies having a website, only 34% currently use it to sell online. This is one area sure to rapidly evolve over the coming years. Social media from a marketing perspective also cannot be underestimated. Just over 50% of survey respondents currently have a company presence on social media, with 94% using Facebook predominately. YouTube is the 2nd most represented social media tool, and it is expected that more companies will see the value in videos, both from a training and promotional perspective.

Changing Capabilities

The greater use of technology coupled with a younger generation with lower mechanical skills is forecast to have one of the greatest affects on the aftermarket as the percentage of the population capable of completing DIY tasks reduces, in turn driving up the demands for DIFM beyond the current position. To reduce this possible outcome the industry must invest in training, very clear fitting instructions and online support networks to assist in lifting the skill sets of anyone conducting DIY.

Generation Y are the most materially endowed generation ever. Currently aged 18-32, they are very tech savvy utilising social media and online platforms in every facet of their life.

Generation Y aren't just a product of their times, they're also a product of their life stage. Generation Y in their 30's are now moving into leadership roles, getting a mortgage and starting a family and running vehicles.

Generation Y have been called the Millennials, Digital Natives, the Dot-com Kids and the 'Click 'n Go' generation. Generation Y will live longer than any previous generation. They will work longer than previous generations with the retirement age and pension age pushed back. They will average more than 4 careers and 17 employers in their lifetime.

By 2020, most Baby Boomers will have retired, while Generation Y will dominate employment, comprising 42% of the workforce. Generation Y are averaging around 2 years per role, voluntary turnover exceeds 15% and around 1 in 3 workers are employed on a casual or part-time basis.

The multitasking, multi-channelling Generation Y currently comprises just 1 in 5 workers, but by 2020 they will be the largest generation in the workforce comprising 2 in 5 workers. Increasingly, organisations will search for better ways to communicate and engage with them. Forget the training manual or the staff meeting, enter the company podcasts, instant messaging, and even content laden music.

So while some aftermarket businesses are adapting a sales and marketing strategy aimed at Generation Y, many are not. More than 42% of our customer base will no longer be reachable via traditional mediums, they do not watch TV or read marketing material in traditional patterns, rather they stream their content. They also have different drivers, they are more likely to base a purchase on peer review and video reviews than traditional catalogues. They are also forecast to buy predominately online and use retail outlets as 'showrooms'.

Access to Technical & Diagnostic Information

The absence of any regulatory framework or voluntary agreement in Australia, as exists in Europe and the USA, to protect competition in the vehicle repair and service sector, means that vehicle manufacturers and importers are not obliged to make technical and diagnostic information available to repairers outside their authorised dealer networks. Independent repairers provide competition and diversity of choice in service, without which vehicle owners would be forced to rely entirely on dealership based service departments, thereby becoming, in effect, captive customers.

Modern vehicles are becoming too complex to repair without access to the manufacturers diagnosis and repair information. Without effective access to technical information, re-initialization codes, software downloads, multi-brand diagnostic tools and test equipment, rapid advances in vehicle technology will mean that the independent aftermarket will be unable to complete even the most basic service tasks on many vehicles in future. This scenario would have a significant impact on competition in the industry by creating a technological monopoly for the vehicle manufacturers and their dealer networks. Independent repairers, which are predominately small businesses, cannot repair and service vehicles without data sharing. Without competition, Australian motorists would lose the right to have their vehicle serviced, maintained and repaired at competitive prices in the workshop of their choice.

A key role of the independent aftermarket is to provide cost effective and quality servicing of vehicles, particularly those older than three years that are no longer covered by statutory or extended warranties. The depth and breadth of the independent repair network, which has over eight times the number of retail outlets than the dealer network, also ensures that consumers in regional and rural areas of Australia have access to cost effective repairers within realistic travel distances. As demand for vehicle service is clearly and significantly higher than the capacity of the authorised dealer networks, a decline in the number of independent repairers will result in longer lead times, greater travel time and a significant increase in the cost of vehicle servicing and replacement parts for Australian motorists.

To protect consumer choice and competition in the vehicle repair and service industry, the AAAA launched the Choice of Repairer campaign in 2009. As part of this campaign the AAAA called on the Federal Government to intervene to require vehicle manufacturers to provide to the independent aftermarket, the same information and tools they currently supply to their authorised dealerships in a nondiscriminatory manner, at a fair price, and in a useable form.

Following a meeting with Assistant Treasurer David Bradbury in October 2010 the Government announced a Commonwealth Consumer Affairs Advisory Council (CCAAC) Inquiry into the sharing of repair information in the automotive industry. The final report and major recommendations of this inquiry were published in December 2012. The full report can be downloaded from www.ccaac.gov.au

On 11th June 2013, is his formal response to the CCAAC Inquiry, Assistant Treasurer Bradbury announced that the Government will adopt all of the CCAAC recommendations in full. The Government has asked the Chairman of CCAAC, Mr Colin Neave AM, to monitor industry-led negotiations on a voluntary code of conduct, to facilitate the sharing of repair and service information. If industry representatives fail to make substantial progress on the code by the end of 2013, the Government will start a process to examine other regulatory options, including a mandatory code of conduct.

Mr Bradbury will also be asking the nation's consumer affairs officials to develop an awareness campaign to educate consumers about their warranty rights. Under the Australian Consumer Law, suppliers have a legal obligation to guarantee the quality of goods and services. Any suggestion by car manufacturers that cars need to be serviced at a authorised dealer to maintain the owner's consumer guarantee rights, is not correct.

The AAAA congratulates Assistant Treasurer Bradbury for his leadership on this issue and we are optimistic that with continued Government involvement and oversight, that we will be able to negotiate an agreement with the car industry on information sharing that provides a fully functioning market with open competition in which the consumer has choice.

3.0 Car Parc Segmentation

In Australia, there were 745 motor vehicles per 1,000 resident population in the 2012 Motor Vehicle Census (MVC). This compares with 705 vehicles per 1,000 residents in 2007, an increase of 40 vehicles per 1,000 residents over this time.

There are 16.7 million motor vehicles, including motorcycles, registered in Australia for the 2012 MVC. On an annual basis this is 2.3% higher than the number of registrations for 2011 and an increase of 13.3% since 2007, when there were 14.8 million vehicles registered in Australia. The average annual growth over this five-year period was 2.6%.

For the 2012 MVC, there were 13.6 million passenger vehicles and campervans in Australia. 81.1% of the total vehicle fleet ran on petrol. This compares with the 12.7 million passenger vehicles and campervans registered in 2007, when 86.3% of registrations were in this category.

The number of vehicles registered with diesel fuel in 2012 accounted for 15.9% (or 2.7 million vehicles) of the total fleet compared with 11.2% of vehicles in 2007.

TYPE OF VEHICLE—Census years 2007, 2011 and 2012

	2007	2011	2012	Change 07/12	Change 11/12	Average annual growth 07/12
	no.	no.	no.	%	%	%
Passenger vehicles	11 462 400	12 474 044	12 714 235	10.9	1.9	2.2
Campervans	43 266	50 653	52 600	21.6	3.8	4.1
Light commercial vehicles	2 189 559	2 530 630	2 617 799	19.6	3.4	3.8
Light rigid trucks	99 604	119 539	124 291	24.8	4.0	4.7
Heavy rigid trucks	294 887	318 223	322 115	9.2	1.2	1.8
Articulated trucks	74 444	85 965	87 995	18.2	2.4	3.5
Non-freight carrying vehicles	21 247	22 656	22 722	6.9	0.3	1.4
Buses	77 548	87 883	90 599	16.8	3.1	3.3
Motor cycles	511 966	678 790	709 288	38.5	4.5	7.0
Total motor vehicles	**14 774 921**	**16 368 383**	**16 741 644**	**13.3**	**2.3**	**2.6**

While the number of passenger vehicle registrations increased by 10.9% between 2007 and 2012, the number of passenger vehicles registered with diesel fuel increased by 103.1%. Over the same period, light commercial vehicle registrations with diesel fuel increased by 65.2%.

For 2012, the average age of all vehicles registered in Australia was 10.0 years for the third consecutive MVC, and the same as 2007. Currently there are no market indicators to suggest that the average age of vehicles in Australia will decrease in the short to medium term. It is also worth noting that the changes to vehicle write-off laws in some states preventing vehicles that are written off being re-registered has had no significant influence in lowering the average age of vehicles in Australia.

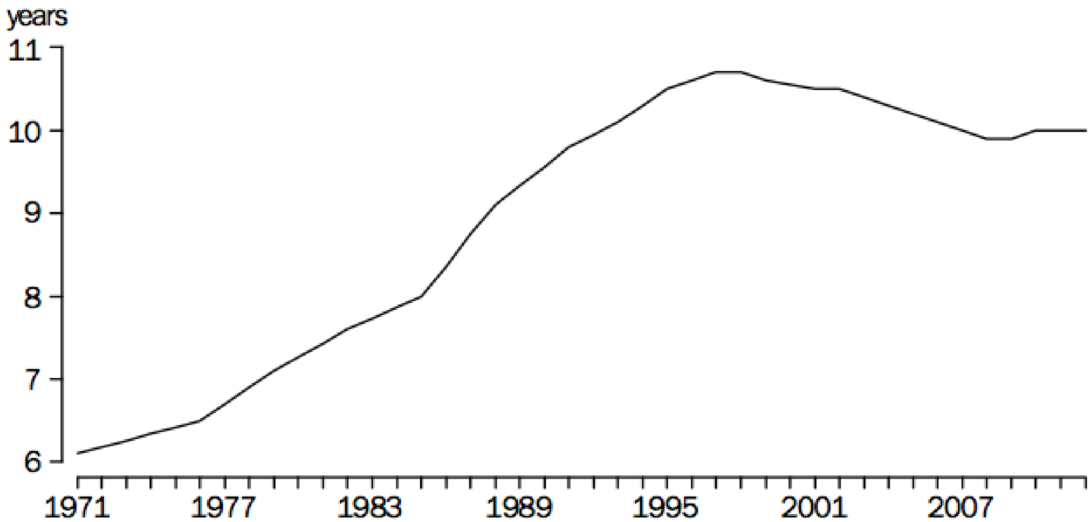
Passenger vehicles accounted for 75.9% of all vehicles registered in Australia for the 2012 MVC, down from 77.6% in 2007. Queensland, Western Australia, Northern Territory and the Australian Capital Territory recorded increases in the proportion of passenger vehicles over this time. In the same period, New South Wales, Victoria, South Australia and Tasmania recorded decreases. This decrease was offset by increases in the proportion of light commercial vehicles and motorcycles in these states.

Light commercial vehicles accounted for 15.6% of all vehicles registered in Australia for 2012, the second highest proportion behind passenger vehicles. Since 2007, the Australian Capital Territory had largest percentage growth (27.2%), followed by the Northern Territory (25.3%) and Western Australia (23.9%), New South Wales had the smallest growth (15.9%).

Motorcycles accounted for 4.2% of all vehicles registered in Australia for the 2012 MVC, up from 3.5% in 2007. Western Australia recorded the largest percentage increase (57.6%), followed by the Australian Capital Territory (47.8%).

Rigid trucks accounted for 2.7% of the total number of vehicles registered in 2012 and 2007. Registrations of rigid trucks with a gross vehicle mass (GVM) greater than 20 tonnes have increased by 22.3% since 2007, while registrations of rigid trucks with a GVM of 20 tonnes or less have increased by 11.1% over the same period.

ESTIMATED AVERAGE VEHICLE AGE(a) OF VEHICLE FLEET(b)



(a) For more details on the calculation of average vehicle age refer to the Glossary.
(b) See Explanatory Notes for Motor Vehicle Census dates.

Reviewing the changes to the vehicle parc by manufacturer 2007 to 2011 sees major changes in the ownership by brand. While Holden continues to tread water with car parc growth of -1%, the real losers are Ford with -12.5%, Deawoo with -33% and Daihatsu with -36%.

The winners from the perspective of total number of vehicles registered were clearly Toyota with 16.1% growth and Mazda with 42% growth, however from a market share perspective the growth of Volkswagen (102%) and Kia (71%) cannot be underestimated. Growing from a much lower base, Audi has also more than doubled their footprint. Strong growth has also been seen from BMW, Mercedes-Benz, Lexus, Subaru and Suzuki over the last 6 years.

PASSENGER VEHICLES ON REGISTER, Top 30 Makes—Census years

	2007(a)	2011	2012	Change 07/12(b)	Change 11/12(b)
	no.	no.	no.	%	%
Toyota	2 189 889	2 500 195	2 542 271	16.1	1.7
Holden	2 071 363	2 056 880	2 051 498	–1.0	–0.3
Ford	1 837 094	1 654 216	1 606 936	–12.5	–2.9
Mitsubishi	970 490	921 909	906 782	–6.6	–1.6
Mazda	568 253	751 968	808 719	42.3	7.5
Nissan	740 457	736 431	748 650	1.1	1.7
Hyundai	564 949	696 588	735 904	30.3	5.6
Honda	456 930	587 316	603 398	32.1	2.7
Subaru	359 314	472 251	495 582	37.9	4.9
BMW	192 666	249 035	262 380	36.2	5.4
Volkswagen	126 378	218 971	255 486	102.2	16.7
Mercedes Benz	185 110	224 504	235 510	27.2	4.9
Suzuki	150 331	208 677	223 950	49.0	7.3
Kia	122 717	190 806	210 260	71.3	10.2
Audi	46 334	82 205	94 424	103.8	14.9
Peugeot	66 869	83 051	85 534	27.9	3.0
Daewoo	126 381	95 314	83 879	–33.6	–12.0
Daihatsu	124 910	88 906	79 057	–36.7	–11.1
Jeep	57 335	71 433	78 221	36.4	9.5
Volvo	75 924	73 362	76 129	0.3	3.8
Lexus	41 879	65 274	70 346	68.0	7.8
Land Rover	58 420	63 871	66 491	13.8	4.1
Chrysler	44 478	43 785	42 515	–4.4	–2.9
Saab	42 296	37 474	35 109	–17.0	–6.3
Renault	20 516	24 750	26 960	31.4	8.9
Jaguar	26 353	26 630	26 329	–0.1	–1.1
Porsche	18 014	21 987	23 169	28.6	5.4
Alfa Romeo	21 665	23 029	23 063	6.5	0.1
Citroen	15 791	21 802	22 571	42.9	3.5
Other	139 294	181 424	193 112	38.6	6.4
Total	**11 462 400**	**12 474 044**	**12 714 235**	**10.9**	**1.9**

(a) See Technical Note ACT Data regarding 2007 data.
(b) Percentage movements have been converted to an annual basis. See glossary for further information.

When reviewing VFACTS data, it is also very obvious that the large passenger car segment stalled in 2012, down 19.2% with the majority of these sales shifting to the medium sector which saw a 15.4% increase. In total, passenger car sales increased by 3.1% in 2012.

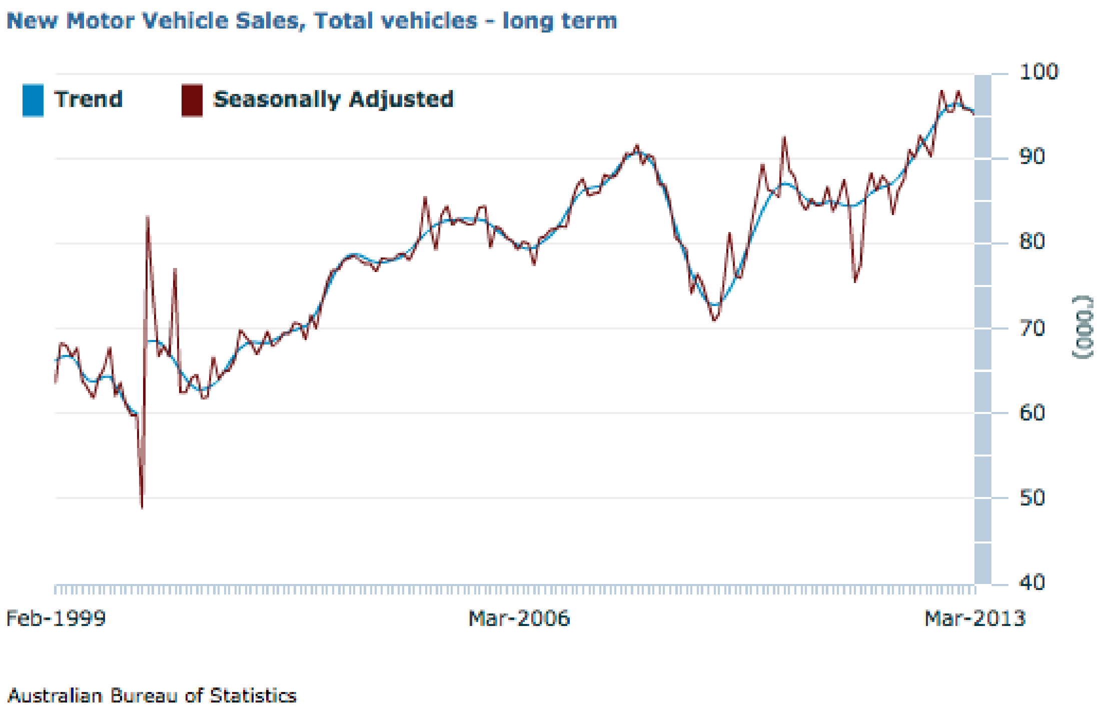
Vehicle Registrations					
Market Segment	**2012**	**2011**	**Variation**	**Variation %**	**Percentage of Market**
Light	137,606	132,442	5,164	3.9%	
Small	252,167	244,090	8,077	3.3%	
Medium	87,674	75,984	11,690	15.4%	
Large	63,096	78,077	-14,981	-19.2%	
Upper Large	3,235	3,042	193	6.3%	
People Movers	11,640	11,109	531	4.8%	
Sports	21,437	14,570	6,867	47.1%	
Sub Total	576,855	559,314	17,541	3.1%	51.9%
SUV Small	60,683	39,535	21,148	53.5%	
SUV Medium	110,044	90,215	19,829	22.0%	
SUV Large	120,363	101,292	19,071	18.8%	
SUV Upper Large	14,735	13,094	1,641	12.5%	
Sub Total	305,825	244,136	61,689	25.3%	27.5%
Light Buses < 20 Seats	2,886	2,934	-48	-1.6%	
Light Buses=> 20 Seats	971	847	124	14.6%	
Vans/CC<= 2.5t	3,316	3,170	146	4.6%	
Vans/CC 2.5 - 3.5t	17,360	17,746	-386	-2.2%	
PU/CC 4X2	49,233	52,179	-2,946	-5.6%	
PU/CC 4X4	124,536	99,850	24,686	24.7%	
Sub Total	198,302	176,726	21,576	12.2%	17.8%
Heavy Commercial	31,050	28,261	2,789	9.9%	2.8%
Total Australia	**1,112,032**	**1,008,437**	**103,595**	**10.3%**	**100.0%**

The ABS data below also reinforces the argument that vehicles are and will remain the primary mode of transport with 65.6% of all people using a car to get to work every day.

Travel to work, top responses	Australia	%	2006	%
Employed people aged 15 years and over				
Car, as driver	6,059,972	60.2	5,404,032	59.4
Car, as passenger	537,638	5.3	533,323	5.9
Train	388,012	3.9	305,194	3.4
Walked only	377,043	3.7	367,168	4.0
Bus	301,187	3.0	250,718	2.8
People who travelled to work by public transport	1,046,721	10.4	824,074	9.1
People who travelled to work by car as driver or passenger	6,620,840	65.8	5,956,027	65.4

In Australia, on the day of the Census, the methods of travel to work for employed people were Car, as driver 60.2%, Car, as passenger 5.3% and Train 3.9%. Other common responses were Walked only 3.7% and Bus 3.0%. On the day, 10.4% of employed people travelled to work on public transport and 65.8% by car (either as driver or as passenger).

By far the largest segment growth was seen in the SUV market with total sales up 25.3%. The SUV segment now represents 27.5% of the total Australian car market and is growing.



Growth estimates for the Australian vehicle parc over the next five years are in line with historic trend and stand at 2.9% per annum. This will see the Australian car parc estimated at 19.3 million vehicles by 2018.

4.0 Market Segment Review

The following sections review key segments of the aftermarket and are a summary of responses to the AAAA online member survey to which we received over 570 responses, as well as qualitative interviews with a number of industry stakeholders.

4.1. Retail

70% of AAAA member survey respondents in the retail segment had an annual turnover between 1 - 5 million dollars and 19% less than a million dollars. Of the 65% of respondents that were part of a franchise group, 62% saw being in a group as extremely important to their ongoing business viability.

Only a relatively low number of survey respondents indicated that they expect to grow their business compared to last year. This highlights the current state of uncertainty occurring in this sector. There was also a direct correlation between those that predicted growth to businesses that were part of franchises or company stores. If we removed the company and franchise stores from this data the results indicate less than 30% of independents forecast growth.

The questions regarding websites and online sales reflect the current uncertainty in this sector regarding the viability and difficulty of selling online, and when questioned, a "wait and see" approach was common. For many, the difficulty came from seeing a viable return for the investment required to construct the infrastructure to support online sales.

69% had company websites but only 18% had online sales. Many interviewed believed online sales could generate double or even triple digit growth over the next five years once their platforms are completely integrated into their business. The key will be ensuring online is utilised as another path to market in an existing retailers arsenal. 18 of the top 20 global online sites are facilitated by traditional bricks and mortar businesses.

True hard part sales through online channels will remain limited until a strong VIN number driven cataloguing system is introduced in Australia, hence the auto-enthusiast and DIY-er will remain the main online buyer.

With many resellers and wholesalers building their own online platforms, maintenance of these platforms will place great strains on both human resources and cost control.

When surveyed on likely product growth areas, retailers believed the top five areas of potential growth were 4WD & camping, accessories, electrical, brakes and suspension & steering. Compared to when this question was last asked of the industry over five years ago, 4WD & camping is the most significant change, going from the eighth fastest grower, to number one.

4.1 Retail (continued)

The use of new advanced materials, product durability and technology is definitely having an impact on the areas that businesses forecast will decline. The top four product segments forecast to have the greatest decline include engine, exhaust, audio & communication and body & trim. Rounding out the top five in terms of declining products are performance parts and accessories which were in the top 3 for anticipated growth in late 2007, but are now sitting 5th in the list of those products likely to show decline.

Reflective of the increasing trend to ownership of vehicles by females, 61% perceive this segment as a priority and only 11% showed little interest in capturing the female spend. However, the industry consensus is that very few companies are adopting targeted strategies to address this potential.

VIN decoding capabilities was given a high level of importance by those surveyed. Strong productivity gains could be achieved including a reduction in error rates and returns, to linking to parts cataloguing would facilitate stronger online sales opportunities.

Due to the major shift in ownership of aftermarket resellers (GPC, Metcash, Quadrant and AHG) it is felt by many in the sector that unless the remaining independents start working together they will find it increasingly more difficult to compete.

Consumer engagement at store level and the imperative to “close the sale” will be critical in the future, as research indicates once a consumer leaves a business the online option becomes more viable, particularly as many online retailers now have next day delivery. This highlights that in store experience remains critical in driving sales. It is also vital to occupy a customer while they are in your business as many are now using smart phone apps to price check and even buy from a competitor online while using your business as a showroom.

The industry must support consumer DIY training and provide better installation instructions if we want online sales to reach full potential as very few will buy online and take parts to an expert for fitment.

The need for a broad inventory with a very long tail to cover 68 brands and 400 plus models has seen inventory exposure increase greatly. For a reseller in 1980, 4000 stock-keeping-units (SKUs) would equal approximately 80% of revenue, in 1990 that was 65% and many believe it now represents about 45% of revenue. The long tail on spare parts is also helping to drive online sales as small retail and wholesale businesses cannot hold enough stock without implementing very expensive rapid supply models. The need for very efficient inventory management systems will drive innovation and the adoption of best practice inventory controls as the risk of dead stock will only increase with every new model.

4.1 Retail (continued) The escalating cost of doing business 7 days a week generates major cost pressures with staffing and minimum shift legislation. Our minimum wage is in the top few in the world and sits at least 25% higher than our main trading partners. In some cases it is greater than 60%. Business lease rates are also among the highest in the world. The result of this is lower returns per square meter against international standards and with consumers expecting business to match International prices, this bottom line pressure will only increase unless we greatly improve productivity.

To the younger generation brand recognition of some of the industry's historic and iconic brands has reduced. This is a direct result of these brands being late adopters of multi-channel brand marketing, relying on traditional print and media, none of which the younger generation utilise. For many, brand recognition in the sub 30 age group is low and declining.

4.2 Repairs & Maintenance

While data indicates average OEM retention of vehicles is increasing as a result of longer warranties and fixed price service contracts, this average retention period is still estimated at 4.5 years for mainstream (higher for luxury) vehicles. This is supported by the online survey responses that indicate as a percentage of work, cars younger than 3 years represent only 19% of business. It is also important to understand that the bulk of work conducted in the first three years of a vehicle life cycle is low margin routine maintenance, so considering the total maintenance spend in a vehicles life, the bulk sits firmly in the aftermarket sector.

The independent workshop sector remains loyal to aftermarket suppliers with the greatest drivers of purchasing patterns being supplier relationship (ease of doing business), followed by part availability. This is driven by the ongoing need for rapid response to parts requests in an effort to maintain workshop efficiency. Delays hold up hoists and technicians and few workshops currently pre-order parts or hold large inventories which increases demand for rapid supply.

When asked the question regarding usage of branded 'vs.' white label (house brands) parts, the overwhelming response was to use branded parts 88%. When questioned further, the interesting point here was a changing industry belief that the larger resellers house brands are now accepted as branded parts and are seen to have similar quality and warranty as traditional brands.

In relation to apprenticeships, only 58% of respondents to the survey had employed an apprentice in the last 12 months and given the industry is still considered to have skill shortages, a discussion with Government on removing road blocks is required. When questioned many smaller workshops answered with a common voice stating "it's just too difficult and risky to take on apprentices at present".

Reflective of the impact changes in advancing vehicle technology, the difficulty in accessing vehicle information and the high cost of doing business, only 62% of respondents believed their business would grow in the next 12 months. Interestingly those that believed growth would occur were from the larger businesses.

Considering the rapid technological advances and increased need for focussed training and data sharing, the repair and service sector also needs to be ready for structural change. Interestingly the recent industry survey showed that almost 60% of workshops do not specialise by type of work undertaken. Of those that do specialise, 4WD, steering, suspension and brakes were the primary focus. When asked if these workshops focus their services by brand, over 92% do not specialise by brand of vehicle. It is anticipated that specialisation will become vastly more prevalent in the coming years, and the industry must prepare for this.

4.2 Repairs & Maintenance (continued)

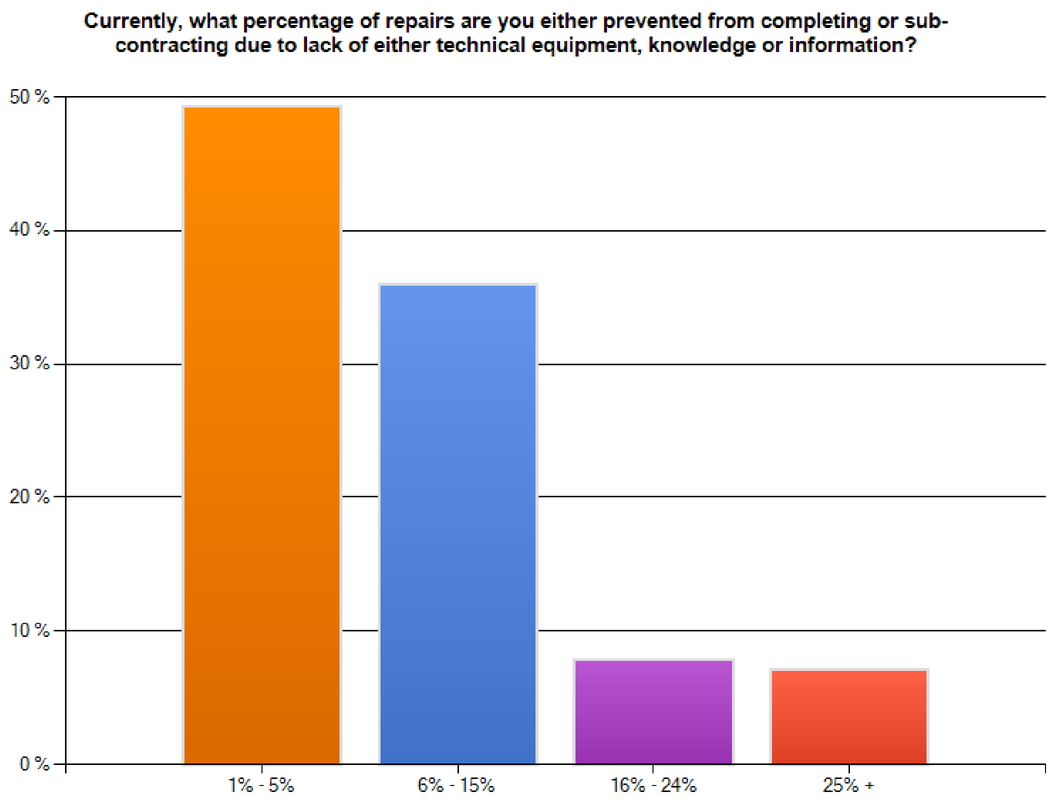
56% of workshops indicated they are using online parts ordering. However, when this was clarified the majority of these orders were through supplier provided closed loop platforms, not the wider internet. Some did report using general online sites to buy difficult or specialist parts and tools as required, often from overseas suppliers.

When repairers were asked the question “if a comparable part is available from both the aftermarket and OEM network at a similar price, where would you usually source it from”, almost 70% reported they would purchase the aftermarket product. This reflects both the strength of key aftermarket brands and the lack of OEM product penetration in the independent aftermarket.

Access to technical information and data is still the biggest ongoing issue for the industry and while resources are available through a number of providers including Autodata, Auto-Tech and Boyce, most surveyed still required multiple sources and indicted that for highly complex or brand specific repairs, they relied on international websites to obtain this data.

79% of respondents receive no information regarding manufacturer safety recalls and service campaigns. Recalls and technical campaigns by OEM’s often encompass not only safety issues, but in-service fixes to ensure a vehicle is running at optimum efficiency. The lack of transparency with service campaigns could be detrimental to the longevity and safety of vehicles and puts the independent repairer at a competitive disadvantage. There is currently no Government requirement for OEM’s to put technical campaign information on any Government or external data base.

4.2 Repairs & Maintenance
(continued)



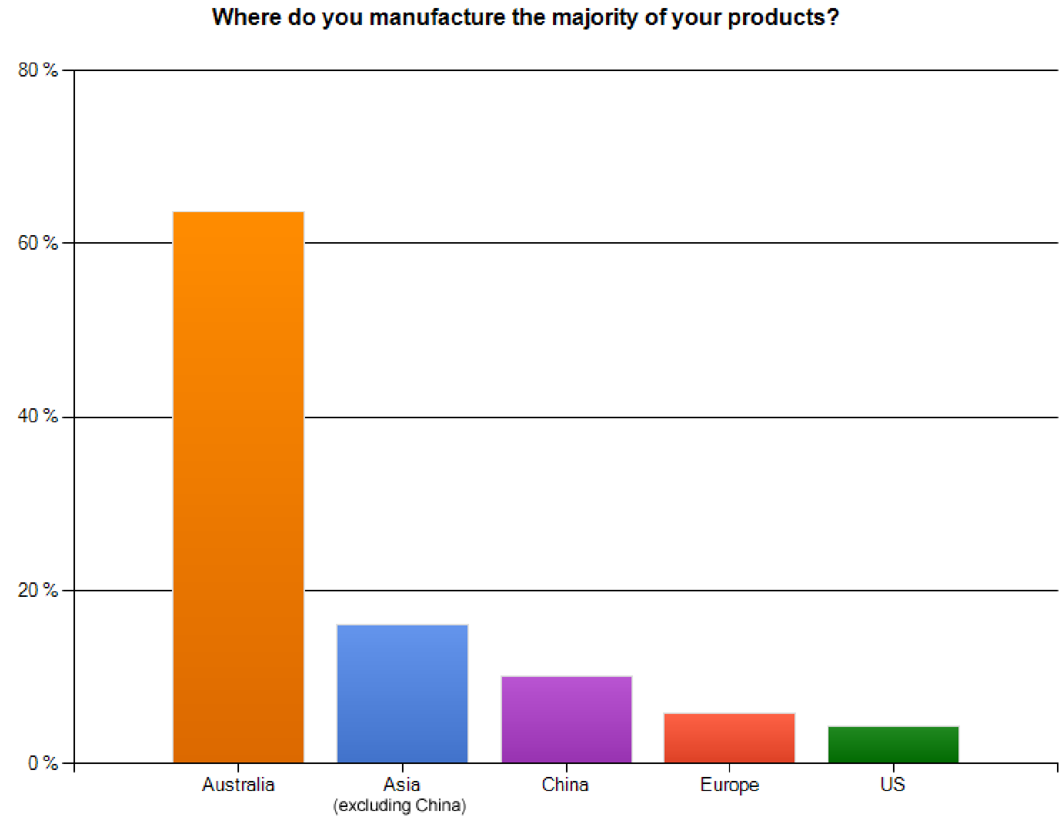
48% of respondents indicated that 1 - 5% of repairs needed outside assistance to complete due to lack of either technical equipment, knowledge or information. 7% of respondents had greater than 25% of repairs which they needed outside assistance to complete. This, more than any other data, indicates the need for fair and equitable access to critical repair and service information for all licensed technicians.

This issue is the subject of the Choice of Repairer Campaign being run by the AAAA on behalf of the independent aftermarket (as outlined on page 13).

4.3 Manufacturing

Australia is still seen globally as a very high quality manufacturer/producer and this is assisting many in overcoming cost pressures driven by a strong AU dollar and high labour costs. Those manufacturers that are prospering in Australia despite the high dollar specialise in low volume high quality products.

As shown in the graph below, Australian based aftermarket manufacturing is still an essential part of this segment. Over 60% of those that manufacture products, still manufacture the majority locally. It is anticipated that this percentage will drop over the coming years, however locally manufactured products will still be a feature of the landscape for the foreseeable future.



Advanced research and development is also a primary advantage for Australian based manufacturers (even those that out source some manufacturing offshore). Over 70% of manufacturers surveyed base their R&D operations in Australia.

Australia's strength in manufacturing is predominantly focussed on specialty products. Performance parts and 4WD Accessories are the strongest two segments, with steering and suspension coming in third. These products are also strongly represented in Australian exported products.

There is a common belief amongst those questioned that local manufacturers who use the 3-step model (manufacturer, distributor, reseller) may need to adopt a 2-step model in the future if they want penetration into the larger players, as the cost of a 3-step model reduces competitiveness. This significant supply chain consolidation has already begun to reshape international markets including North America.

Supplying the Australian based vehicle manufacturers has never been a primary

4.3 Manufacturing (continued)

focus for the majority of Australian aftermarket manufacturers as many of them are aware they will be tendering for parts and accessory supply from competitors based in lower cost markets including Asia. This trend shows no sign of changing.

The future for manufacturers is also promising, with 77% of those surveyed believing that their businesses will be more profitable over the coming three years, with the average expecting profitability to increase by between 15% and 23%.

With so many suppliers and resellers sourcing directly from Asia and the increasing access to cheaper low run production numbers, there were comments made suggesting the ease of creating cheap "knock off" products and importing directly was driving a wedge into the market. Many respondents indicated that Government needs to ensure copyright laws are effective and actively enforced.

Those that are manufacturing in Australia commented that this was increasingly difficult as input cost and employment laws continued to apply great pressure on business viability. Many were reviewing options including improved productivity or possibly greater offshore production.

The impact of sales via online channels isn't a primary focus yet for manufacturers with only 35% currently selling online. Of those selling online, the vast majority of products (88%) are going directly to consumers, with trade sales hardly registering. This will need to change in the coming years, and it is expected that subsequent surveys will show an increase in both manufacturers selling online and the trade channel being better represented in online sales.

The majority of manufacturers are still providing training face to face, while only a small number are exploring online options as their core training platform. While many believe the relationship building face to face interaction generates is invaluable, they accept they can only reach a certain percentage of their customers needs with personalised training and the costs are very high.

4.4 Export

The Australian aftermarket has a rich history as a global exporter and despite the high Australian dollar, above average labour costs and the tyranny of distance to the majority of our key trading partners, export growth is still evident.

In line with Australia's manufacturing strengths, markets such as Oceania, Middle East, North America, United Kingdom & Western Europe (Germany & France) are highlighted as primary locations for Australian manufactured products.

What is interesting is where Australian exporters see their products heading over the next 5-7 years. The primary markets listed above (except Middle East) are all expected to maintain their current level of export sales, however there are a number of emerging markets showing very strong potential. Indonesia came out clearly as the leader in likely export growth, followed by Malaysia, Middle East, China & Thailand.

The significance of the ASEAN region cannot be underestimated in this report. The proximity of the markets, the growing middle class, a large vehicle car parc and favourable time zone differences, mean that expanding into ASEAN countries is perceived to be far easier than tackling more distant growth markets such as Brazil, Russia and other Eastern European countries.

There are however mounting challenges for Australian exporters. The industry survey highlighted that the high exchange rate, price competitiveness in target markets, the lack of Federal & State Government support and international tariff barriers will be their biggest issues going forward. With the Australian Government progressing a range of further Free Trade Agreements globally, it will be essential that these agreements offer a balanced approach in relation to bilateral tariff reductions.

From a Government support perspective, many exporters have utilised the Export Market Development Grants Program, however outside this program, very little support is being offered to local manufacturers. Most concerning was that less than 12% of local manufacturers had access to any Federal Government support, and virtually all of that support was targeted at the supply of Original Equipment products to the local vehicle manufacturers, not aftermarket supply channels.

4.5 Distribution & Import

Many respondents agreed distribution is under the greatest pressure at present, driven by the extra layer of cost to market perceived by the traditional 3-step model. This model has been put under further pressure as the larger retailers in Australia have all adopted centralised warehousing supply models, some supplying greater than 90% of inventory through their own distribution channels.

The key driver of change for local 3-step distributors is the emergence of highly efficient supply chain models by resellers and their need for warehouse facilities to support both their house brand and online sales strategies. As a result the resellers are developing highly efficient distribution and transport models that negate the need for traditional distributors.

Distributors that are also importers report their business remains sound and many have seen their business grow in the last 12 months. However, 63% of respondents believe they are losing sales to resellers and retailers direct sourcing from manufactures. Many have broadened their product range introducing multiple brands and new products to maintain sales volume and relevance.

90% of respondents imported product directly from manufacturers. When questioned many also had binding exclusivity clauses in their contracts and believed this provided the security required to remain viable.

Many import/distribution respondents also supplied their product outside the automotive aftermarket, mostly into the industrial and mining sectors and this diversification ensured stable demand and volumes which in turn underpinned the belief 79% would achieve better than CPI growth.

This sector placed low importance in targeting female customers opting to leave this to the resellers, but one could argue if they are not preparing for this market it won't happen. Particularly as key drivers in this area centre around the look and feel of the product and packaging, all areas under the manufacturers control.

4WD and performance accessories, still make up the strongest sales in the sector, closely followed by electrical, suspension and steering. The greatest area of decline was forecast in audio and communication as these areas are being fully integrated at an OEM level, making aftermarket fitment either difficult or irrelevant.

Despite the challenges in the distribution channel of the aftermarket, over 75% of those surveyed have grown their product range of the past twelve months, with 80% of those confident to grow their business beyond CPI over the next three years. When pressed further growth expectations ranged as high as 10-15% over a three year period.

5.0 Opportunities & Challenges

The Australian automotive aftermarket sector remains one of the more mature business sectors in Australia and with our reliance on motor vehicles not showing any signs of slowing, the growth in vehicles on the road should see the sector prosper. Whilst opportunities certainly exist, the Australian aftermarket also has a range of challenges to tackle if it is to maintain its strong market position, relative to OEMs.

The following section offers an overview of the key challenges and opportunities facing the wider Australian aftermarket.

Challenges

Further supply chain rationalisation – 3-step to 2-step

There is little doubt that supply chain rationalisation over the coming years will lead to significant challenges for some aftermarket businesses. The shift seen globally from a 3-step to a 2-step distribution model is now happening in Australia, and businesses need to be ready to adapt.

True adoption of online sales & marketing

The Australian aftermarket hasn't yet harnessed the full potential of online sales and marketing, and businesses need to be ready to roll out new business platforms or risk being left behind.

Complexity of the Australian car parc

With over double the number of brands for sale in Australia compared to the USA and only 1/17th of the sales, the Australian car parc is extremely diverse which leads to significant challenges to maintain stock levels and keep up with new product development. There is no sign of this diversification changing with many new brands entering our market over the past five years.

Vehicle technology and access to information, tools & equipment

The absence of any regulatory framework or voluntary agreement in Australia, as exists in Europe and the USA, to protect competition in the vehicle repair and service sector, means that vehicle manufacturers and importers are not obliged to make technical and diagnostic information available to repairers outside their authorised dealer networks. This is a tremendous challenge for the aftermarket going forward, however the AAAA is taking a lead role in lobbying for Government intervention.

Industry Consolidation

While there has been a major shift in the ownership in the aftermarket resellers (GPC, Metcash, Quadrant and AHG), it is felt by many in the sector that unless more independents start working together the corporates will become so big the smaller groups and local distributors will lose relevance and critical mass.

Flat Retail Sales

Only a relatively low number of survey respondents indicated that they expect to grow their business compared to last year. This highlights the current state of uncertainty occurring in this sector. There was also a direct correlation between those that predicted growth to businesses that were part of franchises or company stores. If we removed the company and franchise stores from this data the results indicate less than 30% of independents forecast growth.

Evolving Product Trends

The use of new advanced materials, product durability and technology is definitely having an impact on the areas that businesses forecast will decline. The top four product segments forecast to have the greatest decline include engine, exhaust, audio & communication and body & trim. Rounding out the top five in terms of declining products are performance parts and accessories which were in the top three for anticipated growth in late 2007, but are now sitting 5th in the list of those products likely to show decline.

Opportunities

Proximity to Asian growth markets

From an import and export perspective, Australia's proximity to the global growth markets within Asia, offers the aftermarket tremendous opportunities. Already the market has started to transition from a reliance on the supply of products from traditional sources (North America & Western Europe) to the newer frontier markets of China and the greater ASEAN region. Exporters too have highlighted that three of the top five potential export growth markets are within the ASEAN region.

Adoption of new technologies

Whilst the adoption of technology has been highlighted as a challenge, there is little doubt that those that invest in new technologies will see productivity gains across their businesses.

It is critical that the aftermarket stay at the forefront of telematics technology to make sure that consumers understand that they have a clear alternative when servicing their vehicles despite the communication advantage for the dealership networks. Already aftermarket telematic solutions have been developed in Europe and USA, and these may offer advantages to Australia in the coming years.

Steady growth in automotive sales

Market analysts forecast the greater automotive sector is currently performing well and rebounding from the downturn experienced during the Global Financial Crisis (GFC). In fact, Australia set a new record for vehicle sales in 2012 of 1.112 million. This steady growth, combined with strong sales over the past five years, will certainly assist the further growth of the Australian aftermarket.

Evolving Product Trends

The top five areas of potential growth highlighted in the report were 4WD & camping, accessories, electrical, brakes and suspension & steering. Compared to when this question was last asked of the industry over five years ago, 4WD & camping is the most significant change, going from the eighth fastest grower, to number one.

Workshop Specialisation

Considering the rapid technological advances and increased need for focussed training and data sharing, the repair and service sector also needs to be ready for structural change. Interestingly the industry survey showed that almost 60% of workshops do not specialise by type of work undertaken. This is clearly an opportunity for workshops to evolve and begin to offer great specialisation of services.

Glossary of Terms

- AAAA – Australian Automotive Aftermarket Association
- ASEAN - The Association of Southeast Asian Nations
- B2B – Business-to-Business
- B2C – Business-to-consumer
- CPI - Consumer Price Index
- DIFM – Do it for me
- DIY – Do it yourself
- EMDG - Export Market Development Grants Program
- ERP - Enterprise resource planning
- FMCG - Fast-moving consumer goods
- GFC – Global Financial Crisis
- GVM - Gross vehicle mass
- M2C - Manufacturer-to-consumer
- MVC - ABS Motor Vehicle Census 2012
- OEM - Original Equipment Manufacturer
- R&D – Research and Development
- SKU - Stock-Keeping-Unit