Roland Berger
Strategy Consultants

Online automotive parts sales: The RISE of a NEW CHANNEL

Munich, Mai 2014

Roland Berger
Strategy Consultants

Management summary (1/2)

Online retail outlook

> **Online retail** is **growing significantly** across all industries, with **market share already at 16%** – established offline players as well as pure internet newcomers are pushing into this area

> Following this trend, we expect strong growth in automotive parts online sales with **7-8% CAGR,** resulting in **~20% online business share by 2025** and **EUR 3.6 billion** in **sales** volume

The strategic fit logic of online parts sales

> To evaluate the **opportunities** for online parts sales within the automotive aftermarket universe, we analyzed three **dimensions** – customers, products and channels – for **strategic fit**:
  - **"Customer product fit"** – not every product is attractive for individual customer groups
  - **"Customer channel fit"** – each customer group has different service expectations
  - **"Product channel fit"** – standard and simple products dominate online business

> Various online players already outperform the market via **tailored services and innovative business models**

Source: Roland Berger

Management summary (2/2)

Success factors and new business opportunities

> The online parts market follows a **simple but crucial rule to excel in the online world,** rooted in the proven success factors for online marketing: **Awareness = Traffic = $$$**

> Success requires an aggressive focus on growing the customer base and a perfect alignment in **"Customer-Product-Channel Fit"**

> "Automotive service scenario 2025": Completely **new business models** will appear in the wake of the market disruption caused by online business, for instance **service cooperation networks** based on **unbundling** and **modularizing** service offers

> **Every player along the value chain**, from OEMs and OESs to wholesalers, workshops and insurers, is forced to react to the growth in online automotive parts sales and may benefit by putting the right strategies in place – **you have to think outside the box**

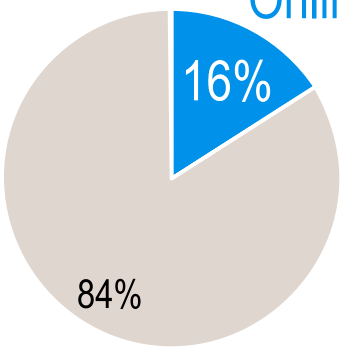
Source: Roland Berger

CROSS-INDUSTRY

Online retail is growing across industries – Faster than generally expected

General trends in e-commerce

Share of online spending, 2013



General e-commerce trends

> **Internet has become a mass medium** – 77% of people in Germany have regular internet access

> **E-commerce shopping is on the rise** – number of online shoppers and sales per user increasing steadily

> **Multi-channel shopping is increasing** – 86% already shop using two channels, 25% use four or even five different channels

> **M-commerce not yet fully established, but growing** – 59% of German mobile users shop by using their smartphones, with further growth expected

> Online retail will become a dominant sales channel in the upcoming years

> The speed with which online retail is catching up is often underestimated

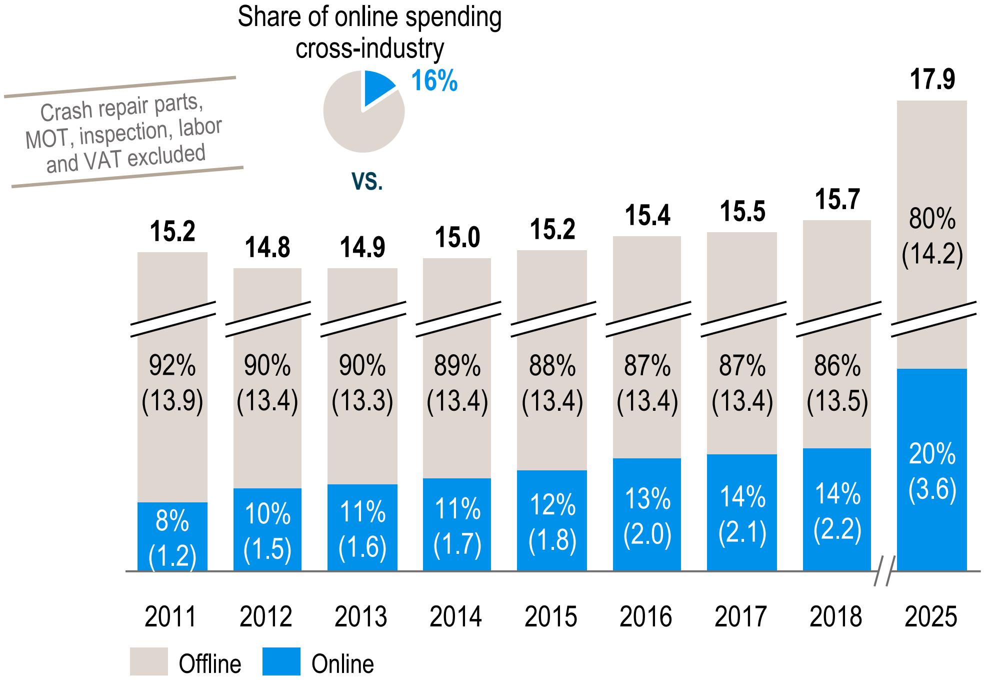
> Having a multi-channel offering is key, but it has to be done right: segment-specific needs need to be addressed

Source: Statista; PWC; eCE; press research; Roland Berger

AUTOMOTIVE PARTS

Online sales of automotive parts in Germany set for strong growth – We expect online business to have ~20% share in 2025

Market volume, aftersales parts, Germany[1)] – Online sales share [EUR bn]



- The **automotive aftermarket** in Germany amounted to **EUR ~30 billion in 2013**, including labor and parts
- The **parts market** (excluding crash repair parts) amounted to **EUR ~14.9 billion in 2013** – Here, online sales already make up **~11%** and volume is going to **grow** further by **7-8% yearly**
- We expect **online sales** to account for **~20%** of automotive parts sales in **2025**

- The aftermarket online channel is being developed by new entrants, such as pure online players, as well as incumbent aftermarket companies
- OEMs are starting to respond to the disruption by developing online solutions for selling parts and accessories, often in cooperation with online players
- Some parts wholesalers have also developed online concepts, based on their own online shops as well as offerings via third party providers

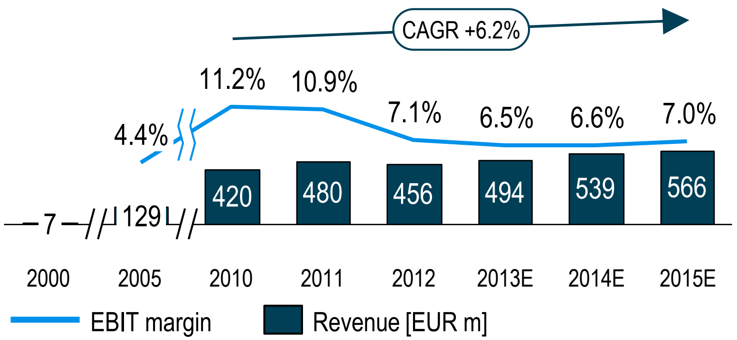
1) Crash repair parts, MOT, inspection, labor and VAT excluded; passenger cars only

AUTOMOTIVE PARTS

As a leading online player, Delticom has continuously achieved profitable, higher-than-market growth

Case study: Delticom

Facts and figures[1)]



Historical development

9/2013 – Acquisition of Tirendo (EUR ~50 m)

12/2008 – SDAX listing

10/2006 – Initial public offering (IPO)

7/1999 – Founded in Hannover

Product offering

> A broad portfolio of replacement tires covering **>100 tire brands and >25,000 types** (e.g. PC, CV, motorbike, bicycle, mounted wheels)

> Delticom expanded its portfolio with selected **spare parts** and **accessories, lubricants, workshop equipment, etc.**

> Delticom also offers **own, variously positioned brands:** "Star Performer" (PC tires) and "High Performer" (lubricants)

Customer structure

> Customer base of **>6.5 million;** >1 million new customers in 2013

> Compared with 3 years ago, these figures represent a **50-60%** increase in **new customers**, 40-50% in repeat customers

> **Repeat customers** had **higher growth rates** compared to new customers

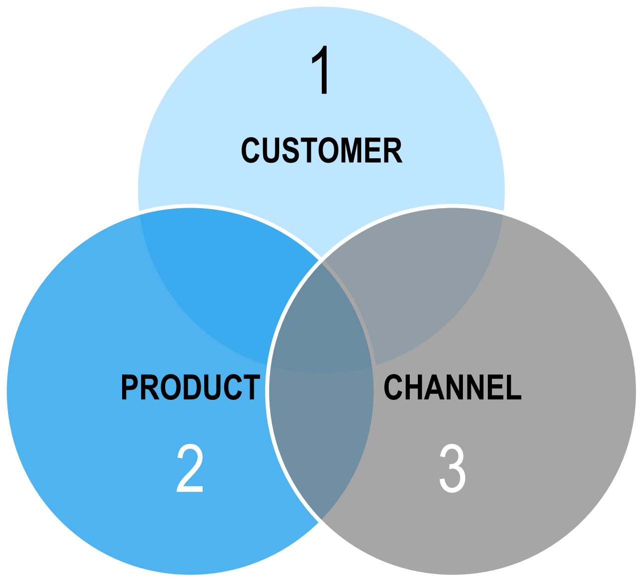
DELTICOM Aktiengesellschaft

Delticom
Brühlstraße 11
DE-30169 Hannover
http://www.delti.com

1) Does not consider current acquisition of Tirendo

To compete successfully, firms need to understand online customer demand and tailor their product and channel strategy accordingly

Determining dimensions for online automotive parts sales strategy



1 CUSTOMER groups
Strongly differing capabilities and needs of online customers – customers expect specific offers to reflect their individual needs

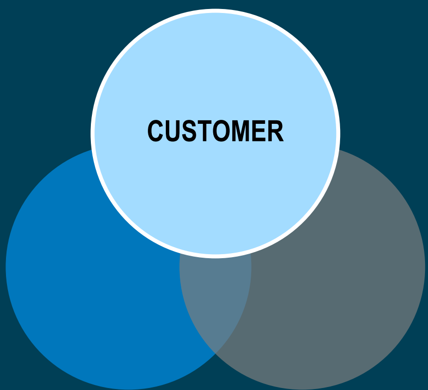
2 PRODUCT specifications
Not all products are suitable for online sales – product type (e.g. fast movers), vehicle age and ease of repair are decisive

3 CHANNEL characteristics
Compared to stationary sales with dedicated logistics (of wholesaler), the online channel by definition faces restrictions

Source: Roland Berger

End customers represent the largest customer segment in the online automotive aftersales market – Strong price sensitivity

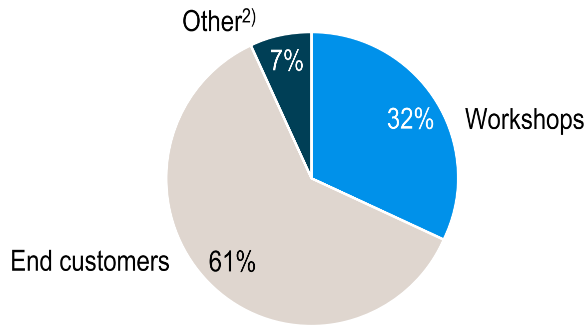
Dimensions



> No matter if B2B or B2C – online customers' key purchasing criteria is cost

Overview of customer segments and their reasons for purchasing online

Addressed customer segments[1)]

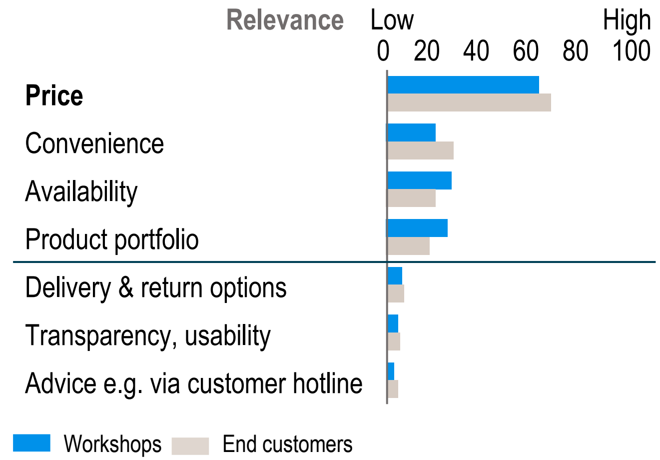


- > Most online shops address B2C customers in the online automotive aftersales market (61% share)
- > Workshop segment is addressed by only ~1/3 of online traders

1) Scope: Germany, UK, France, Sweden
2) Gas stations, dealerships, etc.

Source: VREI; 2hm; Roland Berger

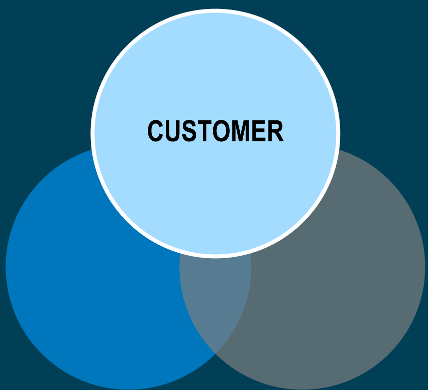
Main reasons to shop for auto parts online



- > **Price**, convenience, parts availability and a wide range of products are the most critical reasons for customers to shop online
- > All other factors are perceived as "nice to have"
- > Evaluations by workshops and end customers differ only slightly – convenience usually more important for end customers

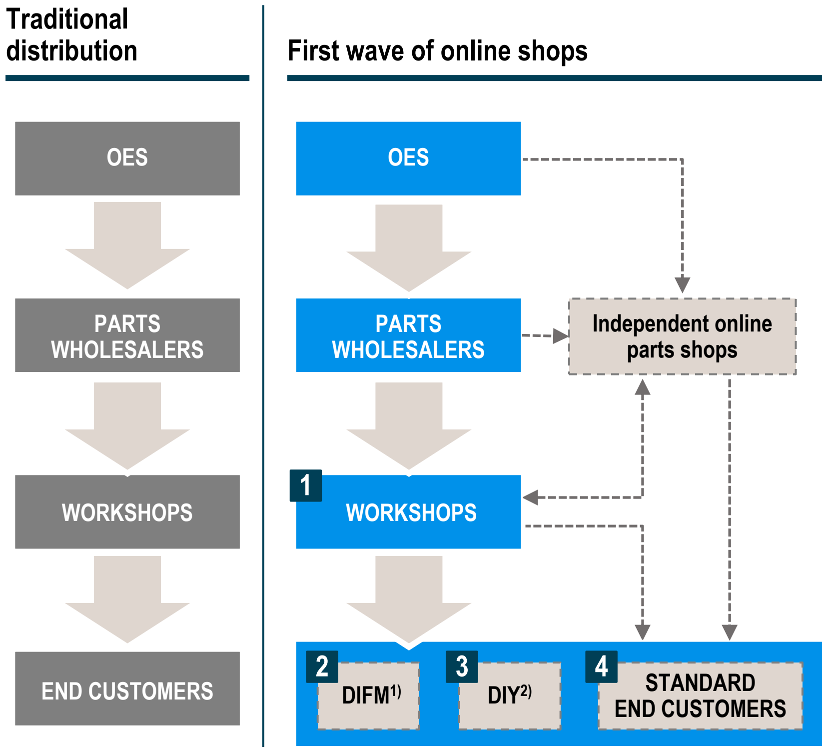
Both B2B and B2C customers are buying automotive parts online

Dimensions



> The first wave of online challenges has cut out the traditional distribution stage of parts wholesalers in the case of tech-savvy customers

Distribution chain and customers of online parts sales



1 Workshops (B2B)
- > Workshops have technical know-how to buy online as well as the required equipment (tools, lift, diagnostic systems) to assemble even complex parts

2 DIFM (B2B2C and B2C2C)
- > "Do-it-for-me" customers, who purchase parts online but have them installed:
  - **B2B2C:** at a professional workshop with commercial purpose
  - **B2C2C:** by an acquaintance outside working hours/without commercial purpose (gray market)

3 DIY (B2C)
- > "Do-it-yourself" customers, who have the technical knowledge and interest to maintain and upgrade cars themselves

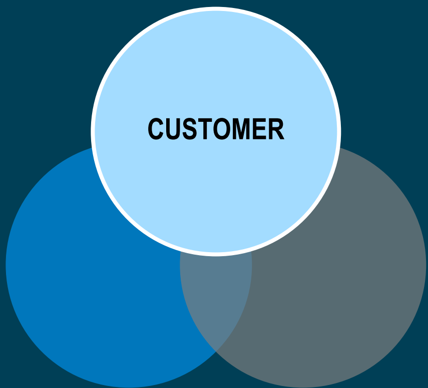
4 Standard end customers (B2C)
- > Standard end customers without technical know-how, who buy simple parts that do not require complex installation

1) Do-it-for-me *2) Do-it-yourself*

Source: Roland Berger

In-depth understanding of customer group demand is key to effectively setting the right business model and support processes

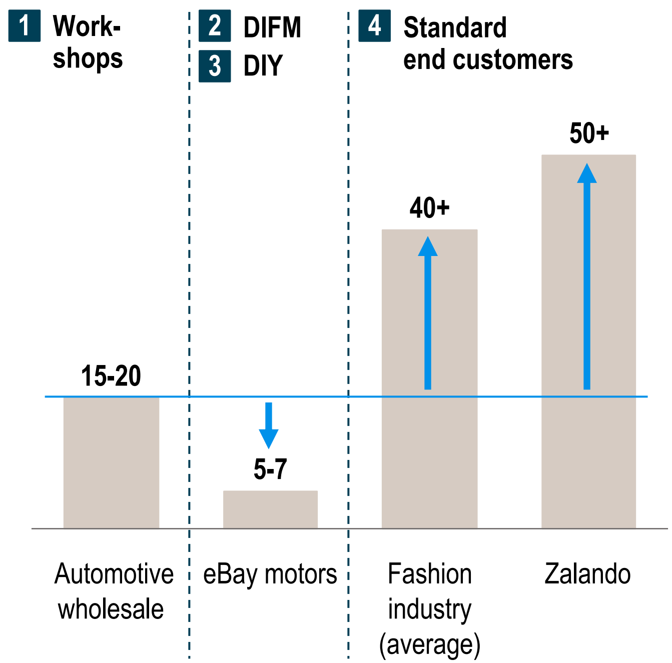
Dimensions



> To successfully run a business, you need to know your customers!

Reasons for customer segmentation

Typical return rates of online purchased products [%]

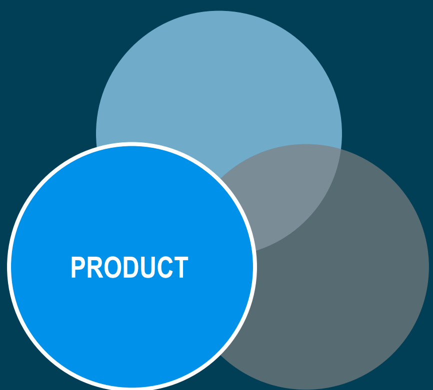


- **Managing return rates** is critical in determining profitability across industries:
  - Each return costs EUR 15-20 on average
  - Returned parts most often lead to a loss in value of >20%
- **Low return** rate of **eBay motors** indicates
  - A high share of **experienced DIFM and DIY** customers
  - **Scrapping of** low value parts instead of returning them
- Online shops have to **customize** their **processes**, (e.g. logistics, warehouses, return incentives) in order to minimize return costs
- **First initiatives** have been already launched by Zalando and Amazon (e.g. better product descriptions, shutting down accounts with excessive return behavior)

Source: Expert interviews; press research; Roland Berger

Fast-moving products are typically suitable for workshops' online business

Dimensions



> "Fit-for-online" decision criteria: fast-moving products particularly in scope of workshops' online purchasing

"Fit-for-online" decision criteria – Fast-moving parts

Fast-moving parts

> To offer prompt service to the customer, workshops tend to have **fast-moving product** groups **in stock,** e.g. wiper blades, brake pads, lubricants, bulbs etc.

> In particular, **fast fitters** (e.g. A.T.U in Germany) and **OEM** workshops offer services without an appointment – high levels of product availability essential

> Modern warehouse/inventory management systems enable **efficient and early purchasing** processes – **price advantage** of online purchasing can be **leveraged**

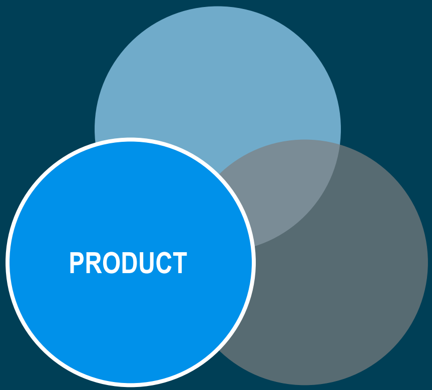
> Thus, **professional workshop processes** including frontloading and capacity planning are enablers for online purchasing

Examples

Source: Roland Berger

Parts and labor costs are key in determining online fit for a particular aftermarket product – Scope of products offered online is increasing

Dimensions



> "Fit-for-online" decision criteria: different patterns based on parts cost profile

"Fit-for-online" decision criteria – Share of parts and labor cost

High-margin parts

> **High-margin products** become more important for online purchasing, e.g. lubricants

> Products requiring **no/little installation effort** and **no/less equipment to install** reflect a higher share of online business, e.g. wiper blades

Component	CAGR all channels 2013-'16[1)]	CAGR online channel 2013-'16[1)]
Lubricants	~2.5%	~10%
Windscreen wiper blades	~2%	~9.5%
Tires	~1.5%	~9%



Labor-intensive parts

> **Low-value products** that require **expensive installation** are increasingly being bought online, e.g. air filters, brake discs

Compo-nent	Parts cost	Labor cost	CAGR all channels 2013-'16[1)]	CAGR online channels 2013-'16[1)]
Air filters	~25%	~75%	~1.5%	~9%
Brake disc	~50%	~50%	~1.5%	~9%
Starter/ alternators	~50%	~50%	~4%	~12%



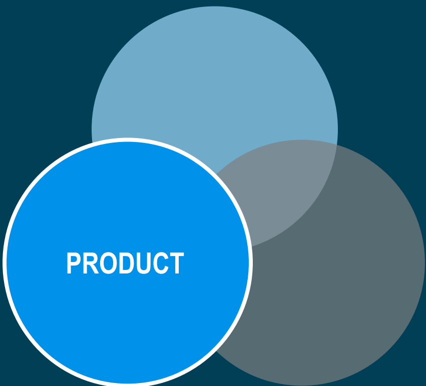
As online customers' key purchasing criteria is cost, high-margin and labor-intensive parts getting more **important** for online sales to leverage **online price advantages** (high-margin parts) and **DIY/DIFM services** (labor-intensive parts)

1) Based on parts value only (excl. labor and VAT)
Source: Roland Berger

Roland Berger
Strategy Consultants

The demand for automotive spare part categories also varies with increasing car age

Dimensions



> "Fit-for-online" decision-making criteria: vehicle age determines which parts are purchased online

"Fit-for-online" decision criteria – Vehicle age

Vehicle age relevance

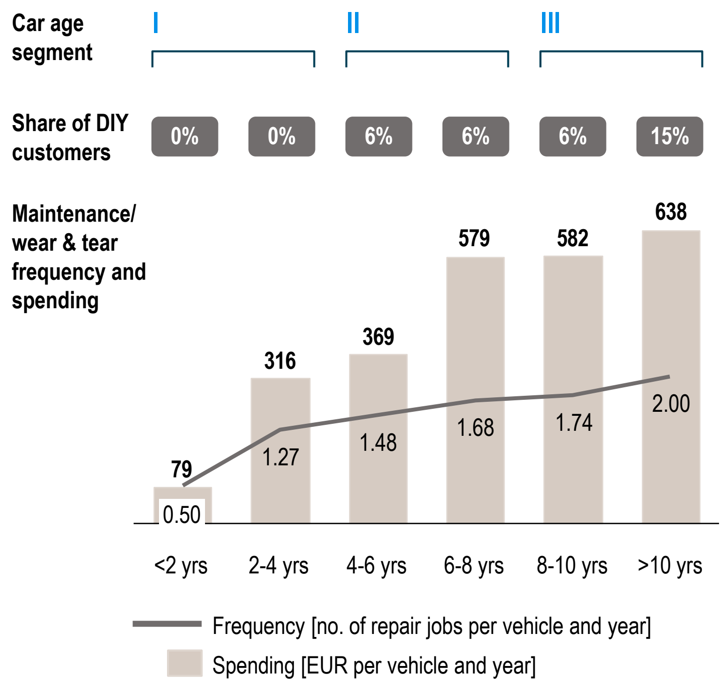
> "Fit-for-online" for automotive spare parts **varies by car age segment** – even within same product categories

> While some **accessories** (e.g. roof bars and roof boxes) are typically purchased for **new and "young" used cars**, others (e.g. entertainment systems) are mainly bought for older vehicles

> Tires, lubricants and selected wear & tear parts (e.g. wiper blades) reflect an **abrupt volume rise** as the first-time change becomes necessary after **2-3 years**

> **Most parts** (wear & tear, crash repair and service parts) are typically purchased online **for segment II and III vehicles**, as the OEM warranty expires and drivers migrate towards the independent aftermarket – **increasing share of DIFM/DIY customers**

Maintenance and wear & tear behavior



1) Germany

Source: DAT report; Roland Berger

The ability of customers to identify errors and parts and to conduct the installation is a key determinant in their readiness to purchase online

Dimensions

> Online sales have to overcome three main challenges to become a valid counterpart for customers who are used to offline sales

Three challenges of the repair process – The "EASY³ logic"

EASY error recognition

> First, **the root cause of the failure needs to be identified** in any case of a defective system

> For modern cars with highly **complex electric/electronic components,** the defect might not only be a defect in a mechanical component, but also a defect in an electronic part that might not be visible to the naked eye

> In a growing number of cases, fully fledged **diagnostic systems** are required to identify failures comprehensively

EASY parts identification

> When the defect has been tagged correctly, **the right part(s) need to be identified**

> The corresponding **parts manufacturer, part number** and other detailed information need to be known

> Correct identification becomes increasingly **complex** if the defective part is a **component of a system** or involves an **electronic defect**

> Online shops already **collaborate with parts catalog providers** to ensure simple and correct identification

EASY installation

> Last but not least **the received part(s) must be installed**, which is a masterstroke considering modern vehicles with EURO-5/-6 norm

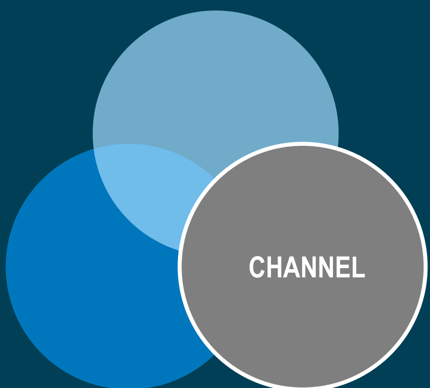
> Depending on the part, **special tools and equipment** (e.g. lift) are required to conduct the installation properly

> Furthermore, **legal requirements** might hinder installation without professional service, e.g. environmental regulation in case of oil changes, expiring parts and car warranty issues in the case of non-professional repair

Source: Roland Berger

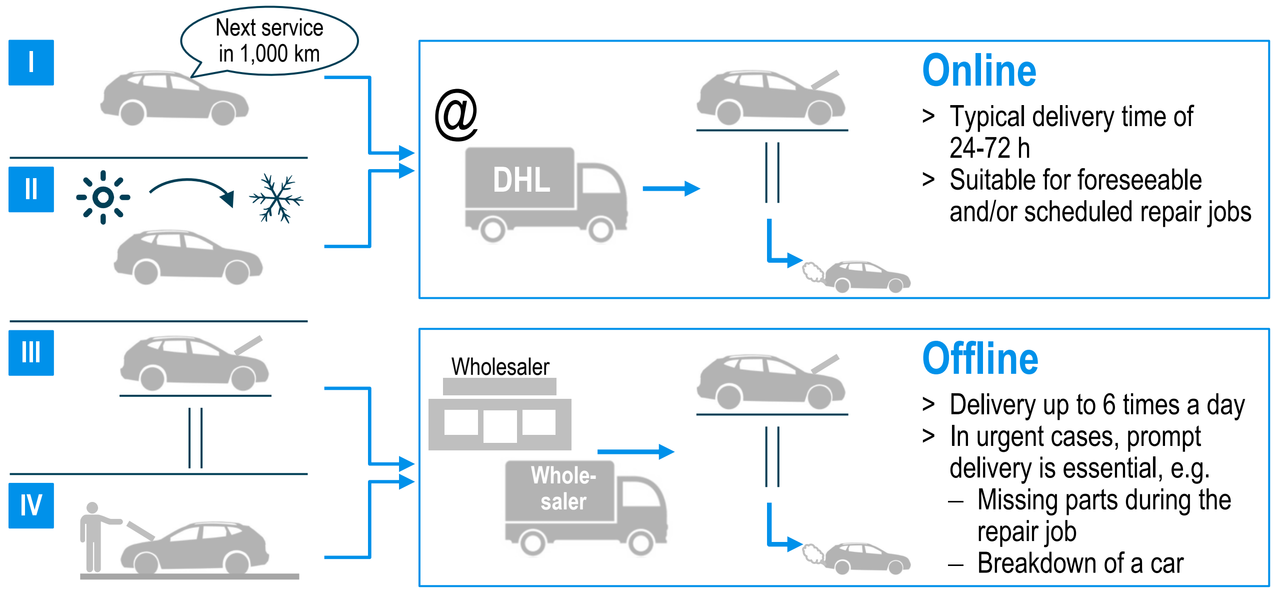
The online channel is currently less suitable for certain purchasing needs due to its underlying parts delivery model

Dimensions



> Time is money! The right part must be delivered the same day or next day – but only if it is not a foreseeable requirement

Delivery time – Fit with online sales



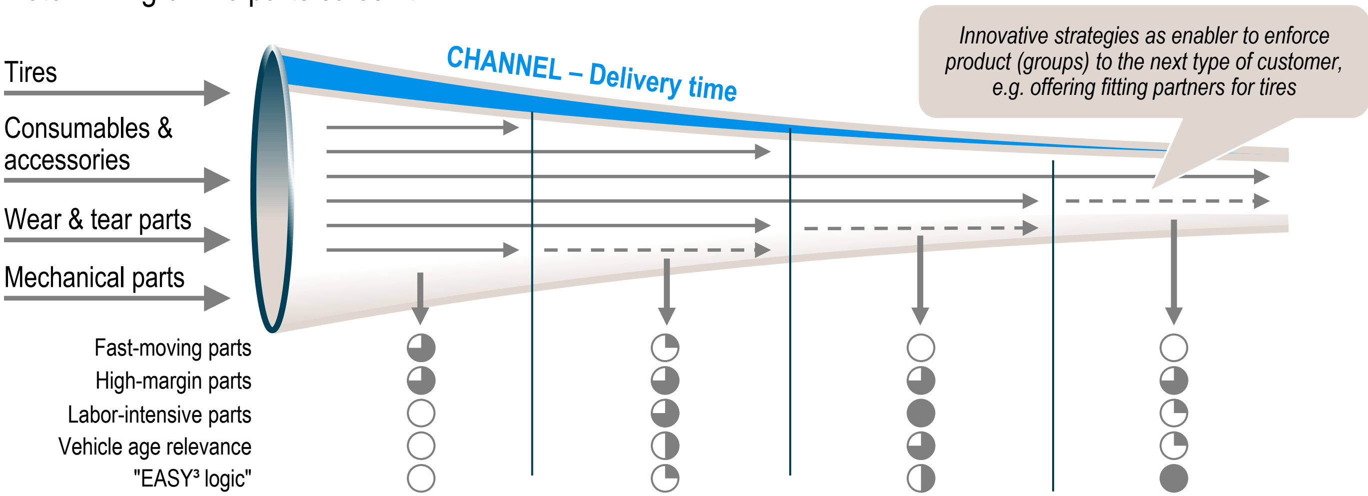
Delivery time as knockout argument

With the current business models of online shops, online sales do not provide a solution to satisfy prompt delivery needs

Source: Roland Berger

We have developed a framework for selecting the right online business model

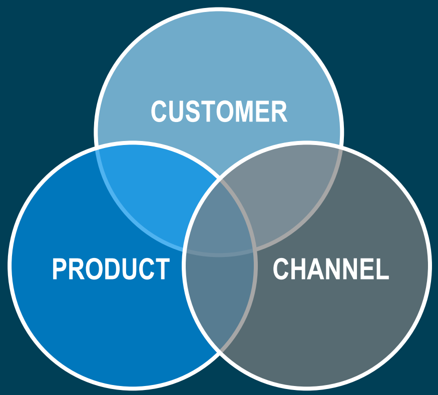
Determining online parts sales fit



Customer groups	B2B	B2B2C/B2C2C	B2C	
	Workshop mechanics, parts managers	DIFM	DIY	Standard end customers
Typical products	> Brake discs/pads > Clutches > Shock absorbers > Tires	> Brake discs/pads > Timing belts > Filter > Tires	> Battery > Filters > Spark plug > Tires	> Accessories > Lubricants > Floor mats > Tires
Examples of players	TYRE 24	DELTICOM	eBay Motors	amazon

→ *Products only* - - → *Additional service offerings* ● *High relevance* ○ *No relevance*

Source: Roland Berger



> **Customer, product and channel specifics** need to be considered in establishing the right business model

> However, **special initiatives** would enable online players to **expand their target group** to DIFM/DIY and even to standard end customers

Customers are buying products online based on their specifications – Level of fit varies by product and customer type

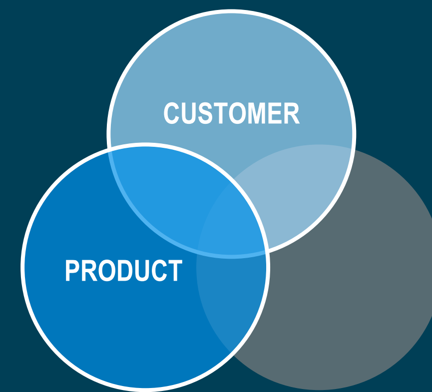
"Customer product fit"

	B2B	B2B2C/B2C2C	B2C	
	Workshop mechanics, parts managers *Workshop employees looking for standard replenishment*	**DIFM** *Customers order online and have parts installed in workshops (B2B2C) or by an acquaintance (B2C2C)*	**DIY** *Well-informed customers with advanced technical knowledge*	**Standard end customers** *Generally less tech-savvy customers segment*
Fast-moving parts	◕	◔	○	○
High-margin parts	◕	◕	◕	◕
Labor-intensive parts	○	◕	●	◔
Vehicle age relevance	○	◑	◕	◔
"EASY ³ logic"[1)]	○	◔	◑	●
	> Workshops focus their online purchasing on **fast-moving parts** – based on intelligent workshop process (frontloading) > Online **price** advantage to be leveraged	> **High repair cost** and **high-margin parts** are the main drivers for DIFM – either the customers bring the parts purchased online to a pro-fessional workshop or have them installed on the gray market	> **Cost** is the key driver for DIY – **expensive repair services** boost the "do-it-yourself-philosophy" > DIY customers mainly dominate the **older age segments**	> For the standard end customer, the most important criteria remains the ability to **diagnose** the error, **identify** the correct part(s) and chose the right partner for installation (if required)

● *Highly relevant* ○ *Not relevant*

1) Same assessment for each repair process step error recognition, parts identification and installation

Source: Roland Berger

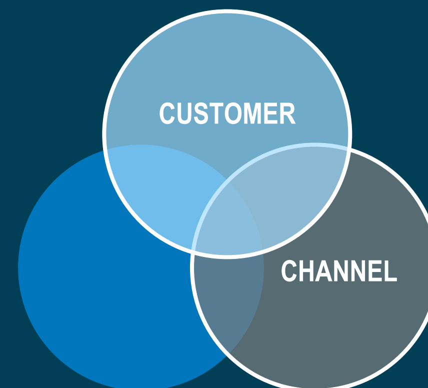


> As an online player, you need to know your customers in order to choose the right product portfolio for your online shop

Expected scope of services varies by customer group – Delivery performance remains the key hurdle for online sales to B2B clients

"Customer channel fit" see p. 2

	Typical customer type	Customer profile	Expected service	Current online channel offer	
B2B	**Workshop mechanics, parts managers**	*Workshop employees looking for standard replenishment*	***Same day delivery***	Delivery in 24-72 h	!
			Certainty of delivery date	Limited certainty	!
			Cheap delivery	Moderate delivery fees	
			Certainty of parts availability	Moderate own stock	!
			Advanced aftersales service	Complex return policy	!
			Low prices	Unbeatable prices	
			Employed payment period	Immediate payment	!
			Product portfolio	Large portfolio	
B2B2C B2C2C	**DIFM**	*Customer using online shops to order items to be installed in workshops (B2B2C) or by a acquaintance (B2C2C)*	***Certainty of delivery date***	Limited certainty	!
			Cheap delivery	Moderate delivery fees	
			Low prices	Unbeatable prices	
			Product portfolio	Large portfolio	
B2C	**DIY**	*Well-informed customer with a lot of technical knowledge*	***Approximate delivery***	Limited certainty	
			Cheap delivery	Moderate delivery fees	
			Unbeatable prices	Unbeatable prices	
			Product portfolio	Large portfolio	
	Standard end customers	*Generally less tech-savvy customers segment*	Only attracted to online shops if parts are less complex or sales are augmented with easy-to-use services (e.g. for tires)		



> Each customer type has different expectations regarding online sales – standard end customers currently only shopping online for tires and simple products

Online penetration also varies by product – Standard products dominate due to ease of purchase and installation

"Product channel fit"

Main spare part categories sold online	% on total after-market value[1)]	% online buyers having already bought one spare part of this category on the internet
Windscreen wiper blade	3%	44%
Filter (oil, air, diesel, cabin)	7%	35%
Bulb	n.a.	34%
Tire	26%	33%
Brake pad	4%	33%
Brake disc	7%	29%
Spark plug	2%	27%
Battery	5%	24%
Timing belt	n.a.	23%
Headlight	n.a.	23%
Lubricants	10%	23%
Shock absorber	3%	20%
Accessory belt, roller	n.a.	19%
Alternator	1%	18%
Body part	n.a.	16%
Exhaust part	5%	15%
Clutch	3%	12%
Starter	<1%	11%
Water pump	n.a.	10%
Others	24%	

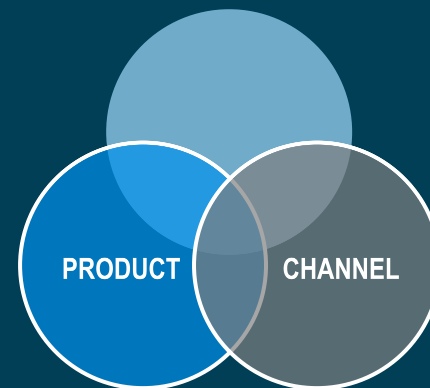
Fast-moving and/or easy-to-identify and install (at least for DIFM/DIY)

> **Current internet penetration rate of 11% among automotive aftermarket parts**

> **Expected share of online business will be ~20% in 2025**

Top spare part categories sold online

1) *Excluding crash repair parts, MOT, inspection, labor and VAT; passenger cars only*



> Online business primarily centered around fast-moving and simple parts today – selling additional products (or production groups) will require special service offerings

Roland Berger
Strategy Consultants

CASE STUDY

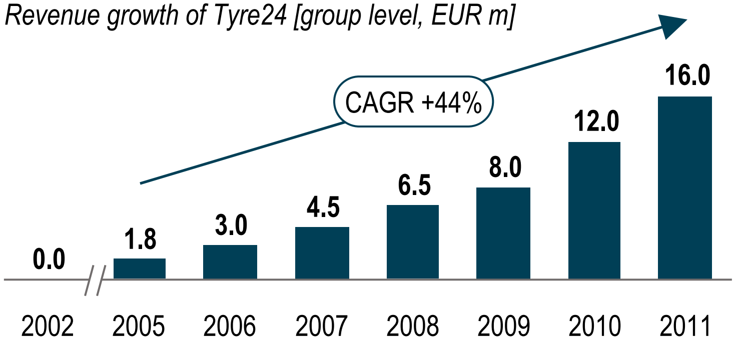
Set up in 2002, Tyre24 has grown into the largest B2B online platform for tires in Europe – Yearly growth rate of approx. 44% p.a.

Tyre24Group
Gewerbegebiet Sauerwiesen
Technologie-Park I & II
DE-67661 Kaiserslautern
http://www.tyre24-group.com/

Tyre24

Facts and figures

Revenue growth of Tyre24 [group level, EUR m]



Historical development

- **2012** – Expansion of portfolio (tuning, wear & tear)
- **2009** – Acquisition of rim manufacturer AZEV
- **2007** – Start of B2C business
- **2005** – Start of European expansion
- **2002** – Foundation of Tyre24 GmbH and launch of tyre24.de as B2B market place

Product offering

> **B2B online platform** with more than 400 wholesalers and >10 m tires and rims available

> www.reifen-vor-ort.de: **online community** for end customers with more than 8,000 dealers offering tires/installation services

> TopM retail software solution, tire information system (RIS) and shop system "Tyre Shopping PRO" for retail industry

> Tire industry magazine "reifenwelt"

Customer structure

> **B2B:** tire manufacturer, wholesaler and retailer/dealer using www.tyre24.de platform and additional product offerings

> **B2C:** DIFM, DIY and standard end customers using www.reifen-vor-ort.de to buy tires and installation services from retailer

Source: Company information; press research; Roland Berger

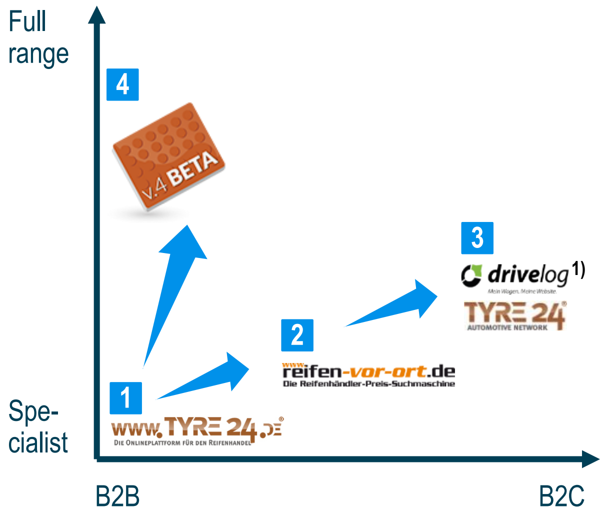
CASE STUDY

From a pure B2B market place to a B2C community and workshop portal cooperation – Currently expanding product portfolio

TYRE 24 AUTOMOTIVE NETWORK

Tyre24Group
Gewerbegebiet Sauerwiesen
Technologie-Park I & II
DE-67661 Kaiserslautern
http://www.tyre24-group.com/

Tyre24



1 B2B platform
- Tyre24 started as **B2B online platform** for tires and is currently the **largest player** in Europe with **>80% market penetration**

2 End customer portal
- Tyre24 established a **match-making portal for end customers** to buy tires and services from retailers
- Customers can find **retailers** and their offers (parts and services) in the **neighborhood**
- Customers are able to **compare** prices, service offers and distances from their place

3 Collaboration with drivelog[1)]
- Tyre24 and drivelog started collaborating in April 2013
- **Workshops** listed on drivelog can start to **act as tire retailers**
- The **end customer** can **compare** product **offerings** of workshops and buy best-price offers via an **integrated online shop;** additional access to a professional **tire management system** provided

4 Wear & tear parts
- In parallel with the launch of the new website, Tyre24 **expanded its B2B product portfolio** from tires, rims and workshop equipment to **wear & tear parts**

1) Drivelog is one of the current leaders in vehicle servicing portals. For further information please see Roland Berger study "Repair shop portals in Germany – Who will be the 'Google' of repair shop services?"

Source: Company information; press research; Roland Berger

CASE STUDY

Europe's leading online player for tires – Success due to high number of online shops and early collaboration with installation partners

DELTICOM Aktiengesellschaft

Delticom
Brühlstraße 11
DE-30169 Hannover
http://www.delti.com

Delticom

Business model

> Delticom focuses on both **end customers** (B2C) and **business customers** (B2B); Delticom acts as **wholesaler** and as an **e-commerce** player
> Overall, Delticom comprises **>130 shops** in **42 countries**
> Tires will be delivered to the customers' home or directly to one of **>35,000 service partners** worldwide (>8,600 in Germany)
> Delticom operates the **independent test portal** reifentest.com; the portal includes **links to Delticom online shops**
> **Several central warehouses** in Germany plus small satellite ones in other European markets
> **Acquisition** of Tirendo with **benefits** for both:
  – Delticom benefits from Tirendo brand and marketing expertise
  – Tirendo benefits from logistics and processes

reifen.com TIRENDO ReifenDirekt.de Autoteile-Meile.de

Unique selling proposition

> Delticom is **Europe's leading online player** for tires with vast geographical coverage and broad portfolio
> **First mover advantage** enabled Delticom to establish required relationships to different business partners
> **Value add for customers:**
  – Broad range of low-priced quality products including pre- and aftersales services (~20-25% below stationary tire market level)
  – Fast delivery times (~2 working days) and high availability
  – Large network of service partners
> **Value add for service partners:**
  – Cross-/upselling opportunity
  – New/additional customers
> **Service partner network** enables Delticom to address **standard end customers** who need professional installation support

Source: Company information; press research; Roland Berger

CASE STUDY

eBay motors offers a wide product portfolio – Special service offerings enable the company to address standard end customers

eBay motors
eBay Germany
Albert-Einstein-Ring 2-6
DE-14532 Berlin
http://www.ebay.de/motors

(Corporate headquarter in San Jose, CA)

eBay motors

Business model

> eBay is an **open, online marketplace** that matches demand (customer) and supply (dealer) across the world

Facts and figures

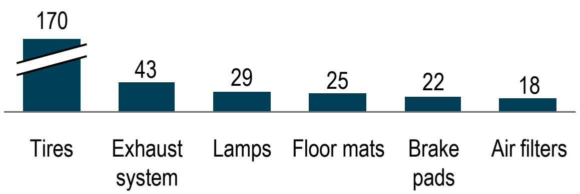
> eBay had **EUR ~54 bn GMV**[1)] and **EUR ~11 bn net sales** in 2012 worldwide

> **116 m** active **users** worldwide; **50% penetration** among German internet users

> eBay motors >8 m unique users per month in Germany

> **~70%** of offerings from **professional dealers**

Products sold ['000 per month]



Unique selling proposition

> eBay motors offers not only automotive spare parts, but **also used car trading,** which leads to a **broader customer base** and **cross-selling**

> Above all, **well-informed DIFM and DIY customers** use eBay for parts purchasing, resulting in **low return** rates and reinforcing low prices

> **Standard end customers** addressed by **special service** offerings:
– In combination with parts (installation)
– Stand-alone service offerings, such as summer/winter checks, inspections or overall OEM services

> Both vendor and customer can choose between **bidding offers/auctions** and **fixed price offers** (~30% auction to ~70% fixed price offers)

> eBay has started to push delivery excellence: customers in big cities should receive their goods within **90 minutes or at a certain, required time**

1) Gross merchandise volume
Source: Company information; press research; Roland Berger

CASE STUDY

Amazon is clear market leader in online retail – Current initiatives for same-day delivery to overcome the online sales knockdown argument

amazon®

Amazon EU S.a.r.l.
Amazon Services Europe S.a.r.l
5, Rue Plaetis
L-2338 Luxembourg
http://www.amazon.de

(Corporate headquarter in Seattle, WA)

Amazon

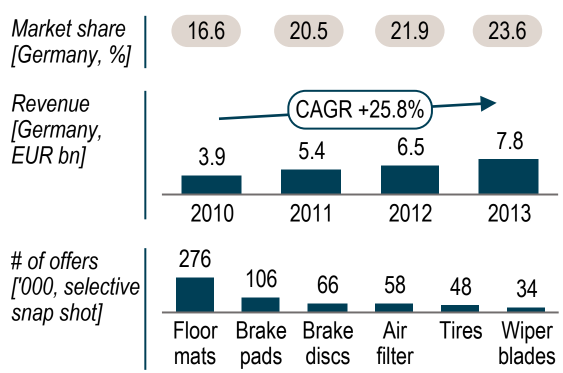
Business model

> Amazon's business model **combines an online shop** with a **market place** for 3rd party shops

> Both Amazon and 3rd parties offer products for the **B2C** and **B2B** market

Facts and figures

> Amazon.de launched in 1998; **automotive store** launched in **2008**



Unique selling proposition

> Coupling its well-known **brand**[1)] with a vast **product portfolio** besides automotive parts, amazon generates **enormous traffic** (24.75 m users in Germany in November 2013)

> Customers **trust** Amazon based on its robust and reliable processes and quality checks of market place supplier – easy and efficient **handling of customer claims**

> **Value added for customers:**
  – Personalized and convenient shopping experience including wish list, advertising, customer reviews, 1-Click® shopping, etc.

> **Value added for 3rd party retailer:**
  – Retailer can use Amazon's technical service, merchandising, customer service and logistics

> Amazon is currently developing **same-day delivery** strategies by setting up its **own fleet**

1) Amazon is the #1 retail brand in Germany based on brand utility and brand presence

Source: Company information; Statista; Batten & Company; press research; Roland Berger

There is a "golden rule" for becoming a successful online player – Traffic and brand are prerequisites to surviving in the online business

Key success factors for online business

Key success factors

I Search engine optimization (SEO)

- As most online buyers use **search engines to start a product search,** it is highly important for online players to intensively deal with **SEO** and pursue intelligent **link building**
- Online players need to understand the **search strategies** of customers, **sources** of shop visitors (organic search result vs. adwords), etc.

II Active pricing

- Low prices are key driver for most online customers – thus **competitive pricing and yield management** is key and needs to be **tracked** continuously

III Channel beats loyalty

- If you want to go **online**, do it **properly**! In each product category you are in offer a broad portfolio incl. product information – otherwise the customer just switches online stores
- This **risk** is even higher in case of a **multi-channel business** (offline stores), as a non-effective online business might lead to **cannibalization** of offline business

IV Simplicity rules

- **Clear** structure, **fast** overview, **prompt** results
- If the customers do not understand the website (e.g. input mask/search bar), they just switch the online shop

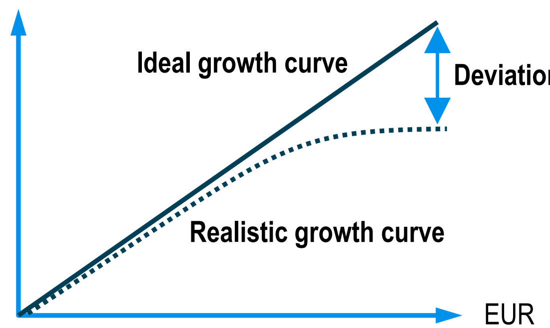
Brand = Traffic = $ $ $

- As outlined in our recent study regarding workshop portals, **retail customer traffic** is generated by having a **strong brand** and lots of investment in **marketing**
- A notable example is **Tirendo** (endorsed by Sebastian Vettel) which was acquired by **Delticom to benefit from the strong brand and high traffic,** thereby expanding the standard end customer base

Big is beautiful – But there's a limit to it! We believe that online business won't grow for ever, but it will change the rules of the game

Naturally limited growth opportunities

Concept of limited growth



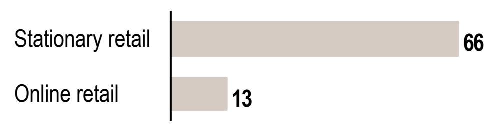
> Online players try to grow as big as possible but there will be a deviation

> There is no such thing as retail customer loyalty online, it's a daily fight, again and again

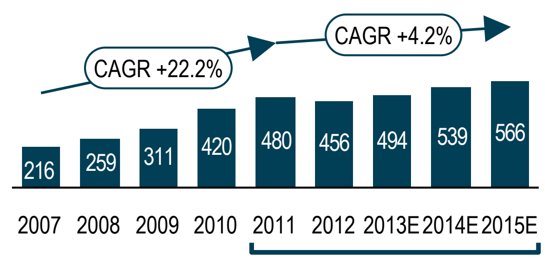
> Partnering with offline services is necessary but bears risks: they become the "face to the customer" and might win over parts of the customer base

Illustrative examples

I Number of repeat customer [%]



II Delticom revenue development [m EUR][1)]



Lower growth rates as installation partners started to win former online customers based on personal touchpoints, e.g. due to tire storage[2)]

> Online business' biggest strength is also its biggest weakness: **virtuality!**

> In the battle for retail customers, online players need an offline interface. Hence the risk that offline retailers will poach some of the customers

> While we think there is a natural limit to growth, we do not expect the automotive aftermarket to reach it within the next couple of years

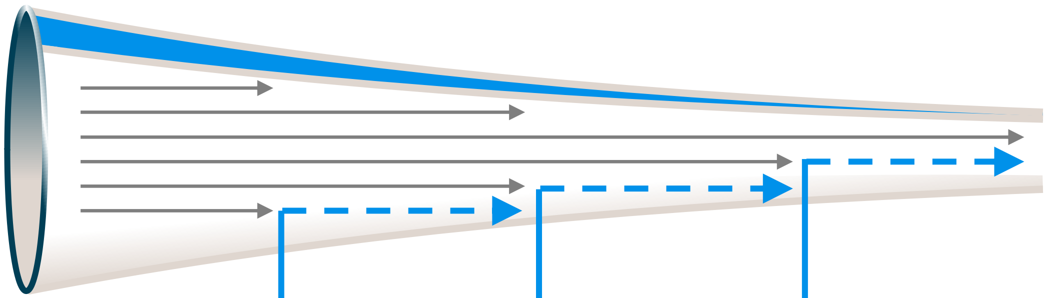
1) Does not consider current acquisition of Tirendo 2) No consideration of seasonal effects

Source: Company information; Hauck & Aufhäuser; eCE; Roland Berger

STRATEGIC INITIATIVES

To participate in online business growth, innovative strategies need to be developed to address the different customer groups properly

Potential offerings of online players – Selected innovative strategies



B2B
Workshop mechanics, parts managers

- > Collaborate with **parts and repair information systems**
- > Supply additional **software solutions** for workshops
- > Provide industry information via a **community** platform for customers
- > …

B2B2C/B2C2C
DIFM

B2C
DIY

- > Offer repair **manuals** and/or repair **webinars/videos**
- > Establish **marketplaces** where workshops can offer repair equipment
- > Offer an efficient mix of **fulfill-ment types** for online sales
- > …

B2C
Standard end customers

- > Start/improve collaboration with **service partners**
- > Offer **professional** customer **hotline** to ensure right parts ordering
- > Provide **mobile solutions** (e.g. smartphone apps)
- > …

Achieving a broad customer base
Online players need to invent **new strategies** to broaden their customer base – taking into account the "customer product fit", each **customer** group needs to be addressed according to its specific **needs**

Source: Roland Berger

Today, Click & Delivery is still the most widely used fulfillment method – Customer surveys show increasing demand for add-on services

Current e-commerce approaches of leading OEMs and aftermarket players [% of all cases]

Type of fulfillment	OEMs	Aftermarket players	
	Preference acc. to customer survey	Preference acc. to customer survey	Preference based on actual transactions
Click & Delivery Online purchase of parts and home delivery	**40%**	**30%**	**90%**
Click & Collect Online purchase of parts & pick-up at pick-up point	**30%**	**70%**	**10%**
Click & Fit Online purchase of parts and service & assembly at workshop	**30%**	**n.a.**	**n.a.**

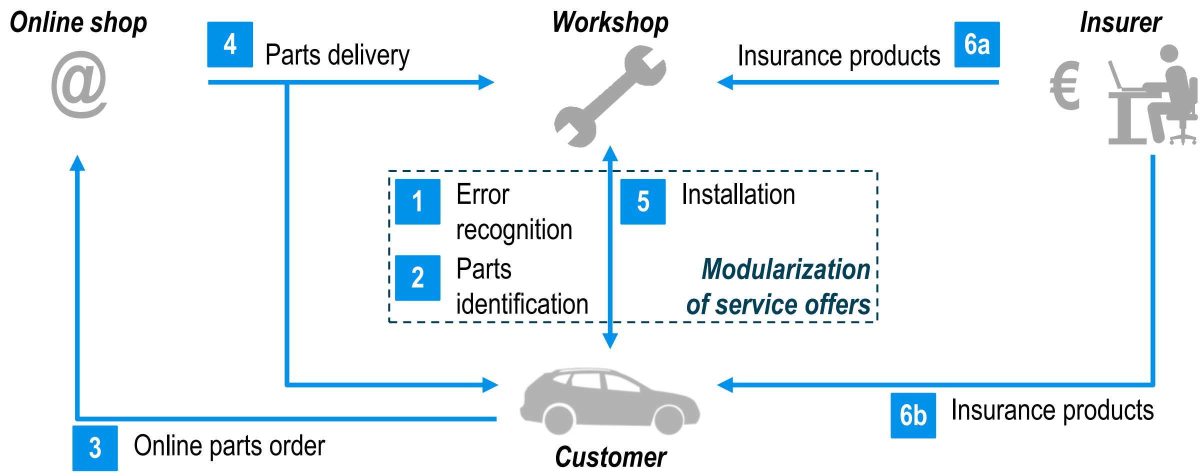
- Looking at the real customer preferences based on recent transactions, **Click & Delivery is clearly preferred**
- **Difference** between real and surveyed preferences – in our opinion – mainly **explained by**
  - Lacking communication of multi-channel option
  - Poor nationwide coverage
  - Legal advantage for customers is the "return clause"

Source: Company information; expert interviews; Roland Berger

BUSINESS OPPORTUNITIES

New business models will emerge to tap the full potential of online business opportunities – Role of workshops will change significantly

"Automotive service scenario 2025": Unbundling of product and services



Breaking up the "EASY³ logic":

> In the case of complex error recognition and parts identification, end customers are buying only these modules from the workshop (1 2)

> After the customers have ordered the required part online (3 4), they have it installed in the workshop (5)

> Insurers offer special products to the workshop and to the end customers, for example to insure against having the wrong parts installed, parts failures or breakdown in general (6a 6b)

> New products and services will appear in the automotive aftermarket

> On the one hand, online sales will cannibalize parts margins for workshops

> On the other hand, modularization of service offers leads to high flexibility for workshops and customers – workshops can benefit from higher labor and equipment utilization

> Moreover, unbundling and modularization will enable workshops to follow a service differentiation approach, addressing different customer segments individually

BUSINESS OPPORTUNITIES

The sky's the limit! Each player has to define their own strategy and collaboration models

Extract of opportunities for …

… OEM

> OEM should follow their **multi-channel strategies** also for aftersales – they should foster their online shops for **accessories and lifestyle** products and they could also **cooperate** with marketplaces like eBay or amazon

BMW sells parts directly to end customers via eBay shop in the UK – why only BMW and only in the UK?

… OES

> OES have the products to sell – however, typically **not an end customer brand**

> **Cooperation** models with **wholesalers** (shared platform), with current **online retailer hubs** (e.g. eBay) or **workshop portals** are possible and necessary in the long run

Bosch is running online shops, e.g. for handcraft and industrial products or DIY tools – why not expand to automotive parts?

… Wholesaler

> Wholesalers remain **dominant** in the traditional **offline** channel (e.g. due to logistical performance, other unique services) – but increasing added value of online services requires wholesalers to consider at least a focused **online/multi-channel presence**

Wholesalers partly running workshop chains – why not to get into online business, at least B2B?

… Workshop

> Workshop chains like A.T.U or pitstop should **improve** the **link** between their **online and offline** business and check the opportunity of setting up **communities**

> Smaller workshops can benefit from **participating** in communities and platforms

Online business is a threat – but why not leverage the opportunities, e.g. via collaboration with pure online players?

… Insurer

> Insurers might not be affected directly as they cannot really set up an online shop – but the game change will lead to **new business opportunities** for them, e.g. linking end customers with tied workshops and online parts platforms

Who will enjoy the first mover advantage?

Source: Roland Berger

It's character that creates impact

Roland Berger
Strategy Consultants