

Three key aftermarket trends that challenge warehouse distributors and wholesalers

How remanufactured parts can help overcome business obstacles



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Warehouse distributors and wholesalers face a number of challenges arising from increasing product quality as well as a rapidly-changing market environment and new customer habits. This white paper highlights key trends and at the same time proves how remanufactured parts can help overcome these business obstacles.

When looking at Europe's vehicle population one must recognise that the average age of the current car fleet is constantly increasing. This trend can be traced to the persistent efforts of car manufacturers and their suppliers to create excellent products. However, what is an advantage for any car owner, tremendously changes the aftermarket game for distributors and wholesalers.

Less demand and budget repairs

While the average vehicle age of the fleet increases, the characteristics of spare parts demand change.

In the first instance, higher quality of cars and components leads to less demand in numbers of spare parts as the frequency of repairs goes down. Secondly, car holders' habits change: they keep their cars longer. During the first years after purchase, car owners tend to replace defective or broken car parts by new ones. Later, when the car value is much lower, car owners prefer budget repairs and replacement of components. This trend is reinforced by increasingly more cost-conscious car owners who no longer just request new spare parts - but also consider budget repairs with alternative product types. Eco-awareness also pushes them in this direction.

Price erosion

Furthermore, distributors find themselves in an era of price erosion through new markets which bring increasing competition.

At the same time, online markets put pressure on margins because customers gain full transparency over products, prices and offers. In short, customers are more mature today. While they relied on the opinion of the mechanic in the past, they are more enlightened nowadays, better informed (through easy web search and education) and decide themselves what type of spare they want.

Of course, there are even more challenges that the aftermarket - and in particular warehouse distributors and wholesalers - must face these days. However, the three mentioned:

- less demand
- budget repairs
- price erosion

appear to impact their business models the most.

“Remanufacturing – also called ‘reman’ - is a branch within the aftermarket industry that is closely linked to the circular economy”



Pic credit: Rogier Bos

Remanufacturing is the solution

Agile companies brave these trends and find themselves new business opportunities and solutions in order to overcome such challenges.

Against this background, the ideal solution for customers would be spare parts that allow for budget repairs, are eco-friendly and still offer high quality and reliability. At the same time, such parts would ideally provide the potential for distributors and wholesalers to grow in numbers and to provide high margins.

If you think this sounds too good to be true, you should read on and learn about remanufactured parts - because they offer exactly these characteristics and are an excellent business opportunity.

What is remanufacturing?

Remanufacturing – also called “reman” - is a branch within the aftermarket industry that is closely linked to the circular economy.

Instead of generating new products out of finite resources it follows a full value-conserving concept through product recycling – rather than material recycling - or even disposal.

Remanufacturing companies deliver remanufactured parts with a number of unique and reliable characteristics:

- Remanufactured parts are restored from existing parts (called ‘cores’), using standardised industrial processes which are in line with technical specifications.
- Remanufactured parts fulfill a function which is at least equivalent to the corresponding original part.
- A remanufactured part is given the same warranty as a new part and clearly identifies the part as a remanufactured part and states the remanufacturer.
- A remanufactured part is different from a reused, repaired, rebuilt, refurbished, reworked or reconditioned part.

These definitions have been commonly developed and accepted by some of the most important aftermarket and remanufacturing-related organisations like ACEA (European Automobile Manufacturers Association), APRA/APRA Europe (Automotive Parts Remanufacturers Association), ANRAP (Automotive Parts Remanufacturers National Association), CLEPA (European Association of Automotive Suppliers), CPRA (Remanufacture Committee of China Association of Automobile Manufacturers), FIRM (International Association of Engine Remanufacturers) and MERA (Motor & Equipment Remanufacturers Association).

Based on these characteristics it should be obvious that remanufacturing provides for high quality and highly reliable parts on an equal footing with new parts and clearly differentiates from any still existing association of inferior or scrapyard products.

The automotive remanufacturing market in Europe (EU28) turns over €7.4 bn , with 2,363 firms employing 43,000 people and handling 27.3 million cores [source: Remanufacturing Market Study 2015, European Remanufacturing Network].

“Remanufacturing creates savings of up to 85% of raw material, 55% of energy and up to 79% of CO₂ equivalents compared with new production”



Pic credit: Tom Lee



Pic credit: Volker Schittenhelm

How does reman work?

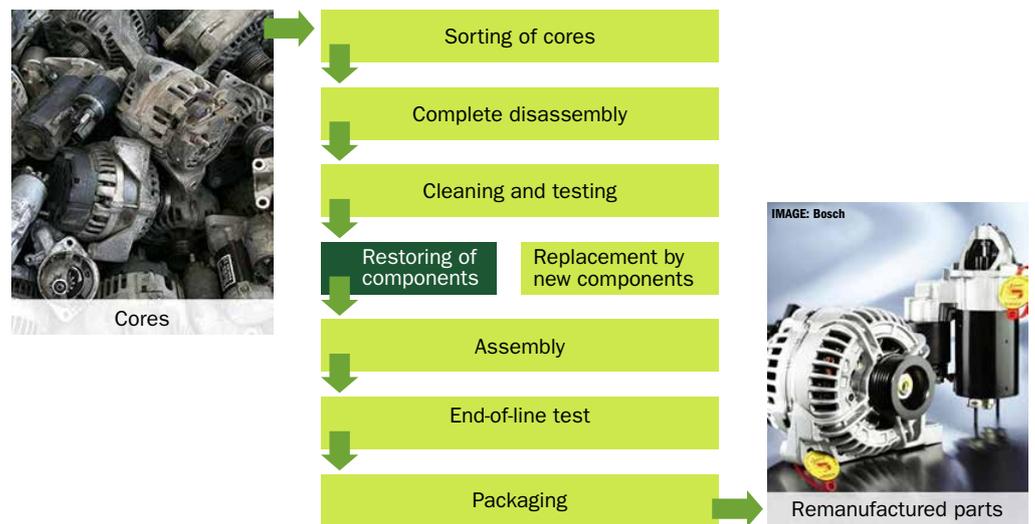
Unlike new production processes, remanufacturing contains a number of characteristics that require specialised knowledge.

As a production input, remanufacturing requires cores which are commonly sourced through either a reverse logistics and deposit system or from specialised core dealers.

The adjacent internal remanufacturing process follows the sequence below:

1. Sorting of cores
2. Complete disassembly
3. Cleaning and testing of components
4. Restoring of components / Replacement by new components if required
5. Assembly
6. End-of-line test
7. Packaging

“Remanufactured parts are a good deal for both consumers and producers: consumers pay less compared with new products and workshops can service vehicles at reasonable prices”



BROAD RANGE OF REMANUFACTURED PARTS

When talking about automotive applications, there is a broad range of remanufactured parts available on the market that covers nearly every relevant vehicle component, such as:

- Engines
- Transmissions
- Turbochargers
- Starters
- Alternators
- Air condition compressors
- Steering racks, pumps, columns
- Drive shafts
- Common rail pumps
- Diesel pumps
- Injectors
- Suspensions
- EGR valves
- Brake calipers

Remanufacturing is sustainable

Remanufacturing has been called 'the most sustainable business model' [Dr. Daniel C. F. Koehler, chairman of APRA Europe] as it combines sound economic, environmental and social aspects.

In terms of economy, remanufactured parts are a good deal for both consumers and producers. Consumers pay less compared with new products and workshops can service vehicles at reasonable prices. Producers benefit from decent margins and growing demand.

With respect to the environment, remanufacturing saves natural resources by using existing parts as raw material. This creates savings of up to 85% of raw material, 55% of energy and as a direct consequence saves millions of tons of CO₂ equivalents – up to 79% compared with new production.

“Remanufacturing creates jobs. It is still a growing industry and at the same time – while other industries have automated supply-chains – it is a highly manual process that demands blue collar workers”



A high social impact comes from the fact that remanufacturing creates jobs. It is still a growing industry and at the same time – while other industries have automated supply-chains – it is a highly manual process that demands blue collar workers.

Benefits for warehouse distributors and wholesalers

Given these benefits, how can distributors and wholesalers directly benefit from such remanufactured parts? The answer is quite simple: they help serve the changing demands of both customers and market environment.

And here are just some of the tangible benefits for distributors and wholesalers:

- Remanufactured parts can be an additional business segment which increases sales volumes
- They offer high margins and therefore contribute to higher earnings
- They may compensate for downturns in other business fields
- Remanufactured parts are an opportunity - especially for independent distributors and wholesalers - to compete with big OE players
- Remanufactured parts help improve customer satisfaction as they deliver a tailored solution for what they demand (high quality at reasonable price)
- Remanufactured parts are in many cases the only second source alternative to increasingly complex and highly integrated OE parts which cannot easily be copied by IAM manufacturers
- The green aspect of offering remanufactured products can contribute to positive market recognition and appreciation
- Remanufactured parts are available across a wide range of vehicles



Challenges of including remanufactured parts

Despite these manifold benefits of remanufacturing, distributors and wholesalers should be aware of some challenges while implementing remanufactured parts as a new business field.

These challenges can be overcome – and the most prominent of them will be setting up a simple and efficient core return system. This should guarantee the return flow of cores from workshops, garages and end customers. Usually, the implementation of a deposit system - while using the existing distribution channels for reverse logistics too - is the best solution.

At the same time, deposits will have to be paid to the suppliers of remanufactured parts - which initially ties up capital which can only be released with some delay when returning cores. This deposit (or perhaps even additional sums) can, however, be demanded from the customer side and therefore can bring in some extra cash in the meantime.

While stating these challenges, one must not forget that any new business activity involves benefits - and risks. In the case of remanufactured parts, however, such risks and challenges can easily be overcome by thorough planning and/or using expert knowledge.

Summary

Warehouse distributors and wholesalers are facing the challenges caused by high quality automotive parts which decrease demand for spares. Markets are more competitive nowadays, leading to constant price erosion. At the same time, customers' habits are changing towards more rational replacements in terms of best value for money.

Remanufactured products therefore provide an ideal business opportunity which helps overcome these burdens. Additionally, they bring further marketing opportunities as they are environmentally friendly and contribute to efforts towards a circular economy. Challenges of implementation are potentially present but can easily be handled.

The gains from remanufactured products will exceed by far any necessary business effort and modification. ■

NEXT STEPS

In order to learn even more about how remanufacturing can benefit your business, there are many opportunities to find guidance and support.

ReMaTec, for example, features a specialised programme for warehouse distributors and wholesalers at the ReMaTec 2019 show in Amsterdam (June 23-25 2019, RAI Amsterdam), which is considered the most important remanufacturing-related exhibition inside Europe. Dozens of qualified independent remanufacturers and renowned tier 1 suppliers (e.g. BorgWarner, Bosch, Honeywell, Knorr-Bremse, Remy, Schaeffler, Valeo, ZF etc) will exhibit their reman capabilities to both OES and IAM markets.

- Find out more at www.rematec.com

APRA, together with its European entity APRA Europe, is the most relevant association in the field. It is the only global association that represents the whole automotive remanufacturing industry and has acted as the voice of remanufacturing since 1941.

- To find out more, contact europe@apra.org or visit www.apra.org/europe

FIRM is the international federation of engine remanufacturers and, as the name already suggests, it has a full focus on engine remanufacturers. Members receive specialised technology and branch coverage.

- For more information, go to www.firm-org.eu