Marketing Research Group Fact Sheet: Automotive Industry and Aftermarket

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Key Insights:

- **Approximately half of all vehicles owned or leased by Canadian households are five years or older, while just over a quarter are three years old or less indicating future demand and growth in aftermarket products and services.**

- **Canadians service their vehicles up to 4 times per year and are very loyal, with the majority (70%) of households using the same service centres each year. Opportunities exist to send more frequent communications to coincide with their needs and employ retention strategies such as sending newsletters, in order to maintain the relationship.**

- **Communications by mail is widely recalled by Canadians and is more likely to generate a response over TV, radio or internet advertising. These findings support the use of Canada Post products such as Lettermail™, Addressed and Unaddressed Admail™ and Publications Mail™.**

Recent research conducted by Canada Post regarding Canadian attitudes and behaviour towards vehicle ownership, maintenance and repairs, shows that addressed mail, flyers and brochures resonate with Canadians, in addition to traditional mass media most often used by this industry. An overview of the automotive industry as well as research highlights are summarized below.

The Automotive Industry in Canada:

Based on the most current Statistics Canada data, we know that the automotive industry has experienced strong retail sales growth of both new and used cars which in turn impacts after-sales parts and services.

Retail Sales by New and Used Car Dealers[1]:

- Retail sales by new car and used/parts dealers has shown **significant growth in the last 5 years**, increasing +15.7% to $95.6B in 2007.

- **Used car, recreational and parts dealer retail sales alone, increased almost 30%** (29.7%) for the same 5 year period.

Total Retail Sales

	2003	2004	2005	2006	2007
	unadjusted				
	$ Millions				
New Car and Used/Parts Dealers					
New Car Dealers	68,184	68,141	71,516	74,531	76,884
Used, recreational & parts dealers	14,394	14,559	15,301	17,287	18,674
Total	82,578	82,700	86,817	91,818	95,558

Source: Statistics Canada, CANSIM, table (for fee) 080-0014 and Catalogue no. 63-005-X.
Last modified: 2008-12-18.

Volume of New Motor Vehicle Sales[2]:

- The number of new motor vehicle sales in Canada has **increased +3.9% in the last 5 years**, with the majority of the increase (+9.3%) coming from the sale of commercial vehicles (ie. light and heavy trucks, minivans, sport utilities, vans, coaches and buses).

New motor vehicle sales

	2003	2004	2005	2006	2007
	seasonally unadjusted				
	No. of Vehicles				
New motor vehicles	1,626,468	1,575,195	1,630,310	1,666,327	1,690,538
Passenger cars	**865,475**	**820,103**	**845,222**	**863,161**	**859,003**
North America	604,726	542,814	574,639	573,102	551,001
Overseas	260,749	277,289	270,583	290,059	308,002
Commercial vehicles	**760,993**	**755,092**	**785,088**	**803,166**	**831,535**
North America	654,136	653,637	673,205	681,244	727,909
Overseas	106,857	101,455	111,883	121,922	103,626

Source: Statistics Canada, CANSIM, table (for fee) 079-0003 and Catalogue no 63-007-X.
Last modified: 2008-12-12.

Vehicles Per Household[3]:

- Since 2003, the **total percentage of vehicles owned per household has grown** at almost the same rate (+5.7%) as the number of households (+6.5%). This increase is largely due to the popularity of trucks and/or vans within each household (+14.5%).

- The percentage of **households with a leased vehicle has also shown significant growth (+17.4%)** in the last 5 years, increasing from 1.2M (in 2003) to 1.4M of households leasing at least one vehicle in 2007.

% of Vehicles Per Household
Selected dwelling characteristics

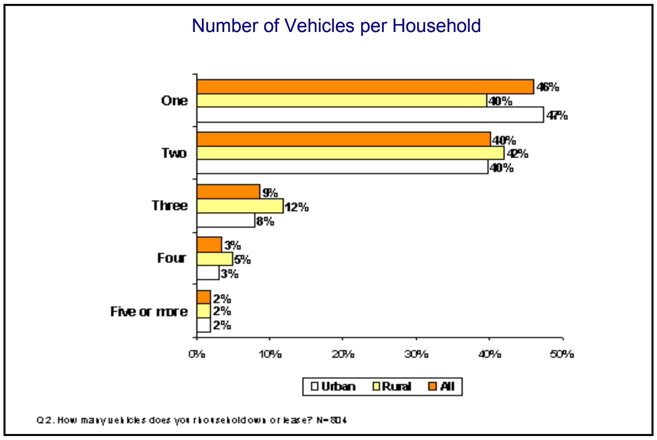
	2003	2004	2005	2006	2007
	Thousands				
Estimated number of households	12,189	12,343	12,587	12,756	12,985
	% of Households reporting				
Owned vehicles (includes automobiles, trucks, vans)	**78.2**	**79.1**	**79.0**	**77.3**	**77.6**
One	42.1	43.4	43.5	42.6	41.6
Two or more	36.1	35.7	35.5	34.7	36.1
Owned automobiles	**62.5**	**62.1**	**61.7**	**59.7**	**60.0**
One	46.7	46.3	45.9	44.8	45.5
Two or more	15.8	15.8	15.8	14.9	14.5
Owned trucks and/or vans	**36.3**	**36.8**	**36.9**	**36.9**	**39.0**
One	29.5	29.8	29.8	29.4	31.1
Two or more	6.8	7.0	7.1	7.5	7.9
Leased vehicles (automobiles, trucks, vans)	**9.8**	**9.9**	**10.1**	**10.8**	**10.8**
One	8.6	8.6	8.6	9.6	9.6
Two or more	1.2	1.3	1.5	1.2	1.1

Source: Statistics Canada, Income Statistics Division, Cansim, table 203-0020 and Catalogue no. 62F0026MIE.
Last modified: 2008-12-22.

- There are **almost as many two vehicle households as there are single vehicle households** with those in the Prairies most likely to have three or more vehicles in the country (21% with 3 or more)[4].

- **51% of 2 person households and 57% of 4 person households have two vehicles** where those with 5 or more people are most likely to have 3 or more vehicles (29%).

- **Rural households** are also more likely than urban to **own two or more vehicles**.



Age of Vehicles:

- Overall, only a small proportion of all the vehicles owned or leased by Canadians are relatively new. Less than one in ten (9%) of all vehicles in Canadian households are less than one year old with a further 18% between one and three years old. **The majority (52%) of vehicles are five years or older, with 23% over 10 years old.**

- **Vehicles that are over 10 years old are most likely to be found in rural areas** (33% vs 21% in urban) and in the Prairies (34%) and BC (32%).

# of Vehicles	Region				
	Atlantic	Quebec	Ontario	Prairies	BC
Less than one year	8%	10%	10%	7%	8%
1-3 years	16%	27%	17%	15%	12%
3-5 years	22%	20%	22%	19%	18%
5-10 years	32%	25%	34%	24%	30%
Over 10 years	22%	19%	17%	34%	32%

Q4. What is the age and approximate market value of your vehicle? N=804
*Percentages may not add up to 100% due to rounding.

- Vehicles that are three years old or less however are most likely to be found in households in Quebec (37%).

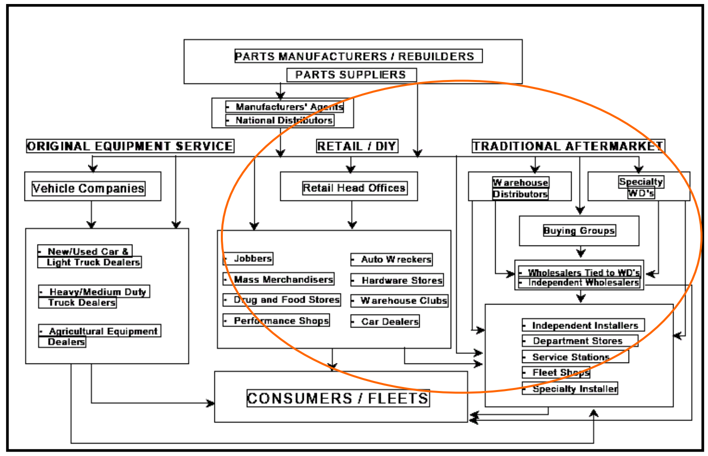
Media Spend:

- In 2007**, $1,018M in advertising expenditures was invested by Canadian automotive organizations for traditional mass marketing media** (newspaper, TV, radio, magazine and out of home)[3]. Another $28M of advertising expense was spent on direct mail media in support of the marketing of both service and sales of vehicles[4].

The Automotive Aftermarket:

- The **automobile aftermarket is a $16.1B industry** that employs more than 220,000 people[4].

- The industry is **composed of companies that manufacture, distribute and install automotive replacement parts, accessories, tools, and equipment[4]**.



Current Challenges:

- **Consumers are diverse, informed, value their time (convenience) and have many options** (eg. Do it themselves, choice of service centres, etc.)
- **Increase in new car dealers**, dealer-offered servicing and DIYers ("Do It Yourself")
- **Consumers are deferring regular vehicle maintenance** due to current high costs (eg. for gas)
- Small, independent garages/service providers **competing with large chains**
- **Excess inventory** management due to overproduction in recent years

Where Vehicle Repair and Maintenance is Performed:

- **Service centres (75%+) are the dominant choice** for vehicle repair and maintenance with 13% to 18% preferring to do it themselves (ie. DIY).

Service	Service centre	Do it yourself	Friend or family	Don't perform	Don't know
Tune-ups	79%	13%	5%	2%	2%
Scheduled maintenance	78%	14%	5%	3%	1%
Breaks or mufflers	77%	13%	7%	1%	2%
Bodywork/ collision repair	76%	6%	4%	10%	5%
Oil change	75%	18%	5%	0%	1%
Tire change	75%	15%	7%	2%	1%

Q6. Do you typically take your vehicle(s) in to a service centre, or family or friend for the following types of maintenance and repair services or do you perform this work yourself? N=804

Types of Service Centres Used:

- Car dealerships and local mechanics represent the most popular type of service centre (60%), followed by local service providers (54%), retail auto centres (34%) and car repair specialists (30%) (Note: multiple responses).

- **B.C. shows the highest preference for car dealerships and retail auto centres** while Atlantic is more likely to prefer local service providers.

	Region				
	Atlantic	Quebec	Ontario	Prairies	BC
Car dealerships	59%	57%	62%	56%	63%
Local service providers	61%	53%	51%	59%	57%
Retail auto centres	37%	28%	41%	29%	26%
Car repair specialists	26%	22%	31%	39%	33%
Family or friends	25%	24%	23%	26%	26%

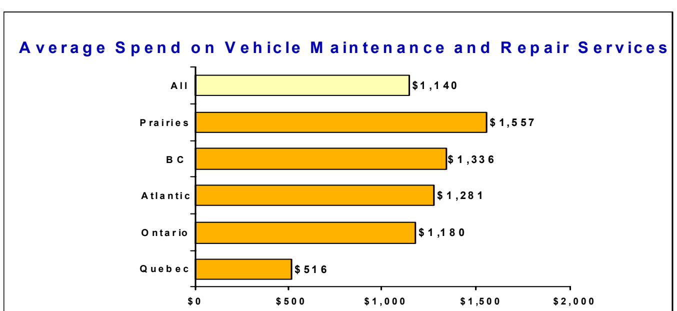
- 79% of Canadians consider **workmanship as the most important criteria for choosing a service centre** followed by customer service (61% rated this very important), experience (61%), and reputation (55%). Price was rated as very important by 44% of Canadians.

Average Spend on Vehicle Repair and Maintenance Services:

- **Canadians spend on average $1,141 per year** with B.C. spending the most on repair and maintenance services ($1,336 per year) with Quebec, who has the highest rate of 1 vehicle households, spending the least ($516).

- As expected, households with more vehicles tend to spend more on these services: the typical **one vehicle household spends about $822 annually compared to $1,129 for two vehicle households and $2,216 for households with three or more vehicles**. Also, higher income households are more likely to spend more on vehicle maintenance and repair than lower income households.

- **Rural households spend on average more per year** and also have a higher percentage of having more than 1 vehicle and older cars.



Q9. On average, how much do you spend a year on all of your vehicles in total for the following types of maintenance and repair services? N=804

Frequency of Service:

- Compared to other regions in Canada, the proportion of **households in BC who take their vehicles in only once a year is somewhat higher for tune ups (41%),** scheduled maintenance (26%), and tire changes (25%). This could be a reflection of the less harsh weather conditions in coastal BC.

- Households are neither more nor less likely to bring their vehicles in for maintenance services irrespective of the age or current market value of the vehicle. **Household income also does not appear to be a significant factor on how frequently a vehicle is brought in for service**.

- **Urban residents (35%) are somewhat more likely to take their vehicles to a service centre for an oil change four times a year** than someone who lives in a rural area (22%).

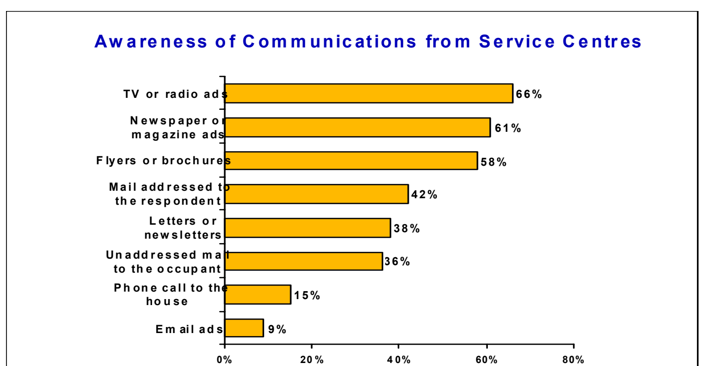
	Number of times vehicles are brought in for service:					
	Once	Twice	Three	Four	As needed	Don't know
Tune-up	29%	19%	4%	9%	36%	4%
Breaks or muffler	23%	7%	2%	2%	63%	3%
Tire change	18%	31%	0%	1%	46%	3%
Scheduled maintenance	17%	23%	8%	15%	34%	4%
Oil change	6%	22%	15%	33%	22%	2%
Bodywork/ collision repair	5%	1%	0%	0%	88%	6%

Q8. On average, how many times each year do you take your vehicle(s) in to a service centre for the following types of maintenance and repair services? N=804

Automotive Advertising and Communications:

- **Mass media advertising on TV and radio (66%) and newspapers or magazines (61%), along with flyers and brochures (58%) were the most likely to be remembered. Mail addressed specifically to the respondents (42%) was also widely recalled.** Conversely, few respondents remembered phone calls to the house (15%) or email advertisements (9%) from service centres.

- **Higher income households ($80k+ annual household incomes) were more likely to recall TV** (71%), newspapers or magazine ads (71%), flyers or brochures (64%) and addressed mail (55%) than the average overall.



Q17. Within the past year, do you recall whether you have seen, read or heard any of the following types of communications from vehicle service centres encouraging you to try their services? N=804

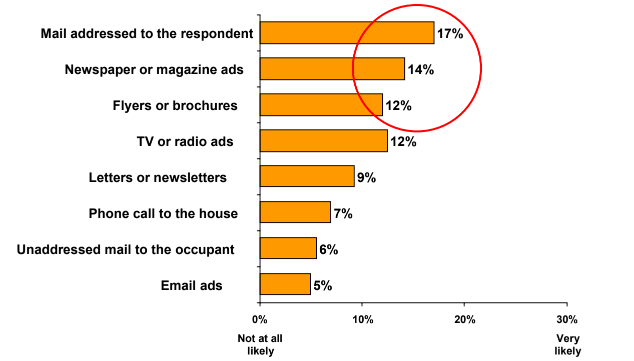
Likelihood of Responding:

- **Addressed communications are considered by Canadians to be the most likely to be responded to** (17%), followed by newspaper or magazine ads (14%) and flyers or brochures (12%). **Email ads are the least likely to be responded to at 5%.**

- The likelihood to respond to various promotional communications is also **similar among respondents irrespective of age or income**.

- Interestingly, compared to respondents with older vehicles, those with vehicles less than one year old are somewhat more likely to respond to both addressed mail from a service centre (27% claimed likelihood to respond was "4 or 5 out of 5"), as well as newspaper or magazine advertisements (19%).

Likelihood of Responding to Various Communications from Service Centres (% Rating "4" or "5" out of 5))



Q18. Using a 5 point scale, where "1" means "Not at all likely" and "5" means "Very likely", please tell how likely you would be to respond to the following types of communications as it relates to vehicle service centres promoting their services to you. N=804

Welcomeness of Other Communications:

- Most respondents indicated that they do not mind completing a brief satisfaction survey however four out of ten (**38%) would prefer to receive the survey a short time after their vehicle is serviced**. An additional 30% stated that they would prefer to receive the survey as they are leaving the centre.

- In addition to surveys, **customers also welcomed other forms of communications such as thank you notes, monthly or quarterly newsletters**. Almost two thirds though (62%) said that they didn't expect anything from a service centre.

- A small percentage (5% or less) of 18-34 year olds and 35-44 year olds thought **discounts or coupons** would be a good idea.

Service Centre Loyalty:

- **A sizeable majority (70%) of households use the same service centres each** year for maintenance and repair work to their vehicles, with most of the remainder (23%) using some of the service centres each year.

- Women (76%) are more likely than men (66%) to return to the same service centre year over year.

- **Age also influences the degree of loyalty to a service centre.** The proportion of 18-34 year olds who use the same service centre each year is 60%. This increases steadily with age, peaking at 81% for those 65 years of age or more.

	Gender		Age					
	Men	Women	18-34	35-44	45-54	55-64	65 or more	All
Use the same service centre each year	66%	76%	60%	68%	71%	79%	81%	70%
Use some, but not all, of the same service centres each year	26%	19%	30%	25%	23%	16%	15%	23%
Use different service centres each year	5%	4%	5%	5%	4%	2%	4%	4%

Q11. Which of the following statements most closely describes your use of service centres for maintenance and repair work to your vehicles? N=804

Trends to Watch:

- While the economy is in a downturn, consumers will become even more careful with their purchases and will hold off buying cars or hold onto cars longer.

- Environmental trends will continue to influence purchasing decisions (ie. fuel efficiency/carbon emissions, smaller cars, hybrids).

- Impact of baby boomers retiring on the industry (eg. replacing/upgrading cars prior to start of retirement).

- Automotive advertising online continues to grow with some third party sites selling vehicles in addition to everything from online loans to delivery.

- Dealers are slowly catching up and adding online features that allow visitors to view inventory, schedule sales and service appointments, fill out financing applications and see the manufacturers' suggested retail price.

[1] Statistics Canada, CANSIM Table 080-0014, catalogue no. 63-005-X, Last modified December 18, 2008.
[2] Statistics Canada, CANSIM Table 079-0003, catalogue no. 63-007-X, Last modified December 12, 2008.
[3] Statistics Canada, Table 203-0020, catalogue no. 62F0026MIE, Last modified December 22, 2008.
[4] http://www.aiacanada.com;Information has been used with permission from the Automotive Industry Association of Canada.