M&A intensifies the cut-throat competition in the European automotive aftermarket
About us

Roland Berger, founded in 1967, is the only leading global consultancy of German heritage and European origin. With 2,400 employees working from 34 countries, we have successful operations in all major international markets. Our 50 offices are located in the key global business hubs. The consultancy is an independent partnership owned exclusively by 220 Partners.

HSH Nordbank, the bank for entrepreneurs, represents people possessing foresight, passion and initiative. It has extensive expertise in the corporate client business – and focuses on the energy & infrastructure, trade & food and industry, service and healthcare sectors. The bank occupies a leading position in commercial real estate finance in Germany, is well established in the maritime industry and convinces businesses the world over with its know-how, level of service and commitment.
The European automotive aftermarket is in the midst of profound structural change. Our series of studies analyzes the transformation this industry is going through and gets players thinking about how they can position themselves. We launched our inaugural publication in the series in April 2018: “Consolidation in the European automotive aftermarket” highlighted the full spectrum of trends shaping the industry today. Now these developments are considered in detail in separate studies.

This publication shines a light on mergers & acquisitions (M&A). There have been 65 deals in Europe since 2005, with the pace of M&A activity picking up sharply in 2016 and 2017 – both in numbers of transactions and in their volumes. Since the mega-players from the North American continent hit the European market in force, the process of consolidation has taken on a whole new dynamic. So how can industry players ride the consolidation wave and harness the disruption to evolve their business? How can organizations rapidly turn themselves into a single successful entity following an acquisition through smart management of their post merger integration? These are the questions many players are asking themselves. There are no simple answers. But analyses and outlines of possible strategies can help organizations pick out their individual path to success through the changed competitive landscape. That is the goal of this second publication in our series. In it we describe which players and what developments are driving the consolidation process in the European automotive aftermarket. The focus is on the independent aftermarket (IAM) in the passenger vehicles segment, this being an area experiencing a huge amount of momentum right now. Specifically, we address the market shake-out that’s happening as a result of both passive and active consolidation, describe the international deals taking place and offer insight into the buyer universe in the M&A market. On this basis we work out the critical points that industry players need to bear in mind and we outline the strategic options for the independent aftermarket. And readers may like to know that the next two publications in our series of studies are coming out in the autumn and winter of 2018, in which we will examine success factors from the customer perspective and shine a light on the tire trade.
Competitor pressure is rising, digitalization is challenging tried and tested business models, online trading is cutting the ground out from under the feet of traditional revenue channels. And the automotive aftermarket is undergoing a process of consolidation that is changing the face of the market forever.
The European automotive aftermarket is still growing despite all the disruption it currently faces. The market volume is forecast to increase by 1–2% every year through 2025. Already, the competitive landscape in Europe’s automotive aftermarket is characterized by the big, internationally operating parts wholesalers. Companies with annual revenues in excess of EUR 1 billion are experiencing stable growth and boast the highest EBITDA margins. On this measure of profitability, the benchmark for large players (above EUR 400 million in annual revenues) is a 4–5% margin; for the smaller players (below EUR 100 million in annual revenues) the margin is 2–3%.

The big players can grow their revenues above the industry average and tend to have higher EBITDA margins predominantly as a result of their larger purchasing and revenue volumes. Membership of purchasing networks allows the mid-size players to benefit from similarly favorable procurement terms, though not on the same scale as the big industry players. Another advantage the industry behemoths have is their pan-European presence, which puts them in a position to profit from the growth in different European submarkets and to balance out the opportunities and risks of their pan-European expansion.

Other strengths of the large distributors of aftermarket spare parts for passenger cars include effective warehouse and logistics management. Their dense network across most European countries – with not more than 30 kilometers separating locations in most cases – enables them to keep repair shops well supplied with up to eight deliveries a day. This makes it easy for them to meet customers’ rising expectations in respect of service, a challenge that the smaller and mid-size players also face. They, too, need to turn their attention to optimizing their warehouse and logistics processes.

Europe’s automotive aftermarket exhibits certain differences between east and west. Eastern Europe is a growth market for the IAM. The development of the car parc and the age of vehicles there make this an obvious conclusion to draw. The number of cars in Poland, the Czech Republic, Hungary and Slovakia increased by 23% between 2010 and 2016. In Poland, almost 40% of cars are more than ten years old; in the Czech Republic it’s around 60%. Added to that is the fact that there are far fewer OEMs present in these countries and that the variety of badges on the market is smaller – which reduces the level of complexity in the aftermarket.

The independent aftermarket in Eastern Europe: fast growing revenues, relatively low profitability

Against this backdrop, revenue growth among Eastern European auto parts distributors is higher than for their peers in Western Europe, although EBITDA margins are lower. Reasons for the lower profitability lie mainly in the fact that customers are more price sensitive and have a relatively comprehensive range of no-name and private label parts to choose from. In these markets, remanufacturing also plays a greater role than in Western Europe.

In spite of the somewhat lower levels of profitability, the sales markets of Eastern Europe are firmly on the radar of Western European industry players in the context of their expansion plans. That said, these plans are not easy to realize because both domestic players – like Inter Cars in Poland or Unix Auto in Hungary – and the subsidiaries of pan-European players are already active there. These local heroes are firmly established on the markets and use their first-mover advantage to good effect, exploiting their knowledge of the vehicles in their markets, for example, as well as their relationships with repair shops.
The consolidation wave has hit the European aftermarket — with a marked rise in deal numbers observed recently. But the brisk M&A activity is poised to transform Europe’s market structure to the benefit of the big players.
Europe's automotive aftermarket is still highly fragmented, the three leading players together accounting for around 15% of the market. By contrast, the consolidation process in the US is already well advanced, with the top 3 players boasting a combined market share of almost 50%.

One reason for the European market's fragmentation lies in its great diversity: Not only do the car parcs in the individual nations vary considerably in terms of vehicle age and price segment, but the needs and expectations of repair shops and their customers are often completely different as well. Warranty arrangements are also poles apart with respect to the norms and customs in the various international markets. And then there is the wider spectrum of badges present within Europe, which serves to make supplying parts in the aftermarket a relatively complicated business.

In defiance of these underlying circumstances, the consolidation wave does appear to have hit the European automotive aftermarket now, with M&A activity on the rise for the past several years. There were 65 deals in the 2005–2017 period. The number of transactions is striking, but so is a new quality they display: a consistent rise in mega-deals involving big players. These industry heavyweights can often be found buying up smaller players. But there have also been takeovers between the big players themselves.

Viewed on a country-by-country basis, the following picture of M&A activity in the European automotive aftermarket emerges: The UK is a hotspot with 14 deals, alongside Germany and the Netherlands with 12 deals each. There are several explanations for this focus of takeover activity: For one thing, the UK and Germany are attractive markets per se with a car parc of 30.8 and 45.8 million vehicles, respectively. And for another, the UK is the ideal anchor point for North American players wanting to expand into Europe. The buyer structure in the United Kingdom is similar to that in their home market. And there is no language barrier. This makes the UK the ideal starting point for IAM players from the US and Canada seeking to drive their expansion into Central Europe and the big markets of France, Germany and the Benelux states.

That's not to say that parts traders located in those countries aren't attractive takeover candidates in themselves. The acquisition of major Central European players has often been pursued in the interests of exploiting their network to expand into markets further east.

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1 Within these 65 transactions, there are 50 complete takeovers, seven majority shareholdings, one 50/50 shareholding, four minority shareholdings and three deals that cannot be cleanly allocated to any one of those categories. The number of transactions is actually likely to be higher because smaller deals often do not turn up in the statistics or they may be silent interests.
Mergers and acquisitions in the European IAM have seen a noticeable rise over the past several years. More and more mega-deals are also being struck.
The UK, Germany and the Netherlands are M&A hotspots. The UK is an especially popular choice for North American players as an entry path into the European market.
Mergers and acquisitions across borders in the European automotive aftermarket are on the rise: 39 of the 65 M&A transactions recorded since 2005 are classed as cross-border deals. North American companies have been particularly active.
As Figure C illustrates, there were far more cross-border deals in 2016 and 2017 than in the years before → C. In this recent M&A activity within the European IAM, and especially in the big deals, a key role has been played by the American and Canadian firms who have long been hungry for growth potential in Europe and aggressively seeking inroads: Twenty of the 39 cross-border acquisitions put the targets into the hands of companies headquartered on the other side of the Atlantic.

The prime example of an aggressive expansion strategy being used to gradually build up a wall-to-wall presence across the “old continent” from an anchor point in the UK is that of LKQ Corporation. Headquartered in Chicago, this American firm was founded in 1998 and has experienced rapid growth through acquisition. A stock corporation with annual revenues of USD 9.74 billion (2017), the company is active in North America, Taiwan and Europe with different subsidiaries operating in the various markets.

Global players build up a pan-European presence in the IAM

The spark that ignited the expansion of the company’s European business was the 2011 acquisition of Euro Car Parts Limited, the UK’s leading supplier of car parts with more than 200 subsidiaries. In 2016 LKQ then bought Belgium’s Sator Holding, whose 15 subsidiaries and some 2,700 employees serve customers across the Netherlands, Belgium and Luxembourg. The next stop on their European shopping spree was Italy in 2016, when LKQ acquired Rhiag Holding from private equity company Apax Partners for about EUR 1 billion. A parts distributor from Lombardy, Rhiag serves the Italian, Spanish and Swiss markets as well as many in Eastern and Southeastern Europe (Czech Republic, Slovakia, Hungary, Poland, Romania, Bulgaria and Ukraine).

LKQ hit the headlines in the German business press in December 2017 when their acquisition of Stahlgruber became public. Once anti-trust approval was granted, LKQ was able to cement its position as a global player in the automotive aftermarket. Indeed, the Stahlgruber deal, valued at around EUR 1.5 billion, gives the US firm more than just substantial clout in the German market. Stahlgruber, a company with a long tradition, having been founded in Poing near Munich in 1923, also comes with over 100,000 business customers and subsidiaries in Germany, Eastern Europe, Italy and Switzerland. These subsidiaries are an excellent fit for LKQ Corporation’s expansion strategy targeting a pan-European presence. LKQ’s CEO Dominick Zarcone is quoted as saying in a press release, “We are very excited to bring Stahlgruber into the LKQ family. This transaction demonstrates our ongoing commitment to expand our European footprint. (...) We believe that Stahlgruber’s leading market position in Germany, unparalleled distribution network and unique value proposition will play a pivotal role in our efforts to grow LKQ’s business in Europe.”

Fully consistent with this vision, the US auto parts multinational is also putting its feelers out into Northern Europe, purchasing a 26.5% stake in Mekonomen Group in 2016. Mekonomen has its head office in Stockholm and serves the Scandinavian IAM with its three brands MELA, Mekonomen and BilXtra, operating 340 subsidiaries with more than 2,100 affiliated repair shops. The company has a 15% share of the Swedish market and 25% of the Norwegian. The 26.5% stake LKQ holds makes the company Mekonomen Group's biggest shareholder.

Canadian auto parts distributor Uni-Select, founded in 1968, also chose the UK as its entry path into the European market, having previously been active across Canada and the United States. The company, domiciled in the Province of Quebec and posting annual revenues of CAD 1.7 billion in 2017, spent USD 265 million on acquiring The Parts Alliance, the UK’s second-largest car parts supplier with a market share of 7%. “We are excited to establish a third growth pillar in the large UK parts aftermarket that is expected to be immediately accretive in a market with great upside potential from future consolidation opportunities,” said Henry Buckley, CEO of Uni-Select, on completion of the deal.
Cross-border deals and their development in Europe

Especially the bigger players find it increasingly important to be present in as many European markets as possible. Regional targets are the focus of their expansion plans.

The targets are still in the West

Source: Mergermarket, Roland Berger, HSH Nordbank
The Genuine Parts Company is another US heavyweight to be involved in a transatlantic mega-deal recently: Based in Atlanta, the company (posting 2017 revenues of USD 16.3 billion) bought Alliance Automotive Group (AAG) from financial investor Blackstone in 2017 in a deal estimated to be worth USD 2 billion. AAG is one of Europe’s leading providers of car parts, tools and repair shop fit-outs in Europe.

The diversity and fragmentation of Europe’s economies is an unfamiliar challenge for North American parts distributors, their home markets of the United States and Canada being two nation states. Europe, on the other hand, consists of almost 50 nations, 28 of which are Member States of the European Union. There is no such thing as a European market because the individual countries differ, sometimes markedly, in their buyer preferences, trading practices, income levels, demographic structures and tax systems.

These differences make it difficult, if not impossible, for North American parts multinationals to implement a uniform distribution concept across Europe. The business models can’t just be scaled with a one-size-fits-all approach and imposed on all European locations. Which means that North American players will continue buying up regional IAM players as they pursue their pan-European expansion into the future.

However, it’s not only the new transatlantic players that are behind the brisk M&A activity in Europe. Asian players are in the game as well. As part of its long-term “VISION 2020” plan, in 2017 Sumitomo Rubber Industries acquired Michelin in the UK. Established local auto parts suppliers are also contributing to it. Given the sustained campaign coming from North America, they too are seeking ways to scale their business model because, notwithstanding the significant scale and good position enjoyed in their home markets, many European industry players are feeling rattled.

In spite of their good positioning on their home markets, many European industry players are feeling rattled by the sustained campaign from North America. So they are seeking ways to scale their business model.
The consolidation wave is rolling in and the process is set to go on for years in the automotive aftermarket. There are two possible ways in which companies will get through this phase of disruption: they can be in the driving seat or they can be a passenger.
Those who end up driving the market transformation are active players who grasp the changes as an opportunity to evolve their own business. We analyzed which strategies and scenarios are open to auto parts and accessories distributors, differentiated by company size. Consolidation always goes hand in hand with a market shake-out: Suppliers disappear from the market as they are bought up by rival firms, go out of business, or fail to find a successor to take over the reins. Management succession is a particular problem in Germany, where the independent aftermarket is largely made up of owner-operated companies. The three scenarios – becoming a takeover target, going bust, and giving up the business owing to having no one to take on the management – all have one thing in common: These companies are not in the driving seat of the disruption shaping the sector. Instead they are being buffeted around by the winds of change whirling through their industry. Under the intensified competition now present in the IAM, small players, those with annual revenues below EUR 100 million, can be considered a particularly endangered species or may even be a dying breed. Regional strength and customer proximity alone are no longer enough to hold a position on the market long term. With these as their only positives, small players cannot make up for their size disadvantage. Such structural handicaps are often accompanied by homemade problems, such as issues with integrating new IT and product management systems.

Passive consolidation: insolvent companies as takeover candidates

The disruption sweeping through the German automotive aftermarket is making itself felt in the insolvency statistics: The Federal Statistical Office recorded 638 insolvencies in the vehicle repair trade in 2017, 9% more than the year before. A look at the individual segments of the automotive industry shows that distributors of car parts and accessories are in particular trouble: 105 filed for insolvency protection that year, one-third up on 2016. The insolvency trend in the vehicle repair trade in general and in auto parts distribution in particular is thus the exact opposite of the trend in the economy as a whole, where the number of insolvent companies has been falling consistently in recent years. Recording 20,093 cases in 2017, the insolvency statistics reached their lowest point since 1999. In the context of the industry’s consolidation, the rise in insolvencies is both a consequence and a driver of the self-reinforcing consolidation process. The more players that get forced out of the market, the greater the influence
of the remaining players and the more competitive pressure is exerted on the smaller companies. Troubled businesses often become takeover candidates. To cite just one example, February 1, 2017 saw insolvency proceedings opened in respect of Karl Rücker Kfz-Teile GmbH and Co. KG. The family business, founded in Heilbronn in 1933, operates on an exclusively regional basis. Stahlgruber now wants to take over and operate the company’s three sales subsidiaries in Crailsheim, Eppingen and Schwäbisch Hall.

Insolvency does not always lead to a takeover – sometimes it ends with the business being wound up. Essen-based Hengstenberg Group is an example of an SME that couldn’t handle the transformation of the automotive aftermarket. Founded back in 1930, the auto parts supplier – in the third generation of family ownership and employing almost 200 people – went into self-administered insolvency in July 2017. Hengstenberg later filed for regular insolvency protection. In May 2018 the company’s assets – from forklifts to warehouse shelving to snow shovels – were sold off by online auction.

Even parts and accessories distributors playing in the higher revenue leagues can become restructuring cases. Forstinger, Austria’s biggest homegrown auto accessories chain, filed for compulsory restructuring at the end of January 2018 on the grounds of negative equity and illiquidity. As 2017 turned into 2018, Forstinger was operating 108 branches in Austria with over 100 affiliated independent repair shops. With a workforce of more than 800 people, the parts supplier earned revenues of EUR 111 million in 2016/2017.

A balance of feeder business to end customer business is important

Part of what distributors are looking for from acquisitions are benefits to their feeder business, a term that refers to the supply of smaller, locally operating parts distributors. The big industry players make between 15 and 30% of their total profit with their feeder business. A parts distributor with EUR 1.5 billion in revenues can expect feeder business to increase that figure by some 5% in the wake of consolidation. Nevertheless, striving for unlimited expansion of the feeder business is not necessarily the silver bullet to improving profitability, given that the pressure in this B2B segment is high and the margins can be low. That being so, it’s advisable to aim for a balance between feeder business and end customer business. Also, the growing consolidation in the automotive aftermarket will encroach upon the feeder business long term: As the number of smaller parts distributors continues to fall, the customer base in the feeder business will eventually erode.
However, economies of scale are certainly not the only reason behind mergers and acquisitions in the automotive aftermarket. Players involved in the big deals in this industry have a range of strategic motives they are pursuing, and these affect various links in the value chain. They include: expanding their global procurement network, diversifying their product portfolio and gaining immediate access to more customers.

On top of this, the chance that automotive suppliers would have to gain direct access to the control point in the market via a takeover plays an important role for them. The goal of achieving blanket coverage in terms of presence across Europe’s sales markets is a key aspect to many deals. This is often the motivation behind deals where big companies come in and swallow up small and mid-size parts distributors. Such acquisitions are a way for the big players to get more density into their local network and efficiently drive their regional growth. In doing so they inject customer proximity into their business and equip themselves with the prerequisites for realizing a high service level.

The example of Alliance Automotive Group (AAG) illustrates this approach. The company is driving its expansion primarily in the UK, France and Germany. AAG has set its sights on acquiring regionally strong players. Its takeover of parts distributor Coler in 2015 was followed in the summer of 2016 by the acquisition of Freiburg-based Busch GmbH (annual revenues of EUR 20 million). Shortly thereafter, AAG went out shopping once again, this time in the north of Germany, bringing Büge Group (annual revenues of EUR 18 million) under the corporate umbrella in the autumn of 2016. AAG’s latest acquisition is Essen-based Hennig Fahrzeugteile GmbH, as announced in a press release in June 2018. Hennig Fahrzeugteile operates a total of 31 branches and supplies over 9,000 customers, predominantly among the trade and independent repair shops. The deal is currently awaiting anti-trust approval. German players, too, are keen to reinforce their market

“Acquiring smaller companies is a way for the big players to get more density into their local network and efficiently drive their regional growth.”

Julian-Kaya Bagbasi, Vice President of HSH Nordbank
Strategic options for small, mid-size and large auto parts suppliers

Change as an opportunity: Active players of all sizes can find various ways of successfully riding the consolidation wave in the automotive aftermarket.

**BUSINESS MODEL**

**MARKET STRUCTURE**

- **Consolidated**
  - "Size is everything" – national and international M&As
  - "Mixed strategy"
  - "Innovative adaptation of business model"

- **Fragmented**
  - "Controlled growth"
  - "Local champion"
  - "Online"
  - "Growth to survive"

- **Small suppliers**
- **Mid-size suppliers**
- **Large suppliers**

Source: Roland Berger, HSH Nordbank
position through acquisitions. Cologne's Hess Group, for example, acquired Minden-based parts distributor Schwenker (which continues to operate under its own name) with effect January 1, 2017. The acquisition of Schwenker, a nationally and internationally operating spare parts distributor, represents a major expansion of the market for Hess Group, whose business had previously been focused on the two German states of North Rhine-Westphalia and Rhineland Palatinate. Its presence in Rhineland Palatinate and in Saarland was further strengthened by the acquisition of another distributor, Autoteile Jakobs GmbH & Co. KG.

On track for success through consolidation: strategies and scenarios for parts distributors

We analyzed the strategic options for parts and accessories distributors in the European automotive aftermarket. It should be noted that Europe is not a homogeneous whole – the individual regions and countries differ quite substantially. Consequently, there is no single blueprint with all the right advice to suit every European player. However, there are certainly a few recommendations and things to think about for all market participants. Given that the underlying circumstances and possible actions depend mainly on the size of the company, we grouped them into three different categories: The “small parts distributors” are those with annual revenues of up to EUR 100 million; “mid-size parts distributors” have annual revenues of EUR 100–400 million, and “large parts distributors” are companies with annual revenues in excess of EUR 400 million → D.

Small parts distributors: annual revenues below EUR 100 million

Companies in this category have every chance to assume the role of local champion. There is plenty of scope for a regional niche strategy. However, parts distributors below about EUR 100 million in annual revenues should really take a critical look at any ambitions of national or even international expansion for their business. Firms playing in the higher leagues can take advantage of totally different economies of scale in warehousing and in logistics, with the result that smaller suppliers will always be inferior to them. A strategy of forwards or downstream verticalization can make sense for the smaller players: bringing in services to expand their portfolio serves to strengthen customer loyalty and helps build a profile as a local champion. And vertical integration is a way of diversifying risk and boosting enterprise value. Making the business look more attractive in this way can be helpful for a smaller company if they do eventually decide in favor of merging with a larger player.

Controlled growth is also an option, of course, and is a way for smaller parts distributors to evolve into mid-size players. It is essential, however, to take a realistic view of the company's capabilities. The same goes for expanding the online business. Rather than trying to pull off this major feat alone, cooperating with online platforms is a possibility. Suitable platforms would be those that function as a pure-play marketplace, like Tyre24. Cooperation can enable a smaller parts distributor to benefit from the platform's existing awareness factor, IT infrastructure and know-how – without having to invest enormous amounts of money and manpower in the undertaking.

Mid-size parts distributors: annual revenues of EUR 100–400 million

“Never get stuck in the middle,” or so the management literature tells us. This recommendation is something that mid-size parts distributors would do well keep in the back of their minds. On the one hand, they are too big to pursue a niche strategy, and on the other hand they cannot realize economies of scale to the same extent or build up the kind of market presence that the big players can. So what are ways out of this uncomfortable “in-between” position?
Consolidation process in the European automotive aftermarket in selected countries

The top three companies still have a relatively small market share in most countries.

Cumulative market share of top 3 players in percent

Consolidation process (over about 25 years)

Source: Roland Berger, Harvard Business Review
One option is to pursue a strategy of inorganic growth based on joint ventures or acquisitions. About half of Europe’s markets have one or two regional market leaders who could make interesting acquisition candidates. If and when an acquisition is pulled off, integration and logistics are the two top-priority areas where action needs to be taken. Tasks include integrating the new business locations into the existing ERP and CRM systems. In terms of logistics management, the integration of the acquired company needs to go hand in hand with efforts to optimize processes from the very start.

The most promising competitive strategy for mid-size spare parts distributors is a variant of quality leadership: these players should aim to position themselves as champions of customer service. Success in this role will enable mid-size companies to stand out from the big players who beat them on product variety and price leadership. Bearing in mind that one-third of the German market is controlled by WM and Stahlgruber, some means of differentiation is urgently needed. The option of being a service champion boosts the chances of survival for mid-size players and offers them development perspectives even in the face of consolidation.

Large parts distributors:
annual revenues above 400 EUR million

Size is relative – next to North American behemoth LKQ, the big players in the European automotive aftermarket do look rather petite. The challenges for the giants of the European industry are many and varied. For one thing, they need to withstand the pressure from US and Canadian rivals, who are vehemently trying to increase their influence over the market on the “old continent”. This competition is being fought out not least through economies of scale in procurement and in logistics, as well as through the online business. Whoever wants to play in this league long term will need to have an interregional or international expansion strategy in place. The countries of most interest are those in Southeastern or Southern Europe, where consolidation is not as far advanced as in most of the Eastern European markets. Poland still holds out good prospects as a major market of the future with a car parc encompassing more than 21 million passenger vehicles. And Poland can also serve as a springboard into Southeastern Europe. But anyone wishing to venture into the Polish market should not leave it too much longer.

Expanding business operations into the UK or Scandinavia does not hold the promise of success – new players have quite simply missed the boat in these markets, both online and offline.

The consolidation curve in Figure E illustrates how far advanced the process of consolidation is in the individual European countries. The automotive aftermarket’s consolidation is depicted over a period of about 25 years, passing through four phases: opening, accumulation, focusing and balance. The dots on the consolidation curve indicate the cumulative share occupied by the three largest companies in each market. Most European states are currently in the accumulation phase. Only in the UK, Denmark and Sweden has IAM consolidation already reached the third phase (focusing) → E.

It’s all about speed: delivery lead times as a means of differentiation

As critical success factors, the big spare parts distributors need to have a more extensive product range and a fast delivery service. Extremely short lead times are a means of differentiating a business from the competition, in that today’s customers more often than not expect the parts they order to be in stock in next to no time. It can therefore pay off for the big players to be a role model when it comes to delivery speed.

Offering an online business is a big part of what companies need to do to make innovative adaptations to their business model. Being able to order parts over the internet is no longer anything special – customers simply expect it. A digital ordering system is therefore not an optional extra for parts distributors – it’s a must.
When it comes to strengthening their online presence, it can make sense for the big players in particular to cooperate with intermediaries like insurance companies or online platforms: The intermediaries, for their part, gain power and influence in the market by steering in the majority of repair jobs and handling the bulk of service management. Cooperating with intermediaries also presents parts distributors with the chance to win new customers through a further revenue channel. Fundamentally, there are several possible approaches for expanding an online business, including cooperation, partnership and participation. There are even parts distributors who go it alone with their web shop concepts. But the revenues from virtual stores have not yet climbed to astronomical levels. In Germany, Austria and Switzerland the share of parts bought online as a

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**Post merger integration**

Businesses often have stratospheric expectations of mergers and acquisitions. But they are frequently brought down to earth with a bump. When two organizations need to grow together after the deal is closed, all does not tend to go smoothly. A Roland Berger poll found that two-thirds of all M&As end in frustration when the anticipated economies of scale fail to materialize. Such disappointment could be avoided if those in charge approached the post merger integration (PMI) with the necessary care and attention. PMI management needs to be both well conceived and well organized. Where M&A activity involves taking over insolvent industry players or making strategic investments, the challenges for all involved are manifold. Going into them all in detail is beyond the scope of this publication. But the points below present a brief outline of the most important dimensions of the complex subject that is PMI management.

**Structure and organization**

- **Company structure:** What should the hierarchical structure look like after an acquisition? Where will roles and responsibilities be allocated within the newly formed organization?
- **Company processes:** How can the work processes be designed so that economies of scale can be realized through the integration of the acquired company? How can duplications be avoided or eliminated as soon as possible?
- **Key Players:** Which of the employees can lend decisive impetus to the PMI and the company’s further evolution? How can these people be brought into the PMI management process? How can these key players be retained within the company through long-term loyalty measures?
- **Brand strategy:** Should the new organization resulting from the acquisition come under the master brand? Might it make sense to retain brands that are regionally strong?
- **Staff training:** What staff qualification measures can support the PMI (such as information about products, service-level agreements, etc.)?
- **Compensation:** How can salary structures be aligned? What union wage agreements apply? What bonus payments were normal for sales staff and employees of other departments?
A proportion of all IAM trading stands at about 10–12%. And then we have the fact that Amazon, eBay and other internet companies are strong players in the online trading of spare parts. Auto parts and accessories distributors seeking to enter the online business independently now will have to anticipate difficult conditions in this market segment. Another strategic option to improve a company’s competitive positioning is to pursue backwards verticalization. Manufacturing private label parts and accessories offers an effective lever to increase margins. But integrating the upstream steps in the value chain also holds the risk of building up overly rigid fixed costs. Companies should therefore make sure that their backwards verticalization does not prevent them from being able to respond to any changes that may occur in the market.

> **E-commerce strategy:** Are there one or many online shops being operated autonomously? Which platforms was the acquired company present on? What about search engine optimization (SEO) for the website?

### Logistics

> **Combined planning:** How will the acquired company be integrated into the management accounting system, both on a single-company level and on a group level? > **Finance structure/cash management:** How will you make sure that customers are informed about the change of bank account for payments?

> **Logistics/warehousing policy:** Does it make sense to create a centralized warehouse? Or does the existing central warehouse have sufficient capacity to also cater to the acquired company? Is decentralized or centralized logistics more advantageous when lead time is a key success factor? Does it make sense to invest in an automated warehouse?

> **Purchasing/procurement networks:** Which procurement network is the acquired company in? What are the contract terms and notice periods? What are the premium payments? If you intend to change to a new purchasing network, how can you bridge the interim period, especially in relation to financing and purchasing?

### Finance & management accounting

> **Combined planning:** How will the acquired company be integrated into the management accounting system, both on a single-company level and on a group level? > **Finance structure/cash management:** How will you make sure that customers are informed about the change of bank account for payments?

### Distribution

> **Client relationship management system:** How will you ensure that the alignment of the CRM systems happens in a timely manner? > **Marketing costs:** Are there economies of scale to be had within the regional brand presence? Which brands should be positioned in which markets? > **Discounts:** What is the acquired company’s discount policy? How can the different discount systems be aligned quickly within the new organization?
M&A activity in the automotive aftermarket is picking up momentum. The buyer universe is dominated by strategic investors and private equity firms.
Two different buyer groups are at large on the M&A scene: financial investors and strategic investors. The best-known type of financial investors are private equity firms. A strategic investor is often a rival company: Acquisitions are generally made in order strengthen a company’s market position through vertical or horizontal integration. Buying another company is often the medium of choice to gain access to new markets or expand into new business segments.

A look at the M&A transactions in the European automotive aftermarket since 2005 reveals a clear majority of strategic investors on the buyer side. This type of investor made 52 of the 65 deals in total. But this high proportion should not mask another remarkable trend visible in the market: The involvement of private equity firms in acquisitions and participations has been going up since 2012. These financial investors have discovered the automotive aftermarket as a home for their investments. The active private equity firms that have invested in auto parts distributors include Bain Capital (Autodis Group), Blackstone (Alliance Automotive Group), Apax Partners (Rhiag) and Hg Pooled Management Limited (The Parts Alliance). There are two types of engagement that these financial investors enter into: Either PE funds acquire shares or whole companies and thus act as buyers and (co-) owners, or private equity firms put up a strategic investor to provide the capital required for the deal – as was the case in six deals → F.

“A look at M&A transactions in the European automotive aftermarket since 2005 reveals a clear majority of strategic investors on the buyer side.”

Julius Fabian Roberg, Managing Director of Alliance Automotive Service GmbH
Players in the buyer universe

Auto parts distributors are now firmly on the radar of private equity firms.

Number of deals

- 7 Financial investor
- 52 Strategic investor
- 6 Financial/strategic investor

Valuation levels in Europa

Relatively cheap: Acquisition multiples are still comparatively low.

<table>
<thead>
<tr>
<th></th>
<th>Maximum</th>
<th>Median</th>
<th>Minimum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue^2</td>
<td>1.4x</td>
<td>0.8x</td>
<td>0.2x</td>
</tr>
<tr>
<td>EBITDA</td>
<td>17.4x</td>
<td>9.8x</td>
<td>3.4x</td>
</tr>
</tbody>
</table>

Source: Roland Berger, HSH Nordbank

^ Excluding SFS Agricultural acquisition
^ Including 12 deals
A look into the buyer universe

Attractive valuations: parts distributors are comparatively cheap

The fact that investments in the automotive aftermarket have been showing up as ever brighter blips on the radar screens of private equity firms in recent years is partly down to the relatively favorable conditions for buying into the industry. The market for participations or acquisitions of companies in the automotive aftermarket has not been as overheated as in other sectors. One of the indicators that show us this are the multiples used as a guide for identifying the enterprise value in a deal. The size of the multiples varies by industry. For example, an EBITDA multiple of 16.3 (median) is common in the European MedTech industry, whereas a normal revenue multiple for the pharmaceutical industry is 6.6 (median). Comparing these figures against the overview in Figure G proves that multiples in the automotive aftermarket are still relatively low – a scenario which tends to make investment an attractive option for private equity firms.

Some private equity firms sold off their investments in 2017. It was a good time to play the exit card. For one thing, auto parts and accessories distributors were on impressive form with their strong growth and improved profitability. And for another, on the buyer side there were parts distributors, mainly from the US and Canada, just waiting for the chance to increase their international reach, drive their expansion in Europe and realize economies of scale through acquisitions.

Financial investors are bedding in: further deals foreseeable

This is not the least of the developments that has provided fresh incentives for private equity firms to bring further participations in the automotive aftermarket into their portfolio. It is a trend that gives us reason to expect further professionalization of the IAM, and auto parts distribution in particular. Private equity firms are normally keen to improve the competitiveness of the companies they acquire by optimizing processes and increasing revenues and profitability. By doing so they make the company more attractive for selling on, enabling the financial investor to exit with the highest possible level of profit. This being their business model, we can expect to see further deals occur.

The involvement of financial investors will keep the level of momentum within the consolidation process high and take it to a new dimension: Private equity investments combined with the general professionalization of auto parts distribution are expected to result in the newly created, consolidated parts distributors moving into additional areas of the value chain. We will see them occupying new links in the value chain, both through upstream integration, such as by manufacturing their own parts, and through downstream integration, by extending their portfolio of services and repair shop activities.
Companies that want to emerge from the consolidation process stronger must not allow themselves to freeze like rabbits in the headlights. They need to take the future of their business in their own hands. We have put together a number of recommendations.
1. Analyze your options

Taking the consolidation process the industry is going through and using it to strengthen your own market position is an enormous challenge for players large and small. And it takes a clear vision to overcome the challenge. Management must develop an awareness of which course the company should chart to successfully ride the consolidation wave. Several options are possible; their pros and cons must be analyzed and debated individually. Questions to be answered include: Do we want to enter into exclusive partnerships or take a stake in a company? Do we want to buy a rival firm? Do we think it makes sense to go for downstream/upstream integration in the value chain?

2. Secure your market position

A well founded decision to pursue a certain strategy throughout the European IAM’s consolidation phase can only be made on the basis of accurate market observations. Companies also need to adopt a clear line toward intermediaries or online platforms. So how should you shape your relationships with these new players in the automotive aftermarket? There are partnerships, acquisitions or minority shareholdings to choose from, depending on what level of influence you want to exert. Securing a successful market position long term normally necessitates a certain critical scale. Once that is achieved, economies of scale can be realized and the core business’s profitability enhanced.

3. Think digital

In the overhauled competitive landscape, having a clear online and digitalization strategy is crucial to success. There are different ways of expanding your online business: installing a purely internal ordering system, cooperating with a marketplace, building your own external platform or buying into a platform. That said, the latter option will be a difficult one, as the process of consolidation is already underway in online parts trading, too.

4. Adapt your structures

Companies will only be able to successfully navigate through the automotive aftermarket, strongly marked by competitive pressure and consolidation tendencies, if their structures and processes are able to be quickly and flexibly adapted to the changes taking place. Establishing in-house competencies is an absolute must, especially in PMI management. Building an efficient infrastructure, particularly in IT and logistics, plays a key role. Logistics is an especially crucial area. So it’s important to carefully weigh up whether centralized or decentralized solutions make more sense. Getting it wrong here will extract a heavy toll on any business, in that mistakes directly affect the quality of deliveries the company can make and thus the level of customer satisfaction the business is able to achieve.
Credits

WE WELCOME YOUR QUESTIONS, COMMENTS AND SUGGESTIONS

ROLAND BERGER

ALEXANDER BRENNER
Partner
+49 160 744-4318
alexander.brenner@rolandberger.com

PATRICK HEINEMANN
Partner
+49 160 744-7321
patrick.heinemann@rolandberger.com

ROBERT EIRICH
Senior Consultant
+49 160 744-8757
robert.eirich@rolandberger.com

HSH NORDBANK

JULIAN-KAYA BAGBASI, MBA
Vice President
+49 211 82858 340
julian-kaya.bagbasi@hsh-nordbank.com

JENS THIELE
Head of Trade and Commodity Finance
+49 40 3333 12611
jens.thiele@hsh-nordbank.com

DR. MEIKE AHRENDTS
Associate
+49 40 3333 15726
meike.ahrends@hsh-nordbank.com

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The winds of change are blowing through the automotive industry. Four megatrends – Mobility, Autonomous driving, Digitalization and Electrification – dubbed MADE by Roland Berger will trigger major disruption in the industry in the next 10 to 15 years. This transition toward a new end game will also, with a certain delay, hit the automotive aftermarket.

**MOBILITY**
Car sharing and other shared mobility concepts make it likely that the total car parc will shrink long term. But each individual vehicle will be put to more intensive use and the level of spending per passenger car will rise – with a positive effect on the automotive aftermarket.

**AUTONOMOUS DRIVING**
The rise of autonomous driving is anticipated to reduce the number of accidents on the roads. Even though the cost of each repair is expected to be higher, the net effect on the aftermarket of the future will likely be negative.

**DIGITALIZATION**
Connectivity and other data-driven solutions will exert a positive influence on the automotive aftermarket. That said, the chief beneficiaries of this development will be the original equipment manufacturers (OEMs). Independent aftermarket players can grasp the opportunities that digitalization brings by offering proprietary solutions such as OBD dongles.

**ELECTRIFICATION**
The electrification megatrend will have ambivalent consequences for the automotive aftermarket. As the number of electric vehicles increases, the demand for maintenance and servicing will fall, but battery repairs will open up new revenue channels.