

Sophistication is the answer

Larger jobbers are positioned to widen the gap between themselves and smaller competitors.

The gap between the “Haves” and “Have Nots” is widening when it comes to jobbers. Gone are the days of jobbers getting by with dumpy looking stores and the lack of solid business plans. They are concentrating on staying in touch with customers — both shops and DIYers. They are more aware than ever about sophisticated merchandising selection and display; but for the most part, they have not adopted category management techniques. Further separating large jobbers from small jobbers is electronic inventory management.

JOBBERS

Jobbers with less than \$1 million in annual revenue have an average of four employees and typically operate one store. Jobbers with over \$1 million in revenue employ an average of 39 people and operate an average of five stores. One in four jobbers operates six bays. Also jobbers report having been in the business an average of 26 years.

Recruiting methods vary by the size of the jobber store. Smaller jobbers are receptive to employee recommendations 69 percent of the time and 39 percent recruit via newspaper ads. Larger jobbers, those with annual revenue over \$1 million, are also receptive to employee recommendations and 63 percent hire from competitors.

Four of five jobbers offer in-house employee training and 54 percent send new recruits off-site for learning. One in five utilizes Web-based training. Training programs are designed in-house 83 percent of

the time. In addition, 67 percent train technicians using manufacturer-designed programs. The data show that jobbers are not particularly satisfied with training for technicians — 45 percent are “neutral” and 36 percent are “very satisfied.” If the training programs were working, the data would show a higher percentage of jobbers being “extremely satisfied.”

Training for counterpersons depends on the size of the jobber store. All jobber stores with over \$1 million in annual revenue offer counterperson training, and this compares with two-thirds of smaller jobbers. For the most part, counterperson training is short, lasting less than a week 44 percent of the time and up to two weeks 39 percent of the time.

All jobber stores use in-house programs to train counterpersons. Larger jobbers provide off-site training 70 percent of the time and utilize the Internet 34 percent of the time. Smaller jobbers tend to stick solely with their in-house training programs.

Jobbers utilize counterperson training programs designed by manufacturers 79 percent of the time; in-house programs are used 75 percent of the time. Jobber stores seem to be satisfied with their counterperson training. Half are “very satisfied,” 8 percent are “extremely satisfied,” and 37 percent are “neutral.”

Forty-six percent of jobbers see the benefits of Web-based employee training; however, 38 percent are not familiar with this training method.

Half of the larger jobbers are actively recruiting new employees. Three of four report difficulties saying that it has become harder to find qualified employees in the last six months. This problem also exists at smaller jobbers where 30 percent are actively recruiting and 57 percent are having difficulty.

In order to market to DIYers, jobbers rely on outdoor signage, newspaper ads and radio promotions. One-third send out direct mail and 20 percent advertise on TV. Jobbers consider outdoor signage, radio ads and newspaper ads to be most effective in driving DIYers to stores. In order to obtain more repair shop customers, most jobbers rely on direct sales — salesmen visiting customers and direct mail. Outdoor signage also captures the attention of repair shops.

Jobber stores focus on customer service, store reputation and quality parts as the best ways to motivate customers. They also consider technical support, price and warranties important. Return policies and brands — national and private — are not important to customers at jobber stores.

Three of four larger jobbers have websites, while 10 percent of smaller jobbers do. Currently, smaller jobbers are having some success with e-commerce. This year, however, larger jobbers will begin to see gains in Web-based sales. Employees at larger jobbers spend seven hours per week online, while those at smaller stores are online 10 hours per week.

Still not much category management

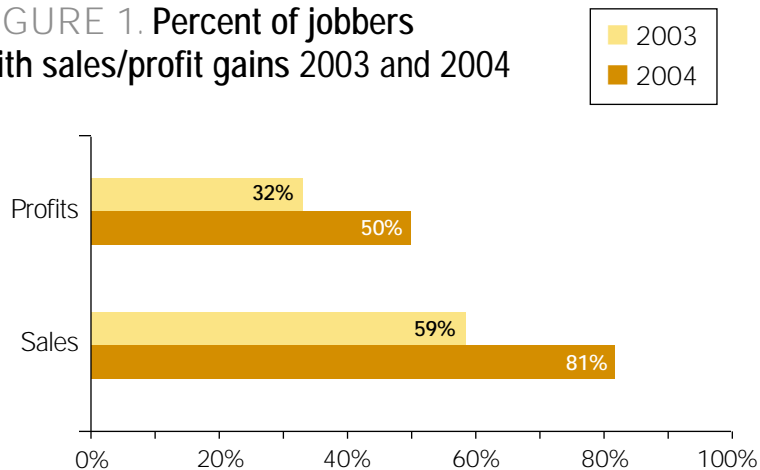
The data show jobbers have not embraced category management, although, awareness levels among larger jobbers are pretty high. Smaller jobbers must tap into category management if they intend to keep pace with their larger counterparts. Implementation of category management by larger jobbers could undermine the B2B gains smaller jobbers experienced in 2003.

Fifty-four percent of larger jobbers access electronic supply chain management systems. Jobbers with less than \$1 million in annual revenue access electronic supply chain management 38 percent of the time. Most jobbers consider the effectiveness of electronic supply chain management as “good” and 31 percent consider it “very good.” Nine of 10 jobbers use these systems for inventory management and a third use them for planning, forecasting and fulfillment.

Three of four larger jobbers experienced an inventory increase last year, and 63 percent expect inventory gains in 2004. Forty-six percent of jobbers saw inventory grow last year and 56 percent expect inventory growth soon.

Larger jobbers appear similar to WDs in the percentage of automotive parts they sell wholesale, while smaller jobbers typically have profiles similar to retailers.

FIGURE 1. Percent of jobbers with sales/profit gains 2003 and 2004



Last year, 59 percent of jobbers experienced a 12.2 percent increase in sales; only 31 percent experienced a 5.7 percent increase in margins.

Larger jobbers report returns at 11.4 percent of their total sales. Smaller jobbers say 8 percent of total sales results in returns.

Smaller jobbers are under pressure to keep the prices of hard parts, chemicals and accessories at 2002 levels, which they did in 2003 and are planning to do in 2004. On the other hand, 40 percent of larger jobbers added a 4 percent price hike onto hard parts last year. Fifty-two percent are planning an increase this year. The pricing pressure on smaller jobbers will increase unless they,

like manufacturers and larger jobbers, raise the price of hard parts and, possibly, chemicals and accessories.

Last year, 59 percent of jobbers experienced a 12.2 percent increase in sales. This year, 81 percent anticipate sales increases. Profit margins were less impressive last year such that 31 percent experienced a 5.7 percent increase in profit margins. This seems to have affected optimism for 2004. Half of jobbers anticipate profit margin increases this year. (See Figure 1 on page 32.)

Jobbers are under pressure to hold prices at current levels while increasing sales and profits. It is no wonder they are focused on the issue of fair pricing, as witnessed by some of the manufacturer-directed comments we received on the subject. "Stop low-ball pricing to performance mail order companies trying to dictate their pricing by volume," complains one jobber. "Do not give out product lines to price cutters," requests another. "Stop giving better bottom line prices to mass retailers. I support the

Jobber Methodology

Jobber stores are represented by 123 employees who completed questionnaires via a URL link for the 2004 State of the Industry Report, conducted by *Aftermarket Business* and *Motor Age*. The number of responses received for this study means the results are at the 95 percent confidence level, ± 4 confidence interval.

Areas of responsibility for jobbers responding include owners/presidents 60 percent of the time, 37 percent are managers and 12 percent are counterparts.

In terms of annual revenue, 50 percent work at jobber stores with less than \$1 million in annual revenue, 33 percent report revenue between \$1 million and \$5 million and 17 percent report revenue over \$5 million.

Jobbers stores responding are evenly distributed throughout the United States: 28 percent from the South (mostly Florida, Texas and North Carolina); 28 percent from the Midwest (most frequently Michigan and Missouri); 26 percent from the West; and 17 percent are located in the Northeast.

Coalition for a Level Playing Field," explains a jobber. "Stop giving away parts to Advance and AutoZone and give fair pricing to all," suggests another.

Jobbers also feel that manufacturers sales reps are either avoiding them or that manufacturers do not have enough sales reps to adequately service the jobbers. Some comments underscore this point:

- ▶ More frequent calls directly to shops and my store.
- ▶ Contact us more.
- ▶ Do a better job of having good representation for lines.
- ▶ Start sending reps again.
- ▶ Add more reps.
- ▶ Stop cutting back on the sales force at our level.

Significant challenges this year for larger jobbers include obtaining qualified employees, adequate profit margins, retaining customers and training issues. Smaller jobbers are most concerned about having adequate profit margins.

Two-thirds of jobbers plan to change their business strategy in 2004. Larger jobbers will focus on sales (ie., including new customers) and operational efficiencies. Smaller jobbers plan to increase retail sales, improve their websites, add new products and improve efficiencies. Some of the specific B2B strategies include:

- ▶ More Internet; sleeker, more efficient inventory levels.
- ▶ Try to implement a better computer system to keep track of prices, updates and new products.
- ▶ Increase Internet ... less personal contact sales.
- ▶ Upgrade website — follow hits per item per page, per site. ■



Going for broke

Despite some inherent advantages, large retailers push for more incentives.

Auto parts retailers know how to drive traffic to their stores and how to lead customers around once they get there. They also know how to negotiate lucrative deals with manufacturers, although AutoZone may have hit a snag with its Pay-On-Scan

RETAILERS

proposal. Interestingly, retailers are looking more like jobbers as they increase their commercial programs. At the same time, they are increasing online sales. Overall, it appears retailers will be more aggressive than ever in 2004, and they will leave no money on the table.

Retailers in this report include stores with \$1 million to over \$1 billion in annual revenue. Smaller retailers, those with annual revenue less than \$1 million, are more likely to operate bays than national players.

National retailers exercise all available options in recruiting new employees — recommendations, print ads, in-store signage, job fairs, agencies and the Internet. Also, 90 percent “hire from competitors,” which is the highest incidence of cherry picking in the automotive industry. Most mid-sized retailers, those with annual revenue over \$1 million up to \$1 billion, utilize print ads, recommendations and job fairs to recruit new employees. Some of the less common recruitment methods include hiring from competitors, help wanted signs, Internet job sites and employment agencies.

Smaller retailers respond to recommendations made by their employees. Also, 38 percent publish want ads in newspapers.

All retailers offer training. Technicians train in-house 86 percent of the time in programs designed by retailers. This training is supplemented by off-site programs 50 percent of the time and Internet training 22 percent of the time, with programs designed by manufacturers. Retailers, unlike other industry segments, are “very satisfied” with the training 53 percent of the time.

Training for counterpersons is less pervasive. Although mandatory among national retailers, 31 percent of retailers with less than \$1 million in annual revenue do not train counterpersons.

Nine of 10 retailers utilize their own counterperson-training program and manufacturer programs are used 54 percent of the time. Most retailers are not satisfied with the training of their counterpeople.

Although 45 percent say they are “very satisfied,” a higher percentage are “neutral” or “dissatisfied” with the training.

While larger retailers praise Web-based employee training, 56 percent of smaller retailers are unfamiliar with Web-based training.

Most retailers report that it has become harder to find qualified employees in the last six months. This seems to be a brewing problem for 2004 because retailers are desperate for new hires.

Driving DIY traffic

Most national retailers rely on outdoor signage, newspaper ads, radio ads and TV ads to drive DIY traffic into their stores. These retailers report that radio and TV advertising work best. Most mid-sized retailers use direct mail, newspaper ads and radio ads to bring DIYers into their stores, and they find that radio and newspaper ads are most effective. Most smaller retailers rely on outdoor signage to attract DIYers, although newspaper ads work best.

Most national retailers obtain repair shop customers using direct sales and radio spots. Most mid-sized retailers use direct mail and newspaper ads to obtain more repair shop customers. Smaller retailers depend on outdoor signage to bring in both DIYers and repair shop customers.

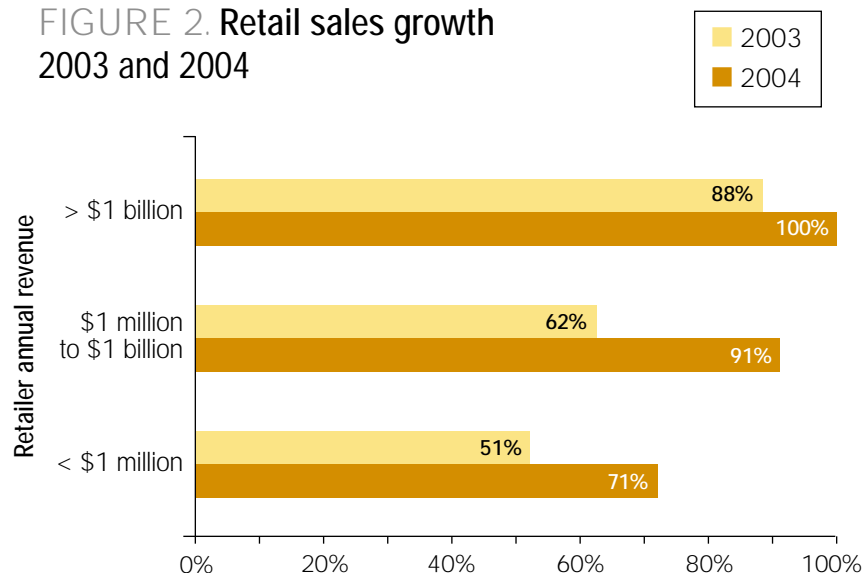
Retailers believe their customers look for customer service, store reputation and quality parts in making their buying decisions.

FIGURE 1. Retailer inventory: wholesale vs. retail

| | Less \$1 million | \$1 million- \$1 billion | Over \$1 billion |
|-------------------|---------------------|-----------------------------|---------------------|
| WHOLESALE in 2003 | 31% | 19% | 21% |
| RETAIL in 2003 | 68% | 81% | 79% |
| WHOLESALE in 2004 | 34% | 21% | 25% |
| RETAIL in 2004 | 66% | 79% | 75% |

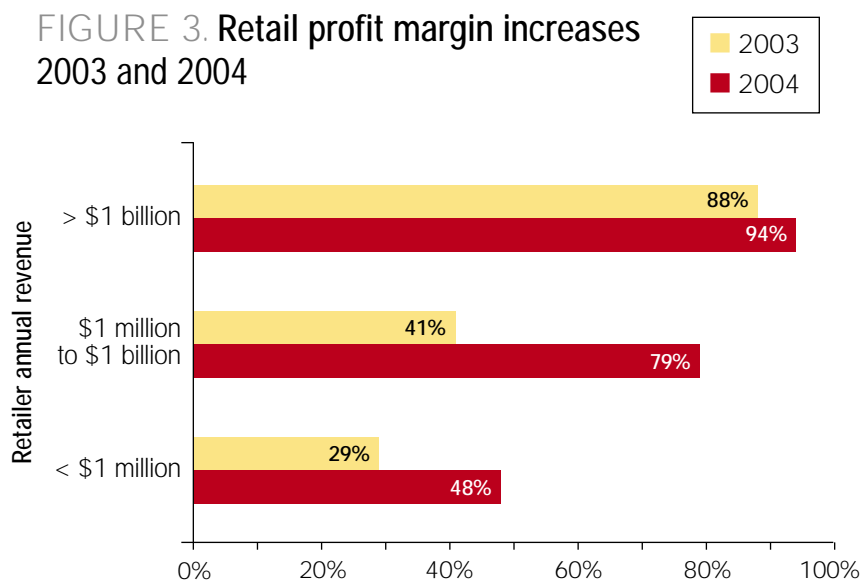
The data show that retailers are planning to increase the wholesale part of their business and decrease the retail part.

FIGURE 2. Retail sales growth
2003 and 2004



Nine of 10 national retailers experienced an average 4.9 percent jump in sales last year and all expect more this year.

FIGURE 3. Retail profit margin increases
2003 and 2004



National retailers were able to increase profits last year and expect this to continue. Smaller retailers are skeptical for 2004.

Retailer Methodology

Retailers are represented by 127 employees who completed questionnaires via a URL link for the 2004 State of the Industry Report conducted by *Aftermarket Business* and *Motor Age*. The number of responses received for this study places the results at the 95 percent confidence level, ± 4 confidence interval.

Areas of responsibility for retailers responding include owners/presidents 46 percent of the time, 45 percent are managers, 17 percent are administration and 10 percent are counterparts.

In terms of annual revenue, 44 percent work at retailers with less than \$1 million in annual revenue, 17 percent report revenue between \$1 and \$5 million, 19 percent report revenue up to \$1 billion, and 20 percent work at retailers with annual revenue over \$1 billion.

One third of retailers responding are from the South — most frequently Tennessee, Texas, Florida and Virginia; and 18 percent are from the Midwest — mostly Ohio and Illinois. One in four is located in the West — especially California, Arizona and Washington. Nineteen percent are from the Northeast — most frequently Pennsylvania and New York.

Other important considerations include technical support, price, warranty and return policy. Brands — both national and private — are considered less important.

All national retailers have a website and 79 percent are selling online such that Internet sales account for 4.9 percent of total sales. Last year was a very good year for B2B and business-to-consumer (B2C) at national retailers as 67 percent saw online sales grow by 23 percent. This year, almost all are expecting Internet sales to grow. Nine of 10 mid-sized retailers have a website, and 53 percent sell online. These retailers say that online sales represent 4.4 percent of their total sales. Over the last 12 months, most mid-sized retailers saw Web-based sales increase and almost all are expecting more in 2004. Smaller retailers, with annual revenue less than \$1 million, are failing to utilize the Web. Two-thirds have a Web presence, where 59 percent sell online. Unfortunately online sales did not increase for most smaller retailers last year, but almost all expect growth in the months ahead.

Employees at national retailers spend an average of seven hours per week online in

activities pertinent to their jobs. Employees at mid-sized companies spend eight hours per week online and smaller retailers average 10 hours per week online.

Nine of 10 national retailers have implemented category management. Category management exists at 43 percent of mid-sized retailers, although 39 percent do not know what it is. Most smaller retailers do not know what category management is.

Electronic supply chain management systems have a greater presence among retailers. Nine of 10 national retailers have this system as do 42 percent of all other retailers. Retailers find supply chain management effective, such that 10 percent say it is “excellent,” 28 percent call it “very good,” and 47 percent checked “good.”

All retailers using supply chain management systems find it helpful for inventory management and 49 percent use it for planning and forecasting. One-third use it for fulfillment, 28 percent for scheduling, and 16 percent are able to integrate with trading partners.

National retailers base their 2004 inventory expectations on their experience in 2003, such that 72 percent expect inventory to increase this year. Forty percent of mid-sized retailers expect inventory expansion this year. Smaller retailers have high expectations for 2004.

The data show that retailers are planning to increase the wholesale aspect of their business and decrease the retail part over the next several months. (See Figure 1 on page 36.)

National retailers report that 10.6 percent of sales result in returns. Mid-sized companies find 7 percent of their sales returned; smaller retailers say 5.1 percent of sales come back.

Last year, 35 percent of retailers added an 8.3 percent price increase to hard parts, and 40 percent will increase prices this year. Price pressures held chemical and accessory prices at 2002 levels for two-thirds of retailers, and most will keep chemical and accessory prices the same for 2004.

Last year, sales growth was good for most retailers and excellent for some; however, profits were good for some and poor for most. Nine of 10 national retailers experienced an average 4.9 percent jump in sales last year and all expect more this year. Two of three mid-sized retailers report a 9.5 percent leap in sales last year and almost all expect the good times to continue. Fifty percent of smaller retailers, those with annual revenue less than \$1 million, experienced an average 14.1 percent increase in sales last year and 71 percent are anticipating sales growth this year. (See Figure 2 on page 36.)

The data show that national retailers were able to increase both their sales and profits last year and all expect this to continue over the coming months. Profit margins for most were poor. Although 62 percent of mid-sized retailers increased sales last year, 41 percent only increased profits in the same period. This year, 79 percent of mid-sized retailers expect profit margins to increase.

Smaller retailers were hard hit in 2003: 29 percent only counted higher profit margins. Most smaller retailers are somewhat skeptical about this year and expect the pain to continue; however, 48 percent anticipate profit increases in the months ahead. (See Figure 3.)

Retailers were asked what manufacturers could do to better serve them. One in three retailers have issues around customer service, specifically delivery, training and tech support. One in five raised pricing issues. Also, 20 percent wanted more information, specifically literature, updates, catalog and electronic catalog. Quality is an issue for 14 percent and 12 percent mentioned warranties, labor warranties and return policies.

Some retailers offered opinions about ways they could be helped by manufacturers. Specifically, they advised suppliers to:

- ▶ Build trust by giving mass merchandisers a separate product from what you sell us.
- ▶ Stop selling to every large outlet and allow us to buy at a reasonable price.
- ▶ Provide more quality products that allow for faultless installation.
- ▶ Provide more incentives for bigger buys, variable co-op versus discounts, and easier credit for defectives.
- ▶ More focus on combination deals for consumers like buying premium brake pads and getting rotors at a discount.
- ▶ Accessory manufacturers do not offer solid in-house training for retail counter personnel.
- ▶ No heavy discounts to large customers.
- ▶ Training and warranties that cover labor.
- ▶ Give quicker response on technical service calls and have better fill rates on orders.
- ▶ Quit selling to everybody at the same wholesale prices you give to us.
- ▶ Help us get late model coverage quicker.
- ▶ Help us manage our inventory.

Over the next few months, national and mid-sized retailers will be challenged to find qualified employees. Other concerns include training and profit margins. Mid-sized retailers will be challenged to find qualified employees, achieve adequate profit margins and retaining customers. Other concerns include training and the U.S. economy. Smaller retailers consider the U.S. economy to be their challenge in the coming months. Other concerns include profits, qualified employees and customer retention.

Two of three retailers plan to change their business strategy in 2004. Most will focus on sales, including more advertising. “Focus on more of a grassroots advertising campaign — to bring a higher level of service to our customers. We currently have a very high return rate,” explains one retailer. One in three will focus on improving customer service, 36 percent will work to achieve operational efficiencies, and 21 percent will focus on products. ■