



# White Paper

## **Six Trends in the Vital Commercial Vehicle Aftermarket**

By Joe Mejaly, President, Aftermarket, Meritor

*“Our customers need a reliable part at an affordable price. Meritor is uniquely positioned to offer a superior part at a good price in the good, better, best continuum. With brands like Meritor, Euclid, and Mascot, we offer true, even behind-the-scenes value in every single part,” said Terry Livingston, Meritor general manager-Aftermarket, North America. “Plus our aftermarket team proves itself in the field with the customers, gathering ideas and helping to launch those to drive real results for the customers.”*

The ability to locate quickly high quality aftermarket parts remains critically important to North American truck operators of all sizes as they strive to maximize life and uptime from their current fleet of trucks and trailers. With an average vehicle age approaching almost 10 years, fleet managers are heavily reliant on their distribution channels. The channel outlets are not only expected to provide quality replacement parts (with reasonable life-cycle costs), but also to ensure those components are available when needed and at a customer-friendly price point. Additionally, they must provide appropriate parts support, counsel and expertise.

To be a viable, even successful, supplier in the commercial vehicle aftermarket, a company actually requires three levels of product offerings to service the full life-cycle of the vehicle (truck, tractor, and trailer). First, genuine products (pricepoint #1) for the still-new, under-warranty vehicle; second, the genuine product (pricepoint #2) in price-reman category for the aging but not old vehicle; and third, the price-reman product

(pricepoint #3) for the second and third owner of the vehicle. (see *Servicing the LifeCycle chart*)

The sources for parts are more plentiful today –with traditional components suppliers, the OEM parts dealers, the warehouse distributors (WDs), independent service garages, OEM private label parts programs, and then the “new name/one-off” off-shore suppliers. With so many options, fleet managers are questioning quality, support, resources, availability and back-up required from a comprehensive parts portfolio. Before- and after-the-sale support has never been more sought after and even demanded by fleet operators.

The management team of Meritor’s Aftermarket business recognizes six distinct trends that are impacting the aftermarket – including fleet operators, truck-trailer dealers, and distributors in the distribution channel.

### **Trend 1: Fleets Want Extra Value in Smart Parts Purchasing**

According to recent informal research, parts buying decisions are dictated by the size of the fleet. A small fleet relies on its technicians, yet as the fleet grows, that decision often moves into the corporate offices and is directly managed by a parts or maintenance director. With cumulative input from maintenance, operations and finance, a fleet determines the parts brand and volume to be purchased.

A fleet parts manager’s relationship with his key parts vendor(s) is absolutely vital. “We’re still dealing with the emotional, so when a part is just a part, the difference can be the person you’d least expect: the delivery person or the counterman. You might do 99 percent of everything right, but a delivery person with poor customer service ruin all the good work the rest of the team has put forth,” said a key district manager for a major aftermarket supplier.

Parts buying decisions continue to be based on availability, price, relationship, with quality as “assumed”. While a specific brand often plays a role in the decision, total cost is still paramount. “In today’s world, you have to be able to show the value-add, as price does drive a good percentage of the buying decision. The overall product life-cycle cost or cost per mile of various parts are what needs to be shown to a fleet, not just the upfront cost,” offered another field manager.

Clearly, inventory cost is foremost in the minds of fleet managers. Getting the most frequently used items at the best cost or value the top priority. More common items like hoses, clamps, fittings, lights, cleansers, bearings, seals, and belts are frequently dictated by price, however anything that improves vehicle uptime will be carefully examined for the best cost vs. uptime benefit.

Several fleet managers underscored the importance of minimizing parts inventory (cost and space). In some operations, parts rooms are smaller and expense pressure and availability have allowed most fleets to shrink their on-hand inventory. Same day/next day availability from WDs and dealers has been a huge factor in this regard.

As one major distributor pointed out, “all fleets are not the same. The mix of vehicles in the fleet is a critical factor in how they purchase and where they establish value in the supply chain. “Most of our customers are what I would call smart buyers who buy for inventory,” he said. “They use computer systems to establish min-max order points. Fleets consider the criticality of the part and the replenishment issues that could delay delivery or adversely affect their ability to keep their fleet running.”

Fleet managers stressed the importance of parts inventory turns. They acknowledged a higher quantity usage of brake shoes, tires, drums, batteries and other consumables which are often bought in bulk for the best discount. Another district manager suggested fleets are buying what they need and in many cases, they are purchasing from their source – OE dealer and warehouse distributor – daily.

The purchase of parts by a fleet depends on the classification of the fleet. For-hire fleets with more current model year vehicles tend to purchase their parts at dealers, compared with government and private fleets that tend to use the WD more due to the older age of the vehicle. One comment summed it all up: “At the end of the day, most vendors do an excellent job servicing the fleet, and we (the vendor) must meet all the expectations of price, quality, availability, delivery, support, training, warranty, and ideally one or two differentiators or you won’t capture the attention of the fleet customer.”

## **Trend #2: Lowering Transaction Costs**

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Acknowledging tough-but-improving, competitive market conditions, in early 2011, Meritor unveiled a new financial tool for authorized parts outlets that quantifies and analyzes a customer’s business practices and provides insight into their total transactional costs and potential savings in working with Meritor for more of their parts needs: the Real Deal.

“Practically every customer – current or potential - wants a ‘deal’ that relates too often to the piece-price of a part,” said Joe Mejaly, president, Aftermarket, Meritor. While we understand that piece-price plays a role in the profitability of our customers, managing the total transactional cost of doing business can improve profits for our customers as well. Our company understands and embraces all the business best practices – from supplier utilization, parts numbers stocked in inventory, inventory turns, electronic commerce, sales and technical training, quality and engineering support with a global reach, and more.”

As a result, the company’s sales management team is able to meet individually with customers and collect information specific to their business and to show them what “Real Deal” can offer them for potential annual savings. A company, like Meritor, fully

understands the entire process of aftermarket parts acquisition -- issuing purchase orders, order expediting, processing an invoice, and standing behind the products time after time,” said Mejaly. “Our management- and best business-practices allow our customers to elevate their business performance to new heights.”

### **TREND 3: Total Life Cycle Approach, including in Vocations**

When a truck operator asks about replacement parts, the simplest advice is to purchase the exact same part spec that came with the vehicle from the factory. Generally, that’s the most reliable rule of thumb.

As they age, trucks and trailers take on new owners and with them new vocations. A vehicle spec’d for truckload service in the Southeast may now be hauling grain over mountain passes in the Pacific Northwest. Commercial vehicles need replacement parts that are suited to how and where they work right now.

A component that simply “fits” a given make and model may not necessarily meet the customer’s need for performance, longevity, and perhaps most importantly, value. Component manufacturers are providing increasingly more assistance with the vocational spec’ing of components. Field representatives have spec’ing software that can help determine which components will deliver the best performance for the way a vehicle is being used at the time of repair.

With customers raising their expectations for performance and value, distributors and dealers are gravitating to suppliers who consistently come through with the broadest possible selection of products, a good-better-best portfolio, a rock-solid order fulfillment process that includes technologies like vendor managed inventory (VMI) and electronic data interchange (EDI), and, when necessary, overall true value-added benefits throughout the entire process.

What that means for aftermarket distribution channels in North America is that when they reach for a box with a specific brand-name on it, they expect the component inside to meet stringent (engineering and quality) standards.

Channels do not have to take on responsibility for performance, compliance, or liability. Nor do they have to put their reputation on the line if there's a problem. Being properly positioned for this surge in aftermarket sales means partnering with dependable, reliable suppliers that can deliver a range of quality products and high-caliber after-the-sale support.

While Meritor, for one, saw an increased demand for "private label, white box, etc" off-shore components in the mid decade of 2000, this trend seems to be reversing itself. It's likely part of this reversal is due to an increased awareness on the part of the distributor and dealer network concerned with potential liability from these privately sourced components.

Sourcing "domestically produced" product seems to be less critical as time passes, while buying from reputable suppliers that will be there to support the dealer or distributor does seem to be increasing in value. And as the trend towards lower inventory levels continues, electronic ordering, VMI, high fill rates all become more valuable to the dealer and distributor.

During the recent downturn, suppliers witnessed an increase in price-point product sales. As always, people who use cheap parts and do not experience issues are inclined to continue using them. Private label is currently growing as an answer to compression in the market place, but branded products usually prevail in the long run.

WDs will likely add inventory to meet end-users demands for the right parts at the right time. Additionally, they will capitalize on providing for the older truck population and service for those vehicles' owners. Independent service garages ( ISGs) and WDs will

see opportunities at fleets for out-sourcing decisions on service. Fleets remain slow to add technicians and would prefer not to add parts inventory.

#### **Trend 4: “More Customer Care, Not Less”**

Possibly above all else in today’s Aftermarket is the customer’s requirement, even insistence, on proper and quick care and attention to questions and concerns on a particular part, a cross-reference to a another brand, or even an order placed.

“Customers want first-call resolution,” said Shelly Beneteau, senior manager of Customer Care at Meritor Aftermarket. “We strive to answer customers’ phone calls within 20 seconds, and if there’s follow-up or research required, resolution will occur within 24 hours.”

From Meritor’s October 2011 research study, customers at independent service garages expressed strong insistence on “more OEM application cross-references, better catalogs, better web access for finding parts, and better part lookup”.

Over the past two months, Meritor Aftermarket in Florence, KY, has received almost 40,000 phone calls to its Customer Care Center, with 84 percent of those calls answered within 20 seconds, and 81percent of those calls resulting in first-call resolution. The remaining 19 percent not resolved with the customer during their initial call were all resolved within 24 hours.

“Our representatives are continuously working and expediting back-order reports. If a customer calls to check on an order, we will make sure that we’ve pro-actively expedited their order and have information for them the moment they call. Our Customer Care Center averages 98.4 percent of our back-order lines updated with the most current promised shipping information at any point in time,” explained Beneteau.

In 2008, Meritor’s Aftermarket business announced the creation of an improved-service Customer Care Center serving both its U.S. and Canadian parts distribution centers. As part of the business’ strategy of Ideas Driving Results, the company launched its

customer care service, which includes a parts distribution system with high-fill rates and on-time delivery.

“Based on our years of servicing and listening to our customers, we determined it was time to take our service level up a notch,” added Beneteau. “Since the program’s launch, our customer satisfaction ratings have gone up by two-fold.”

#### **Trend 5: Reman is “Green-er” and Considered “A Life Extender”**

More truck owners are opting for remanufactured components for speedy delivery and nationwide warranty . Recently, the increased number of remanufactured components has matched the influx of used trucks in the marketplace. Value-minded truck operators are seeking to capitalize on increased freight movement, according to sales analysis at Meritor’s Aftermarket -- Remanufacturing.

“Trucking operations of all sizes are realizing the real value, not just in terms of cost, which can be 30 percent less, but also in terms of quality which correctly remanufactured parts bring to their bottom line,” said Doug Wolma, general manager, Remanufacturing, Meritor.

With an increase in the purchase of reman components comes a core shortage. Remanufacturers must continually re-evaluate their core sourcing, core recovery techniques and processing to keep the components cost-competitive. Items such as brake shoes must be in compliance with OE specs, and not scrapped unnecessarily; table corrosion is the biggest reason to remove the shoe as a potential core.

Meritor’s Wolma reiterated that reman components offer a higher quality and lower costs (than rebuilt components), filling a distinct market niche with older vehicles operated by second or third owners seeking the lowest costs to remain competitive.

According to Wolma, this demand for remanufactured product will grow in the future. It will be made on more sophisticated electronic components. Product portfolio will grow, change, shift and broaden to include electronics, actuators, controls, engine and brake, mechatronics.

As many as 28 electronic control units (ECUs) are on a truck today, and reman can definitely meet that need for replacements. Wolma noted the importance of maintaining a remanufacturing mentality when striving to meet the needs of fleet customers. Reman suppliers must add more products to their offerings.

*(Note: A new source for remanufacturing info and data is the Motor Equipment Remanufacturing Association, part of MEMA. For info, contact John Chalifoux at [jchalifoux@mera.org](mailto:jchalifoux@mera.org))*

### **Trend 6: Responding to a Different Marketplace**

Global aftermarket suppliers must compete in the most far-reaching areas that often have no established distribution network. Meritor, for one, has created six new parts/service stations in China during the past two years.

Today, Meritor operates these stations, using Meritor-brand components, across northwest and north east China, especially Inner Mongolia, where open cast coal mining spots are concentrated. Customers include primarily mining truck fleets, independent distributors, service agents, repair shops, and individual off-highway vehicle owners and drivers.

Due to strong coal demand, several large state-owned mining companies will set up and increase coal mine capacity in Xinlinhot, east Inner Mongolia where Meritor expects to service more than 1,000+ mining trucks. Other possible outlets include Kunming in the Yunnan Province to supply spare parts for the mining trucks, used in copper mining and Myanmar where many Chinese-made mining trucks are exported to the local jade mining work sites.

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*Meritor's Aftermarket business, which is based in Florence, Ky., offers replacement parts for the company's braking systems, drive axles, trailer axles and suspension products in North America, Europe, Australia, South America, and Asia Pacific.*

*Distributed under the Meritor, Euclid, Mascot, FrasLe and Meritor WABCO brands, Meritor's aftermarket parts are precision engineered to original equipment specifications and carry the industry-standard aftermarket warranty.*

*Services for truck operators, dealers, distributors, and independent service garages:*  
***XPresswayPlus.com*** – for online catalog and ordering system, and ***Customer Service Center*** – 888-725-9355