PARTS BRANDING IN THE MEDIUM AND HEAVY DUTY COMMERCIAL VEHICLE AFTERMARKET

TO BE CONDUCTED IN 2020 BY:

MacKay & Company

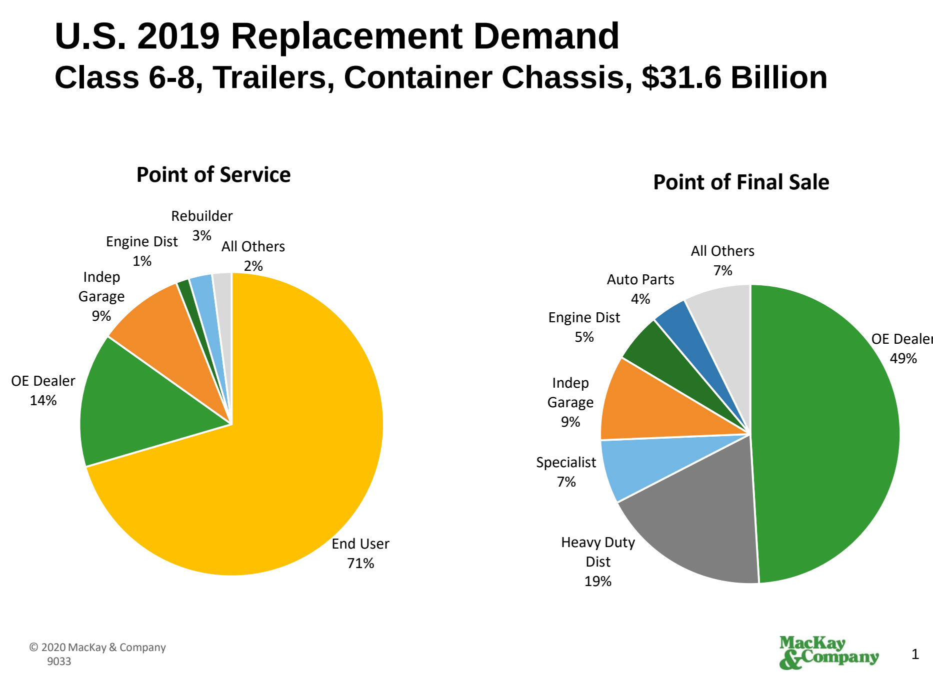
BACKGROUND

The Market

Since the early 1980's, MacKay & Company has been profiling, in detail, the size and composition of the parts aftermarket for medium and heavy duty trucks, school buses and trailers in a service called DataMac® Truck & Trailer U.S. There are now DataMac® services for a variety of vehicle markets and countries.

The primary research completed for DataMac® Truck & Trailer U.S. (and all DataMac® services) are surveys with owners and maintainers of these vehicles as well as the businesses who sell parts, tires and/or lubricants to vehicle owners.

MacKay & Company estimates the current size of the parts aftermarket for these vehicles is nearly $31.6 billion. The end users (owners of vehicles) complete 71% of the service work on the vehicles based on the value of the parts (at retail). Truck dealers sell almost half (49%) of these parts to the end users while independent heavy duty distributors sell 19%. Independent garages, specialists, engine distributors, auto parts outlets and others make up the remaining 32% of businesses that sell aftermarket parts.



In 2019, and as we do every year, we asked businesses that sell parts to end users what type of parts they sell (on a percentage basis), with Genuine Original Equipment Brands, Aftermarket Brands, and Other brands being listed as options.

Aftermarket Brands and Other Brands (such as OE all makes) comprise 34% of parts demand not fulfilled by Genuine OEM Brands. The sale of Aftermarket Brands is most common in auto parts, HDD and independent garage outlets. The percentage of non-OE brands sold increased for each distribution channel when comparing year over year results, both 2019 vs. 2018 and 2018 vs. 2017.

Type of Brand Sold
Parts Sales Percentage by Category of Brand

	Genuine O.E. Brands	Aftermarket Brands	Other Brands	Total
Truck Dealer	85%	14%	1%	100%
Engine Distributor	88%	12%	0%	100%
HDD/Specialist	42%	55%	3%	100%
Independent Garage	50%	45%	5%	100%
Auto Parts Businesses	39%	57%	4%	100%
Total	66%	32%	2%	100%

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While MacKay & Company profiles the aftermarket for parts in a variety of segmentations such as point of service, point of final sale, vocation, vehicle class, type of part, etc. we have not completed in-depth research specifically on brands of parts purchased.

We have, over the years, asked some top-level questions on end users' knowledge and use of what we call Value Line parts brands. Value Line is a term we use to cover all makes, private label, white box or any other terminology for a replacement aftermarket part that is not the same as the original equipment part when the vehicle was purchased new.

The first time we did this in 2016, we identified 17 of these value line brands, including brands that had been around for many years like Fleetrite (Navistar) and some that were fairly new at the time such as Road Choice (Volvo/Mack).

The last time we completed this research (2018), we included 22 brands and likely still missed some. These brands included options from truck manufacturers, trailer manufacturers, component manufacturers, parts distributors, and truck dealers.

The following table outlines the brands we surveyed, what percentage of respondents were familiar with the brand and of those who were familiar with the brand what percentage used the brand. In addition, we asked whether they could identify the company behind the brand.

As the table shows, the familiarity and use of brands had a wide range of responses depending on the brand. Longtime brands such as Fleetrite and Alliance had high familiarity; likewise, brand names that have been used in the industry for many years such as Midland and Euclid also had higher familiarity with respondents. Brands such as Dana’s SVL and Great Dane’s GDS had low familiarity by respondents at the time, likely due to limited time on the market or niche focus of brand.

Brand Familiarity and Use

Brand	Familiar with Brand	Use of Brand	Indicate Knowing Who Offers Brand
Alliance	44%	28%	32%
Armada	7%	2%	2%
Euclid	57%	36%	35%
FleetCraft	30%	18%	19%
Fleetrite	59%	40%	47%
FleetValue	16%	8%	8%
GDS	3%	1%	1%
Gold Line	21%	9%	14%
HD Plus	19%	10%	11%
Mach	8%	3%	4%
Midland	62%	42%	45%
OTR	20%	9%	11%
PartSmart	11%	4%	5%
Pro-Par	20%	10%	11%
Road Choice	10%	6%	6%
Road Force	11%	6%	5%
Rig Tough	7%	3%	4%
SVL	3%	1%	1%
TRP	24%	18%	19%
TrucKraft	13%	6%	6%
TuffLife	22%	12%	13%
Uptime Parts	7%	3%	4%

With a few exceptions, we have seen the percentage of respondents who are familiar with and use these brands increase over time. The use of these brands by product category varied greatly, but, in general, increased across many different product groups.

When asked who manufactures or owns the brand, responses also varied widely. Furthermore, in most cases, even if respondents indicated they could identify the brand's manufacturer, they did not associate the correct manufacturer to the brand.

The reality today is that owners and maintainers of medium and heavy duty vehicles have a variety of options when replacing parts (beyond the OE replacement part) and these options continue to grow. These options can come from the original equipment manufacturer through their dealer network (such as Road Choice and Alliance) or standalone stores (like TRP), from the truck dealers themselves (such as Rig Tough), independent parts distributors (HD Plus), component manufacturers (such as Midland and Mach) and other distribution points in the aftermarket.

Imagine a fleet that predominately runs Navistar and Peterbilt trucks whose primary truck dealer is Rush Enterprises. As a maintenance or parts manager at this fleet, when deciding on parts for a certain repair, a variety of potential parts brand options beyond the OE, such as FleetRite, TRP, and Rig Tough, are among the choices.

Could this be confusing? Certainly, but this could also provide the fleet with an option that best fits their particular vehicle needs depending on application, age and other factors.

THE SCOPE OF THE STUDY

The focus of this study is the U.S. and Canadian medium and heavy-duty truck (Class 6-8) and trailer industry.

KEY ISSUES TO BE ADDRESSED WITH FLEET SURVEY:

1. Profile of the fleet
    a. Brands Operated
    b. Average Age of Vehicles
2. Profile of those responsible for ordering parts
    a. Primary Title, Average Age
    b. Average Years in the Industry
3. Familiarity with parts brands

4. Use of different parts brands including OE (original equipment) brands
5. Ability to identify the manufacturer/owner of a brand
6. Perspective on the different brands
    a. Use of Brands Depending on Part Type
    b. Use of Brands Depending on Where Vehicle is in Life Cycle
    c. Overall Quality Level of Different Brands
7. Who is ultimately responsible for deciding which brand of part to use and when?
8. Which parts and service providers do the best job of explaining the value proposition for using the different brands of parts available?
9. How do you and the rest of your company educate yourselves on the different brands of parts available?
10. Who do you ultimately depend on to determine the best parts solution for your vehicles?
11. Is having so many different brand options available something that is desired or is this something that can actually be a negative in terms of the parts purchasing decision process?

KEY ISSUES TO BE ADDRESSED WITH DEALER/DISTRIBUTOR SURVEY:

1. Which brands of parts do you offer?
    a. By Product Group
2. In terms of overall quality, how do you rate the different brands you offer?
3. What are the key factors behind offering different brands?
4. What are the key factors in determining which brand to sell and when?
    a. Vehicle Make
    b. Vehicle Age
    c. Customer Type, etc.

5. Who tends to buy the different brands you currently offer (is there a specific customer profile of those buying value line/all makes brands vs. OE brands)?
6. What are your fleet customers' perceptions of the different brands you sell? Has this changed over time?
7. Which Non-OE brands you sell have the best/worst customer support in terms of helping you decide how and when to use them?
8. What is lacking/needed from suppliers to better support/promote the various non-OE brands you sell?

KEY DELIVERABLES

1. **Report**

   A final report will include a review of the methodology, a profile of the survey respondents, an executive summary and a detailed profile of this specific aftermarket by product category.

2. **Presentation**

   We will conduct a webinar to share the findings of the report with ample time for questions.

KEY STUDY ACTIVITIES

1. Discussion with all study participants to ensure that key objectives are addressed. Add additional objectives to meet clients' needs.

As with all multi-client studies MacKay & Company completes, companies can decide to purchase the study at any time before, during or after the actual research is completed. We typically need a minimum number of participants to start, but more importantly and especially for a study like this, if you commit to purchase prior to the beginning of the research, we can likely address your company's specific topics and issues of interest related to this subject.

2. Develop broad-based survey for fleets.

MacKay & Company has a large database of owners and maintainers of commercial Class 6-8 trucks, school buses and trailers across 10 different vocations which will be utilized for this study.

3. Complete interviews with fleets to test survey.

We will interview several fleets to determine if the draft survey for our mass audience makes sense, flows correctly and, most importantly, determine any additional topics to include.

4. Develop and implement broad-based survey of parts distributors.

MacKay & Company has a large database of distributors of parts to the commercial Class 6-8 trucks, school buses and trailers, including truck dealers, independent heavy duty parts distributors, engine distributors, independent garages and auto parts distributors which will be utilized for this study.

5. Complete interviews with aftermarket parts distributors to test survey.

We will interview several parts distributors to determine if the draft survey for our mass audience makes sense, flows correctly and most importantly, determine any additional issues/topics to include.

In addition, for this audience, there will likely be sensitive issues/topics to address; interviews provide a better format for these discussions.

6. Implement survey for fleets and parts distributors.

MacKay & Company anticipates obtaining feedback from 600-700 fleets and 100-200 parts distributors.

Survey respondents will be offered a cash incentive or opportunity to donate to one of several charities.

7. Use of MacKay & Company's aftermarket knowledge, existing databases and analytical expertise to effectively analyze research results and write report of results and implications.

STUDY PARTICIPATION

This study is geared towards providing companies with a better understanding of fleets' and parts distributors' perceptions of parts brands for medium and heavy duty trucks, school buses and trailers.

Participation in this multi-client study is payable in two equal payments: one at the onset of the project and the second at issuance of the final report. Current DataMac® Truck & Trailer U.S. subscribers will receive a discount of 15%.

PROJECTED STUDY TIMELINE

Activities	Complete by	Payment
1. Gain Client Interest and Commitment	April 1	
2. Develop Survey	April 1	April 15
3. Conduct Survey	April-May	
4. Conduct Secondary Research	June	
5. Analyze Findings	July-August	
6. Issue Final Report	September 15	September 30
7. Present findings to Clients	After Report Release	

FOR ADDITIONAL INFORMATION

Please contact either of the following people for additional information:

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MEET THE ASSIGNMENT TEAM

The overall assignment will be under the general direction of John Blodgett, Vice President Sales and Marketing; Molly MacKay Zacker, Vice President Operations; Lynn Buck, Senior Market Analyst; Travis Kokenes, Research Manager, Dave Kalvelage, Client Consultant and Senior Market Analyst and other MacKay & Company staff members.

John Blodgett began working for MacKay & Company in 1994 as project manager overseeing single- and multi-client research projects. Today, he is responsible for client contact for single- and multi-client projects. Prior to MacKay & Company, John worked for John Fluke Manufacturing, Gould Electronics and Syracuse Supply Company (Caterpillar Dealer) in a variety of sales positions.

John received his BS in Interdisciplinary Engineering and Management from Clarkson University and an MBA from Pepperdine University Graziadio School of Business and Management. John has served as vice president of the M.P.S.A. (Midwest Parts & Service Association) and is a member of TMC (Technology & Maintenance Council), AEM (Association of Equipment Manufacturers) and IAC (Intermodal Association of Chicago).

Molly MacKay Zacker is MacKay & Company's Vice President of Operations. In this capacity, she coordinates many behind the scenes activities, manages the Research Department, coordinates projects, authors and edits reports and presentations, and conducts research. Molly holds a Bachelor's degree in Economics and Business Management from Goucher College in Towson, Maryland, and a Master's degree in Early Childhood Education from Western Michigan University in Kalamazoo, Michigan. In the fall of 2019, Molly was the recipient of the Northwood University’s Automotive Aftermarket Management Education Award.

Lynn Buck, Senior Market Analyst, joined MacKay & Company in November of 2012. His background includes over 15 years of data analysis and reporting in a variety of settings. Most recently, he has performed the roles of pricing manager and inventory manager for two aftermarket parts distributors. Prior to that, he analyzed markets for new parts and service locations for Navistar. Lynn earned a bachelor’s degree in Psychology from Northern Illinois University and an MBA in Finance from North Central College.

Travis Kokenes, Research Manager, joined MacKay & Company in December 2007 after receiving his Bachelor of Liberal Arts & Sciences in Communication Studies, with a minor in Business from the University of Kansas. Travis heads our research department and handles data collection and processing for our DataMac® and proprietary studies. He oversees both our phone and direct mail surveys and is responsible for the design of web-based surveys; working with clients to design questionnaires that fit their specific areas of interest.

David Kalvelage, Client Consultant and Senior Market Analyst, has been with MacKay & Company since 2002. His primary responsibilities include data analysis and reporting for single and multi-client projects, MacKay & Company's Aftermarket Index Reports, MacKay & Company's DataMac® Tire report, and co-managing MacKay & Company's IT department. He received a BA in Political Science from Iowa State University. While working as a financial consultant at TIAA-CREF, he earned his MBA and MS in Information Systems from the University of Colorado. Prior to coming to MacKay & Company, he worked as a project manager at Lucent Technologies.

MacKay & Company also has a number of industry contacts and consultants that we can tap into as needed for this and other projects known as our Resource Board.

This Resource Board includes people with backgrounds in the industries we serve including people with a variety of expertise with vehicle and component manufactures, dealers and distributors, fleets and other users of on and off-highway equipment.

More information on our employees, company and Resource Board can be found at www.mackayco.com.