



MARKET FEATURE: Technology Revisited

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Five years after the tech boom, the industry is refining its use of technology

Back in the heyday of the Internet revolution, when everything "e" was king, the auto parts business had cyber stars in its eyes. In July, 2000, Counterman published a in-depth (albeit somewhat naïve in retrospect) look at the now quaint-sounding Information Superhighway and how its new technology was e-revolutionizing aftermarket distribution. This month, a full five years later, Counterman provides a new and updated look at how the Internet and its related technologies have integrated itself into aftermarket distribution, along with some predictions from 2000 and whether these predictions have materialized today.

In 2000, Gene Gardner, the then recently retired president of the Automotive Aftermarket Industry Association, said about the Internet, "We're seeing just the tip of the iceberg right now. It's hard to predict how (Internet usage) will end up, but it will become more sophisticated and meaningful as time goes on as to what worked and what didn't."

Five years later, the industry is older and wiser about the use of the Internet. Is it the revolution that was promised and hyped a little more than a half decade ago? Not really. It is, however, the next step in the continuing evolution of the distribution channel.

THE INTERNET CIRCA 2000

It was a tricky sell in the beginning. "Disintermediaries" such as Autovia, Sparkhorse, GloPex and CarParts.com wanted to sell auto parts - and hoped the world would source them through their Internet portals. Their services often went beyond mere on-line parts stores and included other services such as repair shop locators and parts distribution integrators, which included on-line cataloging, parts ordering, inventory management and other services to electronically link together WDs, parts stores and installers.

For these Web-based parts distribution integrators in the infancy of the Internet, their objective was easy to explain yet hard to implement. They wanted to smooth out the perceived inefficiencies in the complex and confusing aftermarket parts distribution market by providing parts management and ordering information and integration over the Internet. Most did this by linking WDs, jobbers and repair facilities with a suite of products like on-line cataloging, parts ordering and inventory management software, allowing the jobber and repair shop to access and view their suppliers' inventories and order parts - all via the Internet.

Many of these companies signed (or tried to sign) up WDs or repair shops, which in turn tried push the technology down, or up, through the supply chain. Ideally, all transactions among WDs, jobbers and repair shops would be administered through one of these Internet sites.

That particular business model didn't work, at least then, and today nearly every

pure internet dot commer has either shuttered operations or changed the way it goes to market. Today's aftermarket reality is that the Internet revolution was probably the right technology applied in the wrong way at the wrong time.

CHANGING TECHNOLOGY USAGE

Part of the problem at the beginning of the Internet boom was that the technology was just too new, too untested for across-the-board acceptance by the very businesses that required buy-in: WDs, parts stores and repair shops. All of these groups are understandably fickle when it comes to new technology and even more resistant to change - especially when it requires an investment.

For Internet sales to work for parts stores and installers, it required two leaps of faith: They had to first embrace the Internet. They then had to embrace the new applied technology, which essentially changed the way technicians and parts stores had conducted business.

The first issue, embracing of the technology, was a high hurdle. Part of the problem lay at the feet of computer usage. Even in the Internet's boomdays of 1999-2001, aftermarket businesses such as parts stores and repair shops were slow to adapt to technology's new business use. In the late 1990s, Babcox Research began studying the Internet adaptation of of the Internet by repair shops and parts stores. At first, the number appear encouraging. According to the 2000 survey, more than three-quarters (77.8 percent) of parts store managers had internet access at the store or at home. Likewise, a significant percentage of repair shop owners had access as well, with about 70 of survey respondents indicating they had access at the shop or at home as well. This was a great step up in usage over the very first Internet usage study conducted in 1998. In that inaugural study, less than half of all respondents had access to the Internet, either at their place of business or at their homes. The numbers were trending in the right direction.

However, that did not necessarily mean these stores and shops were using the Internet for meaningful business reasons. According to the same 2000 study, a significant percentage of respondents used the Internet mostly for email and 'personal' research. Even more telling was the percentage of repair shops and parts stores that actually placed orders from their main suppliers over the Internet. In 2000, barely any parts stores or repair shops reported any Internet-based transaction. Among repair shops, just 6 percent reported any e-commerce transactions, while only 7 percent of parts stores indicated they were ordering anything off the Internet.

INTERNET USAGE TODAY

Today, the Internet is a well-known, trusted and increasingly essential business tool. And while the Internet is becoming an important part of the parts story, it is a much different animal than when it was first applied to parts sales. These days, the Internet is less about disintermediating WDs and stores; rather it is more about linking these WD and stores with their customers and their suppliers in more efficient ways. Store management information systems, for example, are significantly changing thanks in large part to Internet integration. Parts stores can offer virtual inventories and cataloging, as well as access to multiple suppliers, pricing, technical information, availability and shipping information - all tied into a store's management system.

INTERNET PARTS ORDERING

Internet parts ordering for everyone in the supply channel can be a tricky business. After all, manufacturers need to be careful that they're not going around their WD customers and selling direct, something that wasn't always carefully considered five years ago.

"We only allow our distributor customers to have access to our site to order product - therefore we do not disintermediate the supply chain," said Bosch's Frank Guido. "The majority of customers transmit their stock orders via EDI. Therefore most orders are for small orders from emergency out-of-stock situations. It works well that our customers can answer their customers immediately whether or not they can get a part and then order it in seconds and ship same day."

The advantages of Internet ordering are obvious: Ease of use, speed and continuous availability. Increasingly, parts stores are encouraging their wholesale accounts to use the Internet to make its parts purchases. Though sourced locally, these parts queries use 'virtual' inventories that include everything available in a distributor's system.

PREDICTIONS & REALITIES

In 2000, the industry was abuzz with predictions on how the Internet would revolutionize the aftermarket. Did these predictions come true? Counterman asked some aftermarket professionals with vast technology experience about these predictions and whether they ultimately came true.

Prediction #1: "The Internet will differentiate in the short-term, but in a year or two, everyone will have a transactional Web site."

Jesse Hermann, icarz: "I believe this statement was right, except for the timing. It's now 2005 and there are still a lot of stores and distributors that don't have transactional Web sites, so it is still a significant opportunity for stores and distributors to differentiate themselves. All the initial hype was about 'disintermediation' and how, with the Internet, distribution was going to change. Well, it might change some, but the realities of the customer requirements do not change just because we now have a way to communicate anywhere around the world instantly. Parts that should be delivered from a local source should be delivered from a local source regardless of the technology. Geography becomes a non-issue when searching or placing orders via the web, but the realities of distribution still exist in fulfillment when the ordered part has to be shipped to the customer."

Bryan Murphy, Wrenthead: "I think about a third of parts distributors are e-commerce enabled today, so this quote was optimistic. However, I think the end will be the same. We are seeing 20 percent monthly growth with no signs of abatement. At that pace, we will see full penetration within the next couple of years."

"Even so, creating real competitive advantage has shifted from 'transactional Web sites.' Savvy companies are creating strategic advantages and differentiating themselves by integrating their transactional Web sites with more advanced supply chain solutions that take cost out of the system, drive revenue, optimize inventory and improve customer service. The Web sites themselves are providing 'must-have' tools to their customer and are driven by a comprehensive and integrated marketing plan. That's where the real action is today."

Prediction #2: "In the long run, e-business is going to work."

Hermann: "E-business already works. It is growing incredibly fast already. It takes a couple of forms. One is business via Web sites. This is not only installer-to-jobber, but also jobber-to-warehouse distributor. Some of the warehouse management systems still do not openly allow real system-to-system connectivity. While that has historically created some leverage in forcing system decisions, it has not benefited the warehouse or the jobber. Warehouses have discovered they can use a Web site to transact business electronically with these customers. It is facilitating business that previously had to be done manually and reducing costs for

the warehouses.

"Ultimately the customers (warehouses and jobbers) are going to demand open systems, and the extra step for the jobber of manually entering parts into a warehouse website will be eliminated, but it will still be e-commerce as it will be electronically transacted system to system."

Murphy: "Simply put, I think most would agree that e-commerce is here to stay and has a proven ROI."

Prediction #3: "Using paper catalogs is something that may be inevitable for a long time due to the hard-to-find parts."

Hermann: "This is an interesting one. It is still the case that electronic catalogs are not up-to-the-minute up to date, though they are getting better and better. I was on store visits (recently) and saw two different phenomena when the store could not find the required part in the electronic catalog. In one case, the store went to the paper catalog. In the second case, the store went to the manufacturer's website. So let me answer the question in two ways. First, for some amount of time, supplemental information will continue to be useful in servicing customers due to the amount of time it takes to get information from the manufacturer, publish it in electronic format and distribute that information. Second, we can expect that paper catalogs will be used less and less. We should expect that the information on a manufacturer's website is the most up-to-date information available from that manufacturer since they can update that information as soon as they have it. So the better choice is to go to the manufacturer's web site. This still isn't quite a reality yet since not all manufacturers have full cataloging on their Web sites, but it's getting there. To be sure, there is still value in the service provided by third-party data vendors where they aggregate manufacturers' data into one database. Ultimately though, users will go directly to manufacturer's Web sites for catalog information and eliminate the need for aggregated data. It will be interesting to see if the industry takes on the task of facilitating this or if it becomes a service of the third-party data vendors. Either way, it will be good for the users as it will get them the most accurate information the quickest and further reduce the need for supplemental information."

Murphy: "Paper catalogs will be used by parts distributors that sell lines that haven't made the appropriate investments in catalog. Parts from these vendors will be hard to find as a result."

Prediction #4: "The Internet will transform every piece of the industry."

Hermann: "The Internet is a great tool, but it's just another tool. It enables processes to be done more efficiently in certain instances by simplifying communications. It has and will transform every piece of the industry, but the aftermarket remains a business of making parts and distributing them to installers."

Murphy: "It is undeniable that the Internet has affected many aspects of our industry including: sales, marketing, cataloging, ordering, returns, warranties, engineering, manufacturing, inventory management and finance to name a few. The industry is getting more connected and faster as a result."

"I think what is equally as interesting is what we have not seen. Many people were predicting channel blurring...would manufacturers sell directly to the end user? Would we see more two stepping as a result? I'm not sure we've seen as much of that as was predicted."

"Service dealers today are using e-commerce to find the right part quickly, rather than use it to find a cheaper part. I think this is consistent with the surveys that

have been done showing that those two factors are more important than price."

The Internet has impacted the aftermarket in significant ways, although probably not as revolutionarily as one might have predicted in 2000. Still, the Internet and all the technological advantages it brings will continue to be refined. What is certain is that the way the Internet is perceived and used today is quite different than it was in 2000. It is also a certainty that its use will be different five years from now.