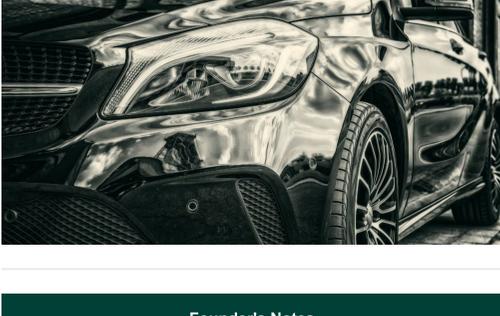


View this email in your browser

# Fellowes Research

October 2019 News & Articles (revised)



## Founder's Notes

This newsletter is one element of a larger effort to boost communications, discussion and collaboration on service-parts and the solutions to automate and improve parts sales and operations. So, please spread the word and forward this newsletter to others in our business. If you are willing to collaborate on an article or post, please contact us. Thanks.

If you are reading a copy of this newsletter forwarded by a friend or colleague, get your own subscription here. We also recommend visiting the Fellowes Research website.

## In this email:

- [Feature Article - 15 Digital Solutions for Parts](#)
- [Feature Article - EPCs \(Electronic Parts Catalogs\)](#)
- [News & Events](#)
- [Coming Soon](#)
- [Answers](#)
- [About](#)

## Feature Articles

For October's newsletter, we have two Feature Articles: (1) an overview of 15 parts-related dealer solutions and (2) an overview of EPC (Electronic Parts Catalog) solutions.

### Parts-Related Solutions – Comprehensive Overview

**Introduction.** The replacement parts business is critical to dealership and OEM profitability. Without parts sales – which appear in dealer financials as Wholesale Parts, Retail Parts or within Service R.O.'s (repair orders), warranty claims (submitted to OEMs) or 'Internal' (largely used-vehicle reconditioning) – few if any dealers would be in the black. The same is true for OEMs – major studies have shown that without replacement sales, few (if any) automakers would be profitable in the long run.

Nearly all OEM spare parts are sold for end-use by dealerships franchised by vehicle-makers. With a few narrow exceptions, OEMs cannot sell replacement parts directly to repairers – for these parts, dealerships are the (near) exclusive channel. And effective stocking, selling and delivery of parts takes capital, staff, equipment and these days more than a few digital solutions. These digital solutions automate processes which in turn result in boosted productivity, reduced errors and returns, better customer experiences as well as enabling additional parts sales.

The 15 classes of solutions (several with multiple distinct types/platforms) described in this article are grouped into three categories: (1) Sales; (2) Supply Chain; (3) Miscellaneous (including Billing/Credit/Settlement and Routing/Delivery).

The OEM parts digital-solutions business is surprisingly complex due to the sheer number of distinct classes of solutions. The challenge of understanding the market for service-parts solutions is further amplified by the multitude of market segments – it's far from one homogenous market with natural segments for dealer franchise(s) held; parts inventory size; dealer focus – collision, mechanical, retail, own service workshop; dealer group status and more. One further complexity: many of solution classes facilitate sales of AM, salvage and other part-types in addition to new OEM replacement parts.

**Why this important.** The value of firms succeeding in dealership fixed operations solutions is beginning to be recognized. In September a private equity firm bought a majority position in OEConnection – a pure-play fixed-operations-solutions firm – actually, a near pure-play in spare-parts solutions – establishing a reported valuation of \$1.3B.

There are hundreds of firms in dealer fixed operations solutions and scores focused on digital solutions for parts – more than a few are large and apparently-secure, many may be hard to spot as they are units of larger DSPs (dealer systems providers) – some are fast growing start-ups – with revenue streams spread across a subset of these 15 solution classes. This comprehensive overview is written for Investors, OEMs, DSPs and other stakeholders in this sector who want a summary of the 15 parts-related solutions – and to begin to grasp how these solution classes are intertwined.

To read more, [continue on to the full article](#).

### EPCs (Electronic Parts Catalogs)

**Introduction.** EPCs are an essential tool for dealers selling OEM parts – wholesale, retail or within service – with universal adoption – performing the task of precisely identifying part numbers to be used in repair and maintenance. The market for EPCs is large and potentially lucrative but complexities often limit success.

Every dealership needs an EPC 'seat' for each parts counterperson for each OEM supported (and often a seat or two more). Prices are often of the form of a per month per seat (per OEM) fee.

EPCs are not simply a software product – they also consist of complex OEM parts and vehicle data sets that are expanding and changing over time. On the software side, EPCs are both an end-user application as well as publishing tools, utilities and process automation software.

OEMs are a critical force in the EPC market and in determining winners and losers. OEMs may elect to license their data to one or more EPC specialist DSPs or custom-build an EPC – or both. A range of business models followed by EPC developers are common – each is described in the full article.

**Why this important.** EPCs likely have the largest TAM (Total Addressable Market) for a service-parts solution – \$100 million per year from car and light truck dealerships in the U.S. and Canada alone. Several times that globally and including adjacent industries (commercial truck, heavy equipment ...).

In addition to being the largest single parts solutions market, EPCs are also central to a range of other replacement parts solution classes including Parts eCommerce in use by dealers and OEMs.

## News & Events

**OEConnection.** This is big. A month ago (September 26) Genstar Capital finalized its acquisition of Providence Equity's 70% stake in OEConnection. [\[Read more on Providence Equity initial acquisition of OEConnection.\]](#) In June, Providence Equity Partners announced its interest in selling and stated a minimum target price of \$1B. On August 1 the deal with Genstar was announced "putting the purchase price at nearly \$1.3 billion." [\[Read more on Genstar/Providence transaction.\]](#) OEC was founded in 2000 as a joint venture of GM, Ford, Chrysler and Bell & Howell (now Snap-on) and has grown both organically and via several acquisitions including Clifford Thames in September 2017 ([read more](#)) and Bluegrasscoms in October 2018 ([read more](#)) – Ford & GM each retain a 15% stake in OEConnection.

This important as a nearly pure-play OEM parts solutions business has – for the first time – generated a valuation greater than \$1 billion. The transaction raises a number of questions including the value of other parts solution businesses and whether Genstar Capital's investment will kick off a round of additional transactions.

**CCC.** Southeast Toyota Distributors (SET) – exclusive distributor of Toyota vehicles, parts and accessories to 177 Toyota dealerships in Alabama, Florida, Georgia, and North and South Carolina – added CCC to the collision-parts eCommerce solution vendors authorized to deliver SET's promotional ('conquest') pricing (facilitating an upgrade from AM to new OEM parts). [\[Read more.\]](#)

**Xtime & CenPOS.** Alliance of Xtime and CenPOS to facilitate streamlined service check-out by vehicle owners. [\[Read more.\]](#)

## Coming Soon

Comprehensive Descriptions and assessments of Parts eCommerce solutions and Parts locators.

## Answers

**Question:** How do I become the 'RockAuto' of OEM parts?

**Answers:** I get some version of this question from folks in automotive and other vehicle/equipment industries surprisingly often. Down the road, I'll be writing an in-depth blog on this, but for now, I'll provide the following short answer: No – you don't. Really. RockAuto is a good model for few (if any) new OEM parts suppliers (and their solution providers).

RockAuto primarily serves the retail (consumer) market. And while a (small) fraction of their sales may go to professional wholesale repair facilities directly (no one know exactly as Rock Auto is privately held – actually a family affair – and secretive) nearly all commercial repairers need parts delivered within a few hours (collision repairers may be satisfied with next day) – so, wholesale – the largest slice of the automotive parts sales – by far – is not their focus.

With the RockAuto website displayed I see limitations compared to what most new OEM replacement parts suppliers – First, parts are organized according to ACES – which is great – but not nearly as good as vehicle and catalog data directly from automakers and other OEMs. ACES-based parts information will not match up with OEMs' individual vehicle data records containing production (or sales) options. Simply put, VIN filtering will be vastly inferior. Next, ACES data sets rarely (never?) cover 100% of parts used to assemble a vehicle. RockAuto has an impressive website – but it's not a portal which better fits a wholesale business model where price discounts are negotiated in advance and buyers have one (or two) preferred suppliers for each OEM. Finally, in the look-ups and searches I ran, there were no exploded-view illustrations (which clearly show all of the parts in a specific area of the vehicle) – OEM parts catalogs are popular with both wholesale and retail parts buyers. Other faults with the RockAuto approach will be covered separately – not in this newsletter)

What does RockAuto do well and who can (in the OEM parts world) benefit from that excellence? RockAuto does digital marketing very well. In many searches by part number of part name, RockAuto shows up early in the results (though Amazon increasingly beats them out these days). They do retail eCommerce well – taking a credit card and keeping the buyer informed. (Though credit cards are not a popular payment method for new OEM parts.) They keep the consumer updated on the status of orders and enable buyers to track shipments (via FedEx for example) – but not relevant to most wholesale deliveries of OEM or AM parts. For automotive dealerships selling parts online to consumers, there are firms specializing in digital marketing, OEM parts catalogs and other considerations that suppliers of new OEM parts can turn to (including SimplePart and RevolutionParts).

Readers, please [submit questions](#) – for our version of FAQs.

## About Our Newsletter

Fellowes Research publishes a newsletter monthly (plus occasional special editions). Monthly editions include a 'Feature Article' section with one – or more – in-depth articles addressing industry topics. The newsletter contains a summary of each 'Feature' – with a link to the full story.



Our newsletter also includes a 'News & Events' section in which acquisitions, OEM program announcements, product launches and other news is summarized. Events involving Fellowes Research are also identified. A 'Coming Soon' section identifies projects underway and being planned.

Our newsletter has an 'Answers' section – responding to questions that subscribers ask.

