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State of the Aftermarket

Abridged Report 2020

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Overview

The UK aftermarket has faced its share of challenges - both political and technological. However, 2020 has presented the additional and unprecedented challenge of the coronavirus (COVID-19) pandemic.

The rapid increase in vehicle technology arguably continues to be the biggest challenge facing the aftermarket. Those responsible for servicing and repair have a growing task to keep up with the pace of change as increasingly advanced technologies are introduced to vehicles.

For that reason, skills in our sector remains an important issue, with the need for professional repairs from knowledgeable staff. Upskilling the existing workforce and attracting new talent therefore continues to be a key focus.

Meanwhile, the UK has officially left the EU, with the official transition period ending on 31st December 2020. Yet with no deal on the table the impact of trade tariffs and access to in-vehicle data are an ongoing concern, and the aftermarket remains in a state of limbo.

COVID-19, the unpredictable impacts of lockdown and the MOT extension continue to present serious challenges, but many would argue it also presents an opportunity. This remains to be seen, but both paths are possible, as long as the industry remains committed to coming out the other side of the pandemic in a stronger position than in which it entered.

This report was commissioned by Messe Frankfurt UK to provide an overview of the key issues currently impacting the UK aftermarket, but more importantly to provide valuable insights and advice for businesses facing up to each challenge.

Including insights from:

Andy Savva
THE GARAGE INSPECTOR

Quentin Le Hetet
GIPA UK

Steve Nash
INSTITUTE OF THE MOTOR INDUSTRY (IMI)

Wendy Williamson
INDEPENDENT AUTOMOTIVE AFTERMARKET FEDERATION (IAAF)

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Coronavirus & Lockdown

Twelve months ago, no one could have foreseen a global pandemic that would shake the automotive industry to its core, cut sales of new vehicles, and restrict the general public to their homes for the most part of a year. However, these impacts have resulted in shifting behaviours in the 'new normal', some which may ultimately offer as much opportunity as they have obstacles.

The onset of social distancing restrictions and avoidance of public transport resulted in a sudden surge of private cars on the roads. Previously dormant vehicles were suddenly in need of servicing, and cars put under unfamiliar strain were in need of repair, resulting in a surge of work for many garages.

SURVEY FINDINGS

53%

of businesses believe that it will take 18 months to two years for them to recover to pre Covid-19 levels

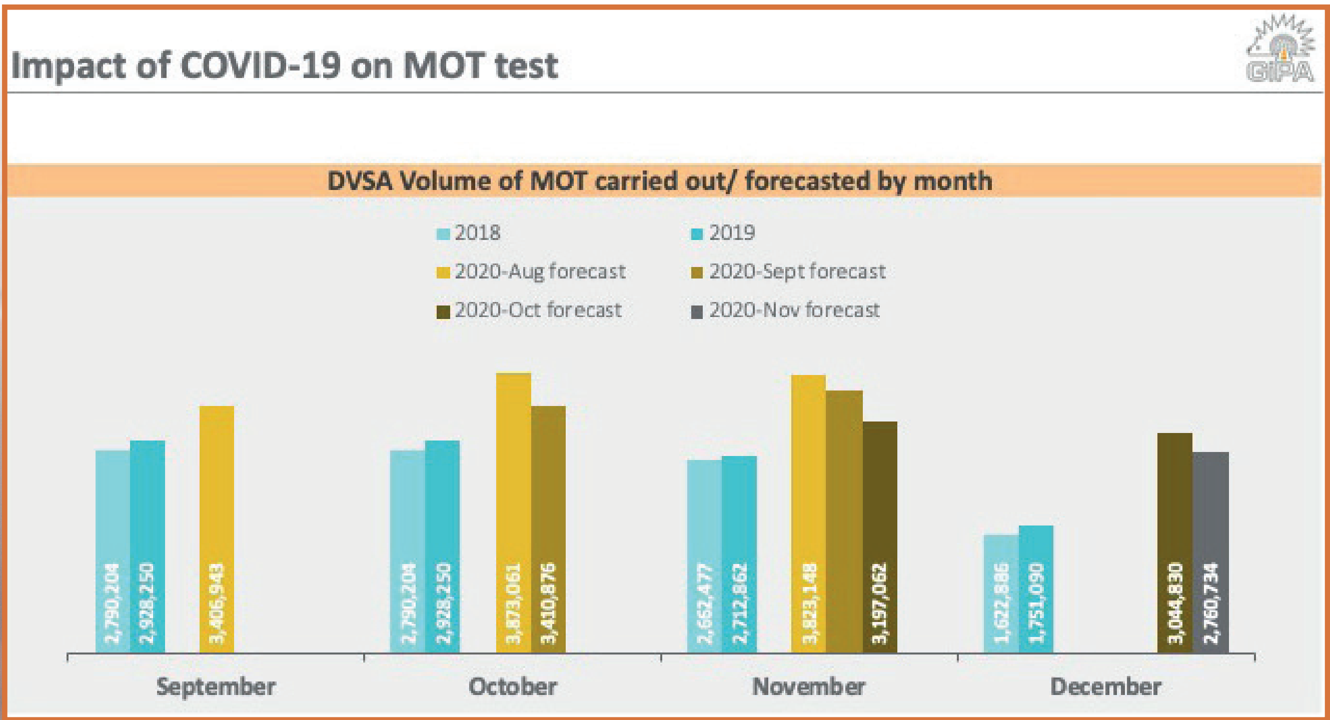
SURVEY FINDINGS

69%

of businesses believe that it will take 18 months to two years for the UK aftermarket to return to pre Covid-19 levels

The six-month MOT extension announced in March had an immediate impact. DVSA figures showed just 746,161 MOTs were carried out in April compared to 3,551,999 in April 2019 - a whopping **79% decrease**. May and June were also significantly down.

The MOT extension did not end until August, creating two problems for workshops. First, from the end of September until the end of January 2021, there will be almost double the demand for MOTs, as those extended MOTs merge with existing expiry dates. Conversely, in April to July next year, there will be a serious dearth of MOT work, effectively replicating the gaping hole from the same period in 2020, and this will present a serious challenge for garages.



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Coronavirus & Lockdown

OPINION

"I think the MOT is going to be a big issue for the coming year in terms of the distribution of work across the months, because in the UK the MOT really prompts a lot of workshop entries. But that is not the case in other countries - the UK is the only one where the MOT is done at the same place the car is repaired. And because of this, it really prompts a lot of work, as it is more convenient to have a service done with a MOT and to get the failures addressed should there be any. If garages have no MOT work to do in April, in May and June 2021, that's going to have a huge impact."
QUENTIN LE HETET, General Manager, GiPA UK

"The additional stresses adopted by the automotive industry incurred by the government's MOT extension has been exponential. Not only are workshops oversubscribed with MOTs, they are working hard to resolve the additional failures from these MOTs. With some failures being basic vehicle safety elements such as tyres and friction components, due to the demand, workshops cannot fulfil these repairs in an efficient time period."
BARRY PARKER, Owner, BTE Automotive

"Lockdown restrictions and the requirement for people to work from home for much of this year have had an inevitable impact on traffic volumes and miles travelled. This in turn has had a knock-on effect for ongoing service and repair requirements in the independent aftermarket – as well as the numbers of drivers buying parts and accessories to fit themselves."
ANDY HAMILTON, CEO, Euro Car Parts

Furlough also provided another opportunity. We soon learned that a lot of people found themselves idle, not through their own choice, and were quite keen to engage in training to keep themselves sharp. It was a good opportunity to address things like their knowledge around electric vehicles. We made a lot of our online training free and subsequently saw, and are still seeing a lot of engagement there."
STEVE NASH, CEO, Institute of the Motor Industry (IMI)

"The car parc will age massively because of this lack of new registrations. We're talking in 2020 of about 1.5 million cars registered instead of 2.3 million last year. That's good for independent aftermarket players, and it's not good for franchised dealers because obviously they have a very strong customer base from the zero to three years-old vehicles in the UK. This means the client base of franchised dealers is also shrinking and for them, the impact is going to be even more important."
QUENTIN LE HETET, General Manager, GiPA UK

Next year will see an additional 167,911 passenger cars become due for their first MOT in April, and 192,649 in May. This will not make up for the millions lost, but as time goes on, **with the right promotion and campaigns**, garages should start to recoup in these months.

While we can assume there will be, and should plan for an impact, the independent workshop sector has the most to gain from the situation. This is thanks to an increase in vehicle usage, a slowdown in new-car sales and a need for servicing and maintenance on an aging car parc.

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Technology

When it comes to vehicle technology, it's long been considered the biggest change for the aftermarket is the uptake in electric vehicles, which not only means a new propulsion system to learn, but the need to invest in both training and infrastructure.

Add to this the introduction of autonomous systems. While much is made of 'driverless' vehicles being those where drivers are merely passengers, and the fact that such developments are still some time away, the truth is that such systems – in lesser forms – are in existence on most new vehicles today.

EVs have been around for some time. Hybrid vehicles have been popular for longer, and ADAS systems too now date back beyond the traditional three-year drop into the sector. This means such models are entering workshops now, with more due to do so every day.

These technologies will require the most investment from the independent sector. Not only will technicians need to be trained, but new tools and safety equipment will need to be purchased. If such things are ignored, it is not only the driver's life at risk, but also the technician's.

The adoption of technology in service and repair is where a significant divide can be seen between franchised dealerships and the independents. One will have access to the latest equipment to service vehicles from their particular marque, together with training programmes the moment new technology is released, while the other has to plan their own training, budgets and investment, for not just one but multiple makes of vehicle.

The big TECHNOLOGIES impacting the industry

SURVEY FINDINGS

HYBRID & EV 83%

ELECTRONIC TRADING 31%

CONNECTED & AUTONOMOUS VEHICLES 28%

ADAS 25%

DIGITISATION 22%

CONNECTED CAR 19%

WHAT ARE THE BIGGEST CHANGES FACING THE UK AFTERMARKET?

Hybrid/EV
Brexit & Parts
Technology
Business Models
Service Demand
Skills
E-Commerce
Covid
Economy
Costs
Consumer Behaviour
ADAS
Digitalisation
Consolidation
Used Vehicles

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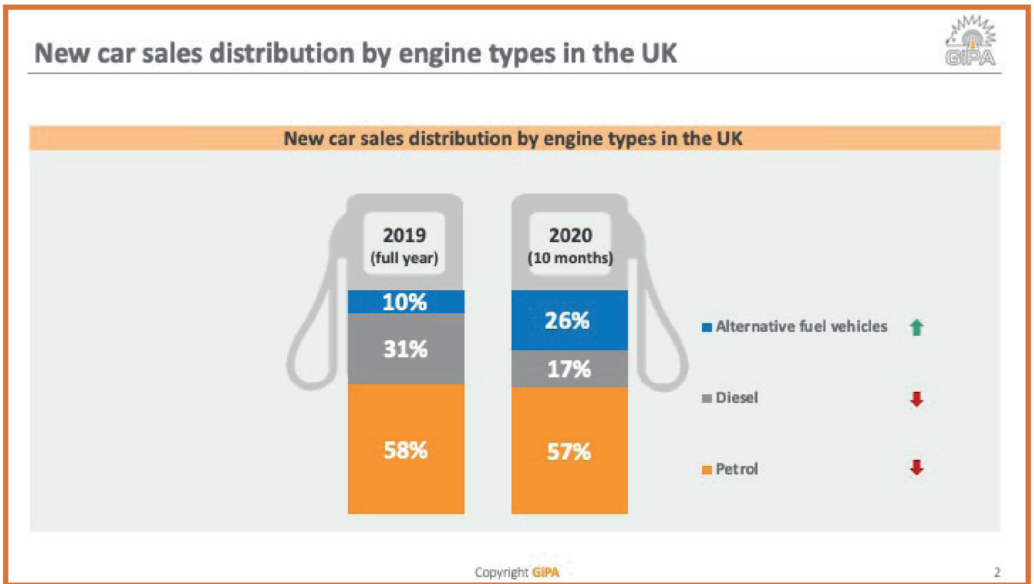
Technology



E&HVs have seen sales grow in a difficult year, whereas petrol sales have declined 38.9% and diesel by 55.1%.

Systems such as automatic emergency braking, blind spot warning and lane departure warnings are examples of Level 0 technology while lane centring and adaptive cruise control are Level 1 (separately, working together is Level 2). So, the future is already here, and cars feature a multitude of sensors to ensure the advanced driver assistance system (ADAS) is able to function without putting the driver at risk.

The levels of automation as mandated by SAE International are:

LEVEL 0 - features limited to warning and momentary assistance

LEVEL 1 - features providing steering OR braking and acceleration support

LEVEL 2 - features providing steering AND braking support

LEVEL 3 - automated driving under limited conditions where driver is constantly ready to take back control

LEVEL 4 - automated driving that cannot operate unless conditions are met

LEVEL 5 - total automated driving.

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Technology

OPINION

"With the car parc soon to be dominated by alternative drivetrains, repairers need to equip their staff with the knowledge and skills to enable safe repair while meeting their health and safety responsibilities. Anyone who could come into contact with an electric vehicle, whether in a support or technical role, should have the knowledge required to identify an electric vehicle. Training all staff is imperative to avoid the risk of electrocution."
DEAN LANDER, Head of Repair Sector Services, Thatcham Research

"With just 10 years until ICE sales stop or at least seriously reduce, it will be essential to adapt to new technologies. Training is therefore not a luxury, it is an investment."
TOM DENTON, Automotive Technology

"The challenges presented by ADAS-equipped vehicles have been widely discussed. To provide clarity to the sector, the UK Insurance Industry Requirements (IIR) for the safe repair of ADAS-equipped vehicles was launched in early 2020. The IIR represented a first step in supporting the repair sector, which must now move to upskill their workforce to deal with a car parc that is becoming increasingly technically diverse."
DEAN LANDER, Head of Repair Sector Services, Thatcham Research

"How can there be anything more high-tech than the modern car? If you take all of the devices that you interact with and put them in a package that is capable of going hundreds of miles an hour, operating through all temperatures in dynamic circumstances, that is what the modern car is. You look at ADAS, and that morphing into more sophisticated systems, it's unbelievable."
STEVE NASH, CEO, Institute of the Motor Industry (IMI)

Investment is the biggest challenge in the independent workshop, with the need for new tools and equipment, spending on training and ensuring the workshop is safe. We could, therefore, see garages start to work together, forming local mini-networks where each specialises in a certain technology or manufacturer, and recommends others when the customer's car falls outside their criteria. This would lessen the financial impact but will also reduce the amount of work that can be accepted, so such moves will need to be thought through carefully.

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Brexit & The EU

After 4 years of dominating headlines Brexit should have been completed over a year ago. The UK officially left the European Union at the end of January 2020, starting a transition period that will run until 31st December 2020.

However, with COVID-19 understandably taking priority, it can feel as though Brexit has been something of an afterthought in headline politics in recent months. Yet discussions around a deal are ongoing – even at this late stage, while the UK government is finally announcing details of laws that will mirror EU regulations, but under British control.

One of the biggest threats to the entire automotive industry remains the lack of clarity over a potential free-trade deal with the EU. Without a deal, World Trade Organisation tariffs will be applied to all goods entering and exiting the UK – and unless businesses can absorb these additional costs, which may be unlikely, it's likely the end user will have to pick up the tab.

Meanwhile, industry bodies representing the aftermarket have been dealing with the European Commission to ensure fair access to vehicle information, and equal rights for independent garages and bodyshops in comparison to carmaker-backed franchised dealerships. Manufacturers keen to see vehicles remain in their networks have attempted to block access to critical systems, meaning only their repairers could service a vehicle. These attempts have been unsuccessful thanks to extensive lobbying.

SURVEY FINDINGS

53%

When asked about industry governance and regulations, Brexit was the most prominent factor, with 53% stating it was likely to have a significant impact on their business

Brexit & The EU

OPINION

The SMMT suggested in 2016 that based on tariffs levied on parts coming into the UK from outside the EU, an average 4.5% rate could be applied to components in the event of a no-deal Brexit, costing the sector between £350 million and £875 million a year. Alongside this, there is the potential for disruption as customs checks are carried out on all imported parts to the UK.

"We've been creating and adapting contingency plans for all of the possible post-Brexit scenarios for the past 18 months. As part of our commitment to maintaining a seamless supply chain, we've continued to work in close partnership with our suppliers, and we believe we'll be able to maintain continuous deliveries across our nationwide UK and Ireland branch network."
ANDY HAMILTON, CEO, Euro Car Parts

"I think the really important thing is that we keep engaged with what's going on in Europe so we can actually use that as a very strong argument for saying 'actually if it's good for Europe, it's good for the UK'. So, rather than just turn our back on Europe, more than ever, we need to be engaged with what they're doing so we understand the arguments and the debate that's going on in Brussels to provide us with a good argument in the UK."
WENDY WILLIAMSON, Chief Executive, Independent Automotive Aftermarket Federation (IAAF)

"You've got information sitting on servers where you've got to deal with the vehicle manufacturer and the EU. If we end up with no deal, that information won't necessarily be accessible to the UK, or may be subject to a separate deal. Until we've got a much better idea of the actual deal is and what it will mean for the aftermarket, everybody's left in limbo."
WENDY WILLIAMSON, Chief Executive, Independent Automotive Aftermarket Federation (IAAF)

The bigger political impact will be in the development of regulations. However, industry bodies are committed to working with governments to ensure fair access for the independent sector, giving the vehicle driver a choice as to where they have their repairs carried out. With the UK mirroring EU regulations for the time being, this is a positive move, as lobby groups can easily monitor how these laws are being adopted, and any challenges that may arise from them.

Industry Skills

As we have already seen, cars are becoming increasingly high-tech, with a growing number of systems taken away from the mechanical workings and instead being governed by sensors. Automated software is also increasing in availability while connected aspects of the vehicle mean consumers are now effectively manoeuvring 'computers on wheels'.

This advancing level of technology has already been highlighted as a challenge in itself, but this cannot be overcome without broaching another barrier the aftermarket is currently facing – a lack of skilled workers.

All of the challenges highlighted in this report can feed into another, but perhaps the issue of skills will resonate within most of them. Technology means the industry needs a different type of worker, while political issues are possibly going to prevent employees coming from overseas. In addition, COVID-19 has seen the industry caught in an economic crisis, with workforces likely to be trimmed – and that has implications for the next-generation of workers as apprenticeships are typically the first casualties of any reduction in worker numbers.

The most popular sources of **TRAINING** over the next 5 years

SURVEY FINDINGS

INDEPENDENT TRAINING PROVIDERS 34%

FREE ONLINE DEMOS & TUTORIALS 27%

SUPPLIER 19%

PAID ONLINE/ DIGITAL COURSES 8%

MOTOR FACTOR 8%

OTHER 5%

Only 1/4

SURVEY FINDINGS

of businesses feel the UK aftermarket is equipped with the skills and training to keep up with these technological developments

Industry Skills

OPINION

"Apprenticeships across all sectors are down around 60%, but in the automotive industry, the numbers are lower than in other markets. Whilst I understand your first priority as a business has to be survival and recovery, we will pay a price for it. We employ roughly between 12,000 and 14,000 young technical apprentices every year in the sector. The majority of those are employed by the big dealer groups, as you would imagine, and that benefits the whole sector in the long term because that's the supply of people that will filter through the whole industry."
STEVE NASH, CEO, Institute of the Motor Industry (IMI)

"By ensuring they have the skills and knowledge required to service and repair ADAS-equipped vehicles, we can help independents bring in more revenue and deliver better outcomes for their customers. The same applies to hybrids, and longer-term, EVs; for the time being, independents that get ahead will have a competitive advantage in this space, retaining their longstanding customers as they trade up into the newest, cleanest technologies, and winning new customers at the same time."
ANDY HAMILTON, CEO, Euro Car Parts

"The competencies required to manage new technologies that were once niche but now mainstream are ever-expanding. ADAS reinstatement requires precision, while EV safety is fundamental, with loss of life a potential outcome for the uninitiated. Training is therefore an essential need for the sector. Skills must be constantly updated, and competence should be proven for safety's sake – both within the bodyshop and on the roads."
DEAN LANDER, Head of Repair Sector Services, Thatcham Research

"I've talked to a number of the manufacturers who have said that they've had their academies largely closed through the year due to the lockdown. Going forward, they will stick with roughly a 50/50 split in face-to-face training and online. Some will split single courses between these methods. It makes a big difference, and it does have a positive impact on productivity in workshops."
STEVE NASH, CEO, Institute of the Motor Industry (IMI)

The automotive aftermarket has an ongoing challenge to appeal to a younger audience when considering careers. The enhanced technologies in vehicles present an opportunity to shift the perception of the sector and attract people to it, however that technology also means training is an ever-present need.

Ensuring that access to training is difficult, especially for independents, which is an issue because this will allow them to adapt to new technologies, tools, and repair practices. There are different attitudes to this. Some garage owners will simply book work around training dates, seeing it as essential. Others will decline training opportunities as completing work and generating revenue is more important, however potentially to their detriment in the long-term.

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Customer Expectations & Service Value

Not all issues facing our industry stem from the development of the latest technologies or decisions emanating from Westminster. Ultimately, we operate in a service industry, so it would be foolhardy to focus purely on the headline issues, at the expense of your customer.

In an industry that traditionally struggles to build a reputation as an honest and reliable sector, increases in vehicle technology mean even more potential for customer confusion, misunderstanding and potentially, accusations of malpractice. Couple that with growing social media influence where one bad review can lead to a serious drop in footfall, many businesses now treat the customer as king – sometimes with consequences.

Not so long ago, many drivers were able to repair their own vehicles, relying on workshops only for the more complex jobs. However, cars have now evolved so much that changing a headlight bulb may require stripping out the engine bay, while replacing a battery could end up requiring an ECU reset. This means garages are welcoming customers who either expect to be ‘ripped off’ as they believe they know how simple the job should be, or those who expect a high level of service on a vehicle so technologically advanced.

This can cause an issue with confidence. Many garages are only starting to consider charging for diagnostics, something the franchised dealer has been doing for years. This fear is born of being asked why a charge could be so high for simply plugging a machine into the car, and fear of explaining the difference means this crucial service is given away for free. However, the impact of this, along with positioning your service based on price, and not value, is a short-term game that can come with consequences in the long run.

CHANGE in business is driven by

SURVEY FINDINGS

COVID-19 31%

TECHNOLOGY 30%

CUSTOMER PURCHASING PATTERNS 13%

PAY

ECONOMY 13%

DIGITISATION 8%

COMPETITION 3%

70% of businesses believe they will need to change their business model over the next 12 months

SURVEY FINDINGS

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Customer Expectations & Service Value

OPINION

According to a survey carried out by the RAC, around 56% of drivers say they've been left struggling to understand the language used by mechanics when describing faults with cars and what needs to be done to fix them. This has led to unease around the reputation of workshops, with 15% stating a garage carried out work that was not agreed, while 26% said they were upset as the cost of repairs was far higher than quoted.

"No consumer questions a labour rate, because no one asks what the labour rate is. They ask for a quote, and it is all about how you dress up that quote. Because someone down the road is charging £99 and your price is over that, garages have to be brave enough and professional enough to stand there and explain the differences; That your two businesses are not the same; your experience, the tools used, the parts supplied, all cost different amounts. Customers come to independent garages because they trust us. It is best placed in all aftersales sectors to provide value for money, and honest, trustworthy service."
ANDY SAVVA, The Garage Inspector

"It's getting more expensive to maintain and repair the modern motor car. With that expense does come an increase in expectation from all motorists that we will tell them exactly what is going on, what has gone wrong and, importantly, how they're going to avoid a component failing like that."
HAYLEY PELLS, Owner, Avia Autos

"And I think this is where businesses could turn, to become a network of garages, the soft franchise. Maybe it doesn't fit everywhere, but it can actually be a solace for some of those garages. For some of them, it is essential, it could be really a good way of getting access to training via the website and platform."
QUENTIN LE HETET, General Manager, GiPA UK

There has been an increase in customers asking if they can supply parts, a move which independent garages are urged to decline. Instead, they need to improve their confidence around their pricing and become more transparent, showing that the cost of parts is not the main factor in a repair quote, but the knowledge and experience of a reputable technician is what the customer is paying for.

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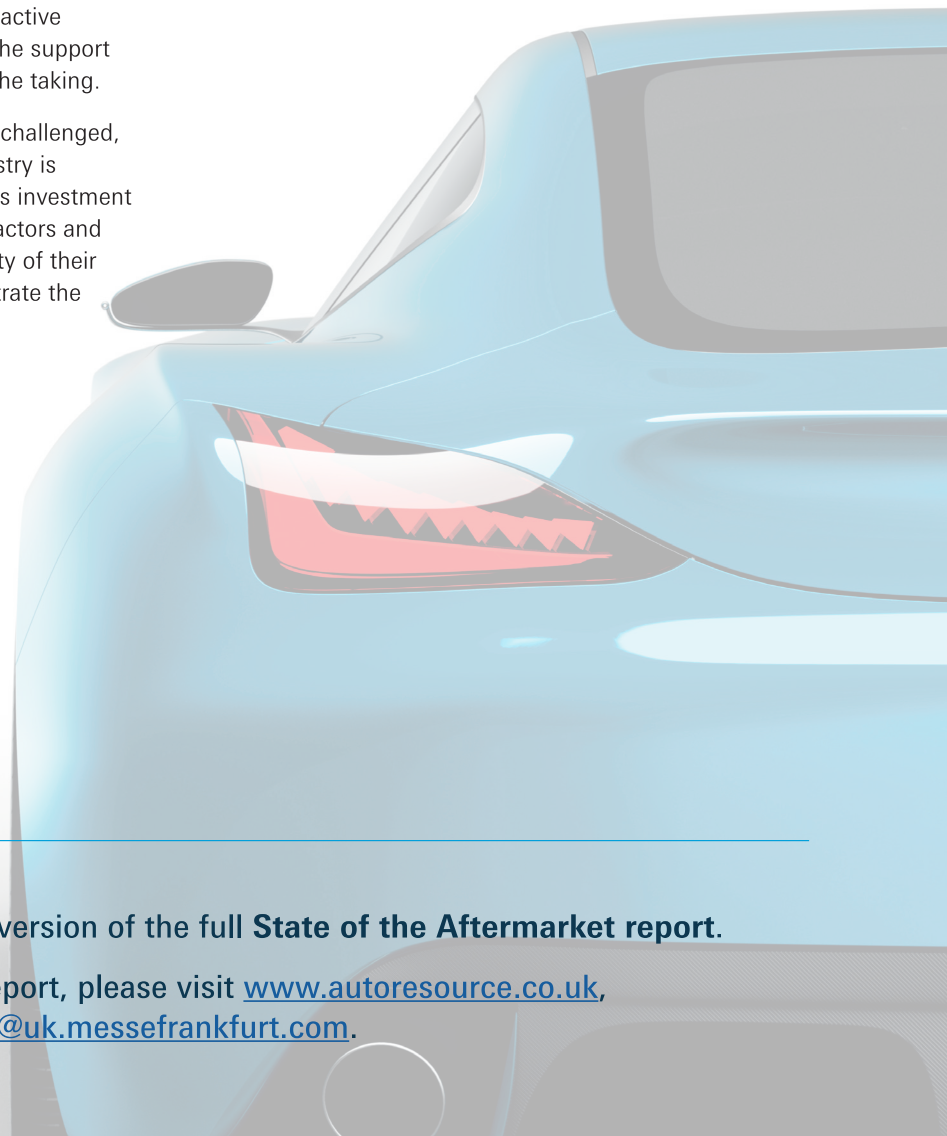
Summary

Driven by continued technological and political developments, coupled with unforeseen impacts from a global pandemic, the UK automotive aftermarket is changing at pace. For some, the need to adopt a responsive and reactive approach to unpredictable developments throughout 2020 might lead to a sense of not being in control.

Yet the challenges addressed in this report, whilst critical, are ultimately manageable. With considered and proactive planning to counter those challenges, and with the support of industry partners, there are opportunities for the taking.

Overall, the independent sector will be the most challenged, but at the same time, the knowledge in the industry is enough that it can overcome. The biggest issue is investment by businesses, but working together with their factors and suppliers will help garages to ensure the longevity of their business, and for the UK aftermarket to demonstrate the resilience it is known for.



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To access the full report, please visit www.autoresource.co.uk, or email grace.marr@uk.messefrankfurt.com.