NADA 2011 – Parts Solutions Report

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Fellowes Research Group, Inc.

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Preface

Vision

One challenge for exhibitors at NADA is that manning the exhibit booth leaves little time (or energy) to walk the exhibit hall and engage other exhibitors on the direction of the industry, the meaning of industry announcements (and rumors) or to identify new "hidden" collaborative alliance opportunities. The same is true for non-exhibitors that set up outside the exhibit hall to meet with key customers and partners. This ***NADA 2011 – Parts Solutions Report*** is written to fill the unmet need for a comprehensive review of Service Parts Solutions Providers at NADA (whether based in a booth on the exhibit hall or not).

The goal of this Report is to broaden awareness and communications – there are many latent opportunities for collaboration and alliances. No one organization can do it all – organizations involved in service parts will find more customers adopting more products (or services) sooner and at less cost to providers via alliances.

The level of activity and innovation in service parts is rising. Many advancements have been publically announced – but focused coverage of service parts remains sparse and analysis is rarer still. NADA 2011 saw more service parts activity than any NADA since 2000 – now is the time for an annual NADA Service Parts Report.

Report Structure & Components

This Report has 25 Sections – Preface, Executive Summary, sections for each of 22 DSPs (or related organizations) and a Conclusion. The DSP sections have a common format and structure. The topics in each of these sections are:

- Comments introducing the organization covered in the Section (editor's perspective)
- News – The organization's announcements and other new developments since NADA 2010 that are newsworthy (editor's perspective)
- Trends – Important ongoing or expected shifts in the service parts business – or the products or services for service parts (organization's leaders' perspective)
- Challenges – Critical hurdles or risks to the service parts business – particularly the OE Parts business within the franchised dealership channel (organization's leaders' perspective)
- Vision – Strategic view of the future for OE service parts business (organization's leaders' perspective)
- NADA Observations – Comments on NADA 2011, often relative to past NADA experiences offered by the organization's leaders

- Innovative Developments – Comments on potentially high-impact innovations that are expected to impact the OE service parts business – displayed at NADA or observed in the last year by the organization's leaders

Future FRGI Publications

The NADA report will be published annually.

Mid-year 2011, a Directory and Guide to Service Parts Solutions and Services – covering 50 to 100 firms serving over a dozen distinct segments (parts cataloging, managed-inventory, parts e-commerce, OE parts pricing optimization, claims processing, tires, vintage parts, analytics/reporting, accessories and other segments) will be published. Work on the Directory and Guide will start by mid-April. The contents will include a strategic assessment of each segment; focus on alliance opportunities – actual, potential and 'hidden'; solution adoption per automaker (as well as by dealer groups) and an in-depth description of each Provider. Input from OEMs and DSPs on the structure and content of the Directory and Guide will be welcome.

Later in the 2011, special reports exploring in-depth key applications will be published. Readers are welcome to suggest topics.

FRGI publications are written for Dealership Systems Providers (DSPs) and OEMs. They are meant to fill an underserved need – insights on service parts solutions and services relevant to the DSPs and the OEMs.

Call or write the author to discuss

Please direct questions or comments on the Report as well as suggested improvements to the report or on the contents or direction of future reports to: ted@fellowesresearch.com.

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Executive Summary

Introduction

The first annual ***NADA – Parts Solutions Report*** covers 22 organizations, each with its own section. These sections are in alphabetical order. Future editions of the NADA Report will provide coverage of a wider spectrum of organizations in the business of service parts solutions.

Of the 22 organizations included in the Report: 16 exclusively provide parts and parts-related solutions and/or services; 2 have dedicated parts solutions within a family of products addressing a range of automotive dealership departments; 4 provide dealership-wide applications or services that cover parts. Most of the organizations were exhibitors at NADA; the others were at NADA to meet with customers and alliance partners (and prospective partners). The Report's focus is on automotive parts solutions in U.S. dealerships – though a number of the firms included in the Report provide parts solutions for other industries (Commercial Truck, Heavy Equipment and Power Sports) and several primarily serve markets outside North America.

Service Parts (or "replacement parts") is an increasingly vital component of dealership profitability. The vast majority of parts that dealerships sell and consume are OE – that is, supplied by the automaker that assembled and sold the vehicle. All 22 of the organizations reviewed in this report have solutions or services that support dealers' OE parts business (directly or indirectly). A few of the applications and services reviewed in this Report also support aftermarket (AM) and salvage parts.

Six common themes were observed in the interviews and follow-up sessions – each is described below.

Common Themes

- Integration
  The most common theme to emerge in preparing the Report was Integration (from data extraction to real-time interoperability). Over half (13 of 22) firms were directly engaged in a new integration initiative, are dependent on integration to operate or both; 20 out of 22 are at least dependent indirectly on manual data extraction from their customer's DMS.

  Several organizations are working on (or have recently completed) major internal projects to provide seamless integration between their own applications – typically within a "Suite" – for productivity and user satisfaction. Many are pursuing and/or implementing strategic alliances centered on integration and application interoperability with other solution providers. Finally, several organizations are engaged in deep integration with automakers' back-end systems.

NADA 2011 was a banner year for integration project announcements (ADP, DealerTrack, eBay Motors, Extra Trax, Infomedia, OEConnection, PartsEye, SBS and WHI Solutions). But issues of control, fees and image continue to slow or block other integration opportunities. Few areas hold as much promise of innovation as integration.

- Analytics and Reporting
  Service Parts organizations are benefitting from a surge in analytics and reporting. Half (11 out of 22) of the firms covered by this Report are directly and substantially involved in parts analytics and/or reporting. Parts analytics and/or reporting are designed for dealers or automakers (or both). The sophistication and power of analytic tools being delivered to dealers is increasing dramatically (for example, PlayBook from PartsEdge and the Buy-side tools from DealerMine) – and more significantly the ease-of-use and speed of the analytics and report generators is improving. Finally, the one-size-fits-all approach has been replaced by a series of solutions that focus on specific, niches – providing users with exactly what they need and less of what they do not need.

- Idle and Excess Parts
  Once viewed as a mature market segment that was slated to fade away (thanks to automaker managed-inventory programs like RIM), Idle Parts Marketing is experiencing a high level of activity, change and innovation. A surprising 9 of 22 organizations in this Report are involved in idle parts solutions. New entrants into Idle are arriving from RMI and Physical Inventory segments of the service parts business. Growth is also being driven by automaker initiatives pulling in organizations not traditionally focused on idle automotive parts.

  So far, all of this is only a holding action – the average level of idle parts (as a % of total parts inventory) is not declining despite the larger number of companies and their innovative solutions/services and despite the growing use by automakers of Managed-Inventory solutions. Perhaps Idle is not shrinking because the Great Recession has lowered OE parts sales. Perhaps the lack of contraction is because of continuing vehicle model proliferation. Will the newest innovations announced at NADA finally be the beginning of the end of idle parts in dealerships? Perhaps, though it is also possible that fighting idle will continue to be holding action. (Some preliminary results suggest that RMI may be holding idle down at one automaker – Subaru).

  The adverse impact of high idle parts stocks on capital investment and profitability as well as on space in Parts Departments and even failure to stock the right parts is often underappreciated. Most of the organizations in this Report appear to believe that Idle is a battle worth fighting.

- E-Commerce

  Parts e-commerce continues to see high growth as well as a wide diversity of business models. At least 8 of the 22 organizations in this Report are involved in parts e-commerce. It appears now that the market will sustain (even require) multiple overlapping parts e-commerce solutions. Much of the differentiation is driven by distinct buyer communities: Collision, B2B Mechanical (IRFs and Fleets) and consumer. The rest of the differentiation revolves around the sell-side structure of the portal: OEM Portal, All-Makes Portal or dealerships websites.

  The key to success may be collaboration between the now-competing models. Much of the infrastructure is common (for example the EPC engines). And buyers will migrate to the implementations they find most comfortable for the widest range of their business. Substantial collaboration is occurring – some of it announced (the WHI Solutions deal with eBay Motors), much of it not announced or even signed yet. There appears to be opportunity for more collaboration and additional alliances between solution providers that in the short-term appear to be competitors.

  Parts e-commerce may be the most strategic opportunity facing the OE automotive service parts business today. Customers are increasingly 'culturally digital' – expecting to research if not purchase online. And, the Aftermarket is ahead of the OE sector in e-commerce – further share loss by OE parts to AM parts is a real risk.

- Parts and Service Convergence

  For decades, Dealership Parts and Service Departments have operated as two separate worlds – with a few exceptions. This has led to inefficiencies and failures to effectively serve customers in ways large and small. Now, however, we may be at an inflection point. 7 of the 22 organizations in this Report are directly involved in Parts-and-Service-Convergence initiatives – in which parts information is shifting into Service in several distinct ways. Examples at NADA 2011:

  - Access to Parts Catalog (illustrations and part numbers filtered at VIN level) by Service Technicians via links in digital Service Manuals
  - Increased Service Pricing with VIN-level part numbers embedded in DMS's
  - Free-standing Service Menus – with workflow for Service Technician or Advisor to select list of parts and send it to Parts Department
  - Growing activity / commitment by OEMs and DSPs to providing bridging Parts / Service gap

- Tracking of Parts Orders

  The final common theme at NADA 2011 – and directly involving four of the 22 organizations in this Report – is parts order tracking – from the time dealerships accept an order through picking the parts, assembling the shipment, placing it on the truck with the proper paperwork, and while the delivery truck drives the route until the parts are delivered and the receipt is signed. There are two distinct periods – (i) inside the parts wholesaling dealership; (ii) on the delivery route. ADP announced innovative new software that enables the Parts Manager to know at all times the status of a wholesale parts order – where it is in the process and whether the order is progressing. Extra Trax presented their solution – which interfaces with ADP's Drive DMS and which can be leveraged by several of the parts delivery outsourcing firms – which provides the optimal routing for the delivery run and via GPS enables the Dispatcher to "see" the parts order as it travels to the customer.

Parts Order Tracking and Parts Delivery outsourcing are strategically important to parts sales by dealerships as they significantly cut costs and improve wholesale customer satisfaction. And, eventually this could lead to initiatives led by automakers or others that provides an OE parts delivery service for all dealerships on a metro-wide basis – enabling OE parts to better compete with AM parts on delivery timing and certainty.