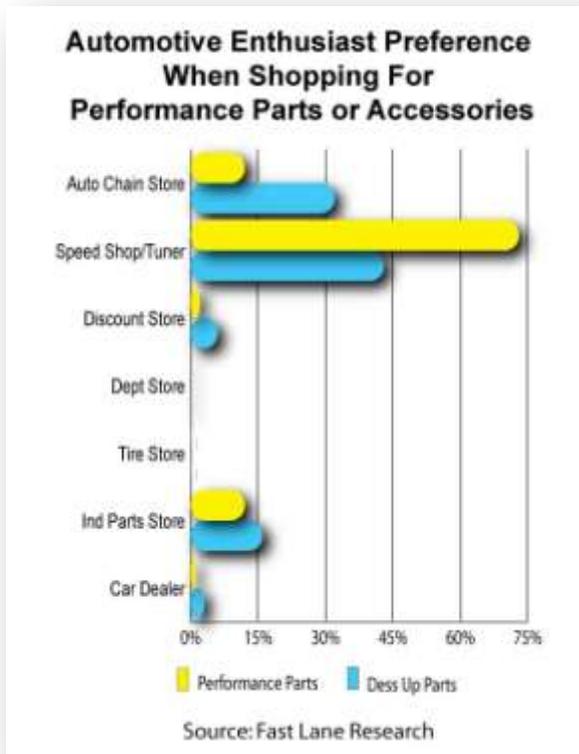


**FLRNews – Issue No. 13**

## Where Enthusiasts Prefer To Shop

When it comes to dress up parts and automotive accessories, nearly a third of automotive enthusiasts prefer to shop at an automotive parts chain store. On the other hand, when those same enthusiasts are looking for performance parts they turn to speed shops and tuners.



A survey launched in March 2010 by Fast Lane Research found that automotive enthusiasts have particular types of stores in which they prefer to shop. Interestingly, the type of store varies by the kinds of products they want to purchase.

Probably the most diverse category for automotive enthusiasts is tools and equipment. When they go shopping for these items they have no clear preference as to the type of store. The type receiving the largest number of responses was department stores.

Miscellaneous auto parts and equipment is similar to tools and equipment. But with these items the automotive chain stores account for 53% of automotive enthusiasts' preference.

	Auto Parts Chain Stores	Speed Shop/Tuner	Discount Stores	Department Stores	Tire Store	Independent Parts Store	Car Dealer
General Maintenance Items (Engine oil, filters, lights, etc)	57%	2%	20%	7%	0%	9%	5%

Tools & Equipment	26%	3%	17%	40%	0%	13%	1%
Performance Parts	12%	73%	2%	0%	0%	11%	2%
Dress Up Parts & Accessories	31%	44%	6%	0%	0%	15%	4%
Misc. Automotive Parts (Tire chains, OBD2 scanners, etc)	53%	7%	12%	5%	3%	18%	2%

## Products: Enhancements or Embellishments?

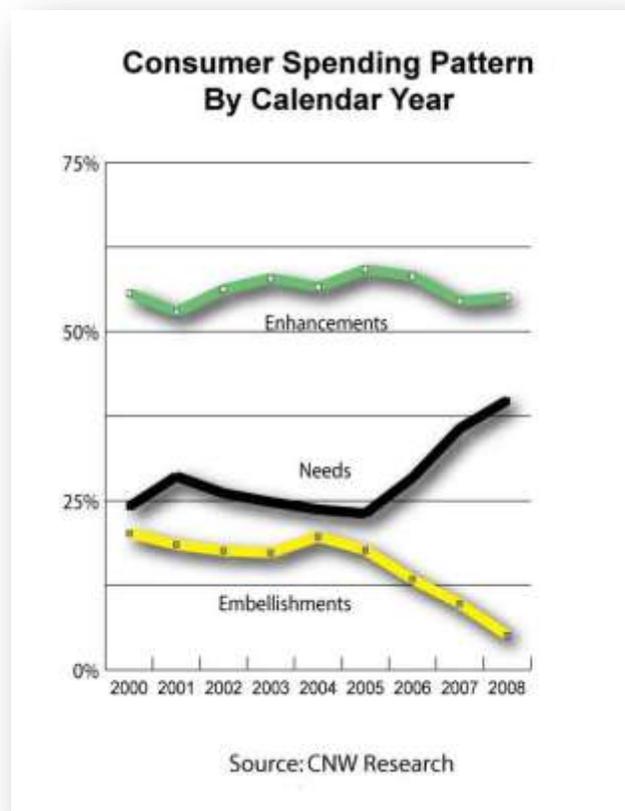
How do you classify the products you sell? There are three major classifications of things that consumers buy: needs, enhancements and embellishments. It is not surprising that during the recession spending for needs accounted for a larger portion of consumer spending. What is surprising is that spending for enhancements did not lose their share of consumer dollars. The only loser in the equation was embellishments.

Typically we think of “needs” as the basic goods and services necessary to survive or maintain a minimal lifestyle. Items like food and shelter are givens when we think of needs. In the US we would add other items based on how a minimal lifestyle is defined. For instance, in California a vehicle for transportation is considered by many as a need.

When it comes to enhancements we think of things that make life a little easier, such as a microwave oven. This classification includes items that save us time and effort as we go about our daily lives. Enhancements can help us with our chores around the house, make us more productive at work or play, save us time in our daily commutes or any of a hundred other things we value for the way they smooth out life.

Embellishments on the other hand are pure luxury products and services. They go beyond survival or making life a little easier, and the costs involved show it.

According to a study by CNW Research, consumer spending on needs dropped from 42.3% in 1980 to a low of 23.1% in 2005. Then in 2006 needs began accounting for a growing portion of household income reaching 39.9% in 2009. During the same time frame embellishments went



from 11.6% in 1980 to 19.7% in 2004. In 2005 embellishments began losing share of consumer dollars and in 2009 accounted for only 5.3%

The story for consumer spending on enhancements is somewhat similar but the shifts are much more moderate. In 1980 consumers were spending 46.1% of their income on enhancements, by 2005 that percentage had grown to 59.2%, and by 2009 was at 54.8%. So from its highest point down to last year, enhancements shifted 4.2 percentage points after growing by 13.1.

Embellishments on the other hand dropped 14.9 percentage points in its plummet during the recession, while needs accounted for an increased 15.8 percentage points. During the recession, for the most part, the shift in consumer spending went from embellishments to needs.

What we have learned is that consumers value enhancements enough to keep spending on them even in the worst recession we have seen in generations. Consumers are inclined to give up products and services that they perceive as luxuries, and have done so the past few years.

We all would agree that the vast majority of the products and services offered and sold by the automotive performance parts and accessories industry are not needs—that leaves enhancements or embellishments.

The message is obvious. In positioning automotive performance parts and accessories the industry should build the perception that they are enhancements and not luxuries. Of course there are exceptions, but the majority of industry products could be positioned very easily as things that make life a little easier, more productive or rewarding.

It seems apparent, that the huge drop in sales the industry saw during the recession was from a large number of mainstream consumers who had entered the market and perceived automotive performance parts and accessories as luxuries.

We have always known that to the enthusiast, industry products were not needed but wanted items. Mainstream consumers obviously did not have the same perception. The challenge to the marketing arm of industry companies is to build the perception of industry products and services as enhancements.

## **New Panel Delivery From Nissan**

The NV, or Nissan Van, was designed specifically for the United States and Canadian cargo van markets according to Nissan. When I saw the concept, my first thought was of the old panel



deliveries. You know like a 1954 Ford Panel or a 1950 Chevy Panel or a 1936 Dodge.

All the design elements are there from the early panel deliveries.

Nissan decided, rather than adapt one of their existing commercial vans or light commercial trucks from other markets they would build something new just for the North American market.

Do we have a trend developing here? First it was the Mercedes/Dodge/Mercedes Sprinter, then came the Ford Transit Connect, and now the Nissan NV. Admittedly these are not mainstream vehicles, but who knows what the future of this new class of truck looks like. Sales so far this year haven't set the world on fire, the Ford Transit Connect has sold 1,338 units and the Mercedes Sprinter 951 units. But in retrospect, do you remember when the Ford Explorer was first introduced?

In reality, this new trend is probably the latest chapter in the retro influence on OEM design. The old cliché continues to hold true, "the more things change, the more they stay the same."

The first production models will include the NV1500, NV2500 HD and NV3500 HD, which will come with a choice of 4.0-liter V-6 and 5.6-liter V-8 engines mated with a 5-speed automatic transmission. The vans will be available in two body styles, a 55.4-inch height standard roof (all models) and a 76.5-inch high-roof version. We should see the first Nissan NVs on dealers' lots this fall.



The trucks combine the cab of a pickup truck with the cargo bay of a van on a ladder frame. The cargo compartment has a 10-foot length and 53.4 inches between wheel wells, permitting loading of 4x8 sheets of plywood and other construction materials.

Nissan currently has about 200 dealers authorized to sell and service the new vans, but ultimately expects to have between 300 and 350 dealers.

Could the Nissan NV be a fun canvas to play on? I think so. There appear to be endless possibilities for customizing these new trucks.

## China Automotive Market Larger Than US Market

In January we told you that China would catch the use in total vehicles on the road by 2013. The way things look now we may have been wrong, China could catch the US much sooner.

In February there were 778,617 new vehicles sold in the US, while in China nearly double that amount were sold—1.21 million units. Total passenger car sales were up 55% in China, but the increase in the US was only 13%. Keep in mind that in China nearly half the month is spent celebrating the Lunar New Year.



February's increase follows an even larger one in January of this year. January saw 1.1 million units sold in China which is more than double January 2009. Combined January and February vehicle sales are up 84% at 2.87 million units. Meanwhile, US new vehicle sales year-to-date are up 9.9% with 1.48 million units.



The only reason we bring this up again is that US companies providing performance parts and accessories should be looking at China as a potential market. If the timeline for China's vehicle population growth is shortening, our industry will need to step up preparations to be ready for that market.

If we look at the top ten sellers in February 2010, we find that 20% are from US brands. Both are built

on the Chevrolet Cruze platform, but the Buick Excelle looks more like the Opel Astra.

1. BYD F3	21,300
2. VW Landa	16,300
3. VW Santana	15,800
4. Buick Excelle (Buick Yinglang)	14,500
5. Honda Accord	14,000
6. Xiali	13,800
7. Chevrolet Cruze	13,500
8. Toyota Corolla	12,800

- 9. Hyundai Elantra 12,200
- 10. Hyundai Elantra Yue Xiang 12,100



The other question is, when will Chinese vehicles start showing up in the US. For a number of years now they have exhibited in US auto shows promising to start sales here.

The new vehicle sales projection for 2010 in China is an increase of 20% according to a well placed Chinese official. In comparison, JD Power is forecasting a more conservative increase in the 7% range. As of the end of February, the increase is more than double the forecast.

If auto sales in China continue at this pace the vehicle population in China will surpass the US well before 2013! After all, starting last year, considerably more units are being sold each year in China than in the US.

## Truck Market Is Not Dead

Conventional wisdom tells us that the light truck market died several years ago. But did it? Let's look at some numbers and see. In some cases, it is all in how you look at the data that makes all the difference in what it says.

First let's narrow the topic a little. When we talk about light trucks we typically include pickup trucks, SUVs, CUVs and vans. Year-to-date through February 2010 light-vehicle sales are up 9.9% over the same period in 2009. Against that backdrop we find

SUVs	-13.23%
Vans	-13.05%
Pickups	-1.64%
CUVs	+21.73%

For the last ten years or so, pickups have been the real bread and butter for companies targeting the light-truck market. So we will concentrate more on pickup trucks. As we dig a little deeper we find that the real decrease in sales so far this year is with midsize and luxury pickups, and not the fullsize. Fullsize pickups are down only 0.7% against 2009 sales.

Even so, there is no denying that pickup truck sales have decreased. In 2004, there were 2.327 million pickups sold in the US. By 2009, that number had gone down to 1.273 million—nearly half as many.

But if we look at the data a little differently...

In 2004, when pickup truck sales peaked they represented 13.76% of all new vehicles sold that year. Fast forward to 2009 and pickups represent 12.12% of all new vehicles sold. We might expect the market share to be more like half what it was in 2004, but it isn't.

Pickups are maintaining their market share in a down market for new vehicle sales. So far this year, pickups account for 12.72% of all new vehicles sold. If the trend continues through the end of the year, pickup trucks will have actually increased their market share.

In reality, the parts of the light truck market that died were the SUV and van segments.

Up until 2000 there were more pickups sold in the US than SUVs. In 2000 with 3.4 million

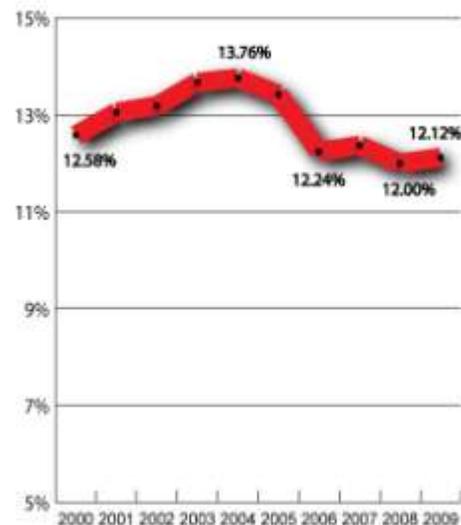
units sold, SUVs surged ahead of pickup trucks and didn't look back for 5 years. The fall began in 2005 when they came under a lot of criticism and began their double digit annual decreases. Where SUVs once accounted for a substantial portion of new vehicle sales, so far this year they contribute only 7.6% of the total.

In the 1990s vans typically represented 27% to 30% of new vehicle sales. As we moved into the 21<sup>st</sup> century, their market share quickly dropped to less than 16%. For vans the real demise started in 2006, and so far this year, they account for less than 5% of new vehicles sold in the US.

CUVs are considered by many not to be real trucks. Based on car platforms they do not have the towing or working capacities of pickups and SUVs. But by definition they are trucks. Pretty much since the crossovers were launched, they have been gaining sales. So far this year CUV sales are up 21.73% over 2009, and they now represent nearly 23% of all new vehicles sold in the US.

So if you look at the market share maintenance of pickups and the increased sales of CUVs, there is a question as to the demise of the light truck market.

**Pickup Truck Share of New Vehicle Sales**



Source: Fast Lane Research

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Sources Say: GMC Sierra Denali HD Dually Planned

<http://news.pickuptrucks.com/2010/03/sources-gmc-sierra-denali-heavy-duty-dually-planned.html>

*Source: Fast Lane Research*