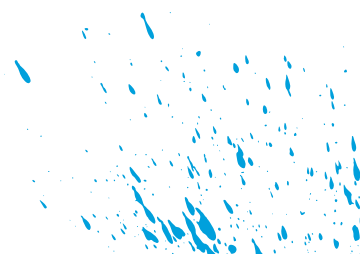




The Automotive Industry's Digital Transformation





Slower car sales mean quickening sales of car parts

It's a bit of an oversimplification to say that what's bad for the auto business is good for the automobile parts business. After all, without autos to put parts on and in, there is no need for the parts in the first place.

But the truth is, when it comes to aftermarket auto parts, it's not so much the number of cars on the road that's important. It's the age of the cars on the road. Consider some recent numbers.

New car sales in the United States have been sluggish of late, declining 1.1 percent in 2017 and expected to slip 1.5 percent this year, according to BMI Research.

What does all that mean to the auto parts sector? Yep. Good news. Slow car sales are a key factor driving the global auto aftermarket parts segment to record revenue — \$722.8 billion by 2020, by one estimate.

Why? Because people are keeping their cars longer. The average age of light vehicles as of Jan. 1, 2016 was 11.6 years—an increase of 17 percent over a decade ago, IHS Markit said. The average length of vehicle ownership for both new and used vehicles increased 60 percent during that same timeframe.

Not surprisingly, then, sales at major aftermarket auto chains have grown even as the new-car market languishes. The Financial Times reported in 2016, when U.S. vehicle sales were on a 10-year run of 1 percent growth, that aftermarket sales increased 7 percent a year.

RISK & REWARD

Online sales bring new fraud challenges

With online sales growing at double-digit percentage rates annually, auto part merchants need to think more deeply about increased fraud challenges. Unlike selling in the store, no credit card is present when a customer buys online — and that makes the retailer or its fraud-protection provider liable for any fraud costs and losses.

Signifyd's Ecommerce Fraud Index found that fraud losses continue to rise. Between 2016 and 2017, fraud losses were up 7 percent. And account takeover fraud was up 80 percent during the time frame covered. Account takeover fraud happens when a fraudster logs on to an established account on merchant's site and uses existing payment options to place orders.

The reason is logical: the older the car, the more maintenance, service, and parts it needs for oil changes, spark-plug changing, fuel-filter replacing and so on. Owners of older cars were twice as likely to pay more than \$1,000 for service or a repair. Millennials, in particular, are more likely to pay for preventive maintenance, for car technology and for add-ons that enhance the aesthetic of the car.

But buckle up: The industry is in for a wild ride. Technology innovations such as the rapid rise of electric vehicles, self-driving cars, and rideshare apps that enable mobility as a service (MaaS) are all going to have dramatic effects on the automotive aftermarket. And, of course, ecommerce is transforming the very foundation of the industry.

Online sales are growing quickly

As in other industries, the increase in online sales for the automotive aftermarket is accelerating. According to the Automotive Aftermarket Suppliers Association (AASA) Joint Channel Forecast, the traditional sales channel for the automotive aftermarket will only grow by 2.9 percent in 2017 and 2018, and 2.8 percent in 2019, whereas online sales will grow by 15 percent.

One study put 2017 online retail sales at \$8.89 billion, representing a robust 16 percent increase over 2016. The study said the market would reach more than \$10 billion in 2018. Frost & Sullivan predicts at least 10 to 15 percent growth by 2022 for online part sales in the United States and Europe. In emerging markets, such as India, growth will be even stronger.

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Declining orders is no way to lower fraud costs

Withholding suspicious-looking orders without true insights is the fraud-fighting equivalent of spinning your wheels. A number of studies have concluded that the false declines contribute more to the total cost of fraud than do chargebacks from fraudulent orders.

Researchers producing Signifyd's Ecommerce Fraud Index found that merchants are rejecting legitimate orders based on geographical biases.

"Over time, fraud prevention teams at merchants can develop a bias for delivery addresses, ZIP codes, cities or even entire regions that just don't 'feel' right," the authors said when releasing the report.

The bias leads to a loss of immediate revenue because legitimate orders are never shipped. It also no doubt take a toll on the lifetime customer value of insulted consumers. Once a legitimate customer sees his or her order turned down, it's not likely they will return to that merchant.



These numbers are largely due to two specific trends: Amazon's aggressive moves into the automotive industry in general—including online sales of new cars—and the large number of niche online retailers appearing that are flourishing by serving targeted segments of the auto parts market.

Why go online? For do-it-yourself (DIY) buyers, better prices, convenience and home delivery are the top three reasons for consumers to purchase an aftermarket product online. However, the “do-it-for-me” (DIFM) segment of consumers still prefer going to a brick-and-mortar business when they need parts due to “established relationships.”

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Even confirmed in-store buyers do their research online, however, which means that even traditional auto parts retailers need well-designed and detailed websites for customers to peruse. A full 70 percent to 80 percent of customers in North America research automotive aftermarket products online before making a part purchase.

Mobile is also critical to retail success: Fifty-nine percent of online searches for car batteries are now on mobile devices; off-road parts search is now 61 percent mobile; truck parts search is 57 percent mobile; parts and accessories that modify a vehicle's appearance are at 70 percent mobile.

The implications of this: If you do sell online, make sure you're taking the needs of mobile users into account.

Taken together, the web and mobile channels will account for nearly \$40 billion in sales for automotive parts in North America and Europe by 2020.



Amazon battles eBay for online dominance

As in every other retail industry segment, Amazon is the elephant in the room of the automotive aftermarket. But eBay also has a large presence. Together, they account for a full 70 percent of online sales.

Still, Amazon remains the auto aftermarket's largest single online retailer. In 2017, Amazon signed deals with some of the largest auto parts suppliers to sell their products directly. It then promptly slashed prices aggressively to undercut retail chains like AutoZone, Advance Auto Parts, and O'Reilly Automotive.

What's the attraction of Amazon to consumers? Price, convenience—and price. One business publication assessed the market and concluded that Amazon was selling auto parts at prices that were an attractive 22 percent lower than the brick-and-mortar chains.

Both Amazon and eBay are expanding beyond the B-to-C market and into B-to-B sales. For both companies, automotive parts and accessories sales represent one of the fastest growing segments as they attract more and more business from automotive service companies and suppliers.

As evidence of this, the do-it-yourself (DIY) market is shrinking—and do-it-for-you (DOFY)

is growing. Until recently, both Amazon and eBay's automotive strategies, particularly for parts and accessories, were targeted at DIY customers, but it's a decreasing percentage of the overall market. For example, the United States has the largest DIY market when looking at the global aftermarket scene—and it's at most 25 percent of the entire automotive aftermarket.

The real opportunity is in B-to-B sales to the garages and services providers—both independent and franchise—that do the majority of after-sales servicing for car owners. According to a Frost & Sullivan survey of 500 vehicle servicers, 40 percent of garages are expected to increase ordering through online channels in the coming years. Even if Amazon and eBay only grab 1 to 2 percent of the B-to-B market, that would add \$2 billion to \$3 billion to their top-line revenue in the U.S. market alone.

But face-to-face services still matter. For example, when selecting a place to buy tires or have their oil changed, consumers cited coupons, warranties, or personal knowledge of their service history when choosing where to shop. In 2017, 75 percent of aftermarket auto repair was performed by independent auto repair shops, with 25 percent owned by dealerships.

Connected cars and IOT are driving change in automotive

Amazon's influence in the automotive industry was also underscored by recent deals with manufacturers to deploy its Alexa voice-recognition software in cars. It has demoed early examples of how Alexa would play in advanced "connected living" services between vehicles, drivers, and smart homes.

In fact, connected cars and the Internet of Things (IoT) are going to dramatically shake up the aftermarket industry. Big data and predictive analytics are going to be able to detect maintenance issues, predict the need for such things as new batteries or tires well in advance of when they wear out or break down. Consumers could then be automatically connected to stores—online or traditional—to order parts and perform servicing.

One example of predictive maintenance in action is Michelin's tire monitoring program. Using telematics and predictive analysis, the service feeds data into the asset-monitoring systems of companies owning large fleets of vehicles, giving them real-time performance analyses and wear-and-tear data of specific tires on individual vehicles.

3D printing is also going to shake things up. One of consumers' frustrations with car servicing is waiting for the right parts—both for DIY and DIFY—to be delivered. 3D printing offers the opportunity for cheap, fast — and local — production of car parts. How this will impact the current balance of power between retailers, independent garages, and dealerships is anyone's guess.

The auto parts market is rolling into the future

No question the world of automotive retail is rolling into the future faced with dramatic changes that pose challenges and opportunities. The automotive parts industry is adjusting, finding its way online and capitalizing on a trend of car owners hanging onto their vehicles for longer stretches.

The key for the automotive segment will be to remain nimble while continually scanning the horizon for what is coming next. Seizing the future will ensure that the automotive vertical continues to roll along.

For a deeper dive into the fraud statistics across retail verticals, see [Signifyd's Ecommerce Fraud Index](#).

