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EDITION

| 2022

# Joint E-commerce Trends and Outlook Forecast

AN UPDATE ON TRENDS DRIVING CHANGE IN E-COMMERCE SALES

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# E-commerce Advances in the Aftermarket



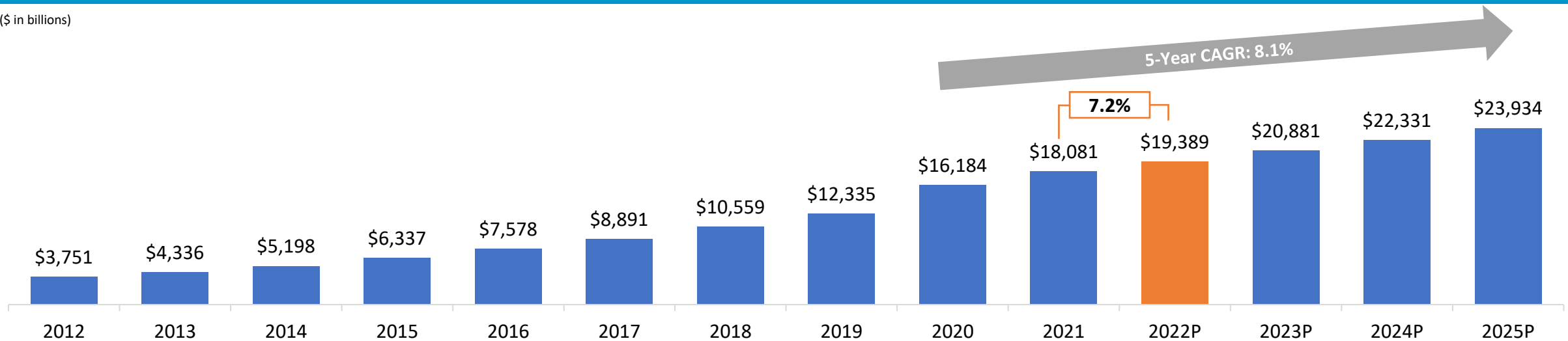


# Consumer trends driving aftermarket e-commerce growth

- Digitization seen in 2020 and 2021 helped e-commerce channel sales eclipse \$18 billion and suggests strong growth for years to come.
- **Retailers accelerated digital solutions by bolstering e-commerce sites with improved functionality and adding new shopping options, such as curbside pickup and faster home delivery.**
- Likewise, car dealerships raced to expand their omnichannel buying options by improving their web interfaces and offering contactless home delivery.
- Though we expect traffic to continue returning to physical stores and dealership lots, it is likely that omnichannel strategies will define the coming years driving 2022P e-commerce sales to \$19B.

## E-commerce Sales of Automotive Parts and Accessories (Excl. Marketplaces)

(\$ in billions)



Source(s): Hedges & Company, IMR Inc., SPS Commerce Inc., Jefferies Automotive Aftermarket

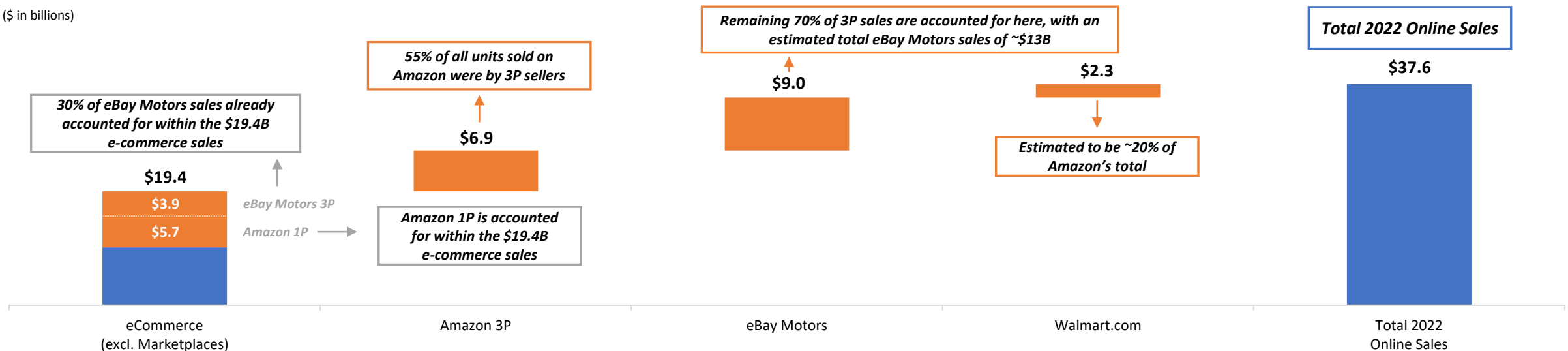


# Marketplaces expected to drive total 2022 online sales to \$37.6B

- Over the last decade, e-commerce sales of automotive parts (excl. marketplaces) grew at a robust CAGR of ~18%, from less than \$4 billion in 2012 to more than \$19 billion in 2022.
- In this timeframe, major e-commerce players Amazon, eBay, Walmart and others have grown into multi-billion-dollar marketplace platforms, offering millions of products from thousands of sellers.
- These third-party sellers must be accounted for when capturing total aftermarket online sales.
- The bridge presented below estimates that, inclusive of marketplaces, total online sales of new automotive parts and accessories in 2022 were \$37.6 billion, representing \$18.2 billion of incremental sales.

## Total 2022 Online Sales of Automotive Parts and Accessories

(\$ in billions)



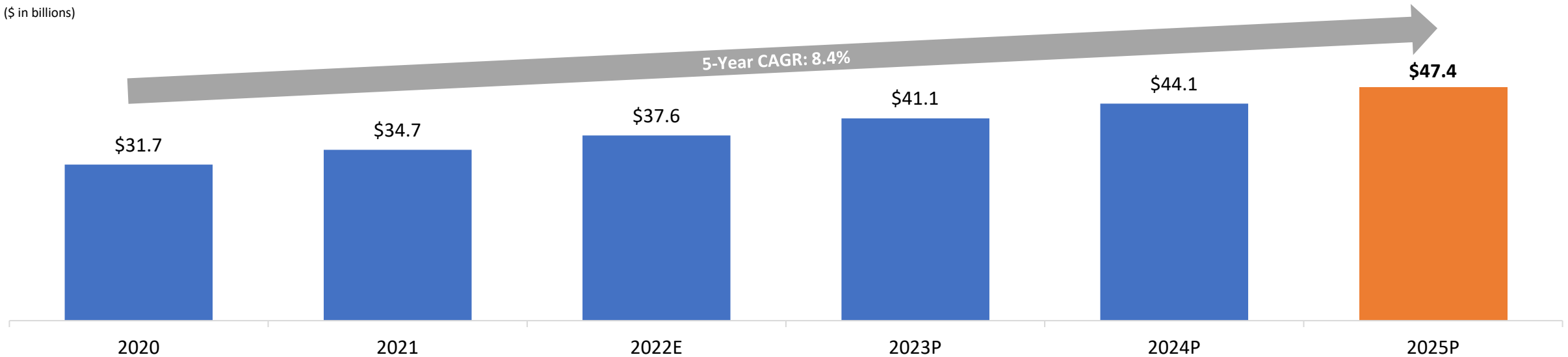
Source(s): Hedges & Company, SPS Commerce Inc., Jefferies Automotive Aftermarket

# Total online channel driving sales to nearly \$50 billion by 2025

- The consolidated view of aftermarket e-commerce has evolved to include large and growing third-party sellers – representing key players in the online channel that will continue to expand over the projection period.
- **Strong momentum in the channel is anticipated to drive total online sales to ~\$50 billion** – representing an 8.4% growth CAGR from 2020 to 2025.
- As the online channel continues to grow and take share from traditional brick and mortar participants, it will become increasingly important for legacy aftermarket players to adapt their market strategy and develop an e-commerce playbook.

## Online Sales of Automotive Parts and Accessories

(\$ in billions)



Source(s): Hedges & Company, SPS Commerce Inc., Jefferies Automotive Aftermarket

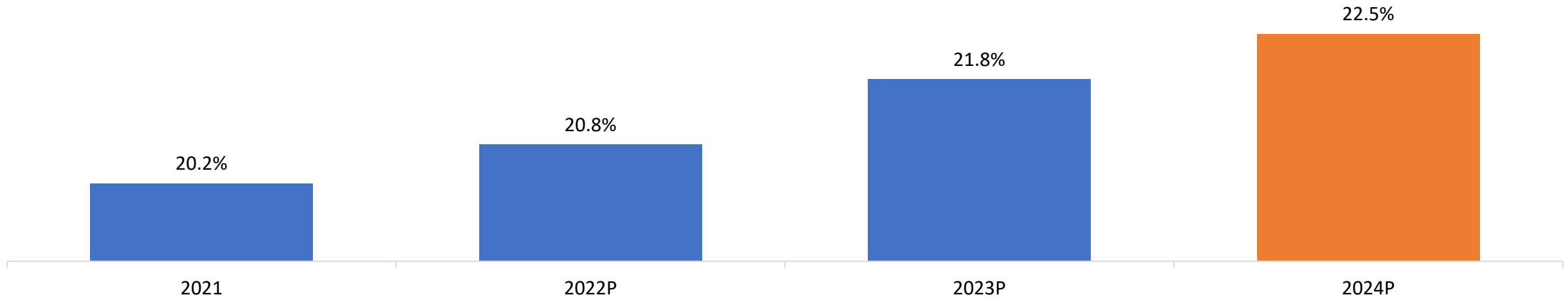


# Increased e-commerce adoption in the aftermarket

- The e-commerce channel now represents one of the fastest growing segments of the automotive aftermarket with e-commerce penetration in 2022 reaching 20.8%, with it forecasted to grow to 22.5% by 2024.
- The aftermarket industry has experienced an unprecedented increase in e-commerce adoption, driven in part by COVID-19 and the corresponding shift in consumer preferences towards shopping online.

## Growing Momentum in E-commerce Penetration<sup>(1)</sup>

(% of parts purchased online vs. in-store)



Source(s): S&P Global; Jefferies Automotive Aftermarket

1) Methodology presented here reflects the update discussed in the 2023 Auto Care Factbook

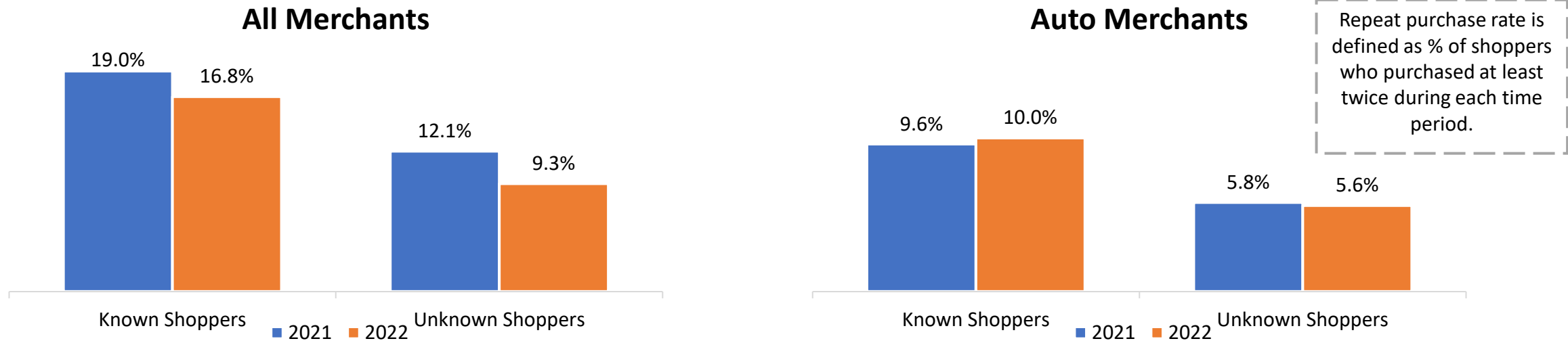
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# Curating a shopper experience to drive greater repeat purchase rate

- Known shoppers are recognized when they first arrive at a merchant's website typically through a cookie. This recognition **creates a better experience by leveraging shopper data such as the make and model of their car, past purchases and preferred payment methods.**
- For consumers who are not enthusiasts, automotive purchases can be intimidating. To create loyal customers, focus on building customer trust with generous return policies, educational materials on your website and great customer service.
  - Leverage known shopper data to build personalization. For example, offering customers suggestions based on their car make and model makes purchasing more convenient, and will inspire customers to return for future purchases.

## All Merchants vs. Auto Merchants



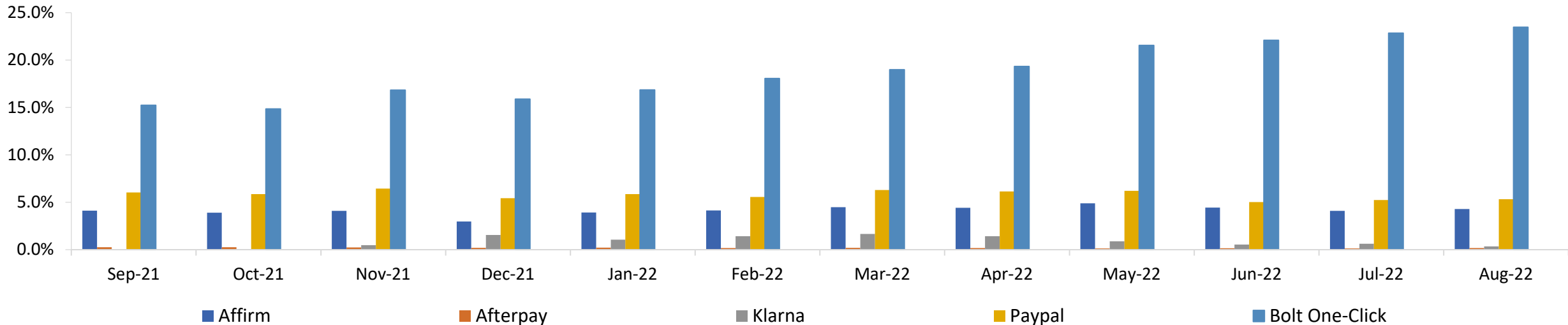
Source(s): Bolt Financial Inc.



# One-click checkouts drive conversion

- The key to getting shoppers to complete checkout isn't just offering them a wide selection of payment options as retailers are adopting more simple check-out processes to drive conversion.
- Alternative Payment Methods (APMs) are an important trend in e-commerce, and shoppers want payment options, but APMs by themselves have limited impact on checkout rates, customer satisfaction and loyalty.
- **To increase checkout rates and customer long-term value, merchants should take a holistic approach to their checkout.** Optimizing the entire user experience, not just one part of the process, will give consumers a bigger bang for their buck.

## One-Click Checkout v. APMs

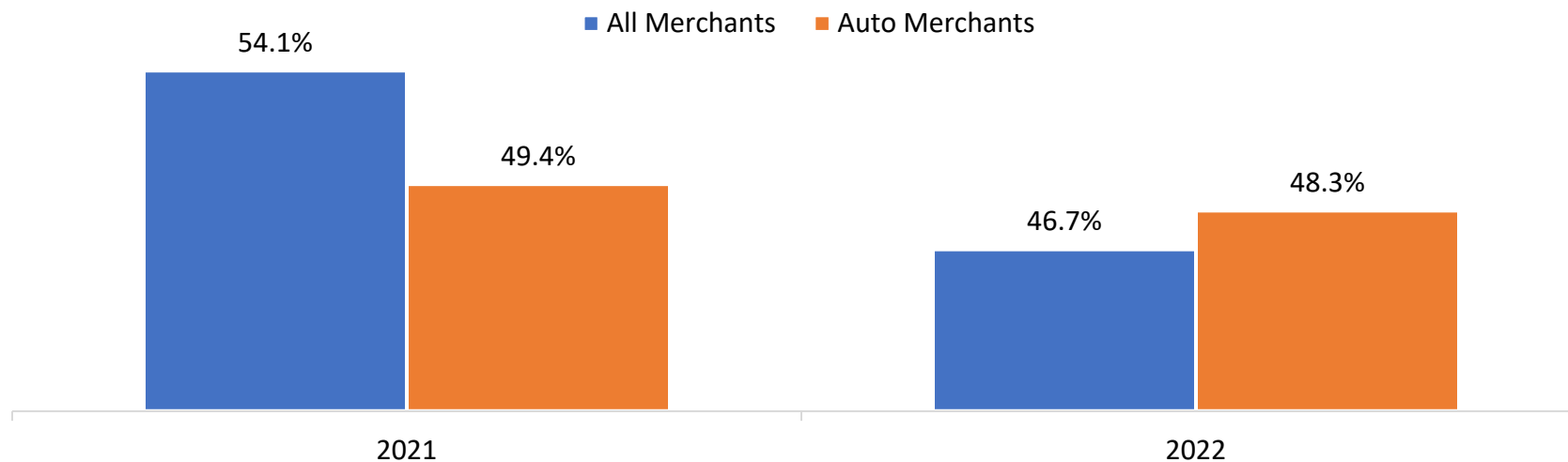


Source(s): Bolt Financial, Inc.

# Increased auto checkout rate

- All merchants, including the standalone auto merchants' segment, experienced a decline in the checkout rate from 2021 to 2022.
- For merchants whose data are available for both periods, 48.6% of auto industry participants experienced an increase in their checkout rate.
- The checkout rate for auto merchants in 2022 for those merchants whose data was available in both periods was 48.3%. This represents a slightly higher than average checkout rate relative to the average of 46.7% of all merchants in that same time period.
- **Despite e-commerce trends, investing in one-click checkout does tend to deliver improvements in key metrics, like checkout rate.**

## Checkout Rate: All Merchants vs. Auto Merchants



Checkout rate is defined as the percentage of shoppers with at least one item in their cart who complete a purchase.

Source(s): Bolt Financial, Inc.

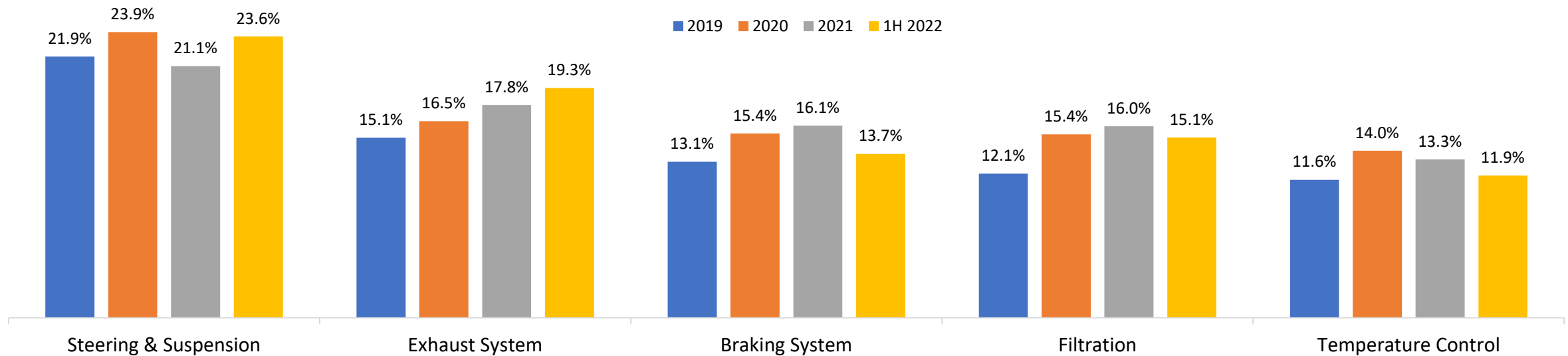
- 1) Checkout Rate for 2021 is for the period April 25 – September 1
- 2) Checkout Rate for 2022 is for the period April 24 – August 31



# E-commerce channel breakdown by part category

- There has been significant growth in the internet channel share from 2019 through 1H 2022 – a trend that supports the notion that consumers who did make the switch to the online channel are remaining steadfast in their future purchasing decisions.
  - Exhaust system, braking system and filtration all experienced continued growth in internet channel share, a trend further exemplifying that consumers are actively turning to the online channel.
  - Temperature control experienced a small decline in online share relative to 2021; however, this reduction is represented by less than 2% and represents a more complex part category for DIY consumers.

## Internet Channel Share by Part Category



Source(s): IMR Inc.

# DIFM strength leads the way in 2021, while DIY remains resilient

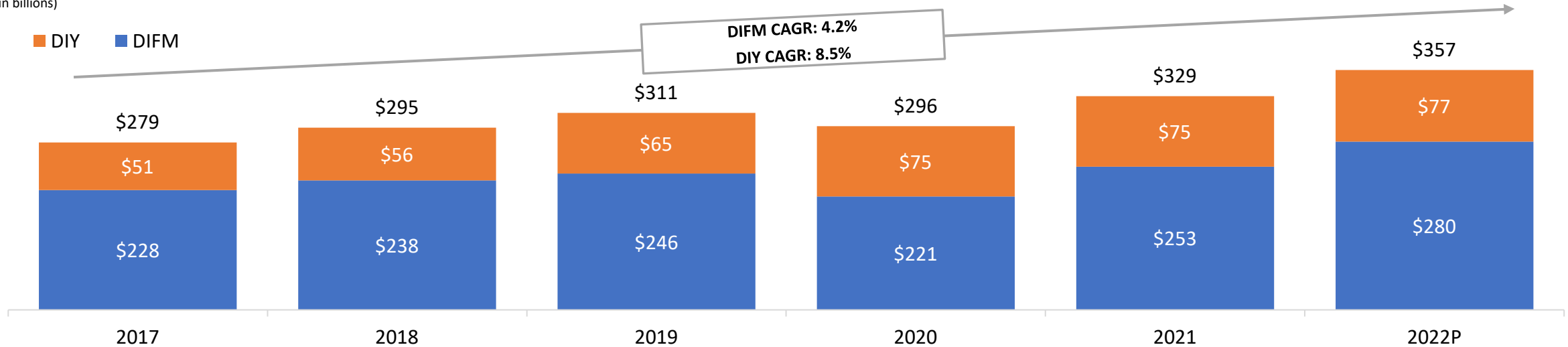
- Recent channel commentary suggests that Do-It-For-Me (“DIFM”) demand continues to outpace Do-It-Yourself (“DIY”), while DIY demand remains resilient.
- Consumers have shown a clear preference for the convenience of DIFM and select aftermarket participants have transformed their business models to serve customers wherever they are (e.g., home delivery services and on-demand repair/maintenance services).
  - Strength in the DIFM channel throughout 2022 suggests that consumers have continued to prefer this outlet even as COVID-related restrictions were loosened.

## Total U.S. Automotive Aftermarket Services DIY & DIFM Breakdown

(\$ in billions)

■ DIY ■ DIFM

DIFM CAGR: 4.2%  
DIY CAGR: 8.5%



Source(s): AASA/Auto Care Association Joint Channel Forecast Model, S&P Global, Jefferies Automotive Aftermarket



# Reaching the Online Aftermarket Consumer



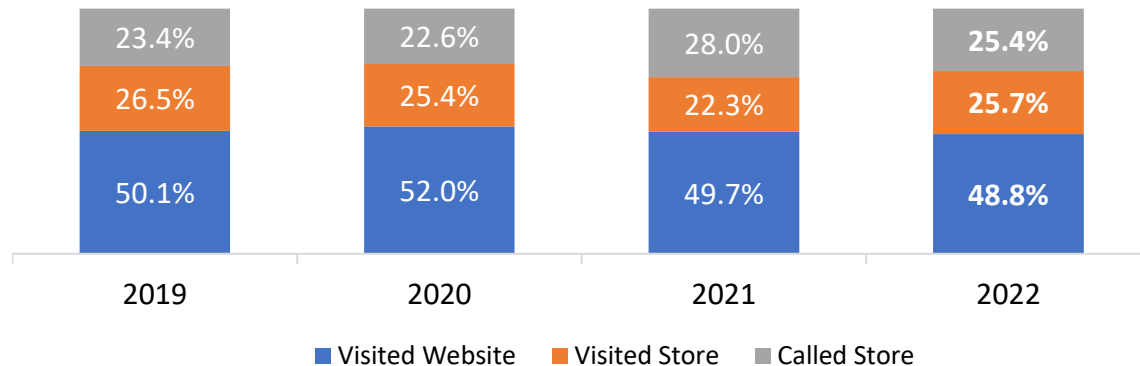


# Consumer pre-purchase research

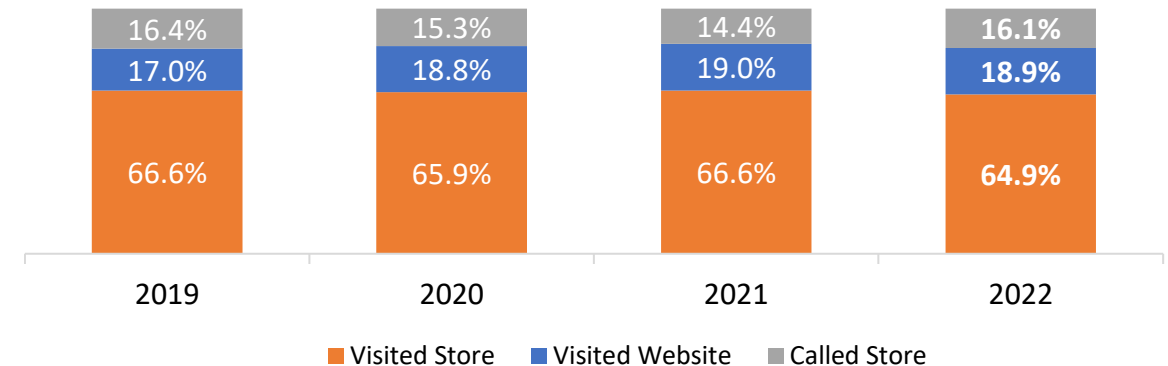
- In line with expectations, those consumers purchasing online are more than likely to start their purchase journey by visiting a website, with almost half of online purchasers beginning their research online.
- Alternatively, those consumers purchasing in store are overwhelmingly beginning their purchase journey by first visiting a store.
  - **There is a possible trend among this consumer cohort shifting to visiting a website first – further emphasizing that a brand's online presence is a critical factor, regardless of end purchase behavior.**

## Pre-Purchase Research – What Consumers Do First

### Online



### In-store

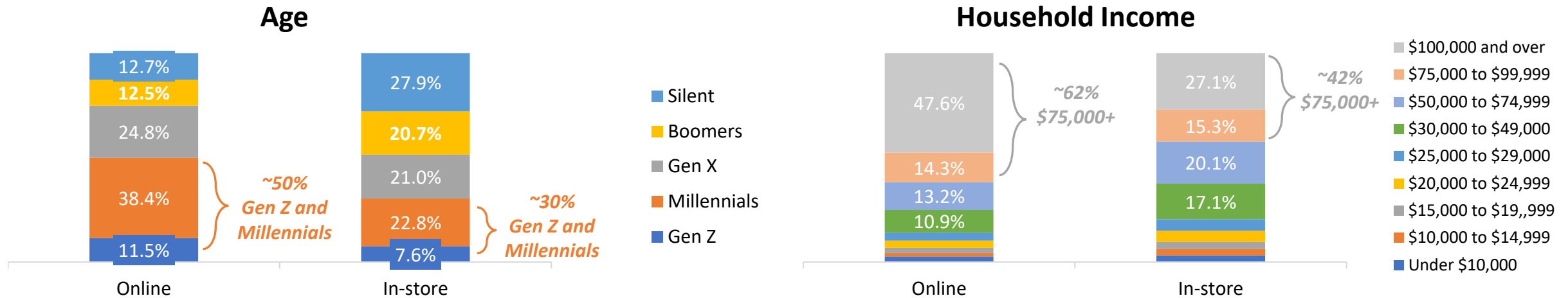


Source(s): IMR Inc.

# The online aftermarket consumer demographic

- The online aftermarket purchaser in-store skews younger with millennial/Gen Z representing roughly 50% of this cohort.
  - **Comparatively, in-store purchasers skew older, with only 30% being millennial/Gen Z and 41% representing Gen X/boomers.**
- Further, the online purchaser tends to be higher income relative to their in-store counterpart, with ~62% of online purchasers making \$75K or more compared to only 42% of in-store shoppers.
- The younger, more affluent consumer is increasingly focused on the online channel, further exemplifying the channel's importance and a brand's corresponding digital presence.

## Online Consumer Demographic Breakdown – Age and Income



Source(s): IMR Inc.

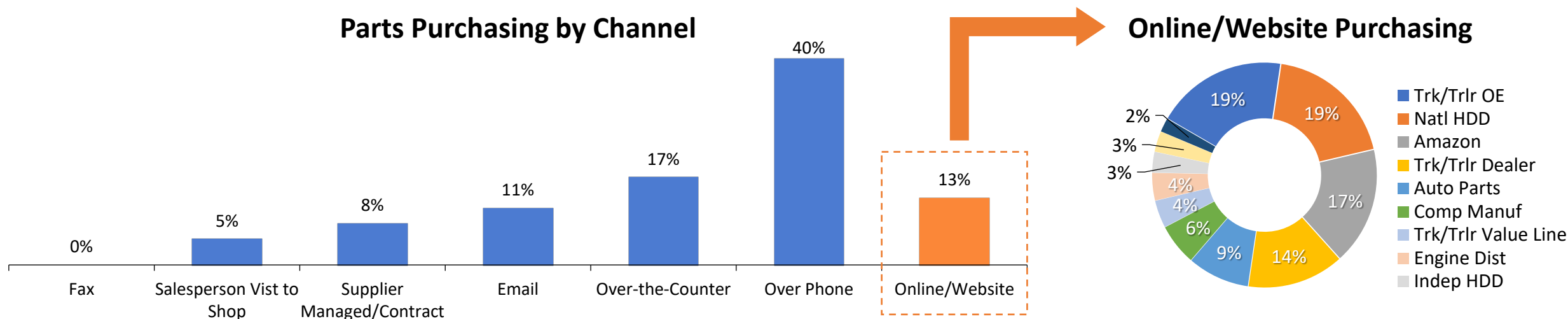
# Substantial E-commerce White Space in Medium and Heavy Duty Segment



# Medium and heavy duty parts channel trends

- While surveyed fleets in 2021 indicate that placing parts orders over the phone continues to be the most common parts purchasing method, online aftermarket parts orders account for 13%, increasing one point since 2019.
- The total medium and heavy duty parts aftermarket (tire and lubricants not included) equates to \$36.7B; of this, \$4.8B is purchased through online channels and varies greatly across component groups.
- For those fleets utilizing an online parts purchasing source, the truck/trailer manufacturer holds nearly 40% share when combining sales through the dealer, direct from the OE and through their respective value line sites.
- The percentage of online parts ordering is expected to increase to 15% over the next 2-3 years.

## Increasing Medium and Heavy Duty Online Parts Purchasing

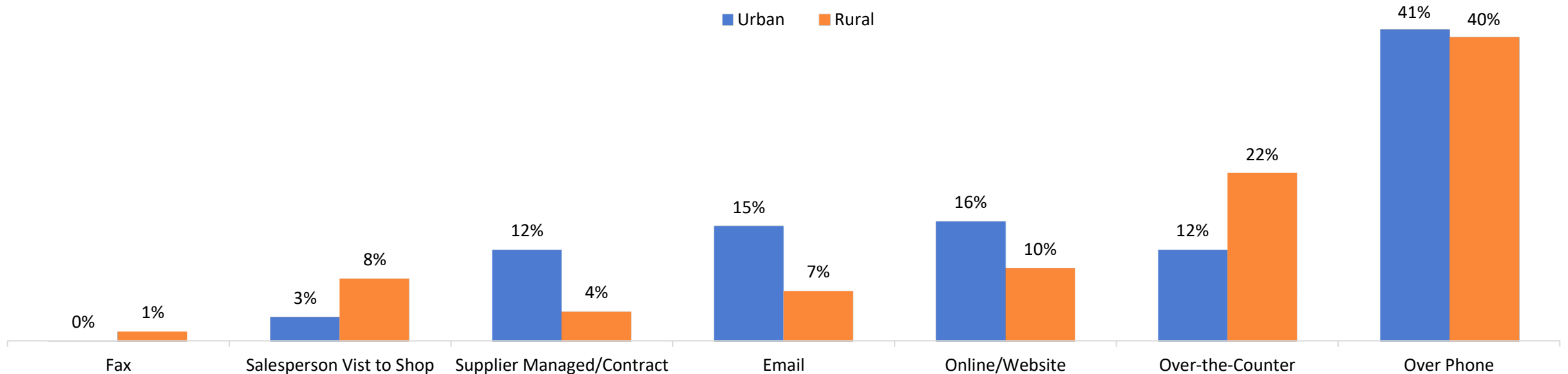


Source(s): MacKay & Company

# Truck and trailer parts orders current channels: rural vs. urban

- Given the location of the parts distributor and the customer, it is important to consider their ordering preferences.
  - Both rural and urban fleets equally order parts over the phone.
  - Rural fleets are more likely to visit the parts counter than urban fleets.
  - Urban fleets are more likely to order online and through email.

## Rural And Urban Fleets' Parts Purchasing Differ



Source(s): MacKay & Company



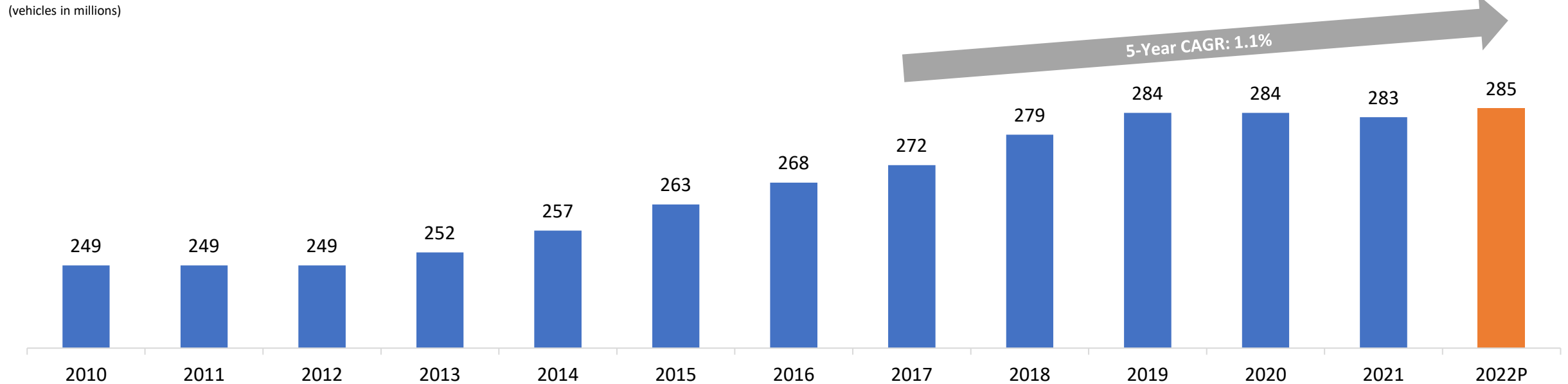
# Automotive Aftermarket Industry Update



# U.S. VIO growth

- The U.S. car parc has steadily risen over the last decade as vehicle needs and household incomes have increased.
- Personal vehicle ownership and usage has also increased due to continued hesitancy regarding use of public transportation.
- **Many industry participants have seen relatively strong market performance, driven by greater used vehicle demand and a lack of new vehicle availability – the decline in new vehicle production and sales from COVID-19 will continue to propagate through the car parc over the coming years.**

## Increasing U.S. VIO Supporting Continued Aftermarket Growth



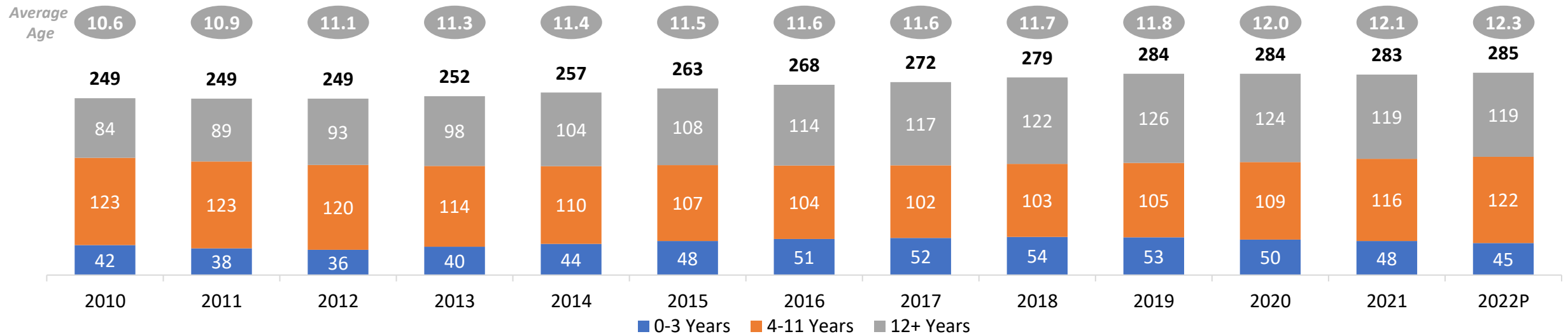
Source(s): S&P Global Mobility, Jefferies Automotive Aftermarket

# Aging U.S. car parc supporting robust aftermarket growth

- The average vehicle age has increased steadily over the last decade, which has driven the number of serviceable vehicles to significantly increase, positively and directly impacting the aftermarket.
- **Post-recession wave of new vehicle sales are further driving this expansion of older-aged vehicles.**
- Owners of older vehicles perform a higher percentage of maintenance, supported by **the broader trend of consumers purchasing more products for their vehicles** – both to personalize and/or extend vehicle lifespan.

## Average Age of Vehicle Continues to Trend Older

(vehicles in millions)



Source(s): S&P Global Mobility

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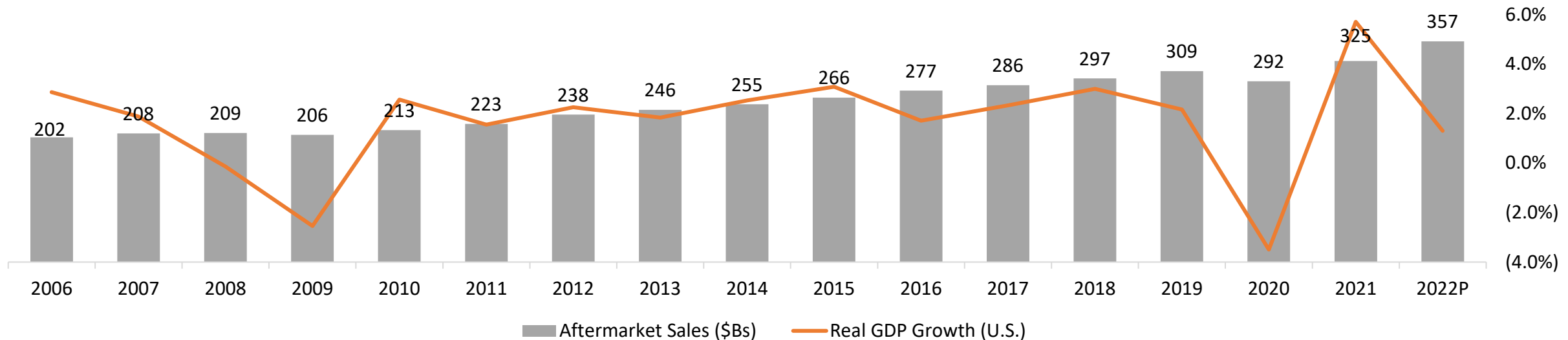
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# Growing and sustained aftermarket sales

- Aftermarket sales have a track record of impressive annual growth in any economic environment.
- As the broader economy faced macro-level headwinds and trended into recession territory, the automotive aftermarket saw microcosmic tailwinds due to the non-discretionary nature of aftermarket demand, allowing the industry to successfully weather the initial impacts of COVID-19.
- **Throughout the aftermarket, industry participants have seen the amount of seasonality in the sales curve reduced – a trend likely induced by pent-up demand in the face of constrained supply.**

## Aftermarket's Unmatched Combination of Growth and Resiliency

(\$ in billions)



Source(s): AASA/Auto Care Association Joint Channel Forecast Model, S&P Global

# Key Findings/Takeaways





# Key findings/takeaways

- ✓ E-commerce sales of automotive parts have grown to an estimated **\$37.6 billion in 2022** and are forecast to continue growing at a robust 5-year CAGR of 8.4% to \$47.4 billion in 2025.
- ✓ The attractive growth rate behooves retailers to enhance their websites with options to “make it easier” for the consumer, including curbside pickup, faster home delivery, customer recognition and a one-click checkout process.
- ✓ **Online automotive parts purchasers tend to begin their purchase journey online**, underscoring the need for accurate product content.
- ✓ While fleet owners of medium and heavy duty vehicles continue to favor purchasing by phone, the online channel is a considerable one, accounting for 13% of parts sales in 2021.
- ✓ Expectations regarding e-commerce performance in the automotive aftermarket vary. One e-commerce task force leader expects *“to see modest growth in sales fueled by receding supply chain issues by Q1 2023. When operators can ship and fill the orders they are getting, they will feel free to invest in technology that supports their growth. And, despite the recent decision in California about the future of gas-powered vehicles, the ICE population will continue to grow and age, driving increased demand for automotive service parts.”* One executive from a leading online retailer has a more cautious outlook – while *“Our comps for 2022 are strong double-digits...we are focused on being lean and mean to prepare for a downturn starting in first quarter 2023.”*

Source(s): Hedges & Company, SPS Commerce Inc., IMR Inc., S&P Global Mobility, MacKay & Company, Bolt Financial, Inc., and Jefferies Automotive Aftermarket



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