The European Automotive Aftermarket Landscape
Customer Perspective, Market Dynamics and the Outlook to 2020
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Customer Perspective, Market Dynamics and the Outlook to 2020

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Introduction

Since June 19, 2011, the automobile industry in Europe has been subject to EU Regulation 566/2011, according to which manufacturers are obligated to release electronic data enabling the exact identification of replacement parts for vehicles. This will further strengthen the position of independent service providers in the aftermarket sector, a sector that includes automotive services, parts, and the maintenance business. In the future, independent operators will thus have the same access to electronic repair and diagnostic information enjoyed by authorized repair shops.

With this, the EU Commission is systematically following the path it has pursued since the turn of the century with a variety of regulatory amendments (e.g., 1400/2002; 715/2007; 692/2008; 595/2009; 461/2010; 64/2012). The goal is to create a competitive landscape in Europe in which independent repair shops and authorized repair shops compete to serve different customer needs and segments. The idea is to strengthen the customer’s position and to encourage intense competition on all levels of the repair and parts value chain.

So far, the Commission seems to have been successful in realizing this goal: Independent service providers have in recent years further expanded their parts and service businesses at the expense of OEM; traditional authorized repair shops are experiencing (price) pressure from large independent service providers; and in the meantime, non-traditional players have also entered the market: Insurers, fleet operators, and leasing firms have long since begun to strike exclusive agreements with independent repair shops, effectively lowering their costs and channeling customers to contractually agreed independent service providers.

Brisk competition and price pressure have been advantageous for European customers. The European aftermarket has thus been transformed, in terms not only of prices, but also of customer satisfaction—just as the EU Commission wanted.

In summer 2011, the European Automobile Manufacturers Association (ACEA) contracted BCG to perform a detailed analysis of the aftermarket in Europe with the view to establishing the facts around the state of competition in the sector and overall customer satisfaction in this area. BCG has investigated the current market
dynamics and identified trends that will shape the coming decade. Our analysis was
based on three central questions currently being asked by both market players and
the EU Commission: How do customers benefit from the changes? How intense is
competition now? And in what direction will the market develop?

Building on our industry expertise we conducted extensive interviews with automo-
tive industry experts from across the aftermarket business spectrum. A statistically
relevant survey of over 1,500 customers in five European countries—Germany,
France, Spain, Great Britain, and Poland—provided the customer perspective.
Analyzing the results, we developed forecasts about the trends that will characterize
the market. Based on these results, we were able to identify opportunities andchal-
lenes facing the various market players.

Within the highly fragmented overall market for automotive services, two channels
can be differentiated: The first, the “authorized” channel, is comprised of vehicle
manufacturers (VMs), their country organizations, dealer networks, and repair
shops, both single- and multi-brand. The second, “independent” channel is com-
prised of independent service providers (or independent operators). The central
players in wholesale are independent distributors and purchasing networks com-
prising numerous players that join forces to bundle volume and realize better
prices. Finally, the independent channel also includes companies that collect,
process, and sell data.

On the retail level, independent service providers can be broken down into three
types of repair shops: (1) franchises that offer a full range of services and are part of a dealer network or franchise system; (2) automotive centers and “fast fitters,” i.e., repair shops with standardized and often limited service offers that frequently include parts retail; and finally, (3) small, “corner” repair shops that offer the full range of services and function completely independently.

EXHIBIT 2 | Overview of European aftermarket landscape
Aftermarket divided into authorized and independent channels
The customer perspective: Increasing choices

**HIGH QUALITY, LOWER COSTS**
European drivers are profiting from increased market transparency and lower service costs. The cost of auto repairs and parts has declined steadily in Germany in recent years: From 2003 to 2010, maintenance costs per year and vehicle sank by an average of 21 percent. This significant reduction is less the result of intensified competition among service providers than of better-quality parts and thus longer maintenance intervals. At the same time, the cost of parts has risen only slightly.

In addition to cost advantages, the structural developments in the aftermarket have made for a highly transparent market. For each repair or service event, customers can choose the offer that best fits their individual requirements and personal criteria. This level of market transparency and the steady decline of costs have resulted in high customer satisfaction. Nearly all of the surveyed customers indicated that they are highly satisfied or satisfied with the performance of their repair shops, including initial price quote, final price paid, time to get an appointment, value for money, time needed for repairs, different part options, technical quality, and adherence to schedule.

The survey showed which criteria are most important for customers to select a repair shop: At the top of the list are value for money and parts quality. Customers feel that they get the best value for their money from automotive centers, fast fitters, and independent repair shops, but when it comes to parts quality, customers prefer franchise repair shops and traditional authorized repair shops.

**WIDE RECOGNITION OF BRANDED CHAINS**
Customers are well aware of the wide range of service offers: Our survey, which was conducted in summer 2011, shows that nearly all European car drivers—nine out of ten—know the names of the big independent service providers in Western European countries. Of the independent service providers, Carglass is the most well-known brand in France, with name recognition of 90 percent. In Spain and Great Britain Kwik-Fit is the most recognized with 86 percent recognition, and in Germany A.T.U is the most recognized with 85 percent recognition.

Brand name recognition is considerably lower in Poland than in the surveyed Western European countries: Only every third respondent knows Autoglass, the most familiar service chain there. The reason for the low market penetration of large independent service providers in Poland is the country’s still highly fragmented market, characterized by small independent repair shops.

Across all countries, Carglass is the most widely known player, showing highest or second highest awareness level of customers.

**BROAD SATISFACTION ACROSS ALL CHANNELS**
Customers in Western Europe favor independent repair shops. In seven of the ten criteria for customer satisfaction, these repair shops came out on top. Customers especially like the value for money in the independent channel (exhibit 4).
Nevertheless, the difference in customer satisfaction between independent and authorized repair shops is rather small. European drivers are also very satisfied with traditional authorized repair shops, which are positively viewed primarily in regard to quality and less so in regard to prices and value for money. The belief that good quality means higher prices is clearly a factor in customers’ assessments of authorized repair shops.

Asked about their experience with automotive centers and fast fitters, customers gave chains the most points for the best—that is, the lowest—prices. Marketing based on price is thus clearly working for fast fitters. However, their offers were not always viewed as the best ones: Compared to independent repair shops, customers believe they get lower value for their money from fast fitters. Generally, the range of repair and maintenance services offered by automotive centers/fast fitters is considerably narrower than that offered by independent repair shops.

Franchise repair shops scored the least points in customer satisfaction. The reason for this are limited parts options. Franchise repair shops usually work with just a few wholesalers and suppliers. Customers also ranked them lower in regard to value for money compared to other service providers.

Customers are also satisfied with the parts on offer. They feel well informed—even though only four of ten survey respondents reported that their repair shops proactively point out the different parts options available. The discrepancy may be seen as an indication of trust; customers assume that their repair shops make the right choice of parts in their best interest.
DECREASING CUSTOMER LOYALTY OVER TIME

After purchasing a vehicle, many customers first stay with an authorized repair shop. Loyalty to authorized repair shops is highest among new-vehicle owners and business customers. Reliability, good quality, and warranty are the reasons that two-thirds of these respondents named for taking their vehicles to authorized repair shops when they need repairs or maintenance.

But a different picture emerges among owners of used and older vehicles. The majority favor independent repair shops—with price as the deciding factor. This also goes for loyalty to a certain repair shop; generally, customer loyalty is strongly influenced by price, while “soft factors” such as time needed for repairs, service quality, and time needed to get an appointment are additional “nice-to-have” factors that are seldom central to decisions to switch repair shops.

Customer loyalty is significantly higher in markets that are less consolidated. In Poland and Spain, trust and a personal relationship count even more than price; here, unlike in Germany and France, the willingness to switch repair shops declines with the age of the vehicle rather than increasing.

Overall, the results of the customer survey make it clear that the aftermarket in Europe has changed dramatically for the better for vehicle owners and drivers—numerous service providers with different strengths offer customers a wide service selection based on their personal priorities and specific requirements.
The market dynamics: Intensified competition

**STABLE SHARES OF CHANNELS**

The total market volume for the five analyzed focus markets (Germany, France, Great Britain, Spain, and Poland) is approximately 115 billion euros—and has remained stagnant at this level for years: Between 2005 and 2010, the compound annual growth rate of the automotive services market in Western European countries was near zero or even slightly below, while in Poland, it grew by nearly 4 percent every year.

The minor changes in market shares together with barely existent growth are an indication of balanced competition. Independent and authorized repair shops are all fighting for customers, and neither of the two can be proclaimed the clear winner.

In all of the analyzed countries, independent repair shops dominate the retail sector. In Poland they enjoy 70 percent market share, in Great Britain 66 percent, and in Spain 62 percent. In France and Germany their market share is slightly over 50 percent, and is smaller than in the other three markets due to the strong automotive manufacturing presence.

The reason for the significantly higher market shares of independent repair shops in Great Britain (66 percent), Spain (62 percent), and Poland (70 percent) is that there are no large national OEMs to shape the relevant aftermarkets.

In addition to the overall market situation, we also analyzed market shares for different services (accident repairs, mechanical/electronics repairs, maintenance, and other services). It is not surprising that the more demanding the repair is, the higher the market share of authorized repair shops. For mechanical repairs, which are relatively complex, over half (54 percent) of the respondents went to an authorized repair shop. For standard services such as tire changes, only half as many did: Authorized repair shops got only a quarter of the market volume for standard services in 2010.

Vehicle age is another clear factor in customers’ choice of repair shop. Independent players clearly dominate the lucrative aftermarket for cars older than eight years, being the first choice of used-vehicle owners. In contrast, owners of new vehicles who enjoy warranty protection prefer authorized repair shops, which is shown by the dominant market share of authorized repairers for cars younger than four years over almost service categories.

But the changes in authorized and independent repair shops’ market shares are only one important aspect of the developments in the aftermarket in Europe. Intense competition is also transforming the situation within the individual channels. Most notably, small, truly independent repair shops that exist outside the large franchised system are coming under increasing pressure: They are seldom in a position to compete with the attractive prices offered by big chains like A.T.U or Pit-Stop, since their lower purchasing volumes mean higher procurement costs for wholesale parts. Also, the rising technical complexity of new vehicles increases the expertise and investments needed to handle repairs, quickly bringing small businesses to their limits. To do repair and maintenance work,
vehicle-specific repair knowledge is required, and the ubiquity of vehicle electronics makes the purchase of diagnostic tools and ongoing technical training for employees a necessity. The introduction of new vehicle materials such as aluminum, carbon, and UV paint require special tools, instruments, and increased training requirements as well.

Smaller independent operators are not equipped to surmount these obstacles and are forced to either exit the market or to join a larger franchise. In Germany, the number of small independent repair shops has been sinking for years, even though the “death rate” has slowed considerably. With a total of ~38,000 repair shops in Germany in 2010 (~18,000 of them authorized and ~20,000 independent), the decline from 2009 to 2010 was 0.8 percent for authorized repair shops and 0.5 percent for independent repair shops.

**COST ADVANTAGES**
The clear winners in the independent channel are big service chains. Franchise operations, fast fitters, and automotive centers have three major advantages: (1) Due to their size, they have accordingly larger purchasing volumes, which they are able to translate into cost advantages and pass on to customers as lower prices. (2)
They also have the financial means to both train employees and acquire the diagnostic tools for standardized services, while (3) at the same time cultivating very close relations with suppliers and wholesalers, who are often involved in large chains’ training offers for employees and quality improvement in services.

**Competing strategies**

Authorized repair shops and independent service providers are using different strategies to expand their respective positions in the market. Since authorized repair shops are strongest in the new-vehicle segment, they are trying to push further into the used-vehicle segments with the goal of keeping new-vehicle purchasers as customers longer. Their offers include extended warranties and service contracts for new cars, as well as mobility packages comprised of services such as wear-and-tear repairs or servicing over the vehicle lifetime. Authorized repair shops are thus using new-vehicle purchases to tap additional market volume for repair and maintenance services. They are also increasingly offering economic parts at attractive prices to better meet the needs of used-vehicle owners in their own or second service line network.

Furthermore, OEMs and their authorized repair shops are following the trend towards vehicles electronically equipped for remote diagnostics and other revenue-generating services. Finally, with the support of manufacturers, authorized repair shops are also expanding on their traditional competitive advantages—optimizing their service quality, training their employees, and effectively linking manufacturers, dealers, and repair shops.

In mirror image to authorized repair shops, independent service providers are seeking to expand their market shares in the new-vehicle segment: Attractive prices, improved service quality and speed, standardized service contracts for fleet operators and business customers, and partnerships with diagnostics specialists (such as the British service chain Kwik-Fit and Bosch Diagnostics) are among the strategic activities that aim at providing a broad, similar range of services as authorized repair shops. In addition, independent service providers, especially, are pairing up with new non-traditional players such as insurers, fleet operators, and leasing firms to gain access to maintenance contracts in all vehicle segments.

**Non-traditional players**

Beyond competitive pressure and the resulting market concentration, non-traditional players in the automotive services market have visibly altered the competitive landscape. Insurers, fleet operators, and leasing firms are all experiencing pressure in their own markets. To manage under these circumstances, cost advantages are a crucial success factor. Since vehicle repair and maintenance are among their greatest cost drivers, insurers, fleet operators, and leasing firms are moving more and more towards special-condition contracts with networks of selected repair shops to which their policyholders and customers must go for repairs and maintenance. For these repair shops, this also means higher business volume.

In recent years, partnerships like these led to a significant increase of customers who are contractually bound to selected repair shops. This will continue to reshape the competitive landscape in the European aftermarket in the coming decade. In Germany, the share of exclusive contract repairs through insurers tripled from 2005
to 2010, from 3 to 15 percent; during the same period in the Netherlands, the share of exclusive contract repairs rose from 45 to 65 percent.

This phenomenon poses new challenges for both traditional players in the market and for the customers themselves who have little or no choice with regard to repair shop selection, and the parts used for repair. Traditional factors such as vehicle age and customer personal choice have less and less influence. In today’s environment, it is primarily the independent repair shops that are profiting from partnerships with insurers, fleet operators, and leasing firms. Authorized repair shops lag behind and their current market share will slide unless they find an entry into this segment.

**Increasing Consolidation**

Intense competition is accelerating industry concentration. The German market, where the top ten independent operators have a market share of 30 percent (measured by number of outlets), has the highest level of concentration—with an 11-percent increase since 2007. Similarly, the level of concentration in France is 29 percent. The aftermarket in UK, Spain, and Poland is less concentrated: In UK, the ten largest players have a market share of 16 percent, in Spain 13 percent (an 18-percent increase since 2007), and in Poland 12 percent (for a 9-percent increase since 2007). In the coming decade, concentration in these countries is expected to rise to the level in Germany and France.

Consolidation on the retail level is the result not only of organic growth, but primarily as a consequence of the brisk pace of M&A activities. In 2011, for instance, the Japanese tire specialist Itochu Group acquired 1,500 Kwik-Fit locations from the British fast fitter in order to gain access to its market.
Most independent repair shops are vertically integrated, which further drives market concentration. Up to 90 percent of the ten largest independent repair shops are owned by wholesalers or parts manufacturers.

The market is also consolidated on the wholesale level, a development driven primarily by large purchasing alliances. In the study’s focus countries, the four biggest alliances (ATR, Groupauto International, Temot, and AD international) now have a market share of 37 percent (measured by share of revenue) in independent wholesale. They function as national umbrella companies for national wholesalers, giving them enormous purchasing leverage in regard to parts prices.

Mergers and acquisitions have been driving the concentration of the wholesale level for years. In 2009 alone, the European market saw three major deals: the German Trost merged with KSM ServiceTechnik, the Spanish Grupo Davasa purchased RG Gerstenmaier, and the German Coler acquired Kessler.
Outlook 2020

**COMPETITIVE PRESSURE**
In the decade until 2020, the European automotive services market will continue to come under pressure from various sides. Market volume growth in Western Europe is not expected in coming years: Vehicle density is already so high that the number of vehicles can hardly change significantly. Of the countries analyzed for the study, only Poland can be seen as a growth market. Its comparatively low market volume—only 10 percent of the German market—will grow at a rate of 5.7 percent per year in nominal terms—until it is on a par with Western European countries. Furthermore, intense competition and increasing market transparency will mean constant or even slightly lower average annual service costs per vehicle.

Another factor in the rising competitive pressure in automotive services are the technical developments in vehicle manufacturing and parts production. Improved parts quality will mean longer part lifetimes and accordingly longer service and repair intervals. At the same time, repair shops will also need to invest to address the rise in vehicle electronics. This applies both to information requirements and to ongoing training for employees to stay up to date on technical developments. Longer term, electrical vehicles and hybrids—which require considerably less maintenance than traditional combustion motors—will further change the automotive services market.

Along the entire value chain and range of services, the competitive situation for repair shops will intensify. This goes for both authorized repair shops as well as for independent service providers and chains, which will be able to expand their market shares only with squeeze-out competition. Creative strategies will be needed to address the opportunities and risks of market developments early on.

**OPPORTUNITIES FOR INDEPENDENT REPAIR SHOPS**
Independent repair shops and chains have a number of options for securing their future market positions. They can strengthen their procurement power by forming large purchasing alliances, thus retaining their most important competitive advantage—cost leadership. They can profit from rising price awareness among customers who—as in many other sectors—are increasingly better informed about quality and value for money, and consequently in a position to select the best offer for every type of repair and service.

Because many independent providers do not offer a full range of services, they can follow a competitive strategy of specializing on either services with higher margins or services with high volume; authorized repair shops, in contrast, usually offer a full range of repair and maintenance services.

Perceived gaps in quality (from the customer perspective) between independent and authorized repair shops will probably also narrow: Study results show that many independent repair shops and chains are becoming increasingly professional, thanks to better access to repair and maintenance information, better parts logistics, and investments in diagnostics technology.
In addition, especially independent providers have gotten an early start on partnerships with insurers, fleet operators, and leasing firms, increasing their repair business volume in return for lower prices.

Independent service providers thus have a good chance of successfully securing their piece of the pie in the automotive services market of 2020. From today’s perspective, their opportunities outweigh the risks: For smaller operations, the investments required in know-how, information management, training, and diagnostics will be the biggest challenge. This is not the case for independent chains. Their main task will be to combine their cost leadership with rising expectations of service and parts quality. Beyond this, study results show that they will need to work actively to gain customer trust and improve their image.

Generally, independent service providers can be expected to slightly increase their market shares by 2020. In Western European markets, the share of independent repair shops is anticipated to rise by up to 6 percent.

**Opportunities for authorized repair shops**

In coming years, OEMs and their authorized repair shops will actively use cost and price strategies to assert themselves in the highly competitive market. Customers perceive authorized repair shops as being considerably more expensive than independent repair shops. The development of strategies that enable attractive prices for customers while simultaneously avoiding the erosion of margins may be one of the biggest challenges of the service business for OEMs. Also, they and their service networks belong to large companies: In competing with small, flexible, and agile service providers, they will face a different set of challenges when it comes to aligning their business models, price strategies, and service offers to the needs of the market.

OEMs and their authorized repair shops will have to focus on consistently utilizing their current competitive strengths: They are perceived by customers as a guarantee for quality and thus enjoy their trust. As affiliates of the OEMs, they also profit in regard to new technologies, such as new, fuel-efficient drive technologies and electronics. Continuing advances in “networked vehicle communications” also represent an opportunity to strengthen customer loyalty and earn points for offers of remote diagnosis and other services. This will be an important factor when longer service intervals in the initial years after the purchase of a new vehicle could have a negative effect on customer loyalty to OEMs.

**Trends in competitive environment**

We believe that the development of the competitive landscape will allow independent service providers to expand their market share, though slightly. Thanks to their cost advantages, they are in the best position to address customers’ increasing price awareness. This applies primarily to large independent service chains. Small independent repair shops will be increasingly challenged by know-how and investment barriers, so that we see a further decrease in outlet numbers until 2020.

Also, longer maintenance intervals and generally higher quality will have a negative effect on customer loyalty to authorized repair shops. And non-traditional
market players such as insurers, fleet operators, and leasing firms will partner primarily with independent service providers in order to reduce their own costs.

In Western European markets, the market share of independent service providers will rise by up to 6 percent. Only the market in Poland, where independent repair shops enjoy a traditionally high market share of 70 percent, is expected to remain stable in this regard.

**EXHIBIT 7 | Independent repairers expected to slightly benefit from balanced competitive market environment**

Independent operators will moderately expand their market share until 2020

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<td>Authorized repair shops</td>
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<td>Independent repair shops</td>
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Source: Expert interviews; BCG analysis.
Appendix

OTHER PUBLICATIONS
The Boston Consulting Group regularly publishes studies and articles on the automobile industry, including the following:

Winning the BRIC Truck Battle
How Global and Local Players Can Tap the Full Potential of BRIC Truck Markets
A Report of The Boston Consulting Group
February 2012

Powering Autos to 2020: The Era of the Electric Car?
A Report of The Boston Consulting Group
July 2011

Winning the BRIC Auto markets
Achieving Deep Localization in Brazil, Russia, India and China
A Report of The Boston Consulting Group
January 2010

Batteries for Electric Cars
Challenges, Opportunities, and the Outlook to 2020
A Focus Report of The Boston Consulting Group
September 2009

The Comeback of the Electric Car?
How Real, How Soon, and What Must Happen Next
A Report of The Boston Consulting Group
January 2009
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