

# Changing Market Opens Up Exhaust Opportunities

## Older Vehicle Population Primed For Replacement

By Andrew Ross

In a market that is changing rapidly, it should come as no surprise that the exhaust business seems to be poised for resurgence.

Many in the automotive aftermarket have become used to thinking of the exhaust market in any terms other than growth, at least for standard replacement business—but that appears to be exactly what is occurring.

Maremont Canada sales and distribution manager Jim Fox sees evidence of this on two fronts: “one from the statistics and the market information, and two, from the fact that we have seen some improved sales.”

He says that the factors behind the positive shift can be clearly identified.

“There are a couple of things. One is that we know the vehicle park is getting older and that’s good.

“The sweet spot is the 1997-to-2000 year range, and as more vehicles fit into that it is helpful to us. The other piece is that it is rumoured that the OE companies have actually de-contented the stainless steel in their exhaust systems. It does seem to be playing out based on the failures we have seen.”

He says it is difficult to determine if replacement rates have increased, but based on statistics, there is clearly growth in the market.

“Basically what is expected is that it will ride the wave of vehicle registrations. As they move through that, we are going to see a spike.”

This is in contrast to the history of the market following the influx of stainless steel systems, which drove lifetime replacements down from three, on average, to one and a half.

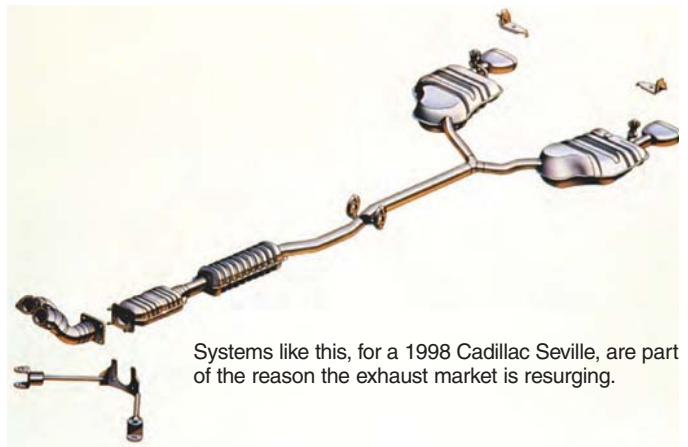
Of course, to some extent that is a long-term view. In the short term, financial tightness may cause consumers to defer purchases for as long as possible.

At least that is the view from Frank Murkowski, emissions control marketing manager, North American Aftermarket, with Tenneco Inc., which supplies the Walker and DynoMax brand products.

“The overall effect on the aftermarket will likely be that more consumers will delay vehicle repair service decisions until they have no choice due to vehicle performance issues. This trend might be even more pronounced in the emissions control category, because an emissions control repair can be more expensive, on average, than many other jobs. Of course, local and/or regional emissions and noise regulations will force many consumers to complete necessary repairs such as converter and muffler and/or system replacement. Still, if there is a way for consumers to perform a short-term ‘fix’ to keep their vehicles on the road, some may take that approach until economic conditions improve.”

He says too that concern over dollars may cause consumers to seek the lowest-price alternative, regardless of the real value it delivers.

“This comes into play when choosing between an economy or standard-level product and a premium part featuring better materials and warranty coverage. It’s incumbent on the jobber



Systems like this, for a 1998 Cadillac Seville, are part of the reason the exhaust market is resurging.

and repair provider to make sure the consumer understands that the lowest short-term cost isn’t necessarily the lowest total cost of a repair. If they’re going to be back in a year or two with the same problem, they’ll probably wish they had spent a few extra dollars to do it right the first time.”

Even with the current tightening of consumers’ grip on their dollars, Murkowski says there are bright spots.

“We believe there is a great deal of opportunity in the converter category as emissions regulations become increasingly strict across North America. Reinforcing this outlook is the fact that a growing number of repair shops are relying on direct-fit converters—which carry a higher price than universal units—to eliminate any installation problems or other issues.”

He adds that the trend toward direct-fit systems has increased, which creates challenges for the jobber, who must decide on the appropriate inventory investment in both dollars and space.

“It’s always going to be a matter of opinion on the market,” says Exhaust Direct president Pat Bruder. “It depends on local market conditions. I believe there will always be highs and lows—if you have the right recipe, you’ll always have highs.”

Still, he says that the outlook makes it hard not to believe in continued growth for the replacement market, growth that will stack up on top of growth that has been already occurring in the accessory segment of the market.

He says, though, that jobbers who might have left the market and are looking to return should realize that the market has changed.

“When I started 12 years ago,” says Bruder, “there wasn’t one piece of flex being sold. The third year in I started to see it.” Now, he says, flex pipe is a sizable category.

“The industry has changed completely from what it used to be. Flex and converters are huge.”

Even accepting the general assumption that the aging vehicle population will boost sales, with the challenging economy and consumers’ varied acceptance of what to spend on those aging vehicles, the specific options they are looking at can also vary.

Tenneco's Murkowski maintains that the market is moving toward direct-fit assembly options.

"This has been happening over the past decade due to the increased share of import nameplates, which tend to feature assemblies as original equipment," he says. "But now we're seeing installers preferring assemblies on the domestic side as well, due to the time savings associated with direct-fit products."

However, according to Bruder, universal systems are also seeing a significant uptick—"Universal stuff has gone through the roof"—though service providers have different approaches, whether universal, direct fit, or piecemeal replacement, depending on their market and the individual customer.

"Some folks value the lifetime warranty of the premium product," says Fox. "Others are after the price. Different channels go different ways. We make sure we have an offering to service them all. During the declining years in the market, it definitely did bring more to the mid-price offering. Over the last few years, we have seen the premium product come back. There are pockets that have their preferences.

"You have to tailor it to your market. It seems to really differ

depending on who your customers are, and in some ways what the jobber is pushing. I recently saw a muffler shop that only wanted premium [direct-fit] product. They are usually interested in mostly universal, so there are trends either way."

In any case, all agree that the jobber needs to be aware of what his customer base is trending toward, and have an inventory aligned with those needs, a critical point in the generation of strong sales and return on inventory investment.

And he needs to use whatever inventory tools his suppliers can put at his disposal to make sure the right inventory is in place.

Fox says that this, combined with the ability to draw from a broader inventory, is vital to success in the market.

"From a jobber standpoint he has to really sit with his own market and determine the right mix of some direct-fit and universal pieces, which may actually be more efficient from an inventory standpoint."

And, from the sounds of it, it is worth the effort.

"People are still keeping their second and third cars. That will increase the exhaust market for sure."

Overall, the combination of an aging vehicle population, a consumer looking to hang on to his dollar a little more tightly, and the possibility of increasing failure rates due to both system age and some evidence of shorter original equipment system life—as well as the increasing options available to jobbers—points to the fact that every jobber would be wise to consider where the exhaust category fits into their plans.

## Growth Concentrated in Prime Aftermarket Years

According to R.L. Polk, while the overall brakes and exhaust market is expected to show slower growth through 2010 than it experienced in the first part of the decade, the growth will be concentrated among vehicles in their prime aftermarket years.

*The Changing U.S. Auto Industry – The Impact of Declining New Vehicle Sales on the Aftermarket Business*, published this year focuses on the U.S. market, but the conclusions should give Canadian aftermarket businesses reason to be optimistic.

While continued growth is expected in this category, although at a lower rate of 1.7% from 2008 to 2010 due to an aging vehicle population, the growth in brakes and exhaust parts and service will come primarily from increases in the 6–10 and 11+ vehicle age groups, which are expected to grow at 1.2% and 4.6%, respectively, between 2008 and 2010. Replacement events for these two groups of older vehicles are twice as prevalent as for vehicles under six years old.



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