

#SA Expertise

SA Perspective: The Amazon Effect

Traditional distributors are facing unprecedented competition from all sides. Competitors are being acquired by even larger competitors. The big box retailers are opening more stores and DCs, not to mention growing their commercial sales programs. As if that wasn't enough, competition from pure-play internet vendors is adding a new layer of complexity to the auto parts distribution market.

What impact will Amazon, Rock Auto and others have on retail and traditional brick and mortar commercial programs? SA believes this competition should not be overlooked—the impact will be significant, but it will take time.

The aftermarket witnessed a similar shift two decades ago when AutoZone and Advance Auto Parts announced their nascent commercial programs. The industry collectively shrugged its shoulders, insisting these companies didn't have the inventory, infrastructure or culture to impact the commercial auto parts market in a significant way. Service dealers openly said that they would not do business with them. But the retailers persisted, over time adding commercially focused services and deepening inventory. Today, AutoZone and Advance have a combined \$8 billion in annual commercial sales. If you include O'Reilly Auto Parts, which historically always had a meaningful commercial sales program, you have three companies that sell a combined \$11.5 billion to the wholesale trade. That's significant.

Research shows that consumers buy from internet vendors for two primary reasons: price and convenience. Retail internet auto parts sales will top \$10 billion in 2018. Commercial customers, however, are a more complex breed, driven by more considerations than simple price and convenience. Commercial customers need other services that elevate a distributor to first-call status—things like a robust catalog, payment terms, quick delivery and an easy returns policy. Internet parts vendors have some of this, but not yet at the levels to have truly successful commercial programs.

If today's major pure-play parts vendors are serious about having successful commercial programs (and they likely are), they, like the retailers of twenty years ago, will need the desire, patience and pocketbook to overcome these hurdles. As we said, it will take time, but once they do, a new era of auto parts distribution will become a reality, adding a new level of competition to this channel of the aftermarket.

So what does this mean for your traditional WD business? Right now, maybe not much—you've already had to make decisions and adapt your business in response to the consolidation and big box activity we noted at the beginning of this piece. Perhaps you're working on your business model, pricing, delivery or customer service. Or you might be contemplating a move into the M&A market, as a seller or a buyer.

In any event, our industry continues to evolve and, as it does, our team at Schwartz Advisors will strive to be at the leading edge of insight and analysis. Please get in touch with us to discuss how these aftermarket trends are affecting your business.

For more information on Schwartz Advisors' aftermarket-focused services or to contact us for more insight and commentary on this and other topics related to the North American motor vehicle aftermarket, please visit www.schwartzadvisors.com or email SA CEO Rick Schwartz at rschwartz@schwartzadvisors.com.

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About Schwartz Advisors

With unmatched industry expertise and experience, Schwartz Advisors provides leading-edge and comprehensive M&A advisory services, growth planning and strategic analysis to middle-market light-vehicle and commercial truck aftermarket companies and investors. SA's team of automotive and transportation industry executives and industry leaders brings their proven expertise to merger and acquisition opportunities and strategic growth opportunities.

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