The Evolution of the Automotive Aftermarket Outlook

Disruptive Technologies, Business Models Demand New Capabilities

FROST & SULLIVAN VBOOK
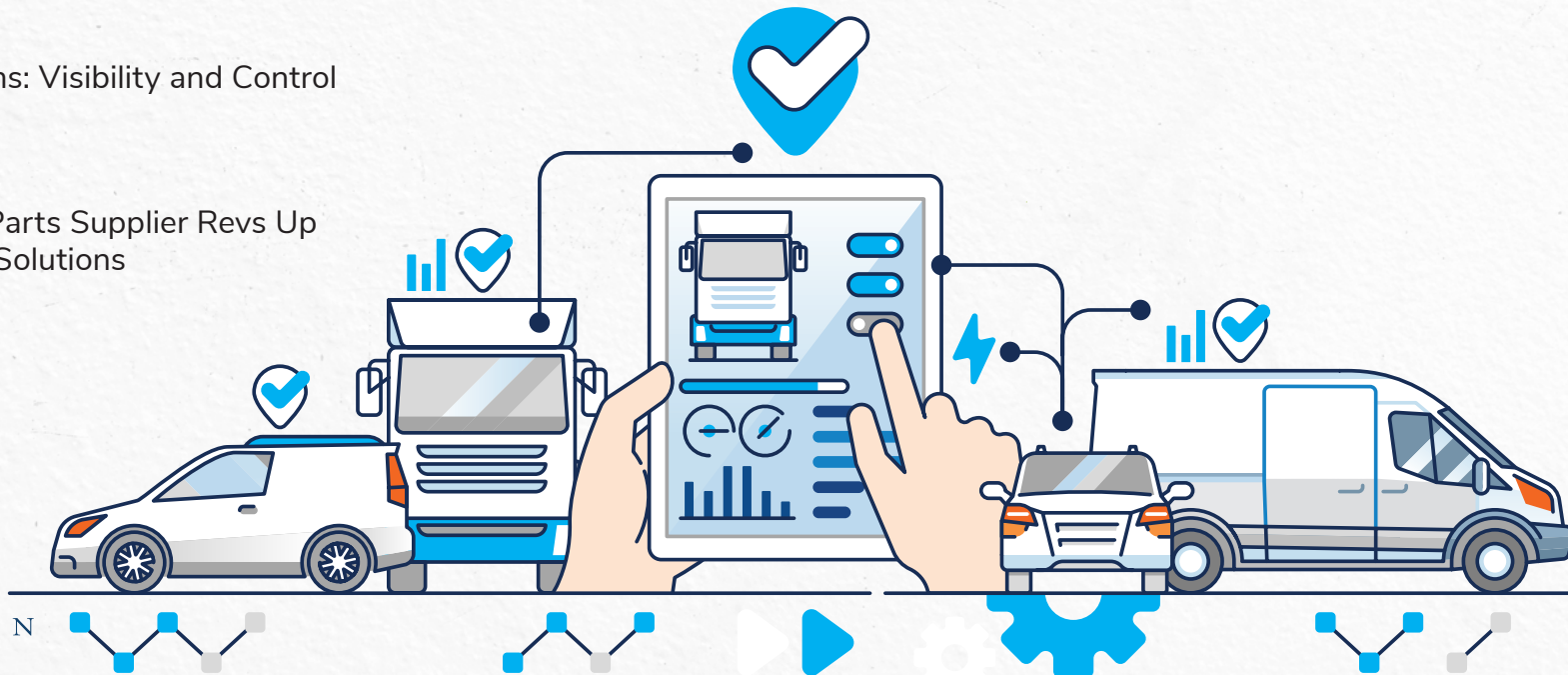
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INTRODUCTION

The global automotive aftermarket is in a transformative era, driven by disruptive vehicle technologies, shifting consumer behaviors, new business models, and an increase in vehicles in operation (VIO). Frost & Sullivan's research[1] has identified the top transformations that can be challenges or new growth opportunities:

1. Dealership downsizing, increased virtualization, and shifts to agency or direct-to-consumer models to counteract rising costs and tightening margins.

2. Expanding customer-focused solutions such as doorstep services and more convenient digitally based maintenance scheduling.

3. Upgrading infrastructure, inventory, and services to address:

   ▶ Increases in VIO and the average age of vehicles on the road

   ▶ EV expansion, to be half of new vehicle sales by 2035[2]

   ▶ Potential transition to hydrogen fuel cell vehicles, with 1.2 million sold in the US by 2035[3]

4. Increasing spending on digital technologies that enable:

   ▶ Better customer touchpoints, such as digital ads and campaigns, innovative and "sticky" loyalty programs, and no-contact maintenance services

   ▶ Optimized operations through shifts towards cloud-based garage solutions and maintenance-as-a-service models

1   Frost & Sullivan. *Global Automotive Aftermarket Outlook*, 2023
2   Goldman Sachs. **https://www.goldmansachs.com/intelligence/pages/electric-vehicles-are-forecast-to-be-half-of-global-car-sales-by-2035.html**
3   Frost & Sullivan. *Growth Opportunities: Future Trends in the Automotive Industry in 2035*, 2023

Auto dealers, repair shops, aftermarket parts providers, and their value chain partners need new and advanced solutions to remain competitive as challenges evolve in the coming years.

Disruptions drive aftermarket parts and accessories revenues—$472B in 2023 will surge to over $600B by 2027.[1]

1 Frost & Sullivan. *Global Automotive Aftermarket Outlook,* 2023

TRANSFORMING INVENTORY:
Turning Hurdles into Competitive Edge

The average vehicle in North America and Europe is over 10 years old. In the US, vehicles are driven an average of 13,500 miles per year and 39% of cars have been on the road at least 12 years.[1]

Increases in vehicle age and VIO lead to growing demand for repair and replacement parts, exacerbating existing inventory shortages from persistent supply chain issues. As cars become more complex and connected, EVs garner increasing market share, and fuel cell vehicles begin their ascent, the industry must adapt by expanding its range of parts and services.

Frost & Sullivan research[2] shows the top inventory challenges facing the aftermarket industry include:

- Balancing stock levels to meet customer demands while minimizing shortages and excess inventory
- Categorizing parts based on criticality, demand frequency, value, or shelf life to prioritize management efforts
- Monitoring stock levels in real-time to maintain visibility and make informed decisions about replenishment
- Establishing strong relationships with reliable suppliers to ensure timely delivery and efficient supply chains
- Regularly reviewing inventory to identify and manage obsolete or slow-moving stock
- Utilizing software and automation to streamline processes, provide real-time data, and improve efficiency

Advanced solutions enable aftermarket businesses to track every part they represent, from when it is received until it leaves the warehouse. In addition, artificial intelligence (AI) is used by solution providers as a powerful tool for parts manufacturers, distributors, dealers, and repair shops to develop localized inventory modeling and stocking strategies based on matching stores to their competitive profile, optimizing inventories and quickly addressing sales opportunities.

> "
> **Data-enabled business models** can rejuvenate the business for traditional aftermarket suppliers."
>
> —Frost & Sullivan, *Global Automotive Aftermarket Outlook*

INDUSTRY SNAPSHOT

Epicor Predictive Inventory Assistant (PIA)'s data-driven recommendations are informed by **1 billion aftermarket transactions per year** and **over 600 million daily individual part snapshots** across a broad panel of North American distributors.

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1   Frost & Sullivan. *Global Automotive Aftermarket Outlook*, 2023
2   Frost & Sullivan. *OE Benchmarking of EV Aftersales in North America and Europe*, 2023

BOOSTING SERVICES: Increasing Revenue and Customer Loyalty with AI

The aging vehicle population presents an opportunity for increased aftermarket service revenues, but customers expect fast and trustworthy service. With AI for identifying opportunities and providing improved service, repair shops and dealerships can boost order volumes and enhance customer loyalty.

AI technology is being leveraged to enhance various aspects of the aftermarket, including customer experience, inventory management, and predictive maintenance. According to our research on the industry,[1] technology is supporting aftermarket services through:

- Using AI-powered chatbots and virtual assistants for personalized customer support

- Optimizing inventory and predicting demand through AI-based algorithms

- Shifting from scheduled maintenance to predictive, usage-based maintenance for proactive servicing

- Expanding omnichannel interactions, giving customers consistent experiences across online sales, physical locations, mobile apps, customer support, and aftersales services

- Tailoring product recommendations and marketing strategies at increasingly customer-specific levels

- Leveraging aftermarket eCommerce, which is expected to grow from $59 billion in 2023 to a $153 billion by 2030[2]

AI is enhancing aftermarket applications, transforming customer experiences, optimizing inventory, facilitating predictive maintenance, and promoting data-driven decision-making.

> "AI can alert drivers to issues, schedule appointments, and even compare service costs. **Advanced AI** can even predict issues before they occur, ordering parts and preparing service centers for repairs before the vehicle arrives."
>
> —Frost & Sullivan, *Growth Opportunities: Future Trends in the Automotive Industry*, 2024

INDUSTRY SNAPSHOT

Epicor Predictive Maintenance Assistant provides **real-time, AI-enriched forecasts** of future service requirements by vehicle and vehicle class.

1   Frost & Sullivan. *Global Automotive Aftermarket Outlook*, 2023
2   Frost & Sullivan. *Growth Opportunities for eRetailing in the Automotive Aftermarket*, 2024

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USING DATA-DRIVEN DECISIONS:
Quality Data Powers Performance

Data management can be complex. However, successful aftermarket businesses utilize data to put the right part, in the right place, at the right time. Shared industry data can offer competitive advantages, benefiting manufacturers, distributors, retailers, and repair shops alike.

ENHANCED DECISION-MAKING: Shared industry data provides a comprehensive view of customer trends and preferences, enabling businesses to make informed decisions, optimize product offerings, and stay ahead of the competition.

IMPROVED CUSTOMER EXPERIENCE: Access to a wide range of product information makes personalized and efficient service possible, increasing customer loyalty and helping attract new customers.

INCREASED OPERATIONAL EFFICIENCY: Accurate and timely product information, along with intuitive interfaces, leads to better customer service, fewer returns, and higher sales. For example, advanced solutions help users navigate complex vehicle models and parts thanks to diagrams that are interactive and application-specific, allowing precise identification and ordering of necessary components.

DRIVING ECOMMERCE GROWTH: Accurate and complete product content is crucial for the growth of eCommerce platforms.

EMPOWERING EMPLOYEES: Integrating shared data across platforms such as retail point-of-sale helps employees excel at researching parts, labor, and any other information needed for virtually any service. A better understanding of and access to product documentation and warranty information empowers employees to generate additional revenue.

> "Don't view data in the **automotive aftermarket** as just a challenge—approach it as a valuable asset that creates competitive advantages."

INDUSTRY SNAPSHOT

The Epicor Catalog is powered by the largest aftermarket parts database, with vehicles from the US, Canada, and Mexico. Businesses can access **more than 17 million part numbers/SKUs** from **over 9,500 manufacturer product lines**, covering in excess of **1.4 billion vehicle applications**.

ENHANCING OPERATIONS: Visibility and Control Lead to Efficiency

Achieving visibility into all locations and distribution centers requires advanced data-driven tools that leverage high volumes of information, ensuring the right parts reach customers quickly, easily, and accurately through automated processes.

An advanced solution provider can offer tools and services that enhance operations through greater visibility and control. Using a data-driven approach, businesses can streamline processes, optimize inventory management, and improve efficiency.

▸ **ADVANCED INVENTORY MANAGEMENT:** Utilizing data-driven algorithms to optimize inventory levels, minimize shortages, and reduce excess inventory.

▸ **DYNAMIC PRICING AND PROMOTION MANAGEMENT:** Adjusting prices based on market demand and competition to optimize pricing strategies and maximize profitability.

▸ **LAST-MILE DELIVERY OPTIMIZATION:** Simplifying processes such as ordering and fulfillment in last-mile delivery logistics to ensure seamless and efficient delivery of parts to customers.

Disruptive technologies and **data-driven decision-making in the automotive aftermarket** empower businesses to transform challenges into competitive advantages, driving revenue growth, customer loyalty, and industry innovation.

INDUSTRY SNAPSHOT

Epicor Vision Automotive ERP **integrates and optimizes processes** across every area of your aftermarket distribution business—from your warehouse to the customer's door.

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INDUSTRY USE CASE: Parts Supplier Revs Up Growth with Smart Solutions

XL Parts, a rapidly expanding auto parts distributor with 115 stores and distribution centers and a delivery fleet of hundreds of drivers, needed a scalable solution to integrate and streamline its complex multi-state operations while enabling future growth. XL's acquisition by Japanese conglomerate Marubeni further underscored its need to consolidate systems across the organization.

Since 2011, XL Parts has relied on Epicor Vision distribution management solution to streamline various aspects of its business, including warehouse management, call center logistics, dispatch and delivery, forecasting, pricing, and inventory planning. Epicor's flexible and scalable Vision software has enabled XL Parts to integrate its systems and consolidate operations seamlessly and successfully scale its business, nearly tripling in size to over 700 employees while minimizing disruptions.

> Epicor Vision's ability to **scale and seamlessly integrate all aspects of XL Parts' operations** enabled rapid growth with seamless integration.

> "Knowing we can count on Epicor after all these years to continue addressing our needs while, **finding new and unique ways to help us leverage our Vision software has been invaluable**...The bottom line...it works."
>
> —Iyad Kayyali, *Chief Technology Officer, XL Parts*

Source: Epicor

INDUSTRY USE CASE: CRM Puts Customer Experience into Overdrive

Eccles Auto Service in Ontario, Canada, needed an efficient way to manage customer interactions, broaden the scope of marketing promotions, and build closer client relationships. In 2003, Eccles implemented Epicor Service CRM solution, enabling streamlined omnichannel customer communications email, text, and video, while leveraging back-end reporting tools to tailor messaging, track customer habits, and align inventory based on data-driven insights.

Eccles Auto Service saw an immediate return on investment, with its first Service CRM promotion achieving a 19% redemption rate compared to less than 1% for traditional mailed offers. Over the years, as the business quadrupled in size, Service CRM continued to act as an "extra, much-needed employee," enabling strategic decision-making and personalized customer engagement throughout the service process.

> **Leveraging data-driven customer insights through Service CRM** allowed Eccles Auto to build stronger relationships, optimize operations, and significantly drive revenue growth.

> "The speed with which [Epicor's solutions] allows us to analyze performance, track customers' habits, and make quick strategic decisions...has been an absolute game-changer for our business."
>
> —Bruce Eccles, *Owner, Eccles Auto Service*

Source: Epicor

INDUSTRY USE CASE: Cloud-based Parts Catalog Fuels Tech-driven Car Buying Revolution

To streamline operations and improve efficiency, Carvana turned to Epicor Catalog, the largest automotive aftermarket parts database, with access to more than 17 million SKUs from over 9,500 manufacturers' product lines, covering more than 1.4 billion vehicle applications. Carvana's AI/ML group developed a large language model (LLM) that aggregates data from all key subsystems and makes it available to employees from engineering to customer service. Epicor Catalog is integrated with the LLM and supplies the parts data, enabling technicians to identify the right item faster.

Another Carvana tool facilitates decisions on product selection, ETA, costs, and workflow management. Also integrated with Epicor Catalog, this tool is constantly learning and getting better over time. These tools serve up installation content and each tech is equipped with a tablet which they clip to the dashboard or windshield of the vehicle they are working on. How-to videos are automatically sent directly to the technician along with the part.

> **Epicor's partnership with Carvana** has been pivotal in getting that extra level of data to make informed, real-time, educated decisions in an automated way.

> " Epicor Catalog delivered a significant improvement in time required for parts sourcing, allowing us to optimize our resources."
>
> —Tim Moore, *Sr. Director, Vehicle Reconditioning Technology, Carvana*

Source: Epicor

TAKING THE NEXT STEPS:
Accelerating Success in the Automotive Aftermarket

To thrive in this dynamic and transformative era, aftermarket businesses need a strategic roadmap to drive growth, enhance operational efficiency, and deliver exceptional customer experiences.

1. **EMBRACE DISRUPTIVE TECHNOLOGIES:** Harness the power of AI, chatbots, and predictive maintenance tools to revolutionize customer experience and optimize inventory management.

2. **FORGE STRONG SUPPLY CHAIN PARTNERSHIPS:** Cultivate reliable relationships with suppliers to ensure timely delivery and efficient supply chains, while leveraging shared industry data to mitigate risks and improve inventory management.

3. **ENHANCE OPERATIONAL VISIBILITY:** Utilize advanced data-driven tools for real-time monitoring of stock levels, dynamic pricing, and seamless integration of ordering and fulfillment processes.

4. **PRIORITIZE CUSTOMER-CENTRIC STRATEGIES:** Leverage data insights to personalize product recommendations, marketing strategies, and omnichannel experiences, fostering customer loyalty and satisfaction.

5. **FOSTER A CULTURE OF INNOVATION:** Continuously innovate and adapt to stay ahead of industry trends, investing in research and development to meet the evolving needs of the automotive aftermarket.

Collaborating with a trusted provider that understands the industry's unique challenges and **offers scalable, innovative solutions** can accelerate success, drive growth, enhance operational efficiency, and deliver exceptional customer experiences.

YOUR TRANSFORMATIONAL GROWTH JOURNEY STARTS HERE

Frost & Sullivan's Growth Pipeline Engine, transformational strategies and best-practice models drive the generation, evaluation, and implementation of powerful growth opportunities.

Is your company prepared to survive and thrive through the coming transformation?

Join the journey. ➔

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