

Issues & Trends

by Bakhus Isaac

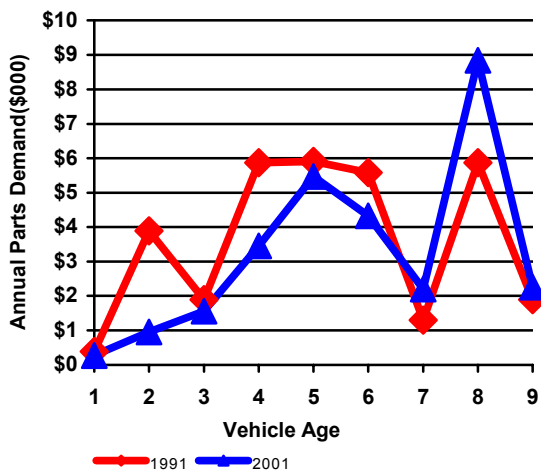
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Trends in the Heavy Duty Aftermarket

Aftermarket Industry Has Strong Future After Recent Cycle of Record Truck Sales

As record-setting sales of new commercial vehicles are a distant memory, one thing is clear: there is renewed focus on aftermarket parts and services throughout the North American trucking industry.

During the years of record-setting sales of commercial vehicles, the boom in the population decreased the average age of the vehicles in service, and diminished the demand for parts consumption.



Source: MacKay & Co January 2001

This has been further intensified by the improved component durability. Now, given the slow down in the production and sales of new commercial vehicles we will see this trend reverse itself. The average vehicle age will be on the rise as more and more used trucks are utilized. Furthermore, the operation of used trucks will increase the demand for parts consumption as the component life cycles mature.

The management team of ArvinMeritor's Commercial Vehicle Aftermarket division has identified several trends in the replacement parts sector that we can expect to see in our marketplace over the next one to three years.

Purchasing Avenues Continue to Evolve

Traditionally, aftermarket components have been purchased through original equipment (OE) dealers and warehouse distributors (WDs).

- WDs: A WD is an unaffiliated parts distributor who services fleets and independent repair facilities. Due to the need for a national marketing presence and increased purchasing

power, many WDs have joined formal National Marketing Groups.

- **OE Dealers:** While the primary focus for dealers remains selling new trucks, they are increasingly embracing the replacement parts business.

Although market shares of OE Dealers and WDs have remained constant over the past ten years, the OEMs have been able to capture a high share of their dealers' parts purchases, as opposed to the dealer purchasing its parts from other OE Dealers and WDs.

Industry-Wide Consolidation

During the past three years we have witnessed significant consolidations throughout the commercial vehicle industry. These consolidations have been fueled by the availability of capital and the flourishing equity values during the late 1990s.

During the past few years, the distribution channels for these component suppliers have experienced the most consolidation. In the independent channel (WDs), several companies have been created to build market share by utilizing improved purchasing power and national recognition. The OEMs have undergone consolidation as well. OEMs no longer market a single brand, but now utilize brand management strategies to convert further opportunities in the marketplace.

Since many of the industry's component suppliers have their interests diversified between the commercial and automotive marketplaces, the impact of consolidation has already been seen. This trend will continue because of the efficiency synergies and improved equity values.

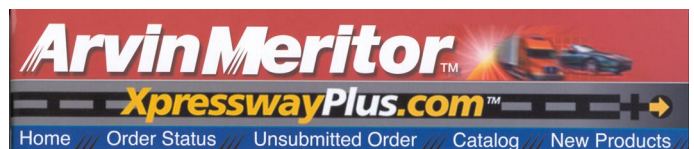
Additionally, the fleets have been consolidating consistently since the 1970's deregulation of the trucking industry. We anticipate this trend to continue due to the need to improve economies of scale and overall profitability.

Information-On-Demand Services: Electronics Make it Easier

Distribution channels are now driving the industry into the next generation of information retrieval services. This includes putting catalogs and merchandising information onto CD-ROMs and the Internet.

With these computer systems in place, suppliers like ArvinMeritor provide their customers with the convenience of on-line access to the company's customer service and information departments. Stock inquiries and orders can be placed from a customer's own computer with substantial time and cost savings over most phone or paper-based ordering and order inquiry systems.

In our company's case, XpresswayPlus.com



is an on-line ordering system that makes it easy for warehouse distributors, OEMs and dealers to order aftermarket repair parts both domestically and internationally. It also offers the familiar ArvinMeritor parts catalog, in-depth technical information, enlarged views of products and assemblies for ArvinMeritor truck-related parts and components, and real-time pricing and availability information. The site can check the status of existing orders and track unsubmitted orders for future retrieval. It also offers direct links to all carriers for instant routing and tracking information and a direct link to the printable invoice. Anyone can view the catalogs, but only authorized users can access the site's other features.

In addition to on-line ordering, many suppliers offer Vendor Managed Inventory systems (VMI). VMI is the process where the supplier generates orders based on mutually agreed upon objectives and demand information sent by the customer. Inbound information from the customer includes EDI 852 stock status and daily

sales inventory information. VMI application develops recommended orders; the supplier reviews data for transmitted and recommended orders; launches the customer order and pulls in purchase orders from the FTP site to the legacy system. The outbound information is then transmitted from the supplier to the customer, including an EDI 855 acknowledgment/purchase order into the customer's back-end system.

It is also expected that suppliers will be able to provide customers with more training due to the cost efficiencies of technology in the future. Dealers and distributors will soon be able to take advantage of training programs through the convenience of satellite broadcasts. From a single location, a supplier can link a variety of dealers and distributors and conduct product specific training and interactive question-and-answer sessions.

Vocational Spec'ing: Choosing the Right Parts From the Start

Regardless of how well a component is designed, engineered, manufactured or tested, sooner or later the part will need to be replaced. However, many customers are finding it necessary to replace components prematurely because the equipment they originally spec'd with their vehicle was wrong for their desired vocation. For this reason, component manufacturers are providing increasingly more assistance in the vocational spec'ing of components. That is, helping fleets and owner operators choose the right parts from the start.

Some component manufacturers' field representatives even have computerized spec'ing software that will help customers determine which components will result in better performance for their vehicle for a given application. This, in turn, will help customers get the maximum life from the original components they spec.

Despite these trends in the aftermarket, one thing is certain: no matter how slow heavy-truck sales may get, the need for

genuine aftermarket parts and support services will always remain strong.

Unique Challenges In The Canadian Aftermarket

Although the Canadian aftermarket is similar to that in the United States, there still remains significant differences.

Canada's vast geographic area is one example of this difference. Widely dispersed population centers often force fleets and drivers to scramble for parts while on the road. This has meant that suppliers who want to continue growing in Canada open distribution centers throughout the country.

The other major difference between the Canadian and U.S. aftermarkets is the products that are most popular. In general, there is a bigger market for heavier-duty components in Canada because of the wide diversity of applications. ArvinMeritor has helped in this aspect by providing extra heavy-duty driveline and axle components that are specifically tailored for the Canadian market.

Mexico Needs Improved Aftermarket Industry

There is little similarity between the Mexican heavy-duty market and the rest of North America. For example, while there are more than 1.6 million Class 8 trucks and in excess of 2.4 million trailers on the road in the U.S., only a fraction of those numbers are in operation in Mexico. However, the opportunity for the aftermarket industry in Mexico is enormous.

A key factor to remember is the replacement mileage in Mexico is one half to one third of what it is in the U.S. Mexico doesn't yet have the roads and infrastructure the U.S. has, and this causes accelerated wear on truck components. Similar to Canada, there also is an increased demand for heavier-duty driveline components.

Other important factors to consider are the lack of maintenance facilities throughout Mexico. In fact, the majority of truckers in Mexico fix their trucks themselves. And, few exchange programs exist for truckers.

The passage of the North American Free Trade Agreement (NAFTA) has helped the aftermarket industry in Mexico, with the continued fleet expansion inevitable because 85 percent of freight tonnage in Mexico is transported by truck. NAFTA also states that tariffs on aftermarket service parts will be phased out over 10 years, increasing the attractiveness of purchasing replacements parts through a U.S. manufacturer.

ArvinMeritor has begun to see a change in the Mexican spec'ing process because Mexican fleets are now allowed to haul freight into the U.S. Fleets are beginning to spec and replace lighter components and face tighter regulation and enforcement. This will probably result in better maintenance practices by the fleets to avoid penalties at U.S. checkpoints.

Despite differences throughout the North American aftermarket, one thing is certain: no matter how slow heavy-truck sales may get, the need for genuine aftermarket parts and support services will always remain strong.

For more information on this topic, or for copies of other Issues & Trends, contact Shannon Gibson-Sysak at 248-435-5606, fax your request to 248-435-9946, or E-Mail Shannon.GibsonSysak@ArvinMeritor.com.

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