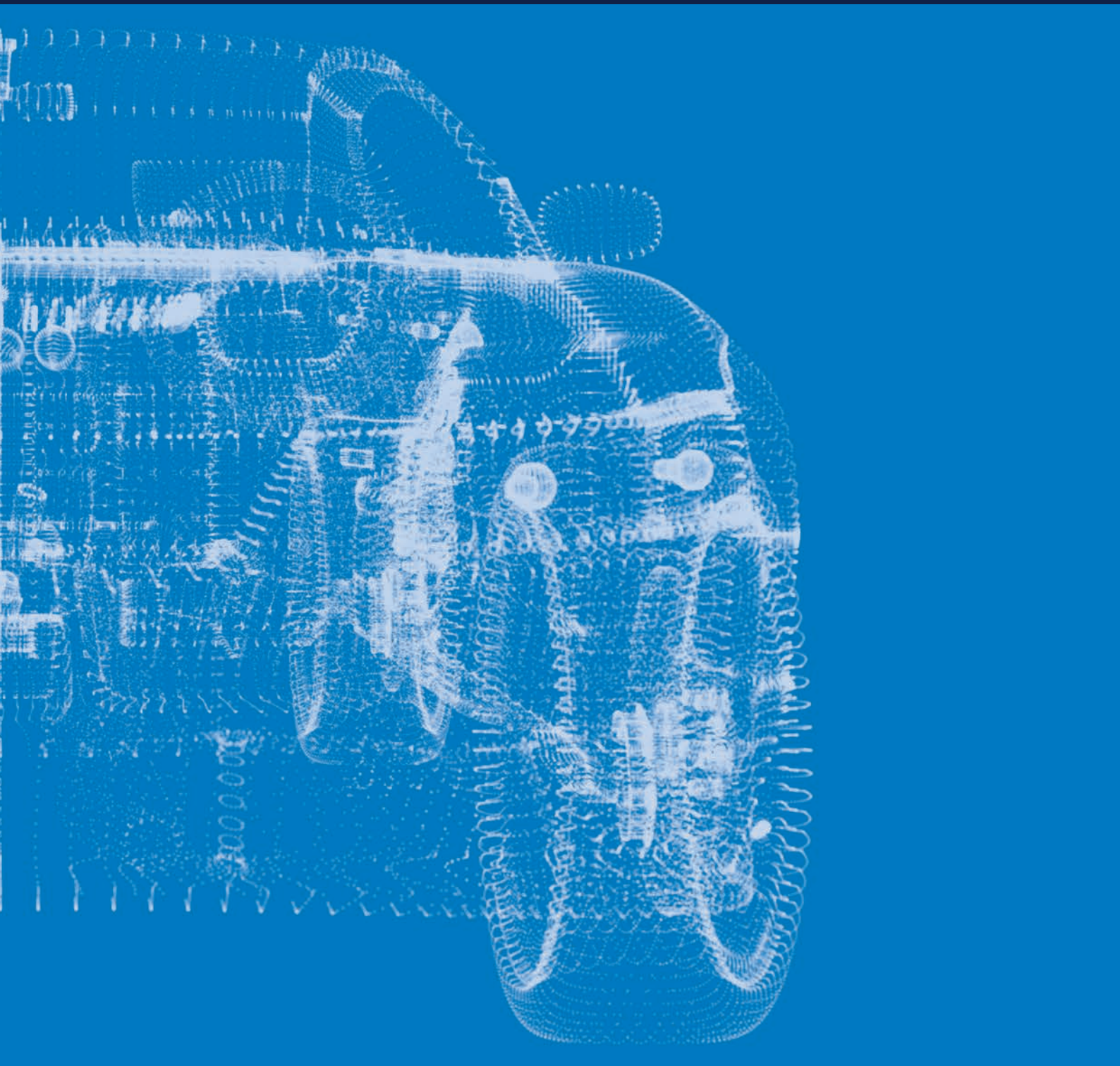




THE IMPORTANCE OF THE UK AFTERMARKET

TO THE UK ECONOMY / 2017







The automotive aftermarket is a vital component of the UK economy and, through both franchised and independent networks, it provides motorists with choice over how and where they service and repair their vehicles. By keeping vehicles safe and roadworthy, this sector is essential to keeping the country moving, delivering both direct and indirect financial benefits to the country.

The risk to consumer spending and aftermarket businesses, therefore, is stark. We will continue to press upon our own government and those of the other 27 EU states preparing to embark on negotiations the need for trade between the UK and EU automotive industries at all levels to remain free and unencumbered. This will be critical to ensuring this important sector can continue to invest to keep pace with new technologies and consumer demand, and to grow its social and economic contribution further into the future. ■

Mike Hawes
Chief Executive
Society of Motor Manufacturers and Traders (SMMT)

To enable a deeper understanding of the automotive aftermarket's contribution to the UK economy and its growth potential, SMMT commissioned Frost & Sullivan to undertake an independent study. This second annual report examines the fundamental structure of the sector, the key factors which shape its operation, and the challenges and opportunities facing parts suppliers, distributors and workshops in the future.

I'm pleased to report another year of growth in 2016 with the sector increasing its turnover by 2.4% to £21.6 billion, delivering £12.5 billion to the economy and creating an additional 1,400 jobs. Today, some 347,000 UK jobs are dependent on the aftermarket, demonstrating the huge economic and social contribution the sector makes.

And this contribution is set to grow. With new car registrations in the UK hitting an all-time high in 2016 – and the average age of cars on the road increasing with ever-improving reliability – the sector's value is set to rise to £28 billion and jobs to more than 400,000 by 2022. Growth will also come from new channels, including e-retailing, driven by consumers' increasing demand for the immediacy and convenience offered by online ordering of parts and servicing. Changing attitudes to personal mobility, including a shift to car sharing and leasing, will also provide opportunities, while the rise of connectivity could also see companies that adapt their business models offer a range of new products and services to car owners.

However, there are also challenges ahead – not least uncertainty posed by Brexit and the threat of tariffs and other trade barriers in the event a favourable deal is not struck. This report calculates that reversion to World Trade Organisation (WTO) rules could result in a potential £3 billion in lost revenue to aftermarket parts exporters, and a £640 million price hike to the cost of imported parts from tariffs alone. Combined with non-tariff barriers such as import quotas, subsidies, customs delays and technical barriers, Frost & Sullivan estimates that the overall price of annual car servicing could rise some 10% for the average UK motorist.

CONTENTS:

Section	Page
■ FOREWORD	03
■ 2016 YEAR IN REVIEW	04
Update of Market Metrics	04
Brexit	06
Current UK-EU Relationship and Trade Balance	08
UK Exports	09
Mergers and Acquisitions	10
Proposed Changes to MoT Inspections	11
■ EVOLVING PERSONAL MOBILITY BEHAVIOUR	12
Carsharing	12
eHailing	12
Fleet and Leased Vehicles	13
■ CONNECTED VEHICLES	14
Data Access	14
■ E-RETAILING	16
■ RECOMMENDATIONS	19
UK Government	19
UK Aftermarket Industry	19
■ CONCLUSIONS	20
■ METHODOLOGY AND SOURCES	22
■ GLOSSARY	22

YEAR IN REVIEW

The UK automotive aftermarket enjoyed another year of growth in 2016, influenced predominantly by the increasing car parc and rising average vehicle age. Steadily rising demand for vehicle maintenance and repairs resulted in the busiest ever year for workshops and, as a result, greater demand for service technicians. It's a trend that is set to continue and, given that skilled technicians are already in short supply, businesses will need to engage in more outreach and training to certify additional repairers if they are to meet motorists' needs.

Independent parts and service providers gained market share at the expense of authorised repairers. Meanwhile, technology companies, including telematics device manufacturers, app developers and telecoms providers, increased their stake in the industry as the traditional aftermarket continued its evolution into a digital marketplace that links cars, drivers and parts/service suppliers electronically. New products (such as mobile Wi-Fi receivers) and services (such as remote diagnostics and prognostics), will emerge from their participation.

Also in 2016, British voters elected to leave the European Union. For now, this has cast uncertainty over the industry as businesses seek to understand how Brexit will impact regulations, access to markets and future investments throughout the sector.

This report updates findings from last year's research [The Importance of the UK Aftermarket to the UK Economy 2016](#). It also examines how digitalisation continues to transform the ways parts and service providers operate, including findings from Frost & Sullivan's latest research on e-retailing in the UK automotive aftermarket.

The scope of this report is limited to the aftermarket for passenger cars and excludes motorcycles, commercial vehicles, buses and off-highway vehicles.

AUTOMOTIVE AFTERMARKET KEY PERFORMANCE INDICATORS

The UK automotive aftermarket enjoyed modest growth of approximately 2.4% in 2016, with total estimated retail revenue of £21.6 billion, up from £21.1 billion in 2015.

Industry employment grew slightly by around 0.4%, with small gains in employment for the maintenance and sale of parts and accessories, and higher growth for telecommunications and information service jobs related to the aftermarket. There are fewer jobs in the UK manufacturing of automotive aftermarket components, but steady growth in demand for R&D engineers, sales account managers and warehouse workers as parts suppliers enhance their support functions.

Frost & Sullivan expects that UK parts sellers and service providers will need to hire an additional 30,000 skilled service technicians, parts retailers and support staff over the next seven years to keep up with industry growth. In particular, it has been challenging to recruit and train young people to become service technicians, more so than for other jobs in the aftermarket. At present, growth in workshop employment is failing to keep up with the additional demand.

The independent aftermarket (IAM) continues to gain market share by approximately 1 percentage point annually as consumers migrate to non-authorised workshops and fast-fits. Lower cost to the consumer for routine maintenance and mechanical parts/repairs, given the UK's ageing vehicle parc,

has been one driver of growth for the IAM sector. Frost & Sullivan research reveals that prices in the IAM sector are between 45% and 80% lower than OEM workshops for tyres, batteries, brakes and starter motors, but this difference has fallen slightly from last year's range of 48% to 83%. This is because authorised repairers are increasingly selling and installing more lower-priced alternatively branded aftermarket parts for minor maintenance jobs to make their offering more competitive. Further, at least one OEM has developed a traditional warehouse distribution network in the UK to increase parts sales to independent workshops. However, labour rates remained about 45% lower at IAM workshops compared with authorised repairers.

In addition, as cars become more reliable and therefore remain in service for longer, they are less likely to be serviced within the franchised network. The average car registered in the UK is approximately 8 years of age, up from 6.3 years in 2003.

Franchised and authorised repairers continue to focus on more extensive forms of collision repair, particularly complex electrical systems, in-warranty vehicles and premium brands to sustain their position. Independent operators will also need to invest in the skills and equipment needed to keep pace with rapidly developing vehicle technology if they are to remain competitive. ■

¹ Based on average frequency of 1.15 workshop visits per car, per year (<http://www.motortrader.com/motor-trader-news/automotive-news/car-servicing-overtakes-mot-workshop-bookings-09-11-2015>)

AUTOMOTIVE AFTERMARKET: MARKET METRICS, UK, 2015-2016			
	2015	2016	Change
VIO (Million)	30.3	30.5	0.70%
Total Service Locations	42,544	42,446	-0.20%
Total Workshop Visits (Million) ¹	34.8	35.1	0.70%
Total Retail Revenue (£ Billion)	21.1	21.6	2.40%
IAM Market Share (%)	64%	65%	1.00%
OES Market Share (%)	36%	35%	-1.00%
Gross Value Added (£ Billion)	12.2	12.5	2.50%
Total Jobs	345,600	347,000	0.40%
Average Annual Spend (£)	695	707	1.70%

1. TOTAL VALUE OF THE UK AFTERMARKET: £21.6 BILLION

The revenue generated in 2016 from parts and services at the end-user level in the UK is estimated at £21.6 billion - an increase of 2.4% over 2015. The industry fell short of Frost & Sullivan's forecasted growth of 3% as replacement rates for mechanical/electrical parts declined and oil change service intervals fell.

Frost & Sullivan research suggests that tyre pressure sensors, integrated control arms, wheel hub and bearings, and premium wiper blades will be among the fastest-growing product lines. Regulations mandating tyre pressure monitoring systems will support demand for sensors, expected to grow by an annual 20-30% (CAGR) by 2022.

Meanwhile, changes to OE parts driven by vehicle manufacturer model updates is increasing demand for control arm assemblies that include the ball joint, new wheel hub configurations and beam-style wipers as these parts make their way into the aftermarket. Third-generation hub bearings feature a double flange attaching to the suspension to speed up vehicle assembly and replace single-flange components.

2. TOTAL SERVICE LOCATIONS: 42,446

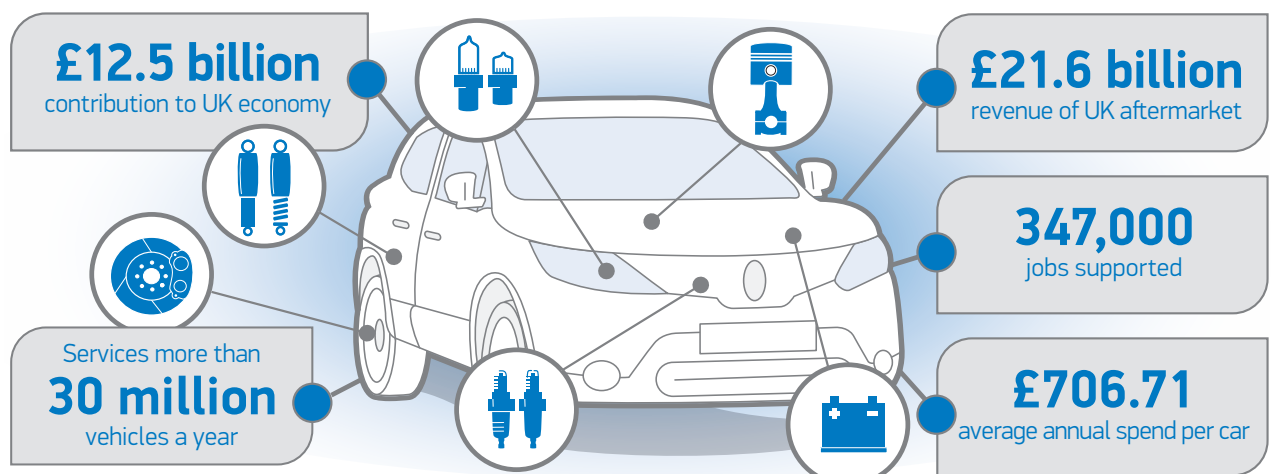
The total number of UK service locations declined slightly

in 2016 to an estimated 42,446 sites. This reduction reflects the closure of family businesses due to acquisition or retirement, or lack of funding for tools, training and equipment. Fast-fits, tyre shops and autocentres are expanding to fill the space.

Authorised dealerships in the OES channel accounted for about 12% of total service locations in 2016. With 35,000 locations compared with just 7,000 for authorised repairers, IAM sector workshops tend to be more conveniently located because there are more of them, and they tend to have lower overheads. OEMs have seen their market share decline, particularly for post-warranty cars.

3. AVERAGE ANNUAL SPEND: £706.71

The UK average spend on maintenance per car rose broadly in line with inflation, at a rate of 1-2% in 2016. This includes the retail costs of all parts, labour and accessories. One factor driving this is rising average vehicle age. Older vehicles typically require more servicing than newer vehicles, which are often still under warranty and less likely to be maintained in the independent aftermarket. General economic inflation - which has risen since the Brexit vote - has also played a role. ■



The June 2016 vote by British citizens to leave the European Union has injected substantial uncertainty into the domestic automotive aftermarket industry. Of immediate concern is the prospect of rising prices linked to the falling value of sterling, which could result in consumers spending less on maintaining their cars.

The possibility of tariffs on British products sold throughout Europe is also a major concern, putting investment and jobs at risk. Frost & Sullivan concludes that tariffs on automotive parts exported from the UK could cost British parts suppliers up to £3 billion in lost revenue.²

If the UK aftermarket loses tariff-free access to the EU, the worst-case scenario would see the introduction, under World Trade Organisation (WTO) rules, of a 2.5-4.5% tariff on imported components. These tariffs alone would cost the average vehicle owner an extra £21 a year for parts. However, when the impact of non-tariff barriers such as import quotas, subsidies, customs delays and technical barriers are included, the total additional cost could rise by 10%, amounting to some £70 per vehicle per year.

The chart below highlights the potential impact of Brexit-related tariffs, non-tariff trade barriers and inflation on consumers' maintenance and repair costs. Further consequences from the UK's departure from a customs union could include shortages of time-critical service and repair parts. Distributors would have to commit working capital to fund additional warehousing and contingency stock to mitigate against potential port delays.

The chart on the right highlights UK inflation and British pound exchange rate movements over the past two years. Brexit also casts uncertainty on a wide range of EU regulations that have governed Britain's aftermarket industry for the past two decades.

Parts and service suppliers across Europe do not anticipate a re-negotiation of EU Block Exemption rules after they expire in 2023,³ and in the UK, there is uncertainty about whether car owners will be able to continue to use independent workshops when vehicles are still covered by the new car warranty, given that EU rules may not apply post Brexit. However, it is anticipated that the Great Repeal Bill would likely ensure the continuation of pro-competition rules.

While the draft Type Approval Regulation has provisions for accessing technical repair and maintenance information, clarity is required on regulatory continuity between the UK and EU following Brexit.

British parts manufacturers are also concerned about possible changes to the EU Type Approval Framework, which could have an impact on whether they can sell their products to the rest of Europe.

The Vehicle Certification Agency (VCA) is the British body with type-approval authority to certify that UK-made tyres, brakes and other parts meet European Commission technical, safety and environmental standards. It is unclear what type of regulatory framework will replace the current structure

AUTOMOTIVE AFTERMARKET: BREXIT IMPACT ANALYSIS, UK, 2015-2016				
	2015	2016	Post-Brexit (Year 1)	Post-Brexit (Year 1)
Current Costs			£707	£787
Tariffs			£21	-
Non-tariff barriers	£695	£707	£49	-
Inflation			£10	£10
TOTAL	£695	£707	£787	£797

Note: Inflation rises from 0.7% to 2.1% in Year 1, then to 2.3% in Year 2

Recent economic indicators suggest that aftermarket parts and service providers may have reason for concern. The UK's overall rate of inflation rose sharply in 2016 compared with 2015 – from less than 0.1% to nearly 0.7% – reaching 2.3% in February and March of 2017. At the current pace, this will add another £10 or more to the cost of maintenance and repairs on each car. So far, there has been no visible impact on consumer spending on car maintenance.

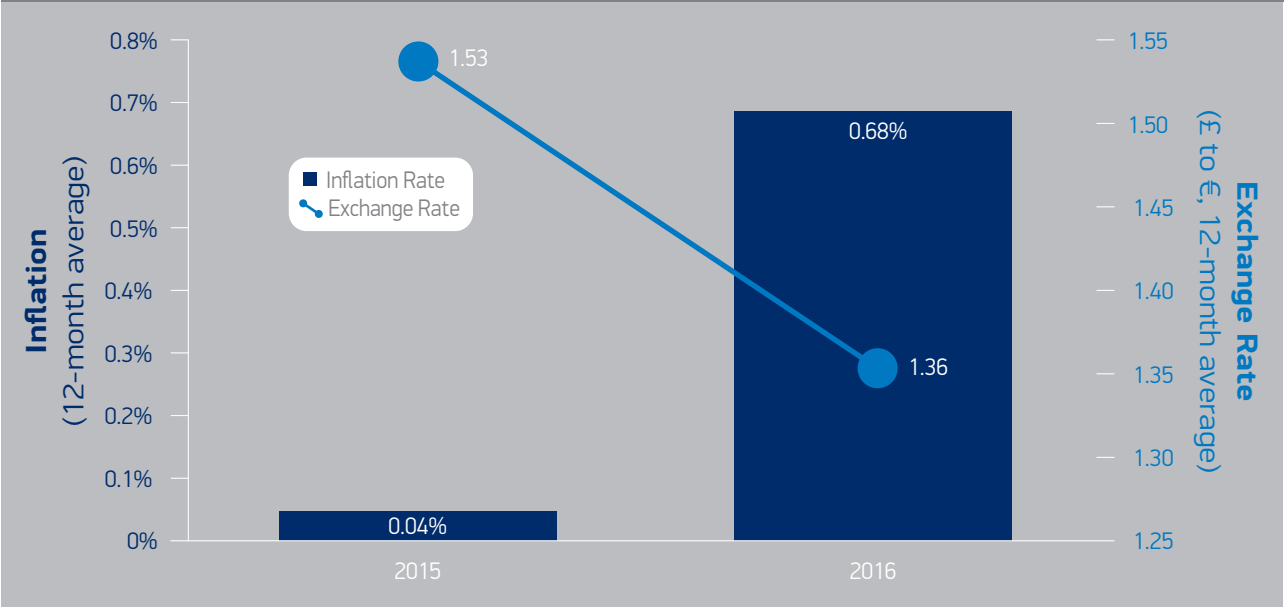
By the end of the year, suppliers will either absorb price increases and see a reduction in their profit margins or raise their prices and risk reduced custom.

once Britain leaves the EU, or whether additional components will fall under the type approval requirement going forward. In addition there are concerns that existing VCA approvals may no longer be valid.

The UK aftermarket industry hopes to maintain the VCA's ability to issue European type approvals, and to reduce the burden on exporting products to its neighbours. The independent sector also supports the obligations of OEMs to supply repair and maintenance information about type-approved systems for independent operators and repairers at the same price as the rest of Europe. ■

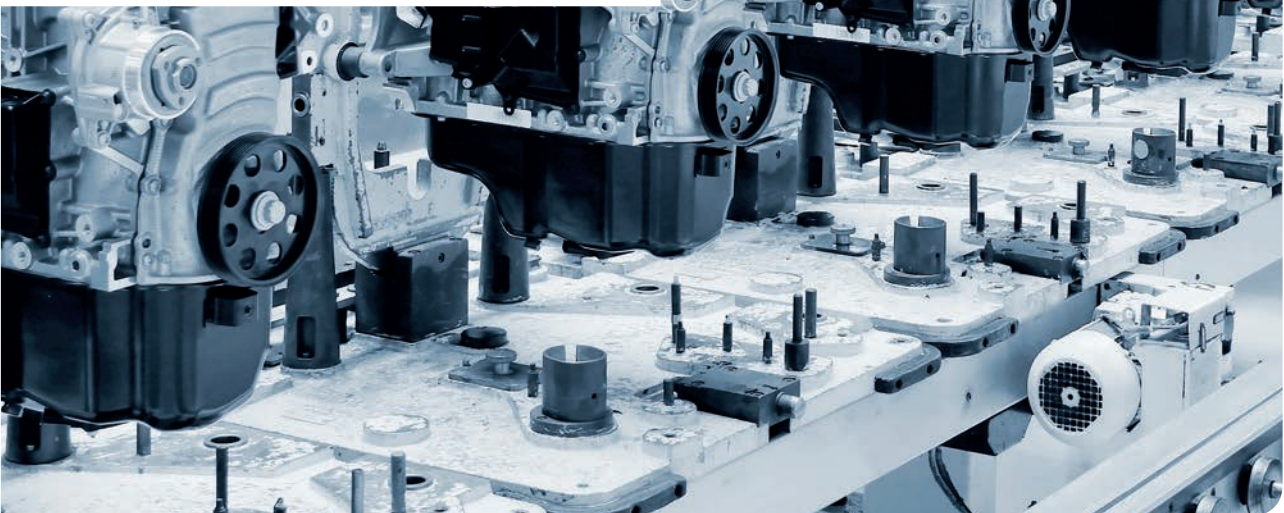
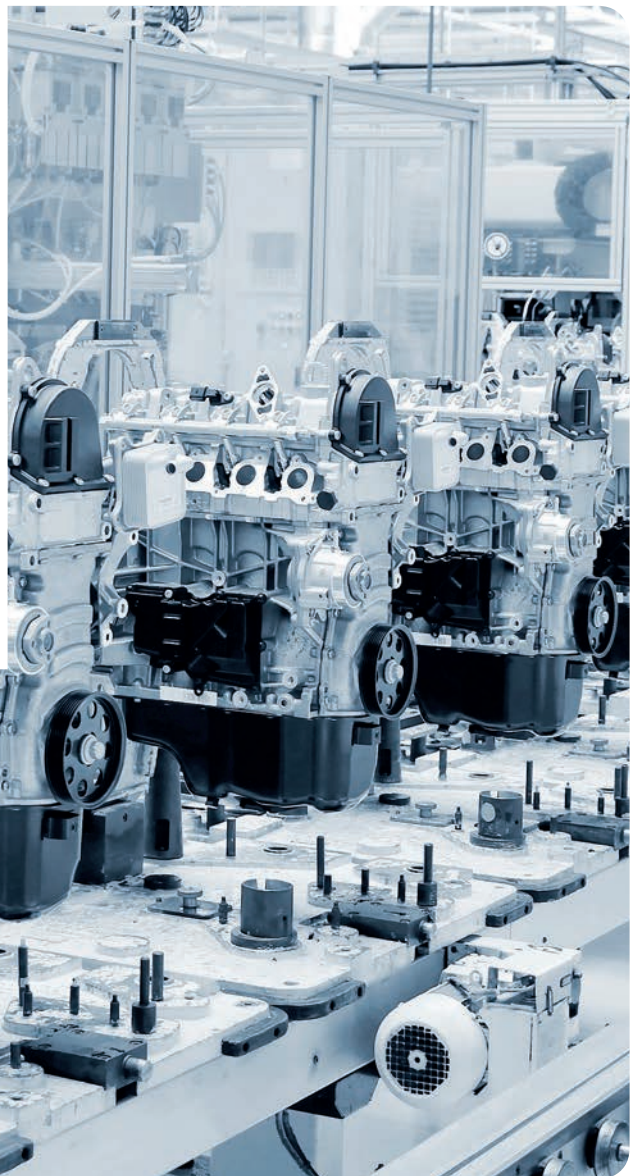
² Based on a worst-case scenario that UK businesses lose most of their £4.2 billion in aftermarket exports due to a loss of price competitiveness. In this case, UK aftermarket exports would decline by 71.2%. ³ Based on Frost & Sullivan research interviews.

AUTOMOTIVE AFTERMARKET: INFLATION AND EXCHANGE RATES, UK, 2015-2016



CONSUMER IMPACT	
Impact	Threat Level
Higher prices for parts and services	High
Decreased spending on car maintenance	Medium
Reduced employment ³	Low

INDUSTRY IMPACT	
Impact	Threat Level
Regulatory uncertainty	High
Potential for tariffs	High
Loss of export markets ³	Medium
Supply chain disruptions	Medium
Reduced investment	High



CURRENT UK-EU RELATIONSHIP AND TRADE BALANCE

The UK aftermarket is currently suffering a large and growing trade imbalance for vehicle parts and accessories. Britain imports more than twice as much as it exports, a trend that has held steady for years. The difference amounts to about £6.2 billion in parts and accessories sales not captured by British suppliers.

Britain currently imports a wide range of both highly engineered and commoditised products into the automotive aftermarket. Many OEM parts come from Germany, France and other European countries. However, supply chains for many common components also originate in China and India.

Although the UK makes tyres for domestic consumption at several facilities around the country, a large majority – about 80% – of aftermarket products consumed in Britain come from abroad, including an estimated 15% from EU countries.

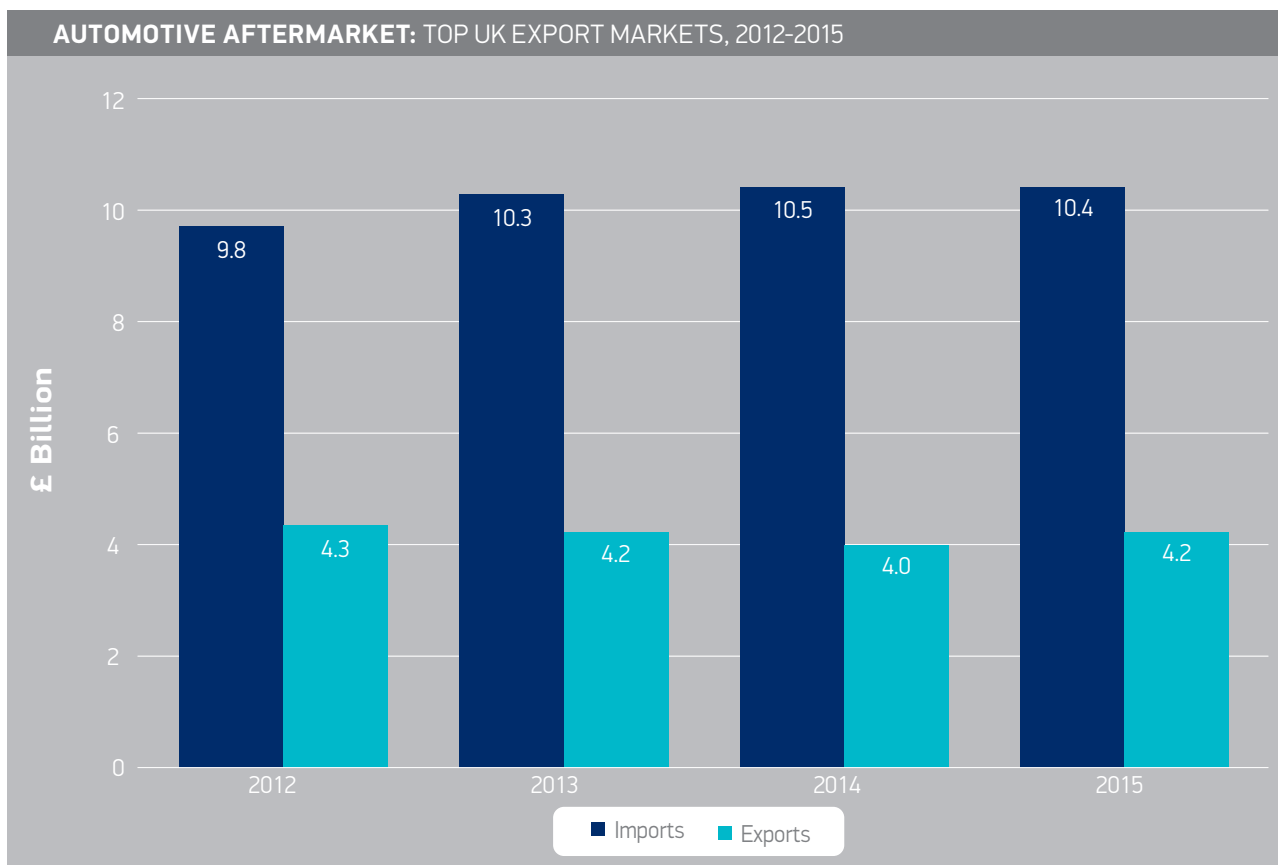
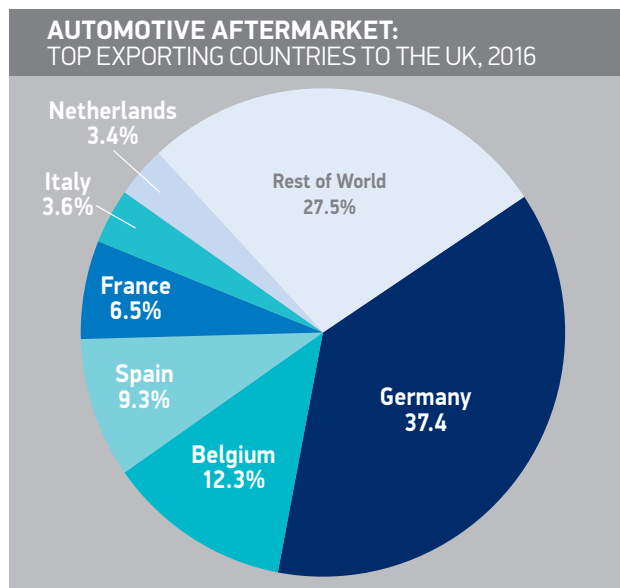
Although it would be a challenging task, reducing the UK aftermarket's trade deficit by just 5% would create approximately 65,000 new jobs across the country.

Government and industry leaders should collaborate to help grow the local aftermarket supply chain, and reduce the industry's trade deficit with the rest of Europe and Asia.

As shown in the chart on the right, Britain's top six export destinations are all European countries. In total, more than three-quarters of Britain's imports are produced by its European neighbours.

This adds to concerns about the aftermarket's post-Brexit future.

There are two major reasons why the UK aftermarket relies so heavily on imports. First is that, although the UK is the EU's third largest manufacturer of cars, after Germany and Spain, fewer OE suppliers are clustered here. Second, although Britain's labour costs are attractive by European standards, they are relatively high compared with emerging regions in Asia. With fewer parts factories, the UK is forced to run a trade deficit to support domestic consumption. ■



UK EXPORTS

Despite the current trade imbalance, UK-based companies export a wide range of high value, technologically advanced components and services across the world. The UK manufactures sensors, electronics, fuel injectors, pumps and filters, among other products, that are sold in other countries.

As shown in chart below, around 65% of UK exports are delivered to EU countries. The spectre of tariffs on these goods could threaten the viability of British suppliers that depend heavily on the rest of Europe for sales.

While the share of UK exports to EC nations has grown sharply – from 58% to 65% of parts and accessories over the 2012-2015 period – so too has the proportion of British products sold to Asia and other emerging markets, up from 13% to 17% over the same period.

Recent Frost & Sullivan research revealed that UK-based aftermarket companies with sales in several emerging regions (China, India and the Middle East) enjoyed growth rates of four to five times higher than the domestic industry average of 3.0%. This is because the total car population is also growing much faster in many export markets.

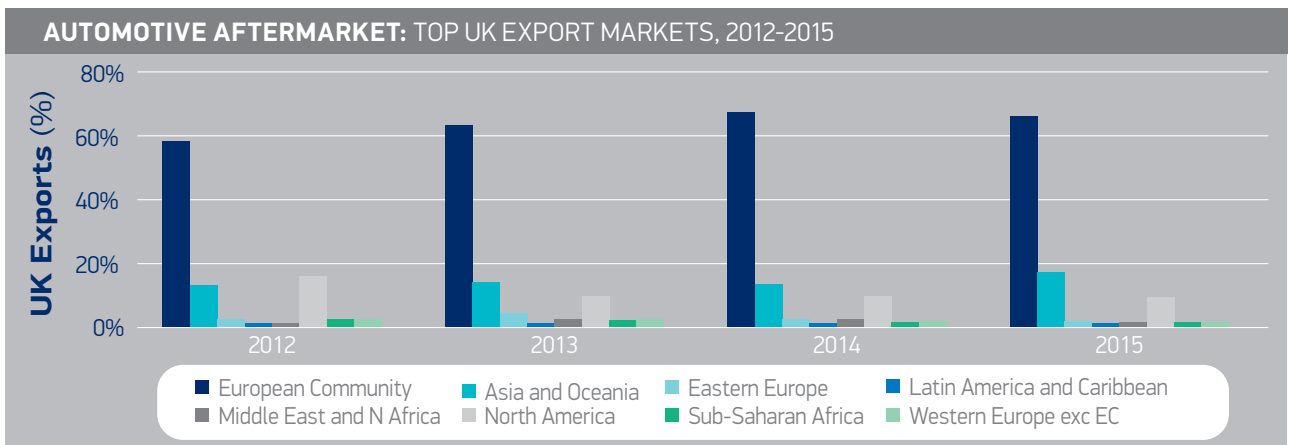
Frost & Sullivan believes that if UK-based aftermarket companies are able to compete on cost, they could recover some loss of Brexit-related trade by developing new customers in these regions.

The government's forthcoming industrial strategy, which aims to address long-term challenges to the UK economy, includes new measures to help British companies increase exports.

Plans call for doubling the funding available to British suppliers through UK Export Finance. In addition to financial aid, the UK Department for International Trade offers insurance and advisory services to aftermarket companies selling products and services abroad.

The UK government has also established the Infrastructure Exports Leadership Forum (IELF) to support businesses through discussions on market access issues with third countries.

UK aftermarket companies have also benefitted from the government's Trade Show Access Programme (TAP), which, via the Department for International Trade (DIT), awards a number of grants each year to firms exhibiting at international trade shows. The scheme is widely regarded as having been successful, with SMMT members identifying more than 1,500 leads and a potential £5.3 million worth of new business revenue from one single event in 2016. However, the programme is currently under review, and industry is calling for its continuation at current funding levels to prevent undermining export ambitions and future international trade opportunities. ■



MERGERS AND ACQUISITIONS

In recent years, mergers and acquisitions have become routine news in the UK automotive aftermarket, with large parts sellers increasingly purchasing their smaller rivals. This trend will continue in the coming years as increasing vehicle complexity, rising technology costs and price competition drive further consolidation.

In 2016, Euro Car Parts acquired 102 branch locations of competing distributor Andrew Page, as well as its national distribution centre and corporate office. Alliance Automotive Group, which also has members in Germany and France, purchased 21 spare parts hubs from UK-based FPS Distribution in a move that generated an estimated £170 million in annual turnover.

Another large British parts supplier, The Parts Alliance, announced its acquisition of motor factor Waterloo, which has branches in Hull, Beverley and Bridlington. Euro Car Parts and The Parts Alliance have themselves been acquired by private equity investors in recent years.

This trend of consolidation is set to continue and the impact is likely to strengthen the IAM by creating larger companies with more market power. Increasing vehicle complexity is making it more difficult for small repairers to keep pace with the training

and equipment needed to work on them. With a high degree of fragmentation, many companies do not have the capital to invest in digitalisation or to keep pace with other business costs so they sell their businesses to better-financed rivals. Others lack the size, or the supply chain, to match competitors' prices.

Although consolidation threatens the viability of many enterprises, it would be difficult without it for the aftermarket to adapt to changing customer expectations. Workshops and vehicle owners have access to more information than ever online, increasing their bargaining power.

For parts manufacturers and distributors, consolidation often reduces profit margins but increases market share. For workshops and consumers, it should help to keep prices in check as rising inflation threatens costs for imported goods.

Aftermarket suppliers must be open to alliances with larger companies with greater economies of scale to protect their businesses. However, in order to succeed in the digital aftermarket of the future, Frost & Sullivan believes their focus should be on integrating their business with technology partners to establish a presence on mobile and connected car platforms. ■



The UK government is considering a proposal to reduce MOT inspection requirements to begin in the vehicle's fourth year of service instead of at three years of age. It has generated considerable opposition from the automotive industry at large, including OEMs concerned about maintaining improvements in vehicle safety.

The idea is to save consumers money and align inspection requirements with other, but not all, countries in Europe. However, it would delay the inspection and maintenance of tyres, brakes, exhaust and other critical components on three-year-old vehicles – 17% of which fail their first MOT test. The overall cost to the economy in increased accidents, injuries and fatalities could outweigh any saving identified for individuals.

In this context, UK parts and service suppliers are calling for government to keep the “3-1-1” requirement—meaning motorists would still need to have their cars inspected annually starting with the third year after first registration.

Advances in emission control systems have made vehicles run cleaner than ever, but many of these components are not properly maintained. For example, some car owners are removing the diesel particulate filter, which can be expensive to replace, suggesting that current inspection requirements may be inadequate to protect public health and safety. An MOT test currently cannot always readily identify where these parts may have been removed through failure of the component or in the search for small increases in fuel economy.

Furthermore, industry leadership is pushing to strengthen the MOT test to identify cars that are emitting excessive tailpipe pollution. This would require a thorough inspection of diesel particulate filters and catalytic converters to ensure they are working as intended, as well as a check of the vehicle's NOx emissions control systems.

Their position also calls for an increase the test frequency for vans, which are driven more frequently and have higher MOT failure rates, starting in the first year instead of the third. Replacement rates for wear-and-tear components are generally higher on such commercial use vehicles.

Finally, the MOT should also be used to check the status of vehicles subject to various safety recalls, and to inspect the mileage to discourage clocking, the practice of rolling back the odometer to show less usage.

In addition to the negative effects on public health and safety, delaying the first MOT inspection to the fourth year would also impact parts suppliers and workshops by deferring demand for their products and services. Frost & Sullivan analysis concludes that 400,000 three-year-old cars requiring an average of £500 in parts and labour to meet MOT inspection requirements would be deferred, or possibly unspent, depending on the owner's behaviour. This would reduce total revenue across the UK automotive aftermarket by an estimated £250



million – just over 1% of the industry's market size.⁴

A 2017 SMMT survey, conducted by YouGov, of 1,277 UK adults found wide support for the industry's position. Seventy-seven percent said a car's first MOT should continue to take place when it is three years old. Other findings included:

- 68% of car owners said they believe extending the length of time before a car has to go for its first MOT would put drivers, passengers, pedestrians and other road users in danger.
- 84% of car owners said the typical £45 cost of an MOT is worth the peace of mind that the car is safe, roadworthy and legal.
- 89% of car owners would be unlikely to consider purchasing a car aged more than three years old that did not have a valid MOT certificate.

The findings suggest that British drivers take seriously their responsibilities to properly maintain and repair their vehicles. With industry and consumers aligned on the importance of a rigorous MOT for public safety and health, the UK aftermarket should consider how to build upon this message to engage consumers about ongoing maintenance needs, which has a positive impact on parts and service sales growth. ■

⁴ Based on the number of 3-year-old cars in the UK (more than 2.3 million) times the failure rate (17%) of the first MOT. The £500 cost to meet MOT requirements assumes the need to replace tyre(s), lambda sensor(s) or some similarly priced repair.

EVOLVING PERSONAL MOBILITY BEHAVIOUR

In this report, personal mobility refers to how global megatrends such as urbanisation, technology and economic factors support the development of new transportation solutions. In addition to car ownership, it includes leasing, carsharing, carpooling and e-hailing, along with traditional modes of public transport, motor scooters, walking and cycling.

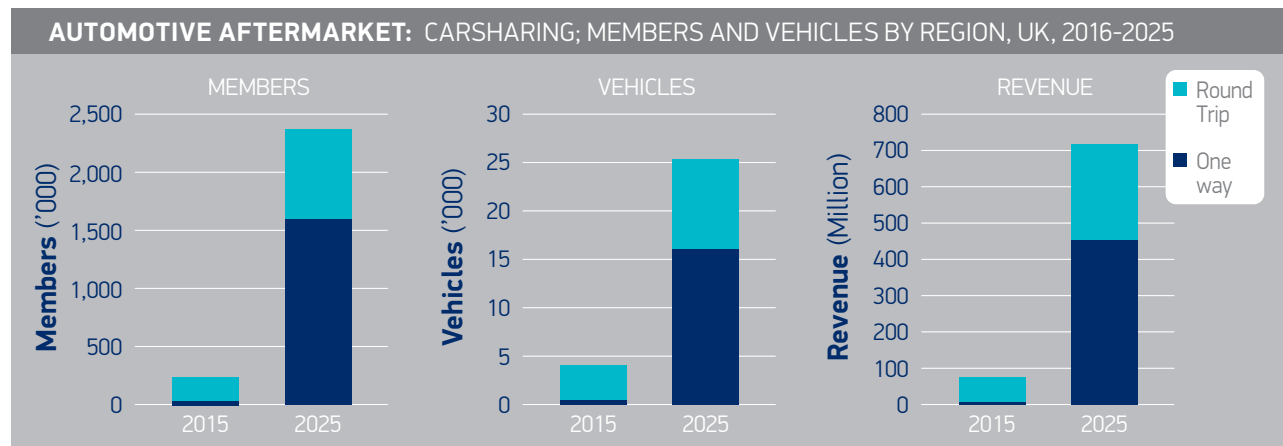
Carsharing – which allows people to book a reservation to borrow someone else’s car – and e-hailing – whereby commuters can summon a taxi or another vehicle owner to pick them up using a smartphone app – are among the most popular new mobility solutions that could impact demand for parts and services in the UK automotive aftermarket.

This emerging transportation ecosystem presents both threats and opportunities for British parts and service suppliers.

CARSHARING

Carsharing operators – including Zipcar, DriveNow and Enterprise Carshare – currently have more than 200,000 members across the UK and Frost & Sullivan expects membership to exceed 2.3 million by 2025.⁵ Under current forecast assumptions, this would remove an estimated 160,000 cars from UK roads over the next eight to 10 years.

However, statistics suggest that carsharing could actually emerge as a net-positive for the automotive aftermarket. This is because Britain’s vehicle parc continues to grow each year as consumers respond to a raft of new technology, and favourable financing schemes make it easier for more people to buy new cars. At the same time, relatively low fuel prices have made it possible for British motorists to drive farther for less than they paid a decade ago.



In addition, shared-use vehicles typically travel more miles and endure more wear and tear than personal-use cars. Replacement rates and service intervals for tyres, lubricants, brakes and other minor maintenance jobs are at least several times higher for shared-use cars, and carsharing operators rely on local parts and service providers in each of their markets to keep their vehicles in service.

As a result, suppliers should target carsharing operators as potential customers in the aftermarket.

E-HAILING

Like carsharing, e-hailing is a new mobility service, with major participants in this business including Uber, Gett and Addison Lee, among others.

According to Frost & Sullivan research, e-hailing could potentially remove about 10.41 million vehicles from the road worldwide by 2025. Under current forecast assumptions, this would remove an estimated 300,000 cars from UK roads over the next eight to 10 years.

However, although e-hailing could result in a decline of private-vehicle sales in the UK, this is likely to be offset by increased sales of shared vehicles that need to be replaced more often due to higher use and related wear and tear.

E-hailing companies could even emerge as technology partners to parts and service providers that do not have their own mobile communication platforms. As the convergence of e-retailing and connected car technologies changes how people maintain and repair their vehicles, it also puts at risk suppliers without a mobile presence. Frost & Sullivan suggests that aftermarket suppliers seek developmental partnerships with personal mobility companies, perhaps by offering parts and service in exchange for access to their mobile platforms and technology.

⁵ Frost & Sullivan’s research services are based on secondary and primary research data. Over 15 interviews have been conducted over the phone by senior consultants/industry analysts with OEMs, regulation authorities, and distributors to develop this estimate.

FLEET AND LEASED VEHICLES

Company-owned cars and vehicles purchased under an operational or financial lease comprise about 20% of the UK's vehicles in use (VIO). These vehicles are often newer cars that are maintained more frequently than older models.

The fleet-owned and leased segments of the aftermarket are growing faster than the car parc as a whole. Lessees tend to adhere strictly to vehicle maintenance schedules to protect their investment in the car. This means company-owned cars receive more oil changes, brake replacements and new tyres than personal-use vehicles. Working with fleets and leasing companies gives aftermarket suppliers the chance to service

networks should look for ways to approach fleet managers with compelling service offers. As an example, a parts seller that offers consigned inventories of fast-moving products such as motor oil and batteries could convince fleet managers to change their procurement practices and reduce their parts costs while increasing total sales to this customer segment.

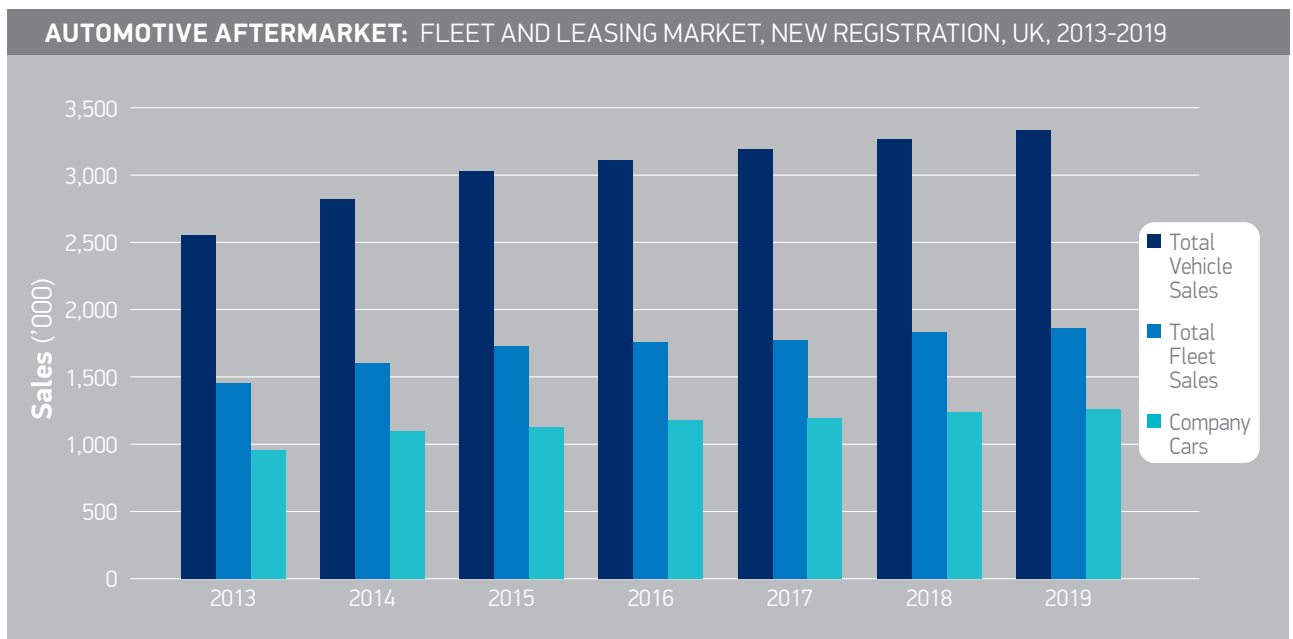
Like consumers, fleet and lease companies often choose IAM suppliers for minor maintenance parts and service because of their price advantage against authorised repairers. However, they are more likely to use authorised repairers (about 50% of the time) than consumers (about 30% of the time).

AUTOMOTIVE AFTERMARKET: FLEET AND LEASED VEHICLE SHARE OF CAR PARC, UK, 2016			
	Million	(%)	CAGR (2016-2022)
Total VIO	30.5	--	0.60%
Total Company Car Parc	4.6	15.10%	0.80%
Total Leased Car Parc	1.4	4.60%	2.50%

more vehicles while reducing the number of customer interactions. The strong performance of these segments is a positive indicator for the UK automotive aftermarket as a whole.

However, fleet and leased vehicles are also likely to be attached to maintenance and service contracts that may bind them back to an authorised or franchised repairer for parts and labour. Also, some large fleet owners in-source routine maintenance. To take advantage of opportunities in this segment, parts sellers and independent workshop

However, the ageing of the UK vehicle population as a whole should drive a bigger share of the fleet/lease aftermarket to independent parts and service suppliers over the medium to long term. The primary risk with pursuing this business is reduced profit margins, owing to the higher sales volume, bargaining power and price sensitivity of fleets and leasing companies. Aftermarket suppliers should balance their exposure to these customers with opportunities in other sales channels to protect their profits and avoid a significant loss of market share if the company later awards the business to a competitor. ■



CONNECTED VEHICLES

A connected vehicle sends and receives data captured by a growing network of microprocessors and sensors embedded in the car. The depth and breadth of this data may cover everything from engine performance, location, temperature and pressure readings, braking, in-car entertainment—even the driver’s pulse and blood pressure.

A connected car uploads as much as 25 gigabytes of data to the cloud every hour. This is equal to around 6,000 music tracks, 200 movie downloads or 1,250 hours of web browsing.

Depending on the type of data and subject to B2B agreement, or user consent where personal data is involved, data from the vehicle can be shared with the vehicle user, the vehicle owner, vehicle manufacturers and component suppliers, third party service providers or platforms in the cloud and, in some cases, with the authorities in compliance with legal requirements. No personal data is transferred to third parties without the consent of the customer, who retains the right to activate or deactivate services and transmission of data, or part thereof, except where data must be processed to comply with legal, statutory or contractual requirements (e.g. eCall, with fleet operators). Repairers can also tap in to this data to measure the performance of system components, set maintenance schedules and contact the owner for a service appointment.

Protection of personal data such as personalised in-car settings and vehicle location and speed, insofar as these are tied to a personal identifier, is essential if consumers are to have confidence in connected vehicles. The foundation for the responsible handling of personal data is upholding transparency and self-determination for the customer.

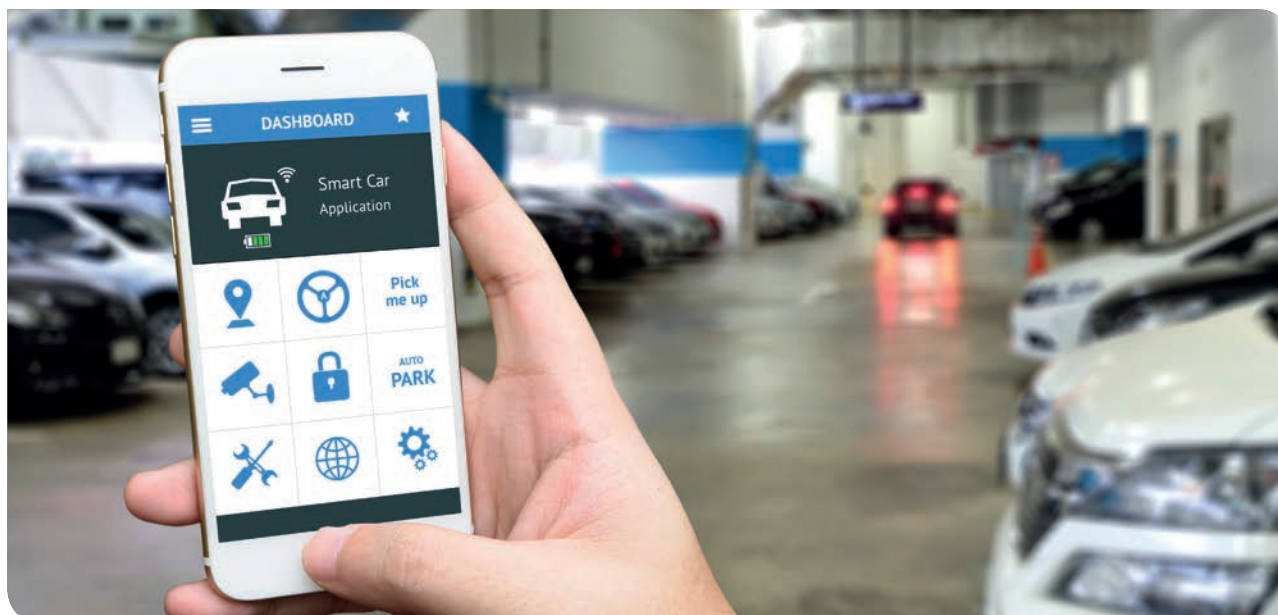
DATA ACCESS

Connected car technologies will change dramatically how people maintain and repair their cars over the medium to long term. Motorists can receive information on required maintenance or impending component failure from the car itself, shop for parts, schedule services, view repair tutorials and even receive special offers.

Because of its commercial value, the question of who owns the data, and how it is accessed, is of paramount importance to the UK aftermarket industry. In addition to aftermarket parts and service suppliers, insurers, fleet operators, traffic management authorities, entertainment and travel service providers are also interested in accessing and using the growing amount of vehicle-generated data.

eCall, a new safety initiative required for all new vehicles sold in the European Union as of April 2018, is also linked to discussions concerning access to vehicle-generated data. It requires the factory installation of a telematics device that automatically dials emergency services following a serious collision, sending the vehicle’s location coordinates to responding agencies.

A potential risk of over-the-air open access to data while the vehicle is moving is cyber security. Vehicle manufacturers are concerned that unrestricted access directly in the vehicle runs the risk of compromising security, safety and privacy. Protecting vehicles against cyber-attacks is therefore paramount to efforts to open up access to vehicle data to the aftermarket and any third party.



⁶ This is based on analysis of OES (authorised repair) versus IAM parts and labour pricing. IAM sector prices are generally 45% to 80% lower than for the same OES products and services. Consumers would be forced to purchase more parts and labour through OES channels in this scenario.

Initiatives are under development at the European level to regulate data sharing and protection. Restricting access to vehicle-generated data could reduce consumers' choices in the aftermarket and put the IAM at a competitive disadvantage. The European Automobile Manufacturers' Association (ACEA) and the European Association of Automotive Suppliers (CLEPA) have joined forces to try and find a solution for secure and safe access to vehicle-generated data via an off-board facility, while European aftermarket association FIGIEFA presses for new regulation to allow for unfettered over-the-air access to vehicle data.

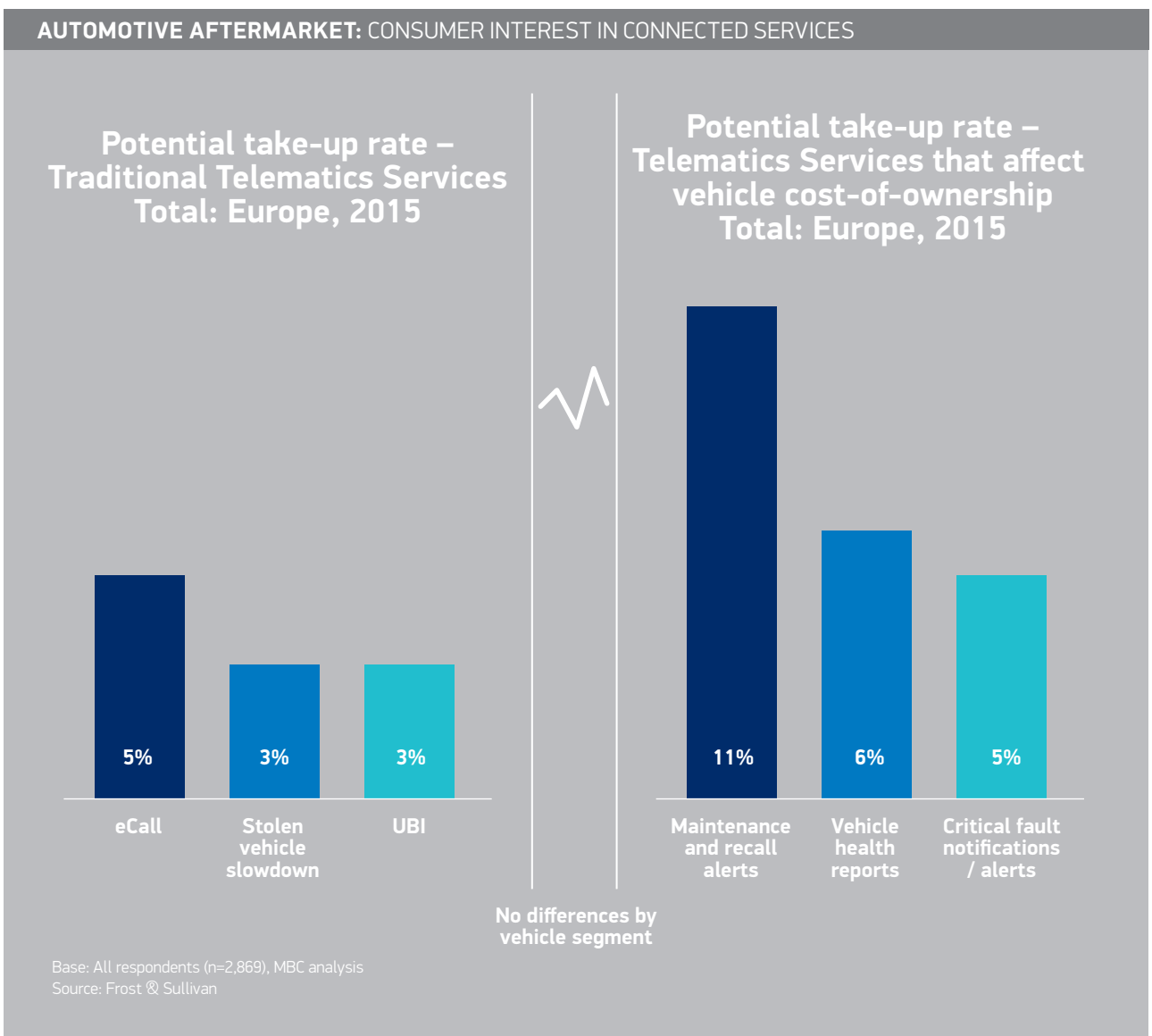
UK-based parts manufacturers, distributors and service providers have urged regulators to allow vehicle owners to decide with whom they share data from their cars. The industry also wants to make sure that diagnostic and repair data is available at a fair price and quality and in a timely fashion, but without compromising security, safety and privacy.

This will ensure a high level of consumer choice, convenience and access to competitive prices. If vehicle owners cannot

determine how data captured by their cars is appropriated in the aftermarket, it could restrict their choices of parts and service providers and increase the cost of maintenance and repairs by as much as 50% per car.⁶

It will also allow the aftermarket and related industries to offer a range of new products and services to car owners, including usage-based insurance, stolen vehicle tracking, driver monitoring and vehicle health reports. Frost & Sullivan research suggests that British motorists are interested in aftermarket-based data services that make it easier to maintain and repair their cars.

In order to find a win-win solution it is important that all stakeholders make efforts to understand and appreciate the divergent positions. In a bid to foster such understanding, SMMT is working to broker and mediate meetings at which key parties can exchange views and ideas in a collaborative manner. It is hoped that this open dialogue between interested parties will help eventually to bring about mutually acceptable and beneficial outcomes. ■

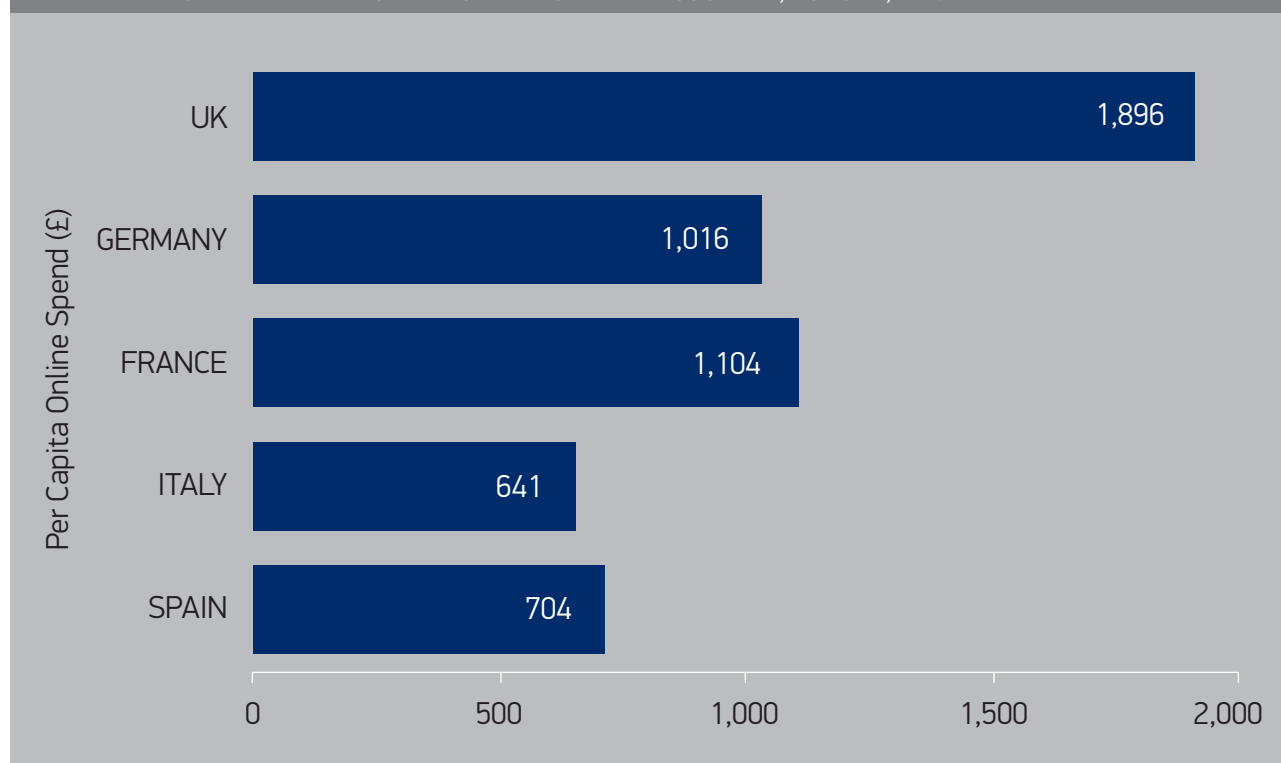


Online parts sales are growing at a rate of around 10.5% a year (CAGR) – much faster than the whole UK aftermarket’s 3.0%. One in three British people visits eBay.co.uk every month, and the site is emerging as a growing marketplace for automotive parts. As shown in the chart below, UK per capita online spend is amongst the highest in Europe, making it likely that British vehicle owners will buy even more parts, accessories and services from e-retailers in the future.

Online penetration of aftermarket parts, accessories and services is slightly lower in the UK (4%) than in Germany or France (5%), but higher than in Spain or Italy (2%). This is because of the higher presence of automotive e-retailers, or online sellers that focus on parts and accessories, in Germany and France. In the UK, mass e-retailers such as Amazon and eBay feature more prominently in the aftermarket.

The increasing popularity of ‘click-and-fit’ is a major factor driving more vehicle owners to shop online for their parts because the car can be serviced while they’re parked at work or home. This allows people to buy parts – mostly consumable, ‘wear-and-tear’ products such as tyres, brakes, batteries and wiper blades – and book service online with a local workshop, then have the service completed at their home or workplace.

ERETAILING MARKET: PER CAPITA ONLINE SPEND BY COUNTRY, EUROPE, 2015



The aftermarket for online parts also includes specialised distributors such as Blackcircles.com, a tyre dealer, as well as traditional participants such as Halfords and Unipart Automotive. As shown in the charts below, UK consumers in 2016 purchased an estimated £0.92 billion in automotive parts, accessories and services online – about 4.3% of total industry sales. Frost & Sullivan forecasts UK online parts and accessories sales to reach 1.65 billion by 2022 – up to 6.4% of the total aftermarket.

Tyres account for the highest product share sold online (about 30%), followed by brake parts and batteries. Tyres and accessories make up a large share of the top-selling aftermarket products online because consumers do not need as much information to purchase the right products for their particular vehicle. However, mechanical parts that are specific to a vehicle brand/model make up a small, but growing share of sales due to a vast supplier base and the growing availability of mobile fitting services.

However, workshops need to ensure they have sufficient confidence in any parts brought to them in this way before fitting, so may prefer to only source parts themselves.

Competing manufacturers or distributors may be selling the same products at the same prices, since different brands are often manufactured by the same offshore producers. Offering vehicle owners something extra – whether it is mobile fitting, same-day delivery or better warranty support – can be an effective way to attract and retain customers. E-retailers, particularly the large marketplaces, have many ways to enhance and differentiate the way they serve buyers of aftermarket parts and accessories, which contributes to their high growth.

In general, the UK enjoys higher online sales than any other European country, although the aftermarket sector trails Germany because it has more cars in use than Britain.

AUTOMOTIVE PARTS AND SERVICES E-RETAILING MARKET: COUNTRY PROFILE, UNITED KINGDOM, 2016

United Kingdom



-  Internet Users: 51.3 Million
-  Online Shoppers: 40.6 Million
-  Per Capita Online Spend: £1,891
-  Smartphone Penetration: 73.6%



Total Online E-retailing Revenue (2016): £76.79 Billion

(Total sales of goods and services online; excludes travel and event ticket booking)



Automotive Aftermarket Online Sales Revenue

2016: £0.92 Billion
2022: £1.65 Billion
CAGR (2015–2022): 10.5%

(Includes sales of replacement parts and accessories alone)



Demographics (2015):

40.9% population between 25–54 years of age

(Age group with the highest probability to own a vehicle)



Market Outlook

- There will be immediate challenges with respect to cross border trade, owing to Brexit.
- DIFM heavy market requires new business models to ensure continued growth in parts eCommerce.

IAM suppliers and automakers face similar obstacles in their approach to online part sales – how to capitalise on the potential without eroding price points, diluting brand value or creating channel conflict with their traditional customer base.

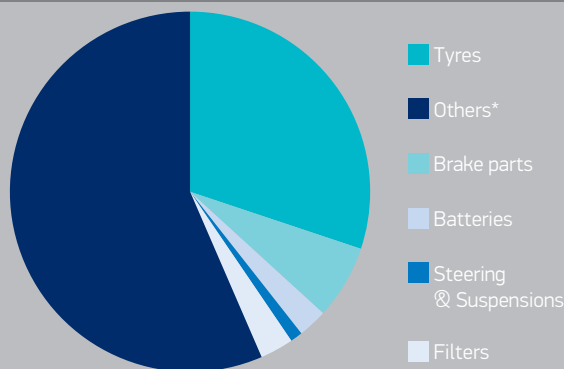
UK per capita online spend is amongst the highest in Europe, making it likely that British vehicle owners will buy even more parts and accessories from e-retailers in the future. That means UK parts suppliers, as well as workshops, cannot afford to ignore them.

For now, though, E-retailing is still a wear-and-tear and do-it-yourself trend, meaning that volumes of hard parts such as timing belts, fuel pumps and radiators will remain low over the short to medium term. That gives suppliers with less direct exposure to consumers more time to work through the challenges.

The main obstacle for workshops using such sites is the need for same-day delivery and service bay efficiency. E-retailers still cannot match the value of traditional distributors that deliver application-specific parts to workshops in an hour or less. However, E-retailers are themselves investing in logistical infrastructure – including warehouses, couriers, workshop management tools, and even drones – to address these barriers and offer the same ‘hot-shot’ delivery to workshops as traditional distributors.

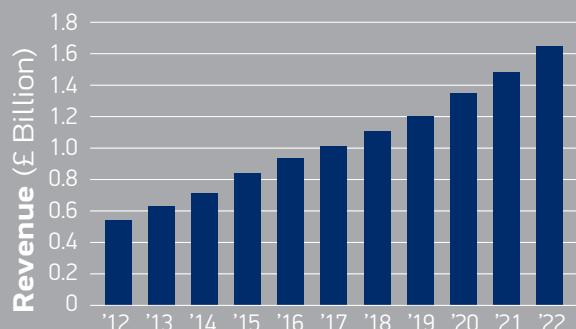
If – or when – E-retailers develop these capabilities, it could significantly shift the automotive aftermarket industry and leave little place for suppliers that are not selling their products and services online.

AUTOMOTIVE PARTS AND SERVICES E-RETAILING MARKET: PERCENT REVENUE BY COMPONENT SPLIT, UNITED KINGDOM, 2016



Others include wiper blades, lighting, powertrain components and accessories, among others.

AUTOMOTIVE PARTS AND SERVICES E-RETAILING MARKET: REVENUE FORECAST, UNITED KINGDOM, 2012–2022



E-RETAILING

Although e-retailing is usually associated with parts, service providers are also starting to make sales online. UK-based whocanfixmycar.com is one service aggregator that allows workshops to bid on maintenance and repair jobs posted on their site by vehicle owners. In the past year, the company has doubled in size and has introduced financing services to help motorists looking for a local workshop with a good reputation. Clickmechanic.com and autobutler.com operate similar platforms.

Frost & Sullivan estimates that there are more than 100,000 users of automotive service aggregators in the UK, based on

statistics provided by market participants. Service aggregators are a good way for smaller workshops to get exposure to more customers because their offers can be displayed alongside larger, more established service centres. As more consumers turn to the Internet to compare parts and service offerings, it is increasingly important that British workshops use these platforms as a sales channel to younger, tech-savvy consumers, as well as motorists that do not have a mechanic that they call on regularly. For workshops that leverage these platforms properly, service aggregators can be a high-growth sales channel that attracts new customers to their business. ■

AUTOMOTIVE AFTERMARKET: GROWTH OUTLOOK		
Seller type	Outlook	Estimated CAGR (2016-2022)
Tyre e-retailers	Tyre e-retailers to continue to be the only marginal force in this channel	5-10%
Auto e-retailers	Growing share of distribution and local auto e-retailers set to benefit from Brexit	12-15%
Mass e-retailers	Share of aftermarkets sales to increase slightly	12-15%
Traditional participants	Strong influencers to continue to expand eCommerce channels	10-12%
OES channels	Direct e-stores could follow success of marketplace store	5-10%
Dealers	Little activity limited to marketplace; might increase with the roll-out of OES e-stores	5-10%
Suppliers	Possibility of opening direct stores in local marketplaces	5-10%
AVERAGE		10.5%

UK GOVERNMENT

1

PROTECT THE UK'S TARIFF AND NON TARIFF-FREE BARRIER STATUS WITH EU TRADE PARTNERS IN BREXIT NEGOTIATIONS

UK-based parts suppliers could lose up to £3 billion in revenue under World Trade Organisation rules if tariffs and other non-trade barriers are enacted across EU nations, threatening UK jobs and investment

2

SECURE THE VEHICLE CERTIFICATION AGENCY'S (VCA) CONTINUED AUTHORITY TO ISSUE EUROPEAN TYPE APPROVALS AND MAINTENANCE OF EXISTING CERTIFICATE VALIDITY

If the VCA cannot certify that UK-produced aftermarket parts meet EU technical, environmental and safety standards, it will increase the burden on British suppliers exporting products into Europe.

3

MAINTAIN THE 3-1-1 RULE REQUIRING THE FIRST MOT CAR INSPECTION AT THREE YEARS OF AGE

Delaying the first required MOT inspection until the age of four would increase pollution and reduce public safety. Furthermore, British motorists do not support it.

UK AFTERMARKET INDUSTRY

1

DEVELOP ADDITIONAL TECHNICIAN TRAINING RESOURCES AND APPRENTICESHIPS

The industry's skills shortage will intensify in the coming years. Parts and service suppliers must attract more young workers into the automotive aftermarket industry in partnership with schools and government.

2

ENHANCE CUSTOMER SERVICE AND SUPPORT INITIATIVES

More parts sellers are offering consigned inventories and longer warranties to develop new customer segments, including fleets, leasing companies and national accounts. Workshops are expanding into mobile fitting and other convenience services to attract and retain customers. Parts sellers and workshops must develop new customer service initiatives to differentiate themselves in an increasingly crowded marketplace.

3

LEVERAGE MOBILITY SERVICE PROVIDERS AS POTENTIAL TECHNOLOGY PARTNERS

Offering parts and service to mobility fleets in exchange for access to their mobile platforms and technology will help traditional suppliers integrate with the emerging digital aftermarket.

4

FOCUS ON EXPORTS TO ASIA AND MIDDLE EAST IN ADDITION TO EUROPE

Frost & Sullivan believes that UK-based aftermarket companies could recover a loss of Brexit-related trade by developing new customers in China and other emerging regions.

1

The average UK vehicle owner spent approximately £707 on car parts, accessories and labour in 2016, with rising inflation driving up maintenance and repair costs for British motorists.

2

If a UK-EU free trade deal cannot be reached and WTO rules are imposed, the average UK vehicle owner would pay about £70 per vehicle per year extra for parts and accessories, increasing the total spend to approximately £778 for each car.

3

Delaying the first MOT inspection for cars until the vehicle is four years' old would reduce total revenue across the UK automotive aftermarket by an estimated £250 million – just over 1% of the industry's market size.

4

Reducing the UK aftermarket's trade deficit by just 5% could create approximately 65,000 new jobs across the country.

5

Carsharing and e-hailing mobility services could remove up to 460,000 cars from UK roads through 2025, but this is likely to be offset by increased sales of shared vehicles that need to be replaced more often due to higher use and related wear and tear.

6

About 300 independent workshops will close across the UK over the next three to five years because of acquisition, lack of funding or retirement. Fast-fits, tyre shops and autocentres are expanding to fill the space left by the closure of independent workshops.

7

Frost & Sullivan expects that UK parts sellers and service providers will need to hire an additional 30,000 skilled service technicians, parts sellers and support staff over the next seven years to keep up with industry growth.

The UK's vote to leave the EU led to uncertainty in the latter half of 2016, which continues into 2017. While the industry continues to perform well, with its trajectory of incremental growth driven by increasing vehicles in operation and rising average car age, parts manufacturers, distributors and workshops are now focused on understanding how Brexit will impact their businesses and customers.

For industry, one of the biggest fears is increased overheads, as well as reduced sales because of tariffs and new regulations on selling products and services to the UK's European trade partners. WTO tariffs would add up to £3 billion to the cost of exporting components and accessories, while obtaining type approvals to sell British parts and accessories in the rest of Europe could also emerge as an obstacle.

For consumers, the concerns centre on jobs and rising repair costs. Since the Brexit vote, inflation has risen quickly and the

pound has lost value, adding to the cost of imported components and, ultimately, repair and maintenance bills. If the UK is unable to secure a deal with EU member states within the negotiating period, the sector would be subject to World Trade Organisation tariffs on parts and accessories imported from EU, which account for half of all products sold in the UK automotive aftermarket. This could add up to £70 a year to consumers' repair costs.

2016 also introduced a potentially harmful proposal to ease MOT inspection requirements to begin when the vehicle is four years of age instead of the current standard of three. However, the idea risks reducing public safety and increasing pollution, and does not seem to have motorists' support.

Technology also left its mark on the UK aftermarket, with continued growth in online parts sales and progress in the effort to open up access to connected car data to the independent aftermarket.

Key industry groups, including SMMT and the European Association of Automotive Suppliers (CLEPA), are working to develop security protocols and to develop security protocols and a platform to share connected car data.

Meanwhile, mobile and telematics platforms have enabled the growth of new, popular services in the UK aftermarket, including mobile fitting and service aggregation. This will make it possible for suppliers to reach new customers and to offer more innovative products such as vehicle health reports.

In addition to the regulatory challenges posed by Brexit, the UK aftermarket continues to address ongoing concerns such as investing in tools, training and equipment, developing export markets and attracting and retaining qualified employees.

Industry and the UK government are taking positive steps to help British aftermarket suppliers address the growing list of challenges. The Infrastructure Exports Leadership Forum (IELF) was formed to work with industry to open up new markets for British products.

Government can provide a further boost to industry by using the upcoming Brexit negotiations to maintain the UK's barrier free access to the EU single market and customs union, defend the Vehicle Certification Agency's (VCA) authority to issue and retain European type approvals, and reject proposed changes to MOT inspection requirements.

For its part, industry must continue to offer enhanced customer services, train more workers to be automotive technicians, embrace digitalisation and take advantage of opportunities to develop new export markets.

In summary, 2016 was a challenging year for the UK aftermarket because of the new uncertainties caused by Brexit. However, key industry metrics such as vehicles in operation and average age are favourable to future growth. As a result, the UK automotive aftermarket can and should convert these challenges into opportunities by strengthening its regulatory framework, and by investing in skills and training, hiring workers with fresh ideas and using technology to attract new customers. ■



METHODOLOGY AND SOURCES

The value of the UK Aftermarket is based on the total value of parts and services purchased for passenger cars in the UK, i.e. the total amount paid by consumers in a year.

The value added to the UK economy by the aftermarket relates to the total value of parts and services purchased by consumers, minus the cost of materials and wages required to deliver these parts and services to the consumer. Data from the UK Office of National Statistics data was used as the basis for this calculation.

For other data and insights into the UK automotive aftermarket, Frost & Sullivan has conducted interviews with British parts suppliers and distributors, service providers, OEMs and technology partners. We would also like to thank the

membership of the SMMT for offering their time and inputs to the development of this research.

Key sources

www.smmt.co.uk
www.tradingeconomics.com
www.x-rates.com
www.trademap.org
www.frost.com

Frost & Sullivan combined in-house data and secondary sources with primary research for this report. Interviews were held with a variety of aftermarket participants in the UK in order to validate findings and confirm key figures. Our thanks go to all who contributed.

GLOSSARY

Aftermarket service location	Companies which carry out aftermarket work and/or supply aftermarket parts. They can include franchised workshops as well as independent workshops.
Authorised repairer	Workshops that specialise in service, repair and parts supply for a specific car manufacturer(s), and are authorised by OEM(s) to provide in-warranty maintenance even though they are not car dealerships. See Franchised network.
Auto e-retailer	Refers to an online parts seller that specialises in automotive parts and accessories. Examples include 1st Choice Spares UK (www.1stchoice.co.uk).
Automotive aftermarket	This refers to the whole automotive aftermarket, including franchised businesses and independents, comprising service and repair workshops, retailers, wholesalers, parts manufacturers, importers and distributors.
Compound annual growth rate (CAGR)	Compound annual growth rate. CAGR measures the average growth rate of a product or market segment over a fixed number of years.
Connected vehicles	Connected vehicles refer to cars that send and receive data, primarily via a Bluetooth receiver or Internet connection.
Franchised network (franchised and authorised dealers)	For the purposes of this report, the term “franchised network” refers to both franchised and authorised repairers. Franchised and authorised repairers have a(n) agreement(s) with a specific car manufacturer(s). These dealers represent car brands and specialise in service, repair and parts supply for those brands.
Independent aftermarket (IAM)	Independent aftermarket (IAM) companies carry out a range of services, supply a variety of parts options, and are not tied to a particular car manufacturer or brand. Typically cars are more often serviced by the franchised network during their warranty period, but this is not a legal requirement and independent operators are free to compete for this work. Independent operators supply and use parts from both OES and non-OES suppliers.
Mass eRetailer	Refers to an online parts seller that offers a wide range of general merchandise, but does not specialise in automotive parts and accessories. Examples include eBay (www.ebay.co.uk) and Amazon (www.amazon.co.uk).
MOT	The MOT test gets its name from the Ministry of Transport, which has since been replaced by the Department for Transport. The MOT is an annual test of vehicle safety, roadworthiness aspects and exhaust emissions, and is administered by the Driver and Vehicle Standards Agency (DVSA)
Original equipment manufacturer (OEM)	Refers to a vehicle manufacturer. OEMs distribute parts and set service requirements for workshops in their franchised network.
Original equipment supplier (OES)	Parts manufacturers which supply car manufacturers with original parts for fitment to vehicles on the production line and also provide parts for aftermarket purposes are known as original equipment suppliers (OES).
Personal mobility	Personal mobility refers to how global megatrends such as urbanisation, technology and economic factors support the development of new transportation solutions. In addition to car ownership, it includes leasing, carsharing, carpooling, and e-hailing along with traditional modes of public transport, motor scooters, walking and cycling.
Service bay	An area in a service location where vehicles are lifted for service and repair work.
Trade balance	Trade balance refers to the difference in value between UK imports and exports.
Tyre e-retailer	Refers to an online parts seller that specialises in tyres in place of general automotive parts and accessories. Examples include Blackcircles (www.blackcircles.com).
Vehicles in operation (VIO)	Refers to the total vehicle population, or vehicle parc. For the purposes of this analysis, the VIO includes only passenger cars.



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