An eCommerce Game Plan for Automotive Aftermarket Suppliers

GCommerce Inc.

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AASA Technology Council

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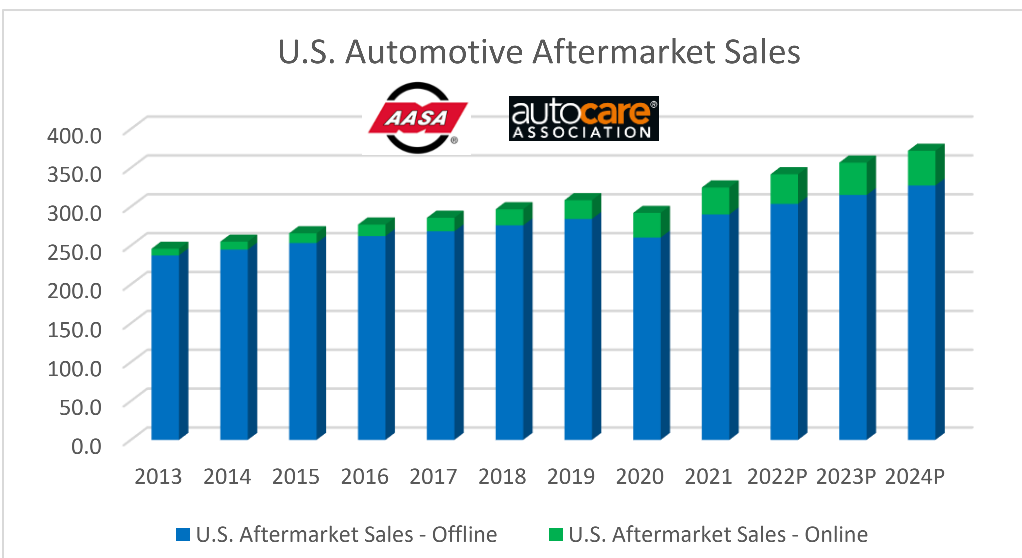
Introduction – Why is this Topic Important?

There has been unprecedented growth in the sales of automotive parts and accessories through the digital channel in recent years, accelerated by the pandemic. There have been irreversible changes in the buying behavior of consumers and commercial customers. Brands that have a digital strategy in their playbook will increase their market share, protect their brand equity and have greater control over their brand and distribution channel.

Recently, AASA and the Auto Care Association published a joint study which included the following findings:

- Online sales represent a 12% share of all light duty parts sales in the U.S. aftermarket, totaling $34.7 billion
- eCommerce has grown at a Compound Annual Growth Rate (CAGR) of 20% over the last decade. That's an average of 20% each year for 10 years
- The pandemic accelerated the adoption of eCommerce and created new buying habits which are here to stay
- eCommerce continues to grow in the aftermarket, and is expected to top $50 Billion by 2025



Definition of Terms

As we begin to talk about eCommerce in the aftermarket, it is important to establish some common terminology. For the purposes of this whitepaper, we will refer to all online sellers as “marketplaces,” including retailers selling on their own websites. And manufacturers will be more broadly referred to as “brand owners.”

<u>1P or 1st party selling</u> means the marketplace is the seller of record, and you, the supplier, are invoicing the marketplace.

There are two types of 1P selling as illustrated below (left in green box) and explained on the next page.

- 1P stock orders: This is when you ship the product to the marketplace and they put it on the shelves of their distribution center (DC), and they ship it once sold
- 1P drop ship orders: This is when the marketplace sells the product and you ship it to the customer on behalf of the marketplace.

3P or 3rd party selling means you are listing, pricing and selling the product yourself on the marketplace web site. Shipping, customer support and returns management are the responsibility of the seller. 3P is typically done by specialized retailers who have expertise in managing the product listings and pricing.

When you look at all of the eCommerce in the aftermarket, about half of the volume is through the marketplaces and half is done through online retailers including websites of the major brick & mortar retailers.

This report focuses on 1P selling and the opportunities for brands to participate.

eCommerce Essentials

eCommerce is not constrained by warehouse space or even money for inventory. The more products you list, the more you will sell.

Backorders (or stock outs) are not permitted in eCommerce. Only list products that you have available to ship—either from local inventory or virtual fulfillment partners.

eCommerce margins are different (lower) than brick & mortar distribution. But so are the operating costs such as trucks, fuel, insurance and drivers. Shipping costs are typically paid by the .com or marketplace.

Product popularities are often reversed online. A slow mover in a physical store will be a faster seller online. Buyers look online for products they don't expect or cannot find in a brick & mortar store.

Marketplace eCommerce Drivers

The major interests, or drivers, of the leading marketplaces are **1) Content; 2) Pricing; 3) Assortment;** and **4) Fulfillment**. Let's look at each of these more closely and identify how brand owners and distributors fit into this model, which is illustrated in the table below along with the key drivers for each channel:

Key Drivers for Leading Automotive Marketplaces eCommerce by Channel:

	Marketplaces	Brand Owners	Distributors
Product Content:	• Good content = good customer experience • Current data • Complete data • High quality	• **Want current, complete, and high quality content displayed ✓** • **Desire content ownership ✓** • **Brand equity ✓**	• Difficulty obtaining or maintaining content on multiple brands
Pricing:	• Consistent cost nationwide • Competitive price	• **Pricing consistency ✓** • MAP pricing	• Inconsistency between distributors
Assortment:	• More listings = more sales • List all available SKUs	• **Breadth and depth: Limited to SKUs within their own brands ✓**	• **Breadth: carry multiple brands ✓** • Depth: Stock only a portion of available SKUs
Fulfillment:	• Fast • Accurate • Close proximity to ship-to address	• Limited distribution centers • Designed to ship stock orders.	• Regional? National? • **Designed to support small orders ✓** • **High service levels ✓**

Green ✓ indicates better alignment with a sales channel.

Content:

All eCommerce starts with product content. This includes information like ACES (Catalog Information), PIES (Product Data), and digital images. Online marketplaces want the most current, complete and high-quality product content and fitment information.

This is critical to delivering a satisfying customer experience and is in alignment with you, the brand owner, as it effects brand equity. Distributors typically have a difficult time acquiring all this information for the multiple brands they support. Therefore, many marketplaces or online retailers may be asking to get the information directly from you and requesting that your company manage your content on their listings. This is a good thing because it gives you greater control over your brand image online; ensuring the right images, descriptions, and market copy are associated with your products.

We'll score the advantage of this driver to the brand owner.

Pricing:

Your products are probably already being sold on the marketplaces. Marketplaces desire to have a consistent sell price, regardless of where the product is being shipped, which requires them to have a consistent acquisition cost.

If the Marketplace is buying from four different Distributors, it is likely they have four different prices on the same product. Therefore, they may request a national acquisition cost from you. This may also be a good thing, as it provides you with greater influence over the resale price; something that has been difficult to do via Minimum Advertised Pricing or MAP policies.

Also, it parallels what brand owners have been doing for decades with national fleets in the heavy-duty aftermarket, but it will be much easier to manage without all the rebate tracking. Offering a consistent nationwide acquisition price to marketplaces for your brand offers a level of control over the selling price and helps preserve your brand equity. Brand Owner control over pricing is better aligned with Marketplace needs.

Assortment:

The more SKUs you list online, the higher your sales will be. What may be a slow mover in the brick & mortar world is often a fast-mover online. Shoppers go online in search of hard-to-find products, long tail items or brand-new product introductions.

Generally, buyers do not go online in search of a popular item they could source with certainty from the store around the corner. And no customer ever went online hoping to only see a portion of the products from a brand. In any case, the expectation is for a virtually infinite assortment of products to be available online regardless of the Pop code, price point or geo-location.

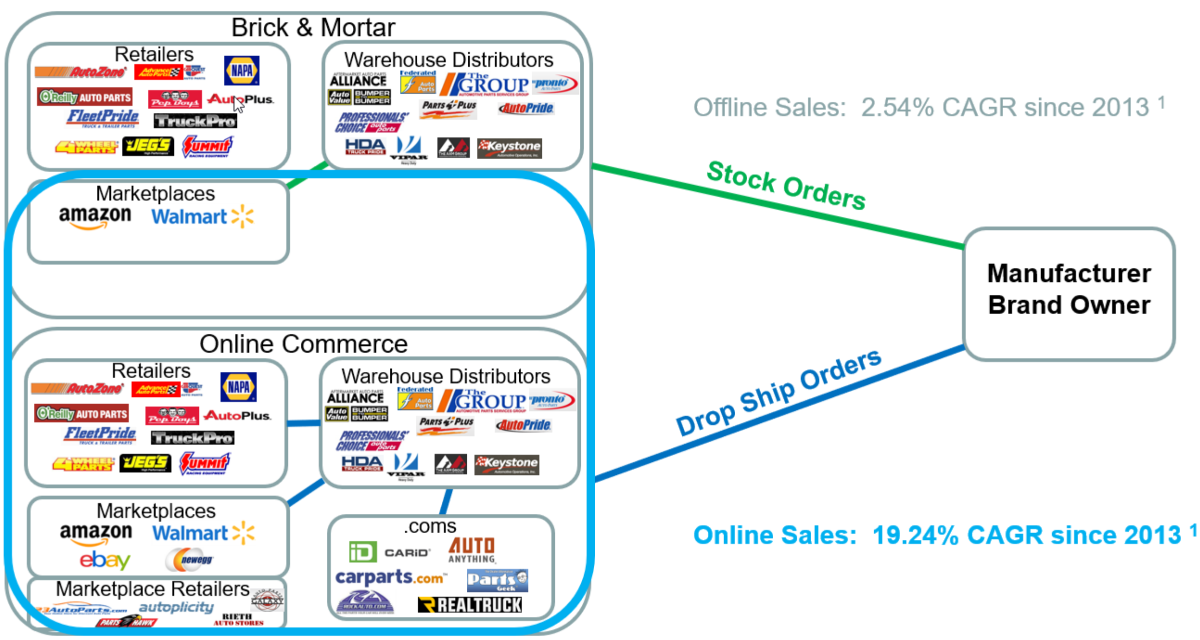
In eCommerce, you must show inventory availability before you can list a part for sale. Nobody has a broader assortment or deeper inventory of <u>your</u> products than you, the manufacturer. Combining your factory inventory with that of your distribution network ensures that all your SKUs are listed as available online, whether directly or through Distributors. Remember, the more SKU's you list online, the more will be sold. This also contributes to brand equity and is a great opportunity for increased sales of your products. To align with the needs of the marketplace and their customers requires a collaboration of brand owners with their distribution partners.

Fulfillment:

Once an order is placed, it all comes down to fulfillment. Proximity to the end customer keeps freight cost to a minimum.

Marketplaces aim to provide delivery in two days or less without expedited handling for 80% of shipping addresses. Rapid order turnaround and very high accuracy are valued and measured by the marketplaces. Distributors have long been accustomed to handling smaller order sizes and making rapid deliveries. Their operations are optimized for this kind business. However, it is likely that your company is being called upon to do more and more drop shipments and it will only continue to grow as the point of demand and supply get closer. The bottom line is that eCommerce requires both manufacturers and distributors to work together in meeting the needs of the marketplace and their customers. Put another way, eCommerce does not *displace* distribution…eCommerce *requires* distribution.

The image below depicts how eCommerce and the supply chain appear from the perspective of a manufacturer. In particular, as it relates to stock orders and drop ship orders. For this discussion, we are going to categorize the supply chain based on their physical presence: brick & mortar or online.



¹ Source: 2021 E-Commerce Momentum Shaping The Future of the Aftermarket (A Joint Study by the Auto Care Association and AASA)   CAGR = Compound Annual Growth Rate

When we think about brick & mortar, we think primarily about stock orders. For example, warehouse distributors that keep inventory on their shelves.

Brick & mortar retailers also keep inventory on their shelves and buy direct from manufacturers. In fact, the two largest retailers in the world also stock auto parts, and in some cases are still buying stock orders from warehouse distributors to consolidate replenishment for many brands through a single vendor source. History repeats itself because the national big box retailers of today used to place stocking orders with warehouse distributors when they were getting started in the 1980s.

Now let's turn to online commerce and drop ship orders. The brick & mortar retailers, as well as many of the warehouse distributors, have an online presence, and require drop shipments from manufacturers to support this business since it is not possible for them to stock all available SKUs. Manufacturers are doing more drop shipments every year as a result.

In addition, marketplaces like Amazon and Walmart have their own drop ship programs. Marketplace retailers sell their products on the marketplaces and require fulfillment partners, as they typically do not stock product. Likewise, most of the parts sold by online retailers require fulfillment partners to drop ship on their behalf. Often warehouse distributors are fulfilling orders for these online channels.

The online commerce portion of the automotive aftermarket has grown at a 19% Compound Annual Growth Rate (CAGR) for the past 8 years, while the brick & mortar business has grown at 2.54% CAGR.

Now that the online business is more than 12% of the total aftermarket, it is imperative to implement a strategy to participate in this fast-growing channel and satisfy the demand of customer for rapid access to an infinite assortment of products.

So how does a manufacturer participate in the growing eCommerce channel, without disrupting their current sales channels? There are two or more principal strategies that differ: Who is the vendor of record and whose inventory is the primary source as well as which is the back-up source?

Regardless of your strategy, the volume of drop shipments will grow each year because of this market shift toward online commerce. Business operations that have been optimized for handling large replenishment stock orders must investigate the tools and operational changes that make drop shipments profitable.

The Distributor as the Vendor of Record

One method of drop shipment is for you to back up the inventory of your distributor customers. In this model, the Distributor is the vendor of record and you are working with them. The Distributor may have some 1P stock business, but it is most likely 1P drop ship that accounts for most of the transactions.

As the brand owner, you would manage the product content of the listings, ensuring a consistent and high-quality representation of your brand online.

Pricing would be determined by the distributor, so the marketplace may have different acquisition costs from different distributors. Your complete catalog of products would be listed on the marketplace, increasing your brand's sales potential. You would only drop ship if the product was not in stock at the distributor.

The distributor's inventory file is combined with your inventory at regular intervals daily so all of your SKUs are listed on the marketplace.

When an order is placed, the distributor's inventory is confirmed in real-time through an API. If they still have availability, the order is then geo-vended to their location that is closest to the ship-to address. The freight method is selected based on business rules. The proper box size is selected based on the dimensions and weight of the parts on the order. Product is scanned while being packaged to ensure accuracy. A custom packing slip and label are created, and the order is shipped. The distributor provides shipment status and invoices the marketplace electronically.

If the distributor is out of stock, the order is automatically redirected to you, availability is confirmed, the purchase order is sent to you electronically, and you ship the order. You send a ship notice to the marketplace for tracking purposes and you invoice the distributor. The distributor then invoices the marketplace, as they are the vendor of record. Distributors often add these parts to their inventory when they have proven

Advantages for Distributors

eCommerce sales are incremental and serve customers far outside of your traditional service area.

The increased volume of eCommerce sales makes you a more valuable distributor of your Brands and will earn more high-volume incentives and earn-backs on every dollar of purchases.

eCommerce sales experience a lower rate of new product returns than traditional brick & mortar sales (3-4% in a study by GCommerce, Inc.).

Proven sales history of long-tail products and new product introductions will justify a decision to add SKU's to stock. Items that sold online will also sell in other offline channels.

The added volume of an eCommerce channel adds velocity to stocked inventory and adds ROI on inventory investment through increased inventory turns.

sales movement that justifies a stocking decision. These added SKU's will find sales demand in other channels adding further to the sales lift attributed to eCommerce drop shipping.

This method allows both you and your distributor to capture sales that otherwise would have been lost. GCommerce customers have seen a 5% increase in the number of purchase orders and 20% lift in sales dollars through this method. Many of the items sold though drop shipment from the manufacturer are higher priced products or assemblies that distribution does not carry in stock.

The Brand Owner as the Vendor of Record

In an alternative strategy, the marketplace wants to stock some of your faster moving products, and have others drop shipped. The marketplace wants a low and consistent acquisition cost. They require EDI and API integrations, the accuracy of scan to pack, as well as both carton and pallet label capabilities. In this model, the brand owner is the vendor of record and is working with distribution to maximize sales in the marketplace.

As before, the brand would provide and manage the product content on the listings, controlling how the brand is represented. This delivers the highest-quality and most complete presentation of the brand to online customers. As the vendor of record the brand would also control the acquisition cost of the marketplace, which would provide you with greater influence over the resale price online. The full breadth of your assortment of products would be listed on the marketplace, and you could remove specific listings if desired.

You would make the back-up fulfillment role available to those distributors who stock a broad assortment of your brand, agree to adhere to the selling price and can perform shipments to a level that enhances the reputation of your brand. Your factory inventory

Advantages For Manufacturers

eCommerce is a gateway to stocking. Distributors want to stock products that sell. But proven sales history is needed to justify adding a new item to stock. Sales made online from factory fulfillment will yield proven sales history and lead to more stocking decisions.

New product introductions grow faster. Distributors often take a wait-and-see approach to new product categories or SKU's introduced by their suppliers. Only after some number of sales have been lost will they begin to add new numbers to inventory. An eCommerce partnership strategy ensures no sales are lost, sales history is built quickly and customer in search of the latest and innovative products are satisfied with the Brand.

1P selling provides increased control over brand equity and market pricing and directs added sales to distribution partners.

is combined with that of your selected distributors, which enables all your SKUs to be listed on the marketplace. Once again, more SKUs = more sales.

When the order comes in it goes through a set of business rules under your control that determine the first priority of shipment, called the “Green List.” For example, in the case of a 1P stock order, you would probably choose to ship it. There may be drop ship orders that are appropriate for you to fill if the parts are not stocked or supported by your distributors. There may be specific SKUs you’d like to ship, such as a kit because the kit you ship has 100% of your brands, and your engineers determined those products work best together. But a kit from distribution may have a mix of brands and be less satisfactory to the customer.

In the case of orders to be filled by you, the brand owner, all the fulfillment steps are completed and you provide shipment status and invoices to the marketplace and you are paid directly.

Alternatively, you may choose to have 100% of the drop ship orders geo-vended from your distributors, or you may have them ship a portion of the orders. Regardless, it’s in your control. The orders would be vended to your distributors based upon availability, proximity, capacity, and service levels. You would still invoice the marketplace, as you are the vendor of record, and your distributor would invoice at the negotiated price as a credit against purchases. This model delivers consistent national pricing to the marketplace with no complex rebate tracking required. This model enables you to have greater control over your brand equity and supports any fulfillment strategy between you and your distributors.

Summary

eCommerce has been growing at 20% per year and is expected to represent $50 billion in the aftermarket in the near future, so it is important for your company to have a strategy and playbook. Brand owners and marketplaces are aligned around issues effecting brand Integrity.

Brand owners and distributors are both needed to enable the infinite aisles and service levels required by the marketplaces. eCommerce requires collaboration between brands and distribution to meet the requirements of the fastest growing channel of sale in the industry. Powerful business solutions and platforms are available that deliver a high level of control over brand equity.

Customers and sales are not moving towards an online channel…they are already there and the channel continues to grow. Brands that have a digital strategy in their playbook will increase their market share, protect their brand equity and have greater control over their brand and distribution channel.

About GCommerce, Inc.

GCommerce*, headquartered in Des Moines, IA, drives digital commerce in the vehicular and industrial distribution supply chains through cloud-based technology solutions designed to increase revenue and streamline operations.*

The Commerce Bridge, an interoperable suite of business solutions from GCommerce, addresses electronic messaging, supply chain visibility, product content, fulfillment, web store fronts, and business intelligence.

For more information, contact GCommerce at 515-288-5850 or sales@gcommerceinc.com

Technology Council

About the AASA Technology Council

The AASA Technology Council (ATC) is the aftermarket's leading business technology forum where attendees network and exchange best practices related to current and emerging technologies that support members' efforts to reduce costs, improve efficiencies and pursue new business opportunities.

For more information on the ATC, contact:

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