

ProcurementIQ Procurement Report: 52912928 Truck Maintenance & Repair

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About this Report

This report is intended to assist buyers of truck maintenance and repair services. Aftermarket maintenance and repair services range in complexity from visual inspections and minor repairs to full mechanical overhauls. Repairs are commonly performed at the supplier's place of business or a travel center, but many suppliers also offer mobile repair and maintenance. Small, specialized repair shops and large chains provide market services. This report focuses primarily on aftermarket services for commercial trucks and excludes services provided by truck dealerships. This report excludes new trucks and trailers as well as services related to passenger cars or SUVs.

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At a Glance

Recent Price

1.8%

During the three years to 2018, the price of market services has been increasing in line with strengthening demand, rising input costs and a labor shortage. Fortunately for buyers, competition has helped slow price growth.

2015-2018

Forecast Price

1.2%

In the three years to 2021, the price of market services is expected to continue climbing. Demand will continue to climb and labor shortages will persist, though a decline in steel prices will help slow price growth.

2018-2021

Growth percentages represent annualized data.

Market Characteristics

Availability of Substitutes

LOW

Market Share Concentration

LOW

Product Specialization

MEDIUM

Switching Costs

LOW

Market Risk

Recent Demand Driver Volatility

HIGH

Recent Price Volatility

LOW

Vendor Financial Risk

LOW

Supply Chain Risk

MEDIUM

Buyer Power Score

3.5

See p. 25 for details.

Benchmark Price

\$192

per repair

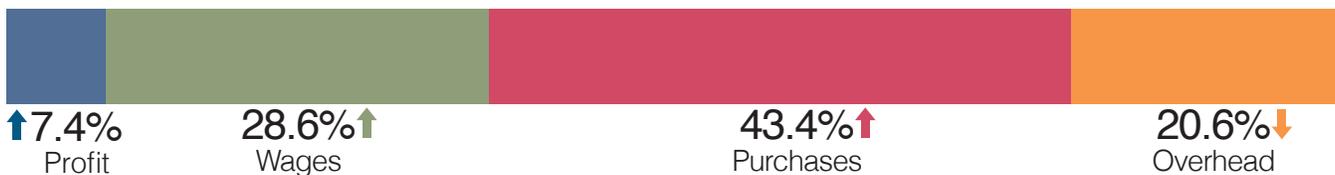
Key Price Drivers

- World price of steel
- Price of petroleum lubricating oil and grease
- Average wages – auto mechanics
- Oil and natural gas price index
- Average age of vehicle fleet

Major Vendors

- Icahn Enterprises LP <5%
- PACCAR Inc. <5%
- Ryder System Inc. <5%
- TravelCenters of America LLC <5%
- Rush Enterprises Inc. <5%

Vendor Cost Benchmarks



Arrow indicates trend during the past year and next year.

Executive Summary

Buyer Power Score



The ProcurementIQ Buyer Power Score is a weighted score based on a number of quantitative and qualitative criteria associated with buying a product or service. The score is calculated between 1 and 5,

with 1 signifying low buyer power and 5 meaning high buyer power. The more power a buyer has the greater leverage they have to get lower prices and better contract terms. For more information see page 25.

Executive Summary

The truck maintenance and repair market has a buyer power score of 3.5 out of 5, indicating shared negotiation power between buyers and suppliers. Buyers benefit from low market share concentration and low switching costs. However, they contend with a lack of substitutes and rising prices, which reduce their leverage during negotiations.

Thousands of suppliers vie for market share in the truck maintenance and repair market, so competition among providers is fierce. The abundance of suppliers benefits buyers by allowing them to compare prices in their local area and leverage multiple bids during negotiations. In addition, low switching costs make it easier for buyers to change to a new supplier if they are unsatisfied with the service or discover better pricing elsewhere. Because buyers can easily change suppliers, they often have more leverage during negotiations for services.

However, there are a few notable factors that reduce buyer power. There are few viable alternatives to market services

for most buyers. In general, buyers' only other option is to bring maintenance and repair services in-house, but this is not an option for all buyers. The lack of substitutes for market services hurts buyer power because buyers often have no choice but to purchase these services when periodic maintenance is due. Additionally, prices have been rising in the three years to 2018 due to strengthening demand, rising input costs and a shortage of qualified technicians. As prices have risen, buyer power has fallen. This trend in price growth is expected to continue in the three years to 2021, though a decline in steel prices will help slow price growth. Finally, the limited size of most suppliers can be inconvenient for buyers with large operations in multiple states. This factor can increase lead time because these buyers may need to source from multiple service providers. There are a few franchises that provide services nationwide, but these suppliers are often more difficult to negotiate with due to their wider buying markets.

Price Environment

Price Summary

Three-year Price Trend

1.8%

Three-year Price Forecast

1.2%

- Factor is a threat to buyer
- Factor should be investigated
- Factor is not a threat to buyer

Producer Price Index - Price of Truck Maintenance & Repair Services vs. Sector



SOURCE: ProcurementIQ

Price Fundamentals

Average Price	\$192 per repair
Price Range	WIDE: \$15.00 to \$2,500 per repair
Key Pricing Factors	Labor hours Cost of parts Supplier experience Range of services required Geographic Location

Benchmark Price

The average price of truck maintenance and repair in 2018 is \$192 per repair. The price of market services can vary widely, ranging from \$15.00 to \$2,500 per repair. To determine the final price of services, suppliers take into account the amount of labor needed, the cost of parts, their experience performing that particular repair, the range of services required and geographic location.

One of the most influential pricing factors for truck repair and maintenance is the number of labor hours required to complete the job. With labor rates ranging from about \$40.00 per hour to \$85.00 per hour, labor often comprises a significant portion of the final price. The amount of labor required is directly

connected to the complexity of the repair and the number of steps involved, and it is independent from the cost of parts needed. For example, to replace a worn piston ring, the truck's engine must be taken apart and rebuilt. The cost of the piston ring itself is minimal, but the cost of labor is high because the repair process requires many hours to complete.

The cost of parts is also an important determinant for truck repair and maintenance prices. Truck parts can range in price from a few dollars to thousands of dollars. Replacement parts can be purchased from the original equipment manufacturer (OEM) or from an aftermarket manufacturer. While OEM parts are generally more expensive, they tend to be higher quality than

Price Environment

Price Fundamentals continued

aftermarket parts, forcing buyers to weigh the costs and benefits of using either OEM or aftermarket parts.

Supplier experience can also affect the cost of a repair. A highly experienced supplier will be able to diagnose and fix an issue more efficiently and in less time than an inexperienced supplier. Greater efficiency and fewer labor hours can significantly reduce the final price of the repair. Buyers should take care when evaluating potential suppliers to make sure that they have ample experience in their field.

The range of services required impacts prices as well. A wider range of services requires more labor to complete, pushing the final price upward. Although it may be more cost-effective to have a supplier perform multiple repairs simultaneously, a wider range of repair services will require more labor and parts, resulting in a higher service price.

Finally, geographic location affects market prices. Regions where truck mechanics command higher wages will have higher pricing. For example, New York City's truck mechanics earn a wage substantially higher than the national average. Therefore, procuring truck maintenance and repair services in this city will be more expensive.

Pricing Model

Truck maintenance and repair providers use a time and materials pricing model. Under this model, suppliers charge buyers for labor, parts and materials and then add a predetermined profit margin. This model is standard for automobile and truck repairs because these services often require expensive parts and materials. Identifying the various costs individually gives buyers a better understanding of the final price. While buyers may benefit from pricing transparency, there are some disadvantages to this pricing model that buyers cannot necessarily avoid. For

Geographic Pricing

City	Average Price (\$)	Difference from National Average (\$)
Albuquerque, NM	190.63	-1.37
Boston, MA	252.70	+60.70
Charlotte, NC	200.72	+8.2672
Chicago, IL	247.58	+55.58
Dallas-Fort Worth, TX	205.94	+13.94
Denver, CO	227.07	+35.07
Detroit, MI	197.08	+5.08
Houston, TX	210.61	+18.61
Indianapolis, IN	188.90	-3.10
Los Angeles, CA	240.60	+48.60
Miami, FL	219.75	+27.75
Minneapolis, MN	223.68	+31.68
New York, NY	246.82	+54.82
Pittsburgh, PA	182.31	-9.69
Riverside, CA	218.78	+26.78
San Diego, CA	229.73	+37.73
San Francisco, CA	261.80	+69.08
Seattle, WA	249.53	+57.73
Tampa, FL	186.04	-5.96
Washington, DC	234.51	+42.51

SOURCE: US Bureau of Labor Statistics

instance, because suppliers charge buyers directly for parts, they are able to pass on any price increases for these products. As a result, this pricing model is riskier for buyers because it leaves them vulnerable to price increases when parts become more expensive.

Although most providers use a time and materials model to set prices, some suppliers use a fixed pricing model. This latter model allows buyers to get an estimate from suppliers and agree upon a final price before the repair begins. In the event that unforeseen costs arise, suppliers must call buyers to inform them, making this model considerably less risky for buyers because they have the opportunity to decline these extra repairs if they are too costly.

Repairs may be covered by insurance or a warranty, in which case the final price

Price Environment

Price Fundamentals continued

is significantly reduced. Because insurance companies often dictate prices directly to suppliers using predetermined labor rates and part prices, using an insurance company significantly alters the pricing model available to suppliers. Insurance companies essentially remove all pricing power from suppliers. While this can result in buyers paying little or nothing for the repair, many suppliers are opposed to performing repairs for insurance companies, limiting the number of potential suppliers from which buyers can choose. Suppliers prefer performing

repairs under an existing warranty because the supplier is reimbursed by the manufacturer at the standard rate, rather than a deeply discounted rate, as is the case with insurance companies. Moreover, warranty repairs are beneficial for buyers because they allow them to choose from a wider range of repair shops.

In general, truck maintenance and repair services are purchased on an ad hoc basis. However, some providers may be willing to offer buyers long-term contracts if they require services for a large number of trucks.

Price Drivers

Price Driver
Volatility Level

HIGH

Price driver volatility in the truck maintenance and repair market has been high on average during the three years to 2018. This volatility has largely been driven by significant growth in the world price of steel and the oil and natural gas price index, both of which have displayed high volatility. Additionally, average wage growth has also exhibited high volatility. Although other drivers in this market have been relatively stable, including the price of petroleum lubricating oil and grease, the average age of the vehicle fleet and the total trade value, they have not offset the high volatility of steel and oil prices.

High price driver volatility reduces buyer power because it indicates that providers are at a greater risk that a sudden change in demand or input costs will force them to raise prices. However, the strong competition among providers in this market largely offsets the effects of this volatility. Due to this competition, providers are discouraged from rapidly increasing prices because they run the risk of losing customers.

Input Cost Drivers

World price of steel: The majority of replacement parts for trucks are made from steel, creating a strong link between

the world price of steel and the price of truck repair and maintenance services. In 2018, the average supplier dedicates 20.2% of their revenue toward automotive parts. Because suppliers pay for replacement parts, changes in the price of steel directly affect service prices. During the three years to 2018, the price of steel has been rising rapidly at an estimated annualized rate of 8.7% due to strong urbanization and industrialization activity in emerging markets. As steel prices have increased, the price of automotive parts has risen as well. Consequently, providers have passed these increased operating costs on to buyers by raising service prices. However, the world price of steel is projected to fall at an annualized rate of 7.1% during the three years to 2021 due to protectionist US policies, including new tariffs enacted in 2018. As the price of steel trends downward, the price of automotive parts is expected to decrease. Providers will pass some of these cost savings on to buyers, which will result in slower price growth. Notably, this driver is highly volatile. However, strong competition among providers lessens the negative effects of this volatility by preventing sudden price changes for maintenance and repair services.

Price Environment

Price Drivers continued

Price of petroleum lubricating oil and grease: As some of the most commonly used materials in truck maintenance and repair services, grease, oil and other lubricants account for a substantial portion of the average supplier’s revenue, at 16.3% in 2018. During the three years to 2018, the price of petroleum lubricating oil and grease has risen at an estimated annualized rate of 0.6% due to increases in the price of crude oil. As the price of these materials has risen, providers have been prompted to increase the price of truck repair and maintenance services. In the three years to 2021, the price of petroleum lubricating oil is forecast to continue rising at an annualized rate of 1.0% as crude oil prices grow further. These increases in the cost of lubricating oil will push prices for repair services upward.

Average wages – auto mechanics: Truck repair and maintenance often requires many hours of labor by skilled workers. Consequently, wages account



SOURCE: ProcurementIQ

for 28.6% of the average supplier’s revenue. During the three years to 2018, average wages have increased at an estimated annualized rate of 2.7%. This increase in wages has largely been driven by a severe shortage of diesel engine technicians, which has caused demand for workers with this skill set to rise rapidly. As average wages have grown, wages as a share of revenue have also

Price Driver Statistics

	World Price of Steel		Price of Petroleum Lubricating Oil & Grease		Average Wages - Auto Mechanics		Oil & Natural Gas Price Index		Average Age of Vehicle	
	(Index)	Change (%)	(Index)	Change (%)	(\$)	Change (%)	Index	Change (%)	Fleet (Year)	Change (%)
2008	308.70	46.70	282.80	13.80	30,062.40	-2.78	307.98	36.20	10.40	1.00
2009	183.56	-40.50	303.70	7.40	29,231.29	-2.76	194.81	-36.70	10.50	1.00
2010	231.25	26.00	309.60	1.90	29,335.83	0.35	250.89	28.80	10.80	2.90
2011	268.27	16.00	338.00	9.20	29,609.57	0.93	326.03	29.90	11.10	2.80
2012	230.73	-14.00	352.30	4.20	29,074.38	-1.80	328.05	0.60	11.30	1.80
2013	220.21	-4.60	350.70	-0.50	29,293.16	0.75	326.04	-0.60	11.40	0.90
2014	215.14	-2.30	352.80	0.60	29,771.37	1.63	302.41	-7.20	11.40	0.00
2015	148.01	-31.20	347.50	-1.50	30,893.53	3.76	159.87	-47.10	11.50	0.90
2016	163.11	10.20	341.40	-1.80	31,528.80	2.05	136.40	-14.70	11.60	0.90
2017	207.81	27.40	344.60	0.90	33,348.95	5.77	165.21	21.10	11.74	1.20
2018	189.94	-8.60	353.70	2.60	33,422.57	0.22	179.80	8.80	11.90	1.40
2019	167.60	-11.80	357.00	0.90	33,497.71	0.22	183.70	2.20	12.08	1.50
2020	157.02	-6.30	361.30	1.20	33,571.36	0.21	206.61	12.50	12.27	1.50
2021	152.49	-2.90	364.30	0.80	33,632.72	0.18	221.54	7.20	12.47	1.60
2022	150.56	-1.30	368.80	1.20	33,687.84	0.16	230.79	4.20	12.68	1.70

SOURCE: ProcurementIQ

Price Environment

Price Drivers continued

increased, prompting providers to raise prices to protect their profit margins. In the three years to 2021, average wages are expected to grow further at an annualized rate of 0.2% as providers continue competing to hire skilled technicians. Moreover, wages as a share of revenue are expected to continue increasing, further contributing to price growth, which will hurt buyers. Due to recent labor shortages, average wages have been highly volatile. However, competition among providers has helped reduce the effects of this volatility on market prices.

External Demand Drivers

Oil and natural gas price index: Fuel prices are an important demand driver for truck repair and maintenance because they affect the cost of trucking activities. As fuel prices fall, the number of miles driven increases, prompting greater demand for market services. Conversely, rising fuel costs slow demand growth. During the three years to 2018, the oil and natural gas price index has been increasing at an estimated annualized rate of 4.0% due to strengthening demand for these commodities. As the price of oil has risen, fuel costs have grown as well, limiting the number of miles trucks have traveled. As a result, demand growth for truck repair and maintenance has slowed, prompting providers to limit the rate of price increases. This trend is expected to continue in the three years to 2021, as the oil and natural gas price index continues to increase at an annualized rate of 7.2% in line with the growing demand for energy. This further increase in oil prices will limit demand growth for market services and will encourage providers to slow price increases. Although this driver is highly volatile, the strong competition among market providers reduces the negative effects of this volatility on prices.

Vendor Average Cost Structure	Proportion of Revenue (%)
Profit	7.4
Wages	28.6
Purchases	43.4
Automotive Parts	20.2
Grease, Oil & Other Lubricants	16.3
Other	6.9
Overhead	20.6
Rent & Utilities	6.7
Depreciation	3.2
Marketing	1.1
Other	9.6
Total	100.0

SOURCE: ProcurementIQ

Average age of vehicle fleet: The average age of the vehicle fleet measures the age of all vehicles in the United States, including trucks. This driver serves as a reliable indicator of demand for market services because older trucks typically require more frequent maintenance and more extensive repairs. In the three years to 2018, the average age of vehicles in the United States has been increasing at an estimated annualized rate of 1.1% due to buyers keeping their vehicles longer and postponing new purchases. As the average age of the fleet has risen, demand for market services has grown, allowing market providers to increase service prices. During the three years to 2021, the average age of the vehicle fleet is forecast to continue rising at an annualized rate of 1.6% as buyers continue to hold onto vehicles longer. As vehicle fleets continue to age, demand for repair and maintenance will grow, allowing suppliers to raise prices.

Total trade value: Trucking services are largely dependent on domestic and international trade, which requires goods to be transported long distances. Increasing trade activity creates demand

Price Environment

Price Drivers continued

for trucking services, which bolsters demand for truck maintenance and repair. During the three years to 2018, the total trade value has increased at an estimated annualized rate of 2.7% due to increased consumer spending. As trade activity has grown and the number of trucks on the road has risen, demand for truck maintenance and repair has

increased, prompting providers to raise prices. The rise in total trade value is forecast to accelerate to an annualized rate of 3.9% in the three years to 2021 as consumer spending rises further. The resulting increase in demand for market services is anticipated to lead to further price growth, which will be detrimental to buyers.

Recent Price Trend

Three-Year Average Annual Price Trend:
1.8%

Price Volatility

LOW

In the three years to 2018, the price of truck repair and maintenance has been increasing at an estimated annualized rate of 1.8%. This rise in prices has been driven primarily by strengthening demand, rising input costs and a growing labor shortage. However, competition among providers has helped slow price growth.

Demand growth in recent years has largely been driven by aging vehicle fleets and increasing trade activity. As the average age of vehicle fleets has risen, a greater level of repair and maintenance has been required, pushing demand for market services upward. At the same time, the total trade value has risen in line with consumer spending. As trade activity has increased, trucking activity has grown as well, necessitating more repair and maintenance. Although these factors have been pushing demand upward, demand growth has been slowed by rising fuel prices, which has helped limit the amount some trucks are driven. Overall, however, this increase in demand has prompted providers to raise prices, which has hurt buyer power.

Prices have also risen due to increasing input costs. In particular, the

world price of steel has grown in recent years, causing the cost of replacement automotive parts to increase. Similarly, the price of petroleum lubricating oil and grease has risen in line with crude oil prices. Providers have tried to protect their profit margins by passing these additional input costs on to buyers.

Finally, a growing labor shortage has also contributed to the recent increase in market prices. In the past three years, providers have had difficulty finding qualified diesel technicians. This labor shortage is the result of rising demand for services, the increased complexity of truck engines and fewer young workers entering the field. As a result, providers have had to increase wages to attract workers, which has forced them to raise service prices to protect their profit margins.

Although market prices have been rising, strong competition among vendors has kept price volatility at a low level. Because of this competition, providers cannot rapidly increase prices without risking the loss of business. Low price volatility boosts buyer power because it allows buyers to budget for purchases more effectively.

Price Environment

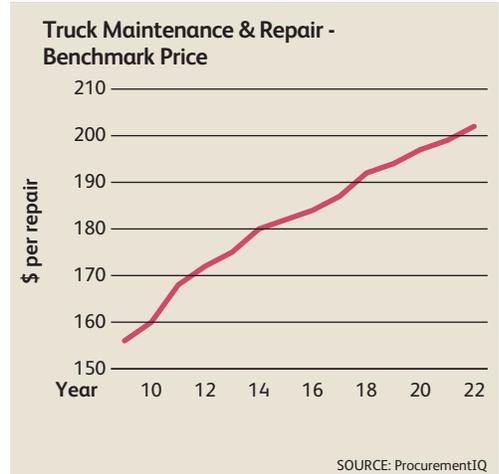
Price Forecast

Three-Year Average Annual Price Forecast:
1.2%

During the three years to 2021, prices for truck maintenance and repair are expected to increase at an annualized rate of 1.2%. This price growth will be driven primarily by strengthening demand and the continuing labor shortage in the market. However, falling input costs and strong competition among providers will slow price growth.

Demand is expected to continue increasing in line with the average age of vehicle fleets and the total trade value. During the next three years, the average age of vehicle fleets is expected to rise as buyers hold onto vehicles longer. Older trucks will require an increasing amount of maintenance and repair, which will drive demand for market services upward. Moreover, trade activity is expected to grow further as consumer spending rises. This growth in trade activity will contribute to more trucking activity, which will lead to more maintenance and repair services for trucks. However, rising fuel prices are expected to continue slowing demand growth, as companies try to limit the amount that some trucks are driven. The aggregate growth in demand will encourage providers to raise prices further, which will reduce buyer power moving forward.

In addition to rising demand, the labor shortage in the market is expected to continue contributing to price growth as well. The shortage of certified diesel technicians is forecast to ease as providers invest more in training programs to expand their workforces.



However, the lack of a large pool of qualified workers means that wages will continue to rise, pushing up wage costs and prompting providers to raise prices to protect their profit margins.

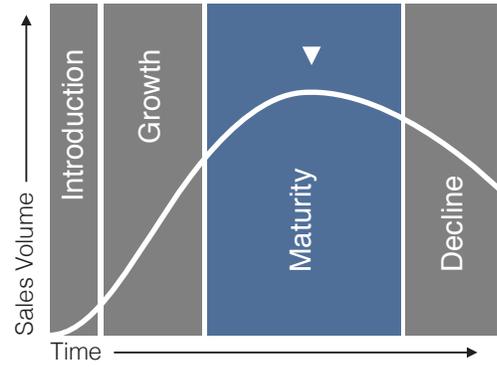
Fortunately for buyers, some input costs are projected to fall, specifically the world price of steel, which will help slow price growth. This decline in steel prices will drive down the price of automotive parts, which are a key input for service providers. At the same time, competition in the market will persist as providers try to acquire and retain customers. Due to these factors, price volatility is expected to remain low. A low level of price volatility boosts buyer power because it indicates that buyers can budget for purchases more easily without facing the risk of sudden price changes. Consequently, they can take more time to evaluate vendors, which often helps during negotiations.

Product Characteristics

Product Life Cycle

The truck maintenance and repair market is in the mature phase of its life cycle. Sales growth has been strong in the three years to 2018, and this trend is expected to persist during the three years to 2020. Ongoing sales growth is a reflection of the widespread need for truck repair and the high market saturation. Sales of truck maintenance and repair are closely tied to local and national trucking markets, and demand will continue to be healthy as long as trucking services are widely used to transport goods. The wide acceptance of services in the marketplace and steady sales indicate that the truck repair market is in the mature stage. Buyers typically benefit from the mature

Life Cycle Stage: **Maturity**



stage of the life cycle because it represents a stable purchasing environment.

Life Cycle Factor	Truck Maintenance & Repair Characteristics
Price Trend	Market prices have been rising in the three years to 2018 in line with strengthening demand, growing input costs and a labor shortage. However, strong competition among providers has slowed price growth. These trends are expected to persist in the three years to 2021. Demand and labor shortages are projected to continue driving prices upward, while competition keeps price volatility to a low level. Stable price growth is an indicator of a mature market.
Product Change	Truck repair services have remained mostly unchanged for many years. While the specific services and parts provided may evolve as truck design advances, repair shops still operate using the same principles that existed decades ago. Repairs are often performed in a specialized repair shop by skilled professionals using basic tools and equipment. Recently, more advanced technology, such as computerized diagnostic tools, has been integrated into repairs. This trend has benefited buyers by improving the quality and speed of diagnostics.
Distribution Scope	Truck maintenance and repair suppliers are located in every major city in the United States to support the highly fragmented trucking industry. Truck repair suppliers are often located near main highways and truck depots to allow shorter response times and increased convenience for buyers. The abundance and widespread distribution of truck repair suppliers allows buyers to compare prices easily.
Marketing Trends	Marketing campaigns are rarely used in the truck repair market. Many suppliers are too small and localized to benefit from extensive marketing. Additionally, truck repair suppliers can rarely afford to divert revenue toward marketing; doing so would push their prices upward, forcing suppliers to lose their competitive edge in the market. Some larger suppliers are able to afford marketing materials and use these efforts to earn brand recognition and customer loyalty. Some of these marketing campaigns offer discounts on standard services, such as oil changes and inspections, which can be beneficial to buyers.

Product Characteristics

Total Cost of Ownership

Total Cost of Ownership

LOW

The total cost of ownership for truck maintenance and repair services is low. Buyers should therefore expect to spend less than 50.0% of the benchmark price in additional annual costs.

Buyers typically benefit from the minimal support costs required for market services and the reduced risk of hidden costs. Ownership costs can vary with the repair's complexity and the type of work performed. For example, more extensive repairs might require a towing service to transport the truck to the repair shop, adding to the total cost. Additionally, the lifespan of the repair depends on the type of repair performed. A new engine, for example, should last many years, whereas a new oil filter is expected to need replacement in a matter of months.

Regardless of the type of repair, there should be no hidden costs associated with purchasing truck repair services. All costs should be clearly laid out by the supplier either before or after the service is performed, allowing buyers to

understand exactly what they are paying for. Unethical providers may attempt to introduce unnecessary costs to the project without explaining them to buyers, but this practice is rare in the truck repair market. To prevent this type of unexpected cost, buyers should thoroughly research each potential supplier before agreeing to a repair. Suppliers with poor reputations are more likely to introduce hidden costs and should never be used.

When purchasing replacement parts, there is often a trade-off between initial costs and long-term costs. Buyers can choose to purchase high-end OEM parts or lower-quality aftermarket parts. While purchasing aftermarket parts is cheaper at the time of repair, these parts often fail before OEM parts, potentially requiring another repair sooner and increasing costs over time. For each individual part, buyers should analyze the long-term costs of purchasing an aftermarket brand as opposed to the OEM brand.

Product Specialization

Product Specialization

MEDIUM

The truck maintenance and repair market has a moderate level of specialization. Many replacement parts and services are standardized across the market and do not require highly specialized knowledge. However, a considerable number of parts are specifically designed for particular truck models and require special training to install properly. Moreover, there is

some variability among suppliers, particularly with regard to experience, which can impact the speed and efficiency with which the repair is performed. Overall, the moderate level of specialization reduces buyer power by making it more difficult to compare the offerings of different suppliers. As a result, buyers may find that their negotiating position is weaker.

Related Goods

Truck repair services are usually procured on an ad hoc basis with few follow-up services required, limiting the number of related goods and services that buyers purchase. However, many truck repair facilities offer related goods

that can be bundled into a single purchase for added savings and convenience. A common method of procuring truck repairs is by using a fleet management service. Fleet management companies offer complete solutions for

Product Characteristics

Related Goods continued

fleet owners, including communication, scheduling and maintenance and repairs. Truck stops and depots also offer related goods and services, which range from repairs to lodging. Buyers can also purchase extended warranties and additional replacement parts along with repairs to gain added savings.

Related Goods	Description
Fleet Management Services	A fleet management company will often have access to an in-house repair and maintenance facility that provides services for all vehicles in the fleet. This method is cost-effective and usually only available to fleet owners using a management service.
Truck Stop & Depot Services	Truck stops and depots may also provide related goods and services. Many truck stops offer additional resources, such as restaurants, fuel stations and truck washes. These services can potentially be bundled with repairs for added savings.
Extended Warranties	Most truck repair suppliers also offer extended warranties for certain parts. These can be discounted when purchased along with repairs. Repair shops also offer replacement parts and accessories at a discount when purchasing repair services.

Substitute Goods

Availability of Substitutes

LOW

The prevalence of truck maintenance and repair providers around the country is a strong indication that these services are often vital and cannot easily be substituted. Repairs are often needed to enable a truck to run properly and safely, and maintenance is highly recommended to prevent future breakdowns. Furthermore, a well-maintained truck has a higher resale value than a poorly-maintained vehicle. The only viable substitute for purchasing truck repair services is to perform in-house maintenance and repairs. Some buyers are well enough equipped to perform basic maintenance services such as oil and filter changes themselves. However, the majority of complex repairs require more specialized expertise and equipment, making in-house repairs too difficult and expensive to be a realistic substitute in most cases. A lack of viable substitutes effectively limits buyer negotiating power by forcing buyers to purchase repair services eventually.

Substitutes	Description
In-House Repairs	Some buyers will be able to perform simple repairs and maintenance services themselves. Buyers can use this option as a negotiating point with suppliers. However, in many cases, truck repairs require substantial knowledge and specialized equipment that most buyers do not have, which limits the viability of this option as a substitute.

Product Characteristics

Regulation

Regulatory Change

MEDIUM

Regulatory change in the truck maintenance and repair market has occurred at a moderate rate in the three years to 2018. Moreover, this rate of change is expected to persist in the three years to 2021. A moderate rate of regulatory change can hurt buyers because providers may face new compliance costs that prompt them to raise prices.

Regulations in this market change primarily in response to new environmental and safety concerns. The Federal Motor Carrier Safety Administration (FMCSA) establishes regulations that require trucking companies to have their trucks regularly maintained and in proper working order, which can potentially increase costs for buyers. These types of regulations create demand for maintenance and, as such, are beneficial to truck repair suppliers. The FMCSA also enforces regulations on truck repair suppliers. The administration requires that repair technicians be certified to work on commercial vehicles and use only certified replacement parts, which can cause buyers to pay more for repairs but also ensures that repairs are carried out to a higher standard of quality.

The Environmental Protection Agency (EPA) also places restrictions on truck repair suppliers, primarily concerning hazardous materials. The EPA specifies disposal methods for hazardous waste such as used motor oil and coolant. These disposal methods often require the material to be stored in a separate container until it can be collected. Moreover, the EPA dictates that repair providers must purchase replacement parts that are made with a certain percentage of recycled materials. These types of regulations introduce additional costs for suppliers, which are often passed on to buyers in the form of higher prices.

Finally, in addition to the regulations that impact truck maintenance and repair directly, this market is also subject to regulatory changes that affect the cost of automotive parts. In March 2018, new domestic tariffs were placed on steel imports. These tariffs are expected to impact market prices in the next three years. Fortunately for buyers, this regulatory activity is expected to cause the world price of steel to fall, as demand for domestic steel becomes stronger.

Quality Control

Key Quality Factors

- Range of services
- Experience
- Convenience
- Timeliness

Truck repair and maintenance services must be performed quickly and accurately to minimize downtime. Buyers should consider four key quality factors when comparing potential suppliers. The range of services provided, the supplier's experience, the convenience of services and timeliness are crucial factors for buyers to take into account. In general, buyers should expect to pay more for higher-quality services.

A supplier that provides a wide range of services is more likely to complete a complicated or specialized repair without needing outside consultation or an extended learning period. Moreover, a wide range of services is beneficial to buyers with large fleets because they can have all truck maintenance and repairs performed by a single supplier. However, providers typically charge more for performing a wider range of services, so

Product Characteristics

Quality Control continued

this level of quality comes at a higher price point.

Experience is one of the most important quality factors for buyers to consider. A wealth of experience typically translates into excellent service in many areas of a supplier's operations. A supplier with many years of experience will be able to better anticipate a buyer's needs and provide preventive service and maintenance. However, experienced providers are often able to charge higher prices.

Convenience is another key factor for buyers to consider. Convenience encompasses the supplier's physical proximity to the buyer, the supplier's willingness to communicate with the buyer and any other aspects that

improve the overall ease of purchase. Greater convenience results in faster and more efficient repairs, allowing buyers to focus their efforts on their core activities.

The timeliness with which a supplier can perform repairs is of utmost importance because buyers lose money when their trucks are inoperable. A quick turnaround allows buyers to stay on schedule and minimizes losses incurred during downtime. A faster repair also requires fewer labor hours, saving money for buyers. Lastly, timeliness is a strong indicator of experience and efficiency, which are highly desirable factors for buyers. Buyers should be aware, though, that timely services often come at a higher price point.

Supply Chain & Vendors

Supply Chain Dynamics



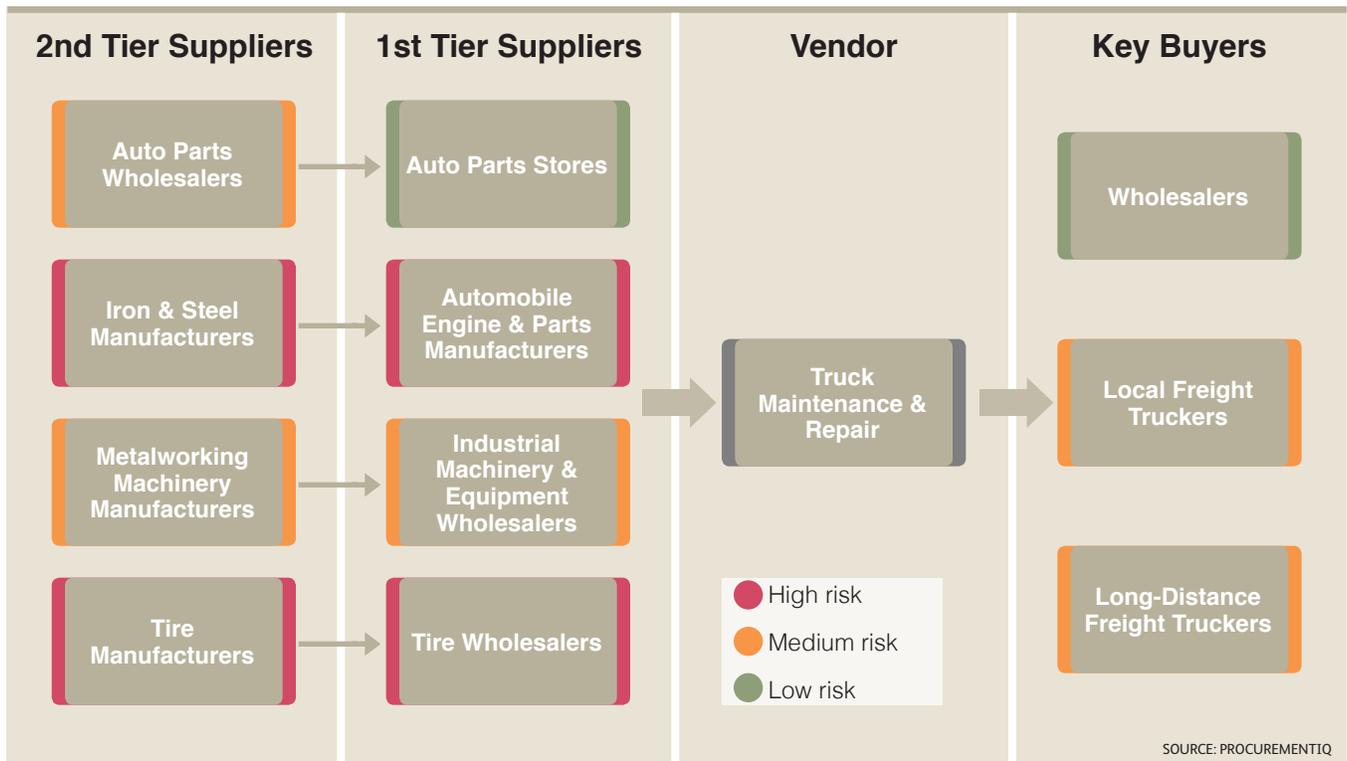
Supply Chain Risk

Supply chain risk in the truck maintenance and repair market has been moderate overall during the past three years. This level of supply chain risk reduces buyer power because it indicates that providers may be subject to supply chain disruptions, which would make them less willing to negotiate on prices.

Most truck repair services require a variety of basic materials and parts, including motor oil, antifreeze and filters, which are readily available from auto parts stores. Because these inputs are widely available from a large number of upstream suppliers, there is little risk of supply disruptions that would negatively impact market providers or buyers for most repairs. However, other upstream providers, such as tire wholesalers and automobile engine and parts manufacturers are high risk. These suppliers provide critical inputs for more advanced truck maintenance and repair

services. Tire wholesalers must acquire products from tire manufacturers, which are exposed to fluctuations in crude oil prices, one of the primary inputs for producing these products. Along similar lines, automobile engine and parts manufacturers represent a high level of supply chain risk because of their reliance on iron and steel manufacturers. Because the prices of iron and steel fluctuate regularly, downstream markets may be subject to sudden changes in input costs. For example, if steel prices spike, prices for metal truck parts also increase. Moreover, even when steel prices dip, market prices tend to remain high because suppliers must protect their profit margins against future price hikes. Consequently, market providers have little pricing power in relation to these upstream providers.

Wholesalers and trucking businesses are the primary buying markets for truck maintenance and repair. These



Supply Chain & Vendors

Supply Chain Dynamics continued

businesses operate large fleets of trucks and must keep their vehicles in working order. Wholesalers are typically low risk because demand for their services is bolstered by consumer spending. However, local freight truckers and long-distance freight truckers are moderately risky because of their exposure to fluctuations in fuel prices. Fortunately for market providers, trucking businesses generally enjoy healthy profit margins, allowing them to absorb slight price increases in repair and maintenance costs. Moreover, repair and maintenance are not discretionary purchases. These two factors allow market providers to raise prices without causing a significant decline in demand.

Geographic Locations

Truck maintenance and repair providers are primarily concentrated in the Southeast (22.4%), Mid-Atlantic (17.3%), West (16.2%), Great Lakes (15.9%) and Southwest (10.2%) regions of the country. Providers tend to locate themselves in these areas due to their high populations, which leads to strong demand for trucking.

Truck maintenance and repair businesses are largely concentrated in regions with high population density and heavy consumer spending. These two factors create demand for transportation and manufacturing, resulting in more

truck deliveries and the need for truck repair and maintenance facilities. Buyers should not have difficulty locating a truck repair supplier near their operations because the majority of suppliers are established close to major trucking centers and busy highways. Furthermore, a considerable number of truck repair services are mobile, allowing for repairs and maintenance to be performed on the road or at a buyer's place of business. Although numerous small providers are typically readily available, it can often be more difficult for buyers to locate larger providers. Buyers that require repair services on a national scale can often use large franchises, but will likely have difficulty finding suppliers that offer services in multiple regions, forcing them to seek out a new supplier for each new geographic location.

Imports

There are no imports to report in the truck maintenance and repair market. Suppliers must be located in close proximity to buyers, eliminating the option of importing services. However, many suppliers make use of imported equipment and supplies, such as welding torches and toolkits. Also, many of the replacement parts used by suppliers are imported. Consequently, there is an element of international trade involved in truck repair, but buyers are largely unaffected by it.

Competitive Environment

Market Share Concentration

LOW

Market Share Concentration

Market share concentration in the truck maintenance and repair market is low. The market is highly fragmented, with about 102,000 suppliers currently operating in the United States. The top four suppliers account for less than 10.0% of total market revenue. Buyers benefit from low market share

concentration because no single supplier can significantly influence prices, thus promoting strong competition.

The low concentration among market providers is largely a reflection of the high level of fragmentation found in trucking markets, which are the primary buying markets for truck maintenance and repair services. Due to this

Supply Chain & Vendors

Competitive Environment continued

fragmentation, demand for market services is strong, which makes it easy for new providers to compete with established operations and generate revenue. Moreover, market services tend to be highly localized. The prevalence of local suppliers makes it relatively easy for buyers to compare multiple quotes and negotiate prices downward.

The relatively common skills and widely available equipment required to operate a truck repair business have caused the number of providers to steadily increase in recent years. As low barriers to entry have allowed new providers to launch operations in the three years to 2018, market share concentration has decreased, benefiting buyers.

The low level of market share concentration among truck maintenance and repair service providers boosts buyer power by contributing to competition. Fierce competition ensures slow price growth and high service levels. Furthermore, suppliers typically depend on local buyers for the majority of their revenue, enhancing the importance of each buyer and providing them with extra leverage during negotiations.

Vendor Company Types

About 102,000 providers operate in the truck maintenance and repair market. During the three years to 2018, the number of providers in the market has grown in line with strengthening demand. These providers are divided into franchises and independent service garages. Although they share many features and provide similar services, each supplier type offers important advantages and drawbacks to buyers. Buyers are advised to choose the supplier type that best meets their needs and budgetary requirements.

Franchises: Franchises represent only about 5.0% of market providers. However, they are the largest suppliers in the truck maintenance and repair market. Franchises consist of multiple locations and are centrally owned and operated. Examples of franchises include Gerber Collision & Glass, which is owned by Boyd Group, and Pep Boys, a subsidiary of Icahn Enterprises. Buyers that are evaluating franchises as potential suppliers should be aware of their corporate structure and financial stability

Vendor Statistics - Truck Maintenance & Repair

	US Product Market Share (%)	Market Share Performance (3-yr trend)	Total Revenue (\$m) ¹	Profit Margin (%)	Financial Risk Level ²
Icahn Enterprises LP	<5	Increasing	19,130	2.0	Low
PACCAR Inc.	<5	Steady	19,025	9.8	Low
Ryder System Inc.	<5	Steady	7,330	5.8	High
TravelCenters of America LLC	<5	Steady	6,052	-0.8	High
Rush Enterprises Inc.	<5	Steady	4,714	3.2	Medium
ArcBest Corporation	<5	Steady	2,827	1.9	Low
Boyd Group Inc.	<5	Increasing	1,193	4.9	Medium
Love's Travel Stops & Country Stores	<5	Steady	>10,000	N/A	N/A
NationalLease	<5	Steady	2,000-5,000	N/A	N/A
Penske Corporation	<5	Steady	>10,000	N/A	N/A

1: Revenue refers to the latest financial year for which data is available. Private company revenue is expressed as a range.
2: Financial Risk Level is based on the Altman Z-Score, which uses a formula to predict a company's risk of bankruptcy. See Glossary for more details.

SOURCE: ProcurementIQ

Supply Chain & Vendors

Competitive Environment continued

before entering into a contract. It is helpful to research the parent company behind any franchise to get an idea of the franchise’s financial situation.

Franchises primarily serve large trucking businesses with multiple locations and are focused on providing standard maintenance and repairs for a wide range of trucks. Franchises are ideal for large trucking companies because they are able to provide services for an entire fleet and can be contracted for an extended time. Long-term contracts allow for better prices and added convenience for buyers.

Despite these advantages of franchises, buyers should also be aware that these providers have some drawbacks. Because of their larger customer bases and reduced dependence on local clients, franchises typically do not provide the same level of customer service offered by many smaller independent suppliers. Furthermore, franchises focus on providing the most common repairs and maintenance, often falling short when it comes to more specialized services. As a result, local freight trucking service suppliers or buyers with specialized needs are better off using independent suppliers.

Independent service garages:

Independent service garages make up the majority of truck maintenance and repair businesses, representing about 95.0% of suppliers. The vast majority of these suppliers employ fewer than five people. Independent suppliers operate stand-

alone repair shops with dedicated repair garages or operate as part of a diversified service station, such as a truck depot or rest stop.

Independent service garages offer several benefits to buyers. Depending on the supplier, independent service garages typically serve far fewer buyers than large franchises, allowing for higher levels of customer service. Additionally, independent suppliers are more likely to provide specialized services involving complicated repairs and more in-depth maintenance.

However, buyers often pay premium prices for these more specialized services and better customer service. As a result, independent service garages may be less likely to offer discounts. Nonetheless, buyers that are concerned about expertise and customer service levels are best off choosing independent suppliers over large franchises.

Supplier diversity: Buyers have modest opportunities for sourcing truck maintenance and repair from diverse suppliers. Women- and minority-owned suppliers represent a lower percentage of businesses in the market than in the overall economy. As a result, it may be more difficult for buyers to find these types of suppliers to fulfill diversity requirements. However, the share of veteran-owned truck maintenance and repair suppliers is higher than the percentage of veteran-owned businesses in the overall economy. Buyers will likely be able to find such suppliers more easily.

Supplier Diversity

Ownership Category	This Market (%)	Overall Sector (%)	Overall Economy (%)
Women	5.6	26.2	19.4
Minority	14.0	22.7	17.5
Veteran	9.8	6.8	7.5

Ownership is defined as owning at least 51 percent of a firm, which is the definition used by the Small Business Administration for government procurement programs.

SOURCE: IBISWorld and US Census Bureau

Supply Chain & Vendors

Market Profitability



Truck maintenance and repair providers generate moderate profit margins, at 7.4% of revenue on average. Despite increases in input costs, profit margins have been rising during the three years to 2018 due to strong demand, which has allowed providers to raise their prices. However, competition among vendors has prevented them from raising prices more rapidly and generating high profit margins. The moderate profit margins in this market benefit buyers. When profit is at his level, providers can decrease prices for some buyers without jeopardizing their overall financial health. As a result, they may be more willing to negotiate on prices.

Profit levels in this market often depend on provider type. In general, independent service garages are able to generate slightly higher profit margins

than large franchises. Large franchises require a central management team and typically have higher marketing expenditures, resulting in greater overhead costs and lower profit margins. On the other hand, independent service garages have lower overhead costs and are able to provide more personalized and specialized service, allowing them to charge higher prices.

Vendor financial risk in this market is low. Most truck repair and maintenance providers are financially stable, relying on a high volume of sales and a loyal customer base to generate a steady stream of revenue. This level of vendor financial risk benefits buyer power because it means that providers are unlikely to declare bankruptcy, which would cause service disruptions for buyers.

Switching Costs



Switching costs in the truck maintenance and repair services market are low. This level of switching costs boosts buyer power because it indicates that buyers can easily change from one vendor to another. As a result, providers may be more willing to negotiate with buyers on market prices.

Buyers face a variety of non-monetary expenses when changing providers. One of the most important switching costs is the loss of any professional relationships or network that were accessed through the previous supplier. When switching to a new supplier, buyers often lose access to discounts and preferred treatment, forcing them to consider the networking ramifications of leaving their current providers. Additionally, many buyers have established long-term relationships with their suppliers, which gives rise to higher service levels and increased understanding of their needs. Switching to a new supplier may require a learning period during which the new provider gains a better understanding of the

buyer's preferences and commonly required repairs.

Because there is variability among suppliers, buyers should conduct heavy research and comparison shop before switching services. This evaluation period can increase switching time, which often translates into lost income. This process is extremely important for large and complex repair jobs, but small, standard repairs, such as changing an oil filter, do not require extensive research and negotiation, saving buyers time when switching.

If a buyer is currently locked into a supply contract, there may be a fee for ending the contract early. Early termination fees can increase the cost of switching suppliers. The easiest way to avoid an early termination fee is simply to wait until the current contract has expired, but if a buyer must end their current contract early, it is important to account for these added fees when planning a budget with the new supplier.

Purchasing Process

Buying Basics

Buying
Lead Time

SHORT

Buying Lead Time

Buying lead time for truck maintenance and repair, which begins with RFP creation and ends with implementation, is short. The entire purchasing process typically lasts as little as a week but can take as long as a month, depending on the complexity of the repair and the time taken to evaluate suppliers. Because there is some variability among suppliers, it is important to research the quality and reputation of a potential supplier before purchasing a repair service. This process can take up to a week, but will ensure that a reliable supplier is chosen.

The repair itself can take as little as one day and as long as one month, depending on a variety of factors. First, the complexity of the repair dictates how long it will take to complete. A highly complex repair typically requires the supplier to order multiple parts and spend hours performing the repair. Furthermore, waiting for parts to arrive is often one of the most time-consuming aspects of a truck repair. To shorten this time, buyers can ask potential suppliers if they have the necessary parts in stock before hiring them. Labor also impacts lead time. Even a relatively simple repair with few specialized parts may require extensive labor for installation and reassembly.

Multiyear supply contracts are rarely used to procure truck repairs because the services vary on a case-by-case basis. For scheduled maintenance, however, buyers can derive significant savings using a supply contract. For example, buyers can have the same supplier perform oil and filter changes regularly for one year to obtain discounts on new oil and filters.

Selection Process

Truck maintenance and repair service providers and buyers typically have a leveraged relationship. These services offer high value for buyers but present little risk. Market services are essential for many buyers' daily operations, making it important to avoid service disruptions. Consequently, buyers should maintain close working relationships with their suppliers. However, overall market risk is minimal as a result of low market share concentration and the large number of providers in operation. These characteristics make it relatively easy for buyers to identify qualified suppliers. Furthermore, switching costs in the market are low, which allows buyers to negotiate even more aggressively, even if it requires changing to a different supplier.

Leveraged relationships require frequent contract reviews and competitive bidding to ensure that buyers receive the most favorable service agreements. Buyers should leverage the fact that the market contains a large number of vendors to negotiate for lower prices.

Buying-Decision Scorecard

The Buying-Decision Scorecard outlines the key criteria a buyer should consider when purchasing this good or service. When weighing the importance of each factor, we assume that a buyer has narrowed down potential suppliers to those that meet the technical and price criteria specified in the RFP. The criteria and weights assigned below can be used as guidelines to help further differentiate already qualified vendors.

Purchasing Process

Buying Basics continued

Buying-Decision Scorecard		
Factor	Weight (%)	Description
Technical Factors	80.0	
Convenience	15.0	Providers with flexible scheduling and locations near buyers' operations typically offer more convenience. Furthermore, some buyers prefer to have maintenance performed at their place of business for added convenience. Buyers can save time and effort by sourcing from convenient providers.
Reputation	25.0	Suppliers' reputations reflect the quality of the services they provide and the level of customer support they offer. A supplier with an excellent reputation is likely to provide good service in all key service areas, while a poor reputation indicates serious and ongoing problems with the supplier.
Range of Services	20.0	Buyers often require a wide range of services, including maintenance and repair for many truck models. Locating a supplier that is able to perform complex repairs on all relevant models saves time and effort for buyers.
Timeliness	20.0	Timeliness is often one of the most important concerns for buyers. Downtime represents lost income for buyers, putting significant pressure on repair suppliers to be efficient and timely with their services.
Cost	20.0	
Price	20.0	Fair and straightforward pricing is crucial for buyers. Some suppliers will attempt to charge hidden fees and use confusing billing methods to boost revenue. These suppliers should be avoided in favor of suppliers that use simple, transparent billing methods. Avoiding problem suppliers will save buyers money and help them avoid potential disputes.
Total	100.0	

Purchasing Process

Key RFP Elements

Organizational Overview	<ul style="list-style-type: none"> • Buyers should describe their organizations, including size and geographic location. • Buyers should briefly explain why they are seeking truck maintenance and repair services. • Buyers should give a description of how many and what types of trucks they operate. • Buyers should state where they expect the truck maintenance and repair services to take place.
Statement of Need	<ul style="list-style-type: none"> • Buyers should provide a detailed description of their fleet and how often the vehicles are driven. • Buyers should include a detailed description of the type of repair services they require. • Buyers should explain their expectations for maintenance and repair services, including the level of quality assurance. • Buyers should describe how frequently they expect to require truck maintenance and repair services.
Proposal Format	<ul style="list-style-type: none"> • Vendors should provide a detailed explanation of how their services will achieve the organization's goals. • Vendors should provide past performance information, including any relevant case studies, client testimonials and client references. • Vendors should detail any quality control measures they have in place for their maintenance and repair services. • Vendors should describe the qualifications of the mechanics that will be conducting the maintenance and repair work.
Project Budget	<ul style="list-style-type: none"> • Buyers should explicitly state the amount of the contract award, if available. • Buyers should explain whether they expect to pay for services after each maintenance or repair job or at some other point during the life of the contract. • Buyers can consult the Benchmark Price section of this report to determine whether they are paying a competitive price for truck maintenance and repair.
Selection Criteria	<ul style="list-style-type: none"> • Buyers should evaluate the experience of the mechanics that will be assigned to the maintenance or repair work. • Buyers should make sure the provider employs mechanics that have the expertise needed for the maintenance and repair work they require. • Buyers should evaluate providers based on the estimated costs of the maintenance and repair services they are offering. • For a detailed list of key selection criteria, buyers should reference the Buying-Decision Scorecard section of this report.
Project Schedule	<ul style="list-style-type: none"> • Buyers should include the dates when proposals are due and award information will be available. • Buyers should detail their desired timelines for maintenance and repair projects. • Buyers should also include any benchmark dates relevant to their maintenance and repair projects, which suppliers will need to be aware of.

Negotiation Questions

Issue	Questions
<p>Experience: Experience is crucial for market providers. Repairs often present new challenges for suppliers. Extensive experience allows suppliers to better deal with these challenges.</p>	<ul style="list-style-type: none"> • How many years has your company been in business? • How have you stayed competitive in the past three years with regard to service levels and pricing? • What certifications and awards have you received? • What training do your employees receive? Is this training consistent with or above market standards?
<p>Customer Service: Good communication and transparency with buyers can greatly enhance services. Good customer service also helps solve disputes during the negotiating and billing processes.</p>	<ul style="list-style-type: none"> • How do you track customer reviews and feedback? • How have you improved customer satisfaction in the past three years? • Do you feel that you are able to provide better customer service than your competitors? How? • Do you communicate with customers during the repair if unforeseen services are needed? • To what extent do you explain all services and invoices to buyers? • On average, how quickly do you resolve buyer issues?
<p>Timeliness: For many trucking companies, time is money. Any time spent having a truck repaired represents lost revenue for buyers, placing significant emphasis on supplier timeliness.</p>	<ul style="list-style-type: none"> • How do you ensure timely repairs? • How do you prioritize and track repairs in progress? • Do you maintain an inventory of commonly needed parts? • How many repair and maintenance technicians do you employ? • When was the last time you went over an anticipated time frame?
<p>Pricing: Pricing should be straightforward and easy to understand. Clarity and transparency will prevent possible pricing disputes and allow for more effective negotiations.</p>	<ul style="list-style-type: none"> • Are you willing to provide a price estimate for repairs and maintenance? • What are some common reasons for exceeding a predetermined estimate? • How do you deal with customer complaints regarding pricing? • What types of discounts do you offer your long-term or repeat buyers?
<p>Geographic Scope: A supplier with multiple locations can be helpful to large buyers that operate in many different regions.</p>	<ul style="list-style-type: none"> • Do you operate multiple locations? If so, where are they? • How long have you been using your current location and how wide an area do you serve? • To what extent have you expanded in the past three years? • Do you offer mobile repair services?
<p>Warranty & Insurance: Warranty and liability insurance can save buyers large sums of money in the event that a replacement part fails prematurely or an installation was done improperly.</p>	<ul style="list-style-type: none"> • Who is your insurance provider? Have they significantly altered their premiums or coverage in the past three years? • What are the terms of the warranty that comes with your services? • Can I purchase an extended warranty? • How often are warranty claims fulfilled? How long does it typically take to fulfill a warranty claim?

Buyer Power Score Components

Price Trend

Factor	Definition	Weight	Score
Recent Price		40%	3
Neutral	Compound annual growth rate in benchmark price over the past three years 1.5-3.0%		
Forecast Price		60%	4
Favorable	Compound annual growth rate in benchmark price in the next three years 0.1-1.4%		
Weighted Score		50%	3.6

Market Structure

Factor	Definition	Weight	Score
Availability of Substitutes		35%	1
Low	There are few viable substitutes for this product/service		
Market Share Concentration		25%	5
Low	The top four suppliers of this product/service have less than/equal to 29.9% market share		
Product Specialization		25%	3
Medium	The product/service is assessed as having a medium level of specialization		
Switching Costs		15%	5
Low	The cost of switching from this product and/or supplier is assessed as low		
Weighted Score		20%	3.1

Market Risk

Factor	Definition	Weight	Score
Price Driver Volatility		25%	1
High	Average absolute difference in percentage change of external drivers > 4.5%		
Recent Price Volatility		25%	5
Low	Average absolute difference in % change in price over last 3 years < 1.0%		
Vendor Financial Risk		25%	5
Low	The average level of financial risk for product/service vendors is assessed as low		
Supply Chain Risk		25%	3
Medium	The average level of product/service supply chain risk is assessed as medium		
Weighted Score		30%	3.5

Overall Buyer Power Score 3.5

ProcurementIQ's Buyer Power Score is a calculation based on weighted quantitative and qualitative factors that measure a buyers' ability to negotiate lower prices and favorable contract terms. The higher the Buyer Power Score, the greater the average buyer's negotiating strength for this product. The overall score is composed of three components:

- 1) **Price Trend:** compares this product's average recent and forecast price change to the economy-wide inflation rate;
- 2) **Market Structure:** assesses the availability of alternatives and ease of purchasing in this product's marketplace
- 3) **Market Risk:** measures elements of volatility and risk impacting a buyer's confidence in making long-term deals with suppliers of this product.

Jargon & Glossary

Jargon

Original Equipment Manufacturer (OEM) Original equipment manufacturers (OEM) fabricate parts and sell them to automakers for use in final products.

Aftermarket Replacement automotive parts manufactured by a third party.

Travel Center Also known as a truck stop, a travel center is a facility that provides rest areas and other services to travelers, including truck drivers.

Glossary

HS The Harmonized Commodity Description and Coding System is maintained by the World Customs Organization as a standardized system of names and numbers for classifying traded products.

Life Cycle All products and services go through periods of growth, maturity and decline. ProcurementIQ determines a life cycle by considering factors such as pricing trends, the level and speed of product or service change, the extent of a product's distribution and the maturity of marketing trends.

Market Share Concentration Determined by the market share of the top four vendors for a given product or service: high is when the top four vendors account for more than 50.0% of the product or service market share, medium is from 30.0% to 50.0%, and low is less than 30.0%.

NAICS The North American Industry Classifications System is the standard by which industries (not products) in the United States, Canada and Mexico are classified.

Price Driver Volatility Level Determined by the average absolute difference in the percentage change of input cost items and external demand drivers over the past three years: high is 3.5% or greater for all drivers, medium is from 2.0% to 3.4% for all drivers, and low is 1.9% or less for all drivers.

Price Range The difference between the upper and lower price bounds divided by the benchmark price: wide is greater than 50.0%, medium is from 25.0% to 50.0%, and narrow is less than 25.0%.

Price Volatility Level Determined by the average absolute difference in the percentage change of the benchmark price over the past three years: high is 3.5% or greater, medium is from 2.0% to 3.4%, and low is 1.9% or less.

Producer Price Index (PPI) This index represents the change in the amount that producers receive for their products or services, as opposed to the prices that consumers pay for them.

Profit ProcurementIQ uses earnings before interest and tax (EBIT) as an indicator of a company's profitability. It is calculated as revenue minus expenses, excluding interest and tax.

Profit Level Determined by the average profitability of the industry in which a product or service vendor operates, compared to the average profit margin for all industries in the US. There are around 700 industries in the US classified using the NAICS taxonomy (see NAICS).

Total Cost of Ownership Level Determined by the total cost of ownership as a percentage of the benchmark purchase price per year: high is when the total cost of ownership is greater than 100.0% of the benchmark purchase price per year, medium is from 50.0% to 100.0%, and low is less than 50.0%.

UNSPSC Coding for each report title is based primarily on the United Nations Standard Products & Services Code. The code is a hierarchical classification codeset of expenditure items.

Wages The gross total wages and salaries of all employees in the industry. The cost of benefits is also included in this figure.

Z-Score The Altman Z-score formula is used to help predict a company's chances of going bankrupt within the next two years. The Z-score uses multiple corporate income and balance sheet values to measure the financial health of a company. Z-scores above 2.9 are defined as having a low financial risk level; scores between 1.23-2.9 are at a medium risk level and scores below 1.23 are a high financial risk level.

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