



automechanika
DUBAI

Impact of COVID-19 on Passenger Car Aftermarket in Saudi Arabia

1st June 2020



Vishal Pandey

Director, Glasgow Consulting Group

Relevant experience

Vishal is a Dubai based Market Entry & Insights advisor who has lived and worked in the UK, India and across the Middle East. Previously as a research lead with Deloitte Consulting's Dubai offices, he was part of a team responsible for strategy and operations assignments across the Middle East and North Africa region. Vishal has been involved in over 750 research + market entry engagements mostly across MENA and South Asia region in his career spanning 18 years across a diverse set of industries. He is a leading MENA focused Market Entry & Go-To-Market Strategy Specialist.

Automotive Intelligence & Tracking Hub (AITH), a Glasgow Consulting Group Initiative AITH provides regional market intelligence, thought leadership and insights to the emerging & fast transforming sector in Middle East and Africa region. We help clients identify the top mega trends in areas of mobility solutions.

Some of our recent projects include: Market and financial assessment for a planned new automotive after-market e-commerce business in Saudi Arabia, Business plan for a rent-a-car business in UAE and Concept viability & market entry study for a new Roadside Assistance business in Qatar.

Select Automotive Publications in 2020:

- KSA Passenger Car and Component Aftermarket Outlook 2025 (estimation of 30 components)
- KSA Commercial Vehicle Market and Aftermarket Outlook 2025 (estimation of 30 components)
- Nigeria Car and Component Aftermarket Outlook 2025 (estimation of 30 components)
- Shared Mobility Market in UAE
- Kenya Passenger Car Market and Aftermarket Outlook 2025 (estimation of 30 components)
- Ghana Passenger Car Market and Aftermarket Outlook 2025 (estimation of 30 components)



Table of Contents

What's up with the Market? 3

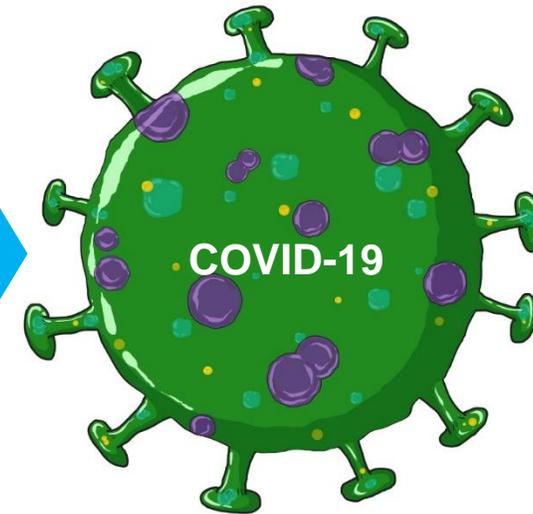
What's are Saudis up to 12

Learnings from China 16

Contact Information 21

WHAT'S UP WITH THE MARKET

- The world is grappling to fight against the biggest health catastrophe of the century. As we step into an economic depression, the ramifications of the pandemic seem long lasting
- Its Global. Each and every country in the world is getting adversely affected by the pandemic
 - Both, the supply and the demand side of the economy were severely disrupted as a consequence for not having a vaccine to cure this disease
- Due to the uncertainty of the duration of the pandemic, and the unavailability of a vaccine, the global economy will be gravely impacted
- The creation of a vaccine is the only solution to demolish the virus, until then, we must create a strong immune system to fight back
- The unemployment rate in the United States of America has reached close to 25%, similar to the Great Depression of 1929



- The VAT has been increased from 5% to 15%, effective 1st July 2020
- Prolonged oil price collapse has lead to unprecedented budget crunch
- Saudi Arabia has announced a USD 31.9 Billion stimulus package to mitigate the economic crisis caused by the COVID-19 outbreak
- Government has announced to pay 60% of the salaries of Saudi employees working in the Private sector for a period of three month
- The SME's will benefit from the deferred payment program
- The development of a domestic automotive industry cluster has been identified as a major objective by policymakers, and will remain in focus



Various proactive initiatives have been announced by the Saudi Government

Summary

Biggest Market in the GCC

- Saudi Arabia is the largest market in GCC for automotive sales and auto parts, accounting for about 40% of all vehicles sold in the region

Imports

- Most vehicles and the parts sold in the country are imported. Auto parts market has a great potential in Saudi Arabia
- This would lead to both, local job creation and technology/skill transfer.

Customer Experience

- The Saudi automotive market is now more geared towards a "service oriented" business model with more players focusing on customer experience and after sales service

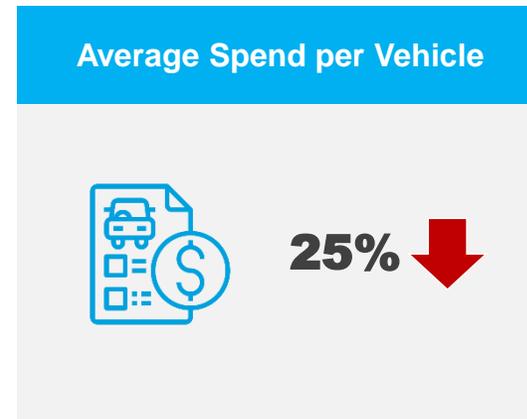
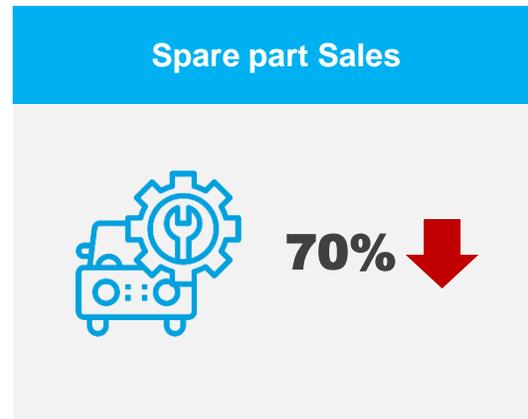
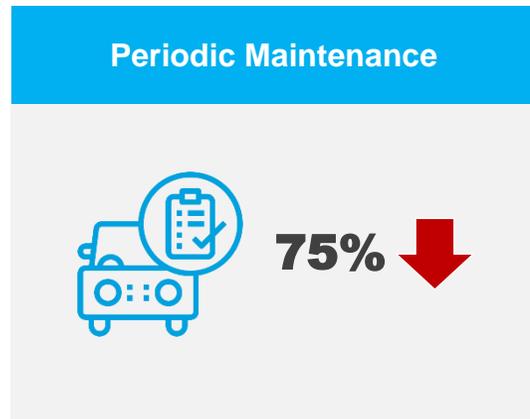
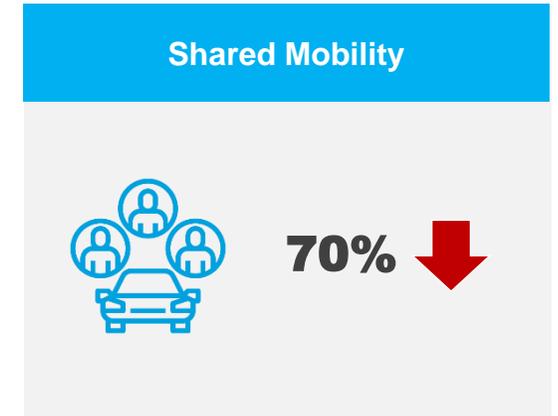
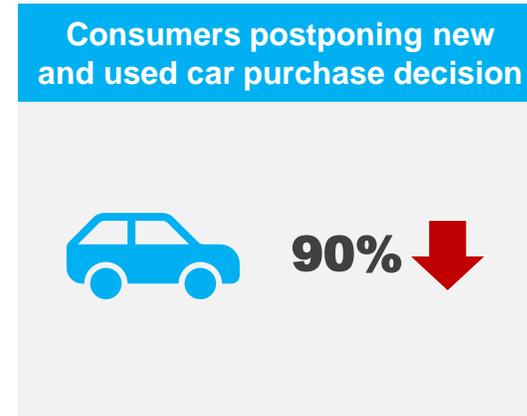
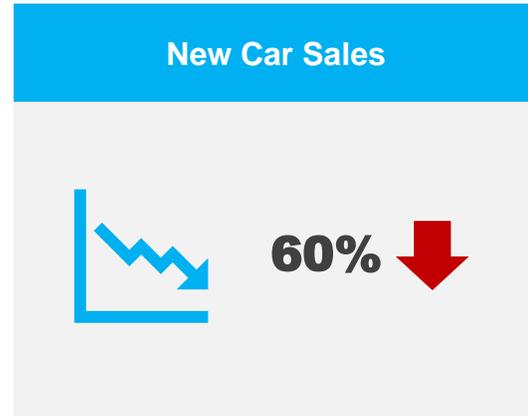
Local Industry and Production

- Saudi Arabia is now more geared in creating a domestic automotive industry and has encouraged global vehicle manufacturers to establish local operations. This would both lead to local job creation and technology / skills transfer
- Currently, there is a smaller local auto parts and truck production, and no light vehicle production. Most vehicles and parts sold in the country are imported

Women Driving

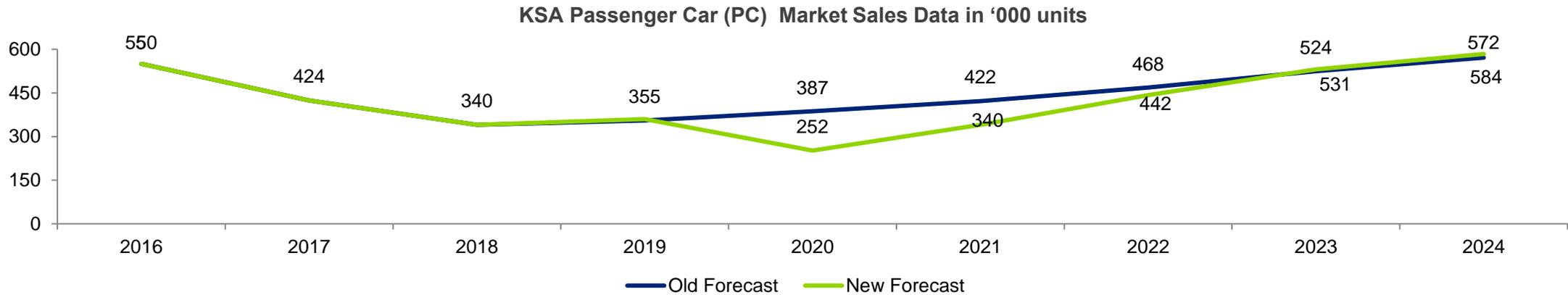
- By March 2019 alone, there were 70,000 driving licenses issued to women that has created a positive knock-on effect on Saudi's auto market and services market
- A substantial women drivers on the roads has created the need for more private driving licenses, an increase in motor insurance, growth in driving schools, a sharp rise in car sales and leasing, thus benefitting the after market segment

Market Highlights: Covid-19 Impact in the last 3 months



Source: GCG Research

The KSA Passenger Car to recover its earlier forecast trajectory by 2022 after the initial dip this year; impact on aftermarket components would be moderate



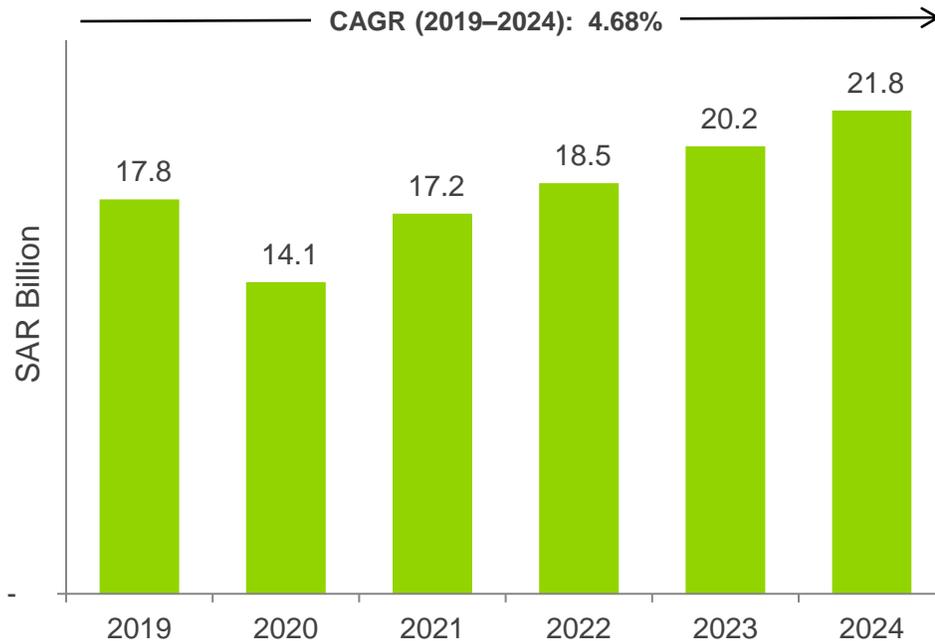
The commercial vehicle activity is expected to surge in the immediate quarter once the lockdown opens as there would be increased movement of goods to replenish stocks across the market

Unlike other countries where the dependence on public transport is high, the KSA market where dependence on personal cars is high for commuting the demand is not likely to be muted for long

The vehicles in operation (car parc and truck parc) remaining the same and also with the used car market expected to grow the aftermarket demand for auto components is expected to be stable with a minor dip annually

Source: GCG Research

KSA Passenger Car (PC) components aftermarket Forecast (2019 -2024) in SAR Million*



*Components include select maintenance parts, consumables, lubes, tyres and batteries
2% inflation and 3% price increase y-o-y has been considered for revenue forecast*

- The vehicle in operation (car parc and truck parc) remaining the same, and also with the used car market expected to grow, the aftermarket demand for auto components is expected to be resilient with a moderate dip in 2020, mainly due to the 2 months' lockdown
- A decline in the average miles driven by a vehicle would have a mild or no impact on the demand for auto parts
- New emerging trends in mobile servicing, vehicle pick-up, delivery and online parts services to increase
- Demand for services like disinfection, cleaning and car wash to increase substantially
- The Saudi automotive aftermarket services market is a prominent market in the Middle East and it is likely to be driven by the country's economic growth in accordance with infrastructure development, growing e-logistics, e-commerce and tourism sector

Source: GCG Research

Do you see in dip in aftermarket prices of parts due to fall in demand?

Emerging Aftermarket trends post Covid-19

Mobile Service	<ul style="list-style-type: none">• New service models such as demand for mobile services is likely to be the new norm
Post Covid-19 Surge	<ul style="list-style-type: none">• Post lockdown rise in demand for parts especially fuel, tire, battery and lubes for a short time
Shared Mobility	<ul style="list-style-type: none">• Post COVID-19 lockdown and recovery, shared mobility may drop for further few months; consumers will feel conscious about hygiene, moderately impacting parts demand
Workforce Hygiene	<ul style="list-style-type: none">• Post Dealers, retailers, garages will have to look after the health and hygiene of its workforce
Contactless Service	<ul style="list-style-type: none">• Fear of contamination at workshops, and contactless servicing to be adopted
Ecommerce	<ul style="list-style-type: none">• E-retail of parts and services to grow and likely to account for >5% of total aftermarket demand by 2025• Some of the fast moving parts in the E-commerce platforms will be Tyres, batteries, lubricants, wiper plates, accessories



CarHub



Ezhalha



Morni

Our Assessment for the Saudi Automotive Sales and Aftermarket

Low Consumer Sentiments	<ul style="list-style-type: none">• Confidence remains low and consumers continue to defer major purchases• Car lease segment has been severely impacted by the lockdown across cities and therefore volumes have been reduced
Sales Volumes	<ul style="list-style-type: none">• The portion of sales recovery for the remaining year remains unknown in Q3 and Q4. GCG expects the Saudi automotive market to collapse by up to 40% and it is unclear when the market will recover
Supply Chain Continues to be disrupted	<ul style="list-style-type: none">• Continued disruption will have an impact on the aftermarket components supply
Car Sales	<ul style="list-style-type: none">• The automotive industry already had plenty of roadblocks to overcome in the coming years: compliance with climate targets, declining sales, more competition including Chinese brands, trade wars between states and a high need for investment in new technologies• Audi Saudi Arabia aims to sell cars via its newly launched E-commerce platform
Chinese Brands Grow in Prominence	<ul style="list-style-type: none">• More Chinese cars will be seen going forward as second and third cars in a Saudi family as the cost of ownership goes up, fuel becomes expensive and pressure to keep jobs becomes important
Overall Impact	<ul style="list-style-type: none">• Impact on overall businesses is considered at medium to high levels and is expected to be felt in 2020 and extending up to early Q1 2021

Source: GCG Research

WHAT ARE SAUDIS UP TO?

Summary

Understanding of outside aftermarket services and usage

- According to a recent automotive research undertaken by Glasgow Consulting Group, about 83% of the vehicles in Saudi Arabia were without warranty and seek external aftermarket services. Furthermore, about 94% vehicle drivers consider third party aftermarket service, which implies that a significant number of customers are willing to avail the services of an outside workshop for car maintenance

Pattern of Servicing - Number of time Type of Services opt – Normal workshop

- Almost 50% of the respondents claim that pattern of servicing is not fixed irrespective of travelling within city or outside city
- The prominent services includes oil change, oil filter change, car washing, wheel balancing, tire change and filter check
- Most of the respondents do car washing, filter check and tire change within city workshop whereas the preferred services in outside city workshops were battery services, brake pads

Reasons to use outside workshop for servicing

- Cheaper cost of servicing, quality of services and, coupled with less time consumption were the main reasons behind using outside workshops

Preferred brand used for servicing

- Petromin was reportedly the preferred brand across respondents. However, if the car was covered under warranty the relevant supplier was used
- A marginal 13% of the respondents didn't use branded outlets, while others mentioned Fuchs, Onestop and Mobil as less preferred brands

Importance of services – Mind of customers

- The most important key drivers were availability of an array of workshops, overall service, product range, competitive prices, discounts, variety of branches and after sales support

- A customer will be more careful of the surroundings, cleanliness, disinfectant being used etc.
- Safety and hygiene of the workshop locations will be more important than ever before

Summary

Travelling Habits

- Almost 75% of the respondents travel nearly 2 hours or more per day
- Respondents in Riyadh travel more than 2 hours (>95%) as compared to travel in Jeddah for up to 2 hrs (75%)

Preferred mode of payment for servicing

- Cash is the preferred mode of payment instead of any other medium

Using Automotive Apps when seeking various services

- 50% of the respondents believe that Mobile App doesn't work or assistance from new service providers will be limited in nature
- Almost 55% of the respondents felt that acceptability at service stations will be poor and limited in remote areas

- E-commerce and use of apps seeking various automotive and after market services will see a rise

Summary

Store Look & Feel, First Impression

- Barring a few major Petromin workshops, all workshops visited offered a “low” level of first impression
- Not all workshops had a dedicated and defined waiting area for customers
- The staff was a mix of different nationalities such as Filipinos, Indians, Pakistanis and expat Arabs

Customer Experience

- In some workshops surveyed- the staff interacted well and offered response/ solution to any query pertaining to service maintenance
- While in others, the staff was not very responsive and avoided interaction/ conversation

Product/ Service Offerings

- In majority of the workshops, the services on offer were displayed
- The pricing for those products/ service were either fixed or varied randomly

Timings

- The typical operating hours are from 8 am until 12 midnight with closure during the prayer hour breaks
- The peak hours of business were evenings to night hours- a preference seen particularly with Saudis

- More emphasis will come into play for better and cleaner workshops
- Non-branded workshops may struggle in the short to medium terms
- Inconsistency in service was very evident across majority of the workshop service providers
- Suggestive selling/ recommendation part was “average” between the customer and workshop technician

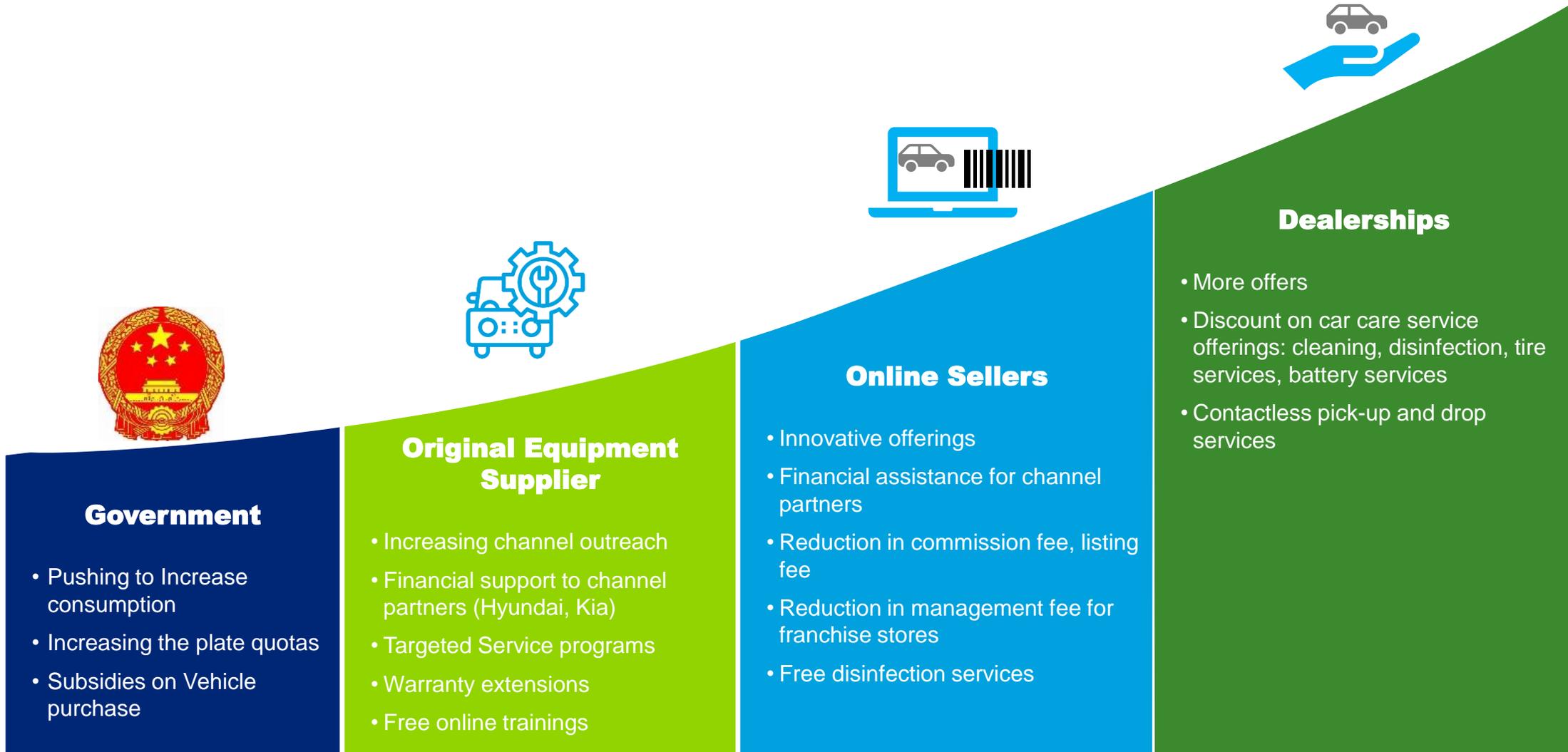
**Do you see small garages and
retailers (aftermarket) forced to close
shop due to COVID 19 impact?**

LEARNINGS FROM CHINA

Overview

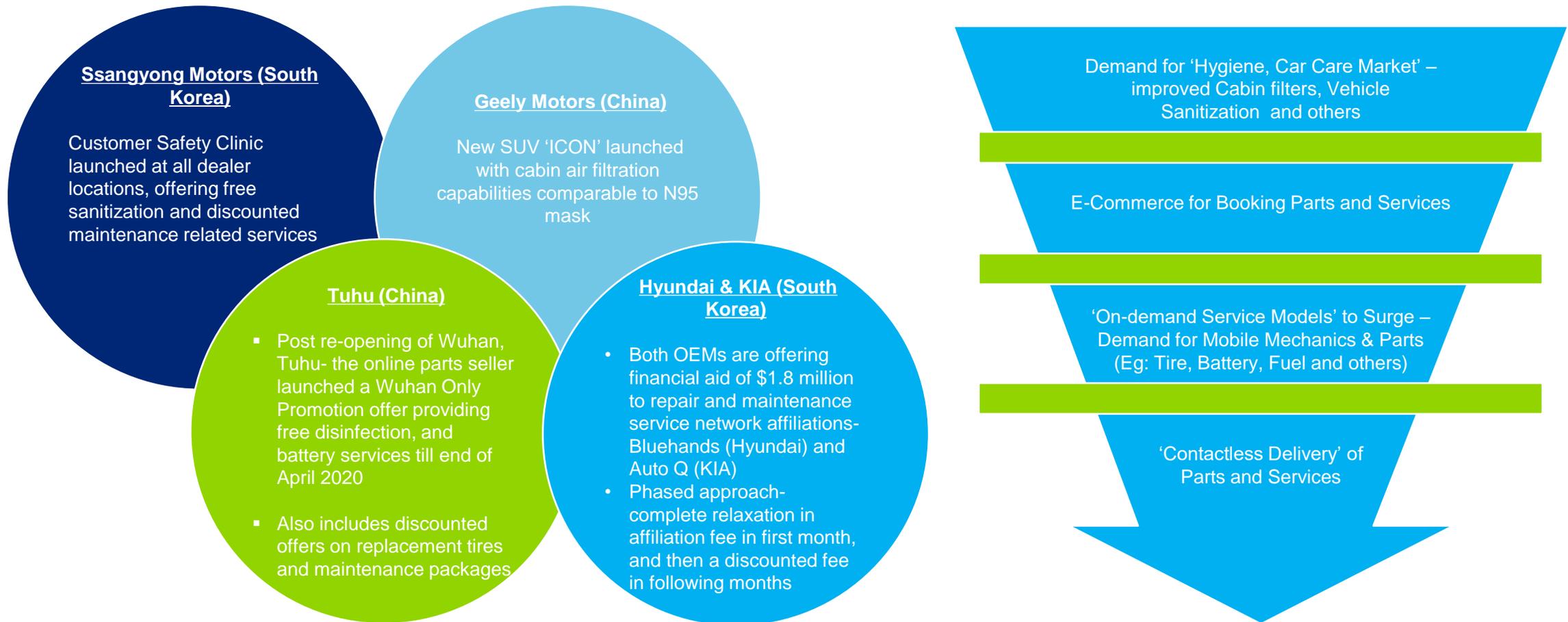
- 12% of annual automotive production in volume is concentrated in Wuhan (Hubei)
- Wuhan was under lockdown for more than 2 months (Opened on 8th April 2020)
- General Motors, Honda, Peugeot Group, Renault, Nissan are some of the major OEMs with manufacturing plants in Wuhan, amongst a cluster of tier 1 and 2 suppliers facilities
- In 2019, China's Auto Parts Trade import is estimated at USD 35-40 billion while exports at USD 65-70 billion





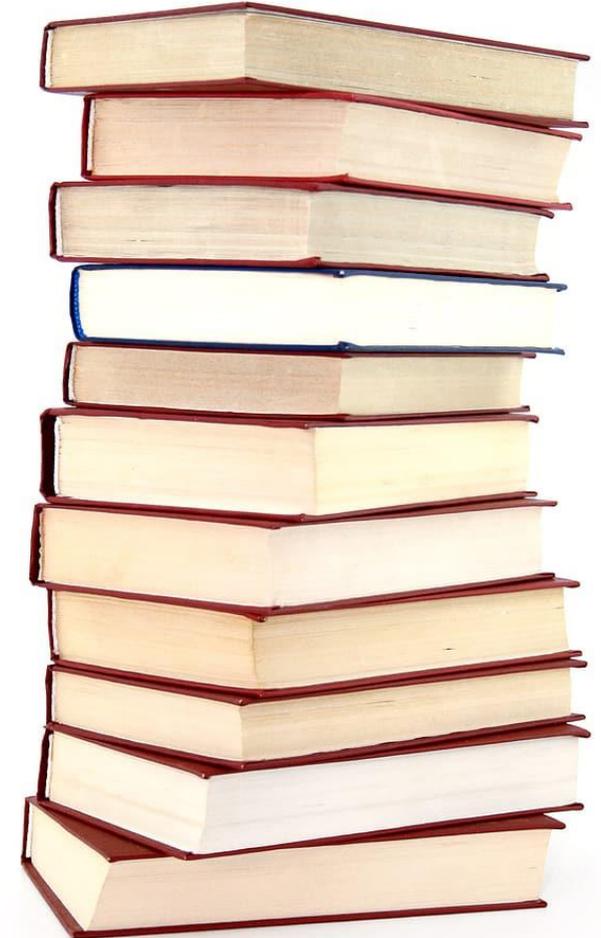
Emerging Asian Automotive and Aftermarket trends post Covid-19

From new product innovation to targeted program offerings, industry participants are pulling out all shots to leverage aftermarket opportunity in hand



Our Upcoming Publications in 2020

-  **South Africa Passenger Car Market and Aftermarket (estimation of 30 components)**
-  **Nigeria Car Market and Aftermarket (estimation of 30 components)**
-  **Shared Mobility Market in UAE**
-  **Kenya Passenger Car Market and Aftermarket (estimation of 30 components)**
-  **Ghana Passenger Car Market and Aftermarket (estimation of 30 components)**
-  **KSA Commercial Vehicle Market and Aftermarket (estimation of 30 components)**
-  **Algeria Passenger Car Market and Aftermarket (estimation of 30 components)**
-  **Morocco Passenger Car Market and Aftermarket (estimation of 30 components)**
-  **Egypt Passenger Car Market and Aftermarket (estimation of 30 components)**



Contact Information

Glasgow Consulting Group (GCG)

Research and Consulting

P.O. Box 445190, Dubai, United Arab Emirates

Tel: +971 (0) 4 566 8869

Mobile: +971 (0) 55 974 4360

Email: vp@glasgowconsultinggroup.com

Web: www.glasgowconsultinggroup.com