



AASA Industry Analysis: Shifting 'Sweet Spot' Presents Aftermarket Challenge

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AASA INDUSTRY ANALYSIS: Shifting ‘Sweet Spot’ Presents Aftermarket Challenge

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What is the “Aftermarket Sweet Spot?” The “sweet spot” is a concept that has been long – and much – discussed in the aftermarket.

Definitions may vary, but the sweet spot is generally agreed to be the age range of vehicles where the aftermarket thrives. Sweet spot vehicles are those that are old enough to be out of warranty, but still young enough that their owners are willing and able to put significant money into maintenance and repairs to keep them running.

Over time, there has been a migration of the sweet spot. Many years ago, vehicles 4 to 7 years old were considered the sweet spot. The ideal range shifted as warranties became longer and vehicles became more durable and longer lasting.

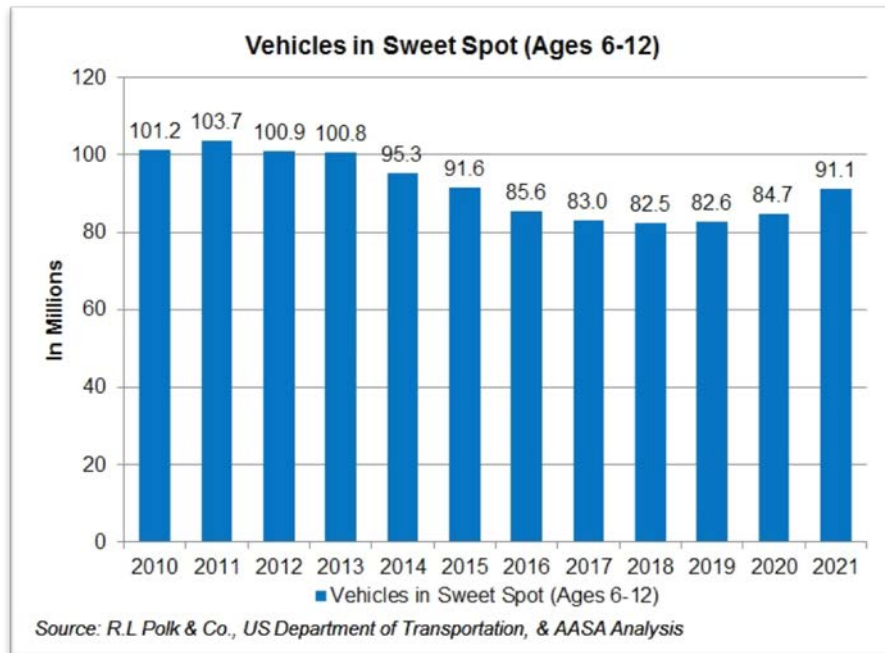
The age range gradually moved to vehicles 5 to 8 years old, then 6 to 9 years, then 6 to 10 years. Coming out of the recent economic downturn, the consensus sweet spot extended even further. Now, vehicles between 6 to 12 years are considered the most attractive age range for the aftermarket.

More consumers found that older vehicles still had a lot of life in them and were willing to invest in these vehicles when they broke down. Vehicles aged 11 and 12 years old became a very profitable target for many players along the aftermarket value chain.

This was great news for the industry. The sweet spot’s larger size and range increased the size of the most attractive part of the aftermarket’s addressable market.

The sweet spot of vehicles 6-12 years old has been a strong tailwind for the aftermarket – but it peaked in 2011 at 104 billion vehicles. While this is a large, attractive market, the number of vehicles in this sweet spot is declining and is predicted to continue to decline until 2018.





The Shrinking Sweet Spot

The sweet spot trough in 2018 is estimated to be only 82 billion vehicles, a decline of 22 million vehicles from its recent peak.

That equates to an annual rate of decrease, or compound annual growth rate (CAGR), of -2.9 percent per year. This is happening because the new vehicle sales cycle is hitting the aftermarket sweet spot.

Imagine the sweet spot as a huge conveyor. Vehicles from the boom years earlier this century of 17 million-plus new vehicle sales will be falling off one end of the conveyor. Coming in on the conveyor will be the low numbers of new vehicles sold during and just after the 2007-2009 Great Recession.

As the chart above shows, this is only temporary. The sweet spot will increase again around 2019. The U.S. is estimated to reach 91 million vehicles in 2021, and the upward trend will continue into future years.

This will happen as the vehicles from the current strong wave of new vehicle sales begin to come into the sweet spot in greater numbers, and as the parc trough from the Great Recession works its way through the system.

Opportunity in the Market Shift

This news is neither a headwind nor a tailwind, but awareness of what lies ahead can help aftermarket suppliers to better prepare for the future. The aftermarket must explore new opportunities and prepare for the decline of vehicles of sweet spot.

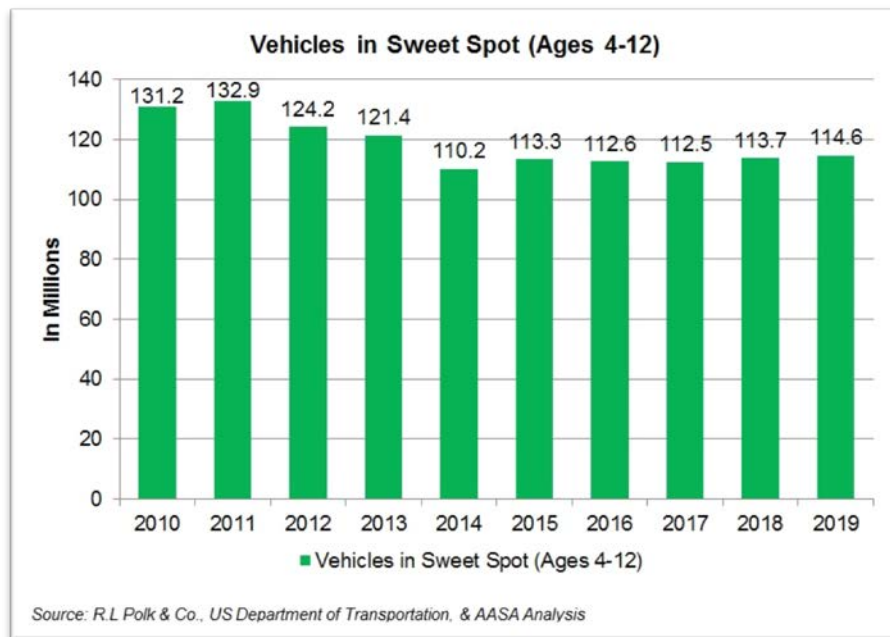
However, ***the market is not going away***. The large U.S. vehicle parc that drives the aftermarket – more than 243 million vehicles in operation – not only isn't shrinking, but AASA projects it to continue to grow well into future years.

That means that suppliers can look for opportunities on either side of the sweet spot.

Growth of Younger Vehicles

Some aftermarket companies target younger vehicles and think of their sweet spot as vehicles aged 4 to 12. For this re-defined sweet spot, the vehicle population would only decline by 2.3 percent per year until 2017 where it would pick up again a year later. The decline in the number of vehicles from peak to trough is also 10 percent lower than for vehicles aged 6-12. The stronger new vehicle sales will populate this age range more quickly.

So if aftermarket suppliers can successfully target younger vehicles, they can reach a larger market that includes more revenue now in the peak and in the 2017 trough.

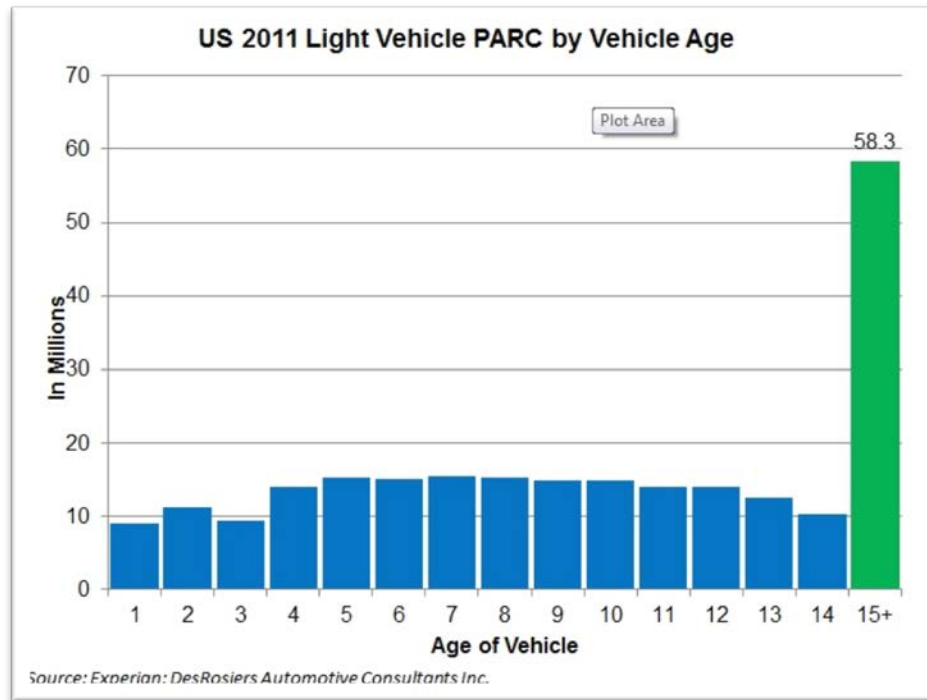


Growth of Older Vehicles

In 2011, there were more than 58 million vehicles aged 15 year or older in the U.S. parc. According to IMR and DesRosiers' estimates cited in the AASA "Automotive Aftermarket Status Report," these vehicles accounted for nearly \$55 billion of the overall aftermarket revenue. This is 24 percent of the parc and almost 30 percent of the total revenue for the aftermarket.

This is a huge market and it has grown on average at 4 percent per year since 1998. Looking at it in a slightly different way by IMR and DesRosiers' estimates, 52.8 percent of aftermarket revenue – a majority – will come from vehicles 10 years old and older by 2016.

This market of older vehicles is not as affected by the cyclical growth rate of the aftermarket and its substantial unit growth is not expected to end any time soon. AASA suppliers may need to target this growing market of older vehicles to maintain sales and increase market share.



Decline of the Aftermarket? ***Absolutely Not!***

There's an old business adage: "One man's cliff is another man's ladder." As we face the pending decline of the sweet spot, are we facing the decline of the aftermarket?

Absolutely not – there is room for opportunity. The market (and vehicle parc) is not decreasing, it is ***shifting***.

While vehicles aged 6-12 will decrease, AASA expects a substantial rise in vehicles aged 1-5 and a continued rise in vehicles 12 and older. In addition, overall vehicle parc is expected to increase again after several recent years of stagnation, boding well for the aftermarket over the long-term. In order to succeed, many companies will need to expand into these arguably non-traditional, growth markets until the sweet spot begins to increase again.

In the end, the changing aftermarket sweet spot trend is neither a headwind nor a tailwind. However, if aftermarket suppliers don't handle this market shift correctly, their mid-term outlook could be challenging. Those suppliers that react to the shift and stay ahead of the curve will find there is room for opportunity and expansion.



New Car Sales: Aftermarket Positive or Negative?

AASA is asked frequently whether the uptick in new vehicle sales is a positive or a negative for the aftermarket. The answer is that it depends on your time frame.

In the long term, new vehicle sales are positive for the aftermarket; over the near-term, unfortunately, they are likely a threat.

In the long term, increasing new vehicle sales will help the U.S. vehicle parc return to a growth trajectory, over time increasing the total addressable market for the aftermarket. These newer vehicles also are needed in order to refill the population of vehicles in the aftermarket “sweet spot”, which will decline in future years as the sales trough of the Great Recession rolls through.

However, in the near term, it may be a headwind. As noted in this report:

- Consumers may consider buying new vehicles instead of repairing or maintaining older vehicles.
- Some of the higher net worth individuals who had older vehicles will migrate back to younger vehicles, potentially pressuring aftermarket ticket size.
- We will likely see a peak in average vehicle age.

There’s also a possibility of a ‘tipping point’ developing. Repairs have become expensive on today’s complex vehicles. Failures on the many, very old vehicles could push consumers into the market for new or younger cars since the repair could cost more than the car is worth. For these very old vehicles, scrappage may be the consumers’ economically sound choice. Further abetting consumers’ move to the new car is increased consumer credit availability and the low cost of credit.

The aftermarket’s saving grace is if the recovery that’s driving improving new vehicle and house sales translates to our **old** market driver of increased miles driven. Miles driven will remain a future tailwind for the aftermarket. This could replace the tailwinds the aftermarket has received from its **new** market drivers: aging vehicles and people putting money into their vehicles as they kept them longer than planned/expected. (For more information regarding miles driven as an aftermarket tailwind, see the Special Report, “[AASA Industry Analysis: Don’t Discount Miles Driven In Long Term Forecasts.](#)”)

About AASA Industry Analysis

AASA’s industry analysis provides strategic insights, market data, and timely industry analysis to increase our members’ competitive advantages. Our objective is actionable insights that enable businesses like yours to make informed, intelligent decisions that build market share and margins – and prepare your company for the future.

For more information on AASA’s industry analysis programs and studies, contact Paul McCarthy, vice president of industry analysis, planning and member services, at pmccarthy@aasa.mema.org, or Bailey Watson, AASA analyst / coordinator, bwatson@aasa.mema.org.

