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A Question of Traction

by John Edwards, Line56.com
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Richard Andrews, president of Stemco, a Texas-based company that manufactures wheel components for heavy trucks, has been a player in the B2B automotive aftermarket for more than six years. He began with TransNet, a mailbox service that allows users to send EDI X12 documents to business partners. "Unfortunately, it's all one way," says Andrews. "Plus, you can't send electronic payments and you can't access a parts catalog. That limits its usefulness."Andrews is still using Transnet, a service of the Motor and Equipment Manufacturers Association (MEMA), but not nearly as much since joining HDeXchange last November. HDeXchange, a service launched by a distributors' group called the Council of Fleet Specialists, joins heavy-duty vehicle parts manufacturers, distributors and customers in an e-commerce trading community that features a data warehouse and a variety of two-way communications services. An electronic payment service is scheduled to arrive within the next few months. "It's been a revelation. I feel like we've entered the 21st century," says Andrews.

There's a lot more to the automotive aftermarket than a pair of fuzzy dice hanging from somebody's rearview mirror. In fact, the sales of everything from tires to radios to spark plugs to fenders and-yes-fuzzy dice, is a $155 billion-a-year business, nearly half the size of the $350 billion-a-year U.S. motor vehicle market. "When people think about the automotive industry, they tend to focus only on the big automakers," says Kevin Prouty, automotive strategies director for AMR Research. "What they often forget is just how big and important the automotive aftermarket really is."

The auto aftermarket comprises a long and tangled supply chain that requires interaction between manufacturers, distributors, retailers, service shops and other industry participants. Although many people narrowly view the auto aftermarket in terms of over-the-counter sales at brick-and-mortar retailers like Pep Boys and AutoZone, B2C transactions actually represent only a small segment of the total market. "Over three-quarters of all parts sold are B2B dealings," says James Lang, president of Lang Marketing, a New Jersey-based research firm specializing in the automotive industry.

Yet while business-to-business sales drive the auto aftermarket, the industry has been reluctant to embrace e-business. "B2B technology may have been slowed by the dominant role that a small number of systems providers play, and their heavy investment in proprietary legacy systems and technology," says Scott Luckett, senior information technology director for the Automotive Aftermarket Industry Association. Luckett cites CCI and Triad, which merged in 1997 to form CCITriad, as the key player in auto aftermarket systems. Both firms originally focused on EDI and proprietary technologies while largely ignoring the Internet revolution. But today, even CCITriad's attitude is slowly changing. The company has joined the Aftermarket Council on Electronic Commerce (ACEC) and is now working with other industry players to implement and coordinate

standards-setting efforts.

In addition to the influence of legacy systems, the aftermarket field has been stalled by the complexity of B2B relationships, the dot-com meltdown and the reluctance of many smaller aftermarket companies, rooted in nuts and bolts rather than bits and bytes, to adopt leading-edge technologies. "There's an element of skepticism and distrust that you don't find in many other markets," says Prouty. "In some ways that's been good, however, since the field didn't have very far to fall when the technology downturn hit."

It might seem that Covisint, the big industry -sponsored marketplace for auto manufacturers and suppliers, would loom large in the aftermarket as well. But the initiative is expected to have little, if any, impact on the aftermarket. "Covisint is strictly a supply-side exchange for auto OEMs and has no involvement with the sell side or the aftermarket," says Luckett. Lang agrees. "It will not have a direct impact on e-commerce in the aftermarket except, perhaps, as an example of what can be done when vehicle manufacturers form an e-commerce venture."

Demolition Derby

The automotive aftermarket began its fitful transition into the Internet era a couple of years ago, with the introduction of the first aftermarket-targeted B2B online catalogs and exchanges. Companies such as Autovia, Sparkhorse, Partsdriver and eAuto initially arrived to help aftermarket businesses cope with a parts proliferation phenomenon that was threatening to swamp the industry. "The automotive aftermarket is different from a lot of industries in that there are millions of part numbers," says Lang. "Simply keeping track of all these components is a major job."

While the exchange startups attracted plenty of attention and gobs of venture capital, most parts makers, warehouse distributors, installers and other aftermarket participants remained on the sidelines. By mid-2001, Autovia, Sparkhorse, eAuto and many other once promising ventures were gone. Lang says the shakeout was no great surprise. "There were simply too many players, coming too fast for the traditionally slow-moving aftermarket to handle," he says. "The surviving exchanges are struggling to distance themselves from those that failed."

The current automotive aftermarket B2B landscape finds a handful of survivors left standing, including iCarz, CarParts Technologies, Internet Auto Parts (IAP) and iStarSystems. These businesses have restructured their operations to reflect a radically changed B2B environment. "The public exchange approach wasn't working, so it was time to move to Plan B," says Dan Garretson, a senior analyst at Forrester Research.

Beyond Exchanges

iStarSystems, for example, was initially developed by Toyota and i2 Technologies, a supply chain software developer, as a public exchange that would improve the connection between aftermarket companies. The company now has transformed itself into a software and solutions provider. Last April, the company dropped its original name: iStarXchange. "As we grew, it became apparent that the 'Xchange' part of our name didn't reflect the breadth of our company's strengths," says E.J. O'Leary, iStarSystems' CEO.

In its latest incarnation, iStarSystems is aiming to supply aftermarket companies with software and services that will enable them to automate their operations. Eschewing the public exchange concept, the company now offers private marketplace capabilities. "This allows companies to enhance existing relationships, expand their market reach, lower transaction costs and reduce errors associated with traditional procurement," says O'Leary.

The company also provides a suite of supply chain management software, based on i2 Technologies' TradeMatrix platform, which iStarSystems has configured for the automotive

replacement parts industry. Finally, iStarSystems offers content management and catalog capabilities that are powered by Vignette's content management and syndication technology and i2's catalog environment.

Another vendor that has adapted to changing times is CarParts Technologies, which runs PartsXchange, a quasi-private service that's designed to link individual warehouse distributors to their own installers and other aftermarket customers. Warehouse distributors that sign up with PartsXchange are given 24X7 access to a parts inventory, the ability to send purchase orders to suppliers, receive order acknowledgements, handle orders from customers and coordinate numerous other e-business activities. "Although some companies want WDs (warehouse distributors) to join a marketplace, we enable them to engage in their own market of customers, one-on-one," says Ron Pyle, president of CarParts Technologies' distribution network division.

While Pyle says the exchange business is going well, CarParts Technologies, like iStarSystems, has also embraced an end-to-end infrastructure-support strategy. In January, for example, the exchange operator extended its reach by acquiring Anderson BDG, a provider of automotive point-of-sale and shop-management application software for the automotive service and repair industry.

Searching For a Formula

Whether the revamped strategies of companies like CarParts Technologies and iStarSystems will result in long-term success is uncertain. "You get the feeling that most of these companies are still feeling their way around, trying to figure out what works and what doesn't," says Lang. "Everybody is looking to hit on that magic button that will bring success."

As the specialists continue to slug it out, some parts vendors, including the Big Three automakers, are developing their own electronic trading networks for the aftermarket. General Motors, Ford and DaimlerChrysler are jointly developing OEConnection, an exchange designed to streamline parts purchasing between collision repair shops and dealers. OEConnection's CollisionLink service is being tested by 50 Ford, General Motors and DaimlerChrysler dealers, as well as approximately 75 collision repair shops.

Among other services, CollisionLink provides dealers with a complete electronic collision estimate. The service automatically identifies all of the needed parts and then "scrubs" the part numbers-checks them to make sure ordered parts are correct for the vehicle being repaired. Since the focus is on parts provided by the automakers, CollisionLink is designed to ensure increased sales of factory parts. CollisionLink's nationwide rollout is expected to take up to two years. The target users are the 5,000 to 6,000 Ford, GM and DaimlerChrysler dealers that do a significant wholesale business with collision shops.

Similarly, several independent parts makers are developing private exchanges. Former General Motors subsidiary Delphi Automotive Systems has launched its own marketplace to allow aftermarket customers, including retailers and installers, to locate and then order parts from Delphi's inventory. Development began in April 2000 on an online catalog containing all of Delphi's more than 100,000 products. "Creating a global catalog in six languages was a major undertaking," says Joseph Oddo, Delphi's CRM program manager. Besides providing identification and pricing information for each product, the catalog features links to installation instructions, technical bulletins and other related information. "We want to make Delphi easy to do business with," he says.

Once a particular part has been located, the exchange provides ordering and various sales-management capabilities. It also helps customers handle warranty claims and product returns processing. "Most people just think of sales order and management, but they don't think of efficiently handling the things that nobody likes to handle-but that's a part of business, too," says Oddo.

Tools and Parts

As more aftermarket companies become comfortable with e-business technologies, software vendors are arriving on the scene to help firms create online catalogs, ordering systems and other Internet-based e-business solutions. Delphi, for example, is powering its private exchange project with tools provided by Click Commerce, an e-commerce software developer. Click offers more than 80 products, selling at an average price of $1.6 million, in areas such as marketing, finance, ordering and catalogs, inventory management, accounting, training, service and warranty, and channel intelligence. Although Click provides e-business software to companies in a variety of industries, it has lately seen an upsurge in sales to automotive aftermarket companies. "We're right in the middle of a surging market," says Steve Cole, Click's vice president of product strategy. Besides Delphi, Click's automotive aftermarket customers include Hyundai Motor Company, PACCAR (which manufactures Kenworth and Peterbilt trucks), Kawasaki and Volvo Truck & Bus.

Another major software provider to automotive aftermarket companies is Entigo, which supplies online catalog, ordering and warranty support products. The company also offers Reality Builder, an e-business platform and framework that allows companies to develop business processes that integrate to back-end systems. "More large auto aftermarket companies are deciding to take the initiative in creating their own B2B systems," says Joseph Profeta, Entigo's chief technology officer.

Entigo's automotive aftermarket customers include Ford, Michelin, and General Motors' ACDelco division. ACDelco used Entigo's software to create its Electronic Parts Information Center (EPIC), an extranet-based interactive service developed to organize and speed up the business process between ACDelco and its more than 800 distribution partners. EPIC was originally deployed in November 1998 as a basic online catalog. It was recently re-launched with added capabilities for entering stock, handling merchandising, accommodating emergency orders, and inquiring on part availability, order status and back-order status.

Colliding Models

As they search for customers, e-business software providers like Click Commerce and Entigo are finding themselves butting up against iStarSystems, CarParts Technologies and other automotive aftermarket solution providers who are making the transition from exchange models. "There's a potential for overlap here," says Forrester's Garretson. "Customers face a choice of working with a company that has extensive experience in the auto aftermarket or a firm with broad e-commerce experience across a variety of industries."

But for small installers like Arnold Reusch, who owns 11 Philadelphia-area Midas service shops, there really is no choice. He opted to purchase CarParts Technologies' VAST shop management software. The product allows Reusch's shops to accurately estimate repair jobs based on parts and labor costs. It also has the ability to integrate third-party information such as labor-time guides, interval-service-maintenance databases and aftermarket parts catalogs. "I wanted software that was specifically designed for my needs," he says. "I don't accept the idea that you can make a general-purpose software product fit the needs of a wide range of businesses." Reusch estimates that the software has boosted his bottom line by about $1,000 per week.

Within the next few years, even the smallest automotive aftermarket players are expected to become active e-business technology users. "The industry got a slow start, but the competitive advantages in terms of efficiency and productivity are just too great to resist," says Forrester's Garretson. "Before too long, we'll see even the smallest service shop take advantage of this technology."

Finding Efficiency

Over the long haul, e-business technologies should help bring the automotive aftermarket into the 21st century by streamlining the supply chain and eliminating unnecessary transactions. "Right now, it isn't unusual for a part to pass through several distributors-national, regional and local-as it moves from manufacturer to customer," says AMR's Prouty. "B2B technologies will enable more direct contacts between part suppliers and customers and vice versa." But B2B e-commerce isn't likely to shrink the number of aftermarket players, says Lang Marketing's Lang. "Although there may be fewer intermediate distributors as a result of e-commerce, the total number of suppliers actively selling service outlets will not be reduced, since e-commerce will provide service outlets a broader range of supply sources," he predicts.

Improved efficiencies are likely to benefit all aftermarket supply chain participants. "Through sophisticated supply chain management techniques, e-commerce can reduce inventory in the supply chain and can wring out what some estimate to be billions in excess inventory and related distribution expenses," says Lang. "For most firms it won't be a matter of participating or not participating in B2B transactions, it will be a matter of staying in the business or leaving it." -- *56*

REGULAR LINE56 CONTRIBUTOR JOHN EDWARDS WROTE ON ELECTRONIC DATA INTERCHANGE IN THE MAY 2001 ISSUE
