

State of the Aftermarket

Industry Report 2020



Including interviews with:



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)



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, with many drivers using their cars to commute for the first time. 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.

MOT

Without doubt the MOT has presented a challenge for the industry, and one which will have impacts for some time to come.

The six-month MOT extension announced in March had an immediate impact, with official DVSA figures showing just 746,161 MOTs were carried out in April. This is compared to 3,551,999 in April 2019 - a whopping **79% decrease**. May and June were also significantly down, although the lifting of lockdown did encourage more owners to carry out an MOT, bridging the gap somewhat.

However, while the UK adapted to the new normal in June and July, the government did not end the MOT extension until August 1st, creating two problems for workshops. Firstly, 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. Secondly, 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.

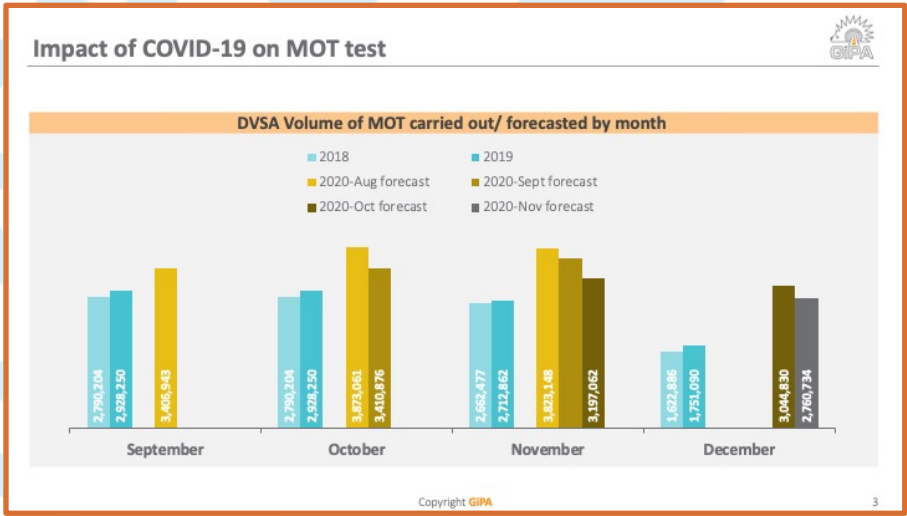
"I think the MOT is going to be a big issue for the coming year in terms of the distribution of work across the months because in the UK, the MOT really prompts a lot of workshop entries," comments Quentin Le Hetet, General Manager at GiPA UK.

"But that is not the case in other countries because the UK is the only one where the MOT is done at the same place the car is repaired. Because of this, it really prompts a lot of work, as it is more convenient to have a service done with an MOT, and 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."

Le Hetet also highlights that current DVSA forecasts suggest a 73% increase in MOTs to be carried out in November, while December "will see nearly 2.9 million tests carried out, compared to 1.7 million last year."

Things may look bleak for a few years to come, especially in 2023, where just 7,708 cars and vans will enter the MOT



market. It is hoped that, fuelled by initiatives such as the DVSA's 'Beat the Rush' campaign, some drivers will bring their MOTs forward to take advantage of what will be a quiet period for garages, but there could be repercussions for some time to come.

"I think one of the challenges we're going to be faced with is Q2 next year. While the demand is very buoyant at the moment and will continue to be so until the end of the year, it will be leaner times on the anniversary of the MOT extension" adds Wendy Williamson, Chief Executive of the IAAF. "And that's something we're talking to the DVSA about, to see if there are any initiatives that could help the sector at that point."

However, the buoyant demand at the moment does not come without its own challenges, as Barry Parker, owner at BTE Automotive observes,

"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."

CLOSED FOR BUSINESS

In a survey by Impression Communications, more than 60% of garages decided it was in their best interests to close during the first lockdown. This was largely due to a significant drop in business caused by the government's MOT extension and not being equipped to operate under social distancing measures. However, respondents also noted logistical reasons such as childcare, and the inability to source parts as a number of motor factors had also closed their doors.

With the closure of car sales dealerships many franchised garages elected to close along with their forecourt counterparts. This created something of an imbalance in the servicing market. On one hand, those wanting to service their vehicle may have chosen instead to visit an independent, increasing footfall in this area of the aftermarket. Others may have put off servicing, meaning busier times once dealers reopened.

"I haven't completely understood why franchised dealers closed their workshop during the first lockdown," added Quentin. "I think it was a very overcautious measure to take. The impact on their business was huge.

They were the only ones to be closed almost completely in terms of the servicing market."

The closures may also have taken their toll on the factor industry, although many offer trade to the public as well – meaning the 'have a go' market could have helped carry the sector through the hardest of times.

"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," says Andy Hamilton, CEO at Euro Car Parts (ECP).

"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."

FURLOUGH

The decision to close led to most businesses taking advantage of the government furlough scheme. Even those who remained open chose to furlough some staff due to a shortage of work, and in the long run, saving the business money.

The 'flexible furlough' scheme introduced in July, enabled employers to bring back staff on a part-time basis, and acted as a lifebuoy for garages, especially as the MOT extension dried up further servicing work. It allowed for businesses to run at full capacity for some days but save money on quieter ones while retaining their staff.

Furlough also provided another opportunity, as Steve Nash, CEO of the Institute of the Motor Industry (IMI) highlights: "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. So, we made a lot of our online training free and subsequently saw and are still seeing a lot of engagement there."

Interview

Andy Savva

The Garage Inspector



“The best time to plan is when you’re busy, because when you’re not seeing work coming in, you put drastic actions into place that will only benefit in the short term, such as introducing ‘come and get me’ servicing prices that will not help the business in the long term. Currently, garages are seeing a positive cash flow, and I’m encouraging owners now to put some time aside and think about the next 6 to 12 months ahead.”

Interview: Andy Savva

HAVING SEEN THE IMPACT FROM THE BUSINESS PERSPECTIVE, HAS COVID-19 BEEN A CHALLENGE OR A BENEFIT FOR THE AFTERMARKET?

I think it's been 100% beneficial. We all had that initial shock at the beginning of this, asking questions like 'what do we do now' in March when the initial lockdown came in. Most garages stayed open, others closed for perhaps for one or two weeks before realising they were an important part of the cog in keeping people moving. I think that consumers have realised the importance of independent travel. Garages have been absolutely ravaged with work, so for me it's been nothing but a positive in that view.

Then we have the debacle with the MOT, so now everyone is dealing with that challenge over the next few weeks, months and even years. So for me, there's always a positive out of a negative, and I'm really pleased to see a lot of my garage customers and the whole aftersales market rising to the challenge.



I do focus on the independent market as I believe that is where there is the most value for people. And all those that I know have been very busy. I think the problem they have had is trying to manage that busyness. Prior to lockdown, their lead times were one, two or three days, today they're booked solid for two or even three weeks.

Also, finding staff has been difficult because everyone needs staff. There's been a shortage for so many years and we have to put a blame to that. But there's been a lot of positives.

HAS THE INCREASE IN PARANOIA OVER PUBLIC TRANSPORT LED TO AN INCREASE IN USED-CAR SALES AND WILL THIS HELP THE INDEPENDENT SECTOR?

I deal with three used-car dealerships and they cannot get enough stock at the moment. Prices have gone up as a result of all this, so that's good for them as well. But it's supply and demand. At some stage, there's going to be a shortage of supply in vehicles because production stopped at one point and was slow to increase, so that will hit the aftermarket.

Then when we get to April through to June next year, there will be a lack of MOTs during that period. So you have to manage your business, you have to start thinking now what you will do then. That includes managing staff – it may be that garages can offer staff holidays during that time, or look at other ways to reduce the possibility of technicians working when there are no vehicles to service. It's no good coming to April and realising you don't have a lot of MOTs. Forward planning needs to take place for that period, otherwise it will impact businesses hard.

The best time to plan is when you're busy, because when you're not seeing work coming in, you put drastic actions in place that will only benefit in the short term, such as introducing 'come and get me' servicing prices that will not help the business in the long term. Currently, garages are seeing a positive cash flow, and I'm encouraging owners to now put some time aside and think about the next six to twelve months ahead.

WHAT ARE THE ECONOMIC PRESSURES THAT GARAGES WILL FACE GOING FORWARD?

There are three things. First, there are staff levels, which has always been a challenge but is more so now due to the current work levels that are being experienced. Therefore, it is likely that salaries will increase as businesses will have to pay a premium on the right price. This could push garage owners outside their comfort zones but finding someone with the right credentials will require more pay. Then there is the question of what to do with the existing staff, as you cannot have someone come in with more money and keep them on the same pay.

The second thing is what you do to deal with the lull period in April to June next year. There's also the issue of the reduced registrations in September of this year, as in three