

SURVEY #3 – CEWS FOCUS

IMPACT OF COVID-19: AFTERMARKET BUSINESS CONDITIONS SURVEY

Prepared by Automotive Industries Association of Canada

November 9th, 2020

OUR SPONSORS

AIA Canada would like to acknowledge the generous financial support from our sponsors:



RESPONDENT PROFILE

Total respondents:	n=224
Parts manufacturer	8
Major retailer	2
Wholesaler	14
Warehouse distributor	4
Mechanical & tire service	44
Collision repair shop	131
Quick lube shop	1
Other	20

Number of employees*:	n=224
1-6	79
7-25	122
26-100	15
101-1000	5
More than 1000	2
Other	0

**under normal circumstances*

- Fieldwork: Conducted between Thursday, 10 September, 2020 to Wednesday, 30 September, 2020
- Survey frame: Aftermarket business owners and employees across the 13 provinces and regions of Canada
- Fielding: Email invitation to an online survey
- **Caution: Sample size for collision sector high compared to other respondents which may skew results*

IMPACT OF COVID-19 ON BUSINESS OPERATIONS - OVERALL

VERY DISRUPTED – 28%

SLIGHTLY DISRUPTED – 54%

COMPLETELY SHUTDOWN – 0%

FUNCTIONING NORMALLY – 18%

This is the third survey of the business impact series launched by AIA Canada in April 2020. The aftermarket industry was in the seventh month (September) of dealing with the COVID-19 pandemic during the fielding period of this survey.

Previous survey findings indicate that out of the three core sectors of the aftermarket industry, collision repair and mechanical service sectors were the most impacted by the lockdown measures and reduced vehicle usage across Canada. The supply chain sector reported faring relatively well in the pandemic world.

On 23rd September 2020, in the Speech from the Throne, the government announced the extension of the federal Canada Emergency Wage Subsidy (CEWS) into June 2021. The eligibility criteria was also amended to enable more small to medium-sized businesses to apply for CEWS. While this news was welcome by most businesses who've been suffering during the COVID-19 pandemic, AIA through this survey, wanted to delve deeper into how receptive aftermarket businesses were to CEWS with the new changes. This survey, therefore, includes three additional questions related to CEWS that were not included in surveys #1&2.

Majority of aftermarket businesses (82%) report that they are 'very to slightly disrupted', while no businesses (0%) are completely shutdown. A further breakdown of the disrupted numbers reveals that only 28% of businesses are 'very disrupted', whereas 54% of businesses are 'slightly disrupted'. 18% of businesses report that they are 'functioning normally'.

IMPACT OF COVID-19 ON BUSINESS REVENUE

Change in revenue of **'very disrupted'** - **28%**:

	↑ 10% & up	↑ 1-10%	↔ +/-	↓ 1-10%	↓ 11-20%	↓ 21-30%	↓ 31-40%	↓ 50% or more
Aug 2020	0%	0%	3%	6%	5%	26%	34%	26%
Sept 2020*	0%	2%	5%	5%	15%	20%	36%	16%
Oct 2020*	0%	2%	7%	7%	11%	22%	31%	19%

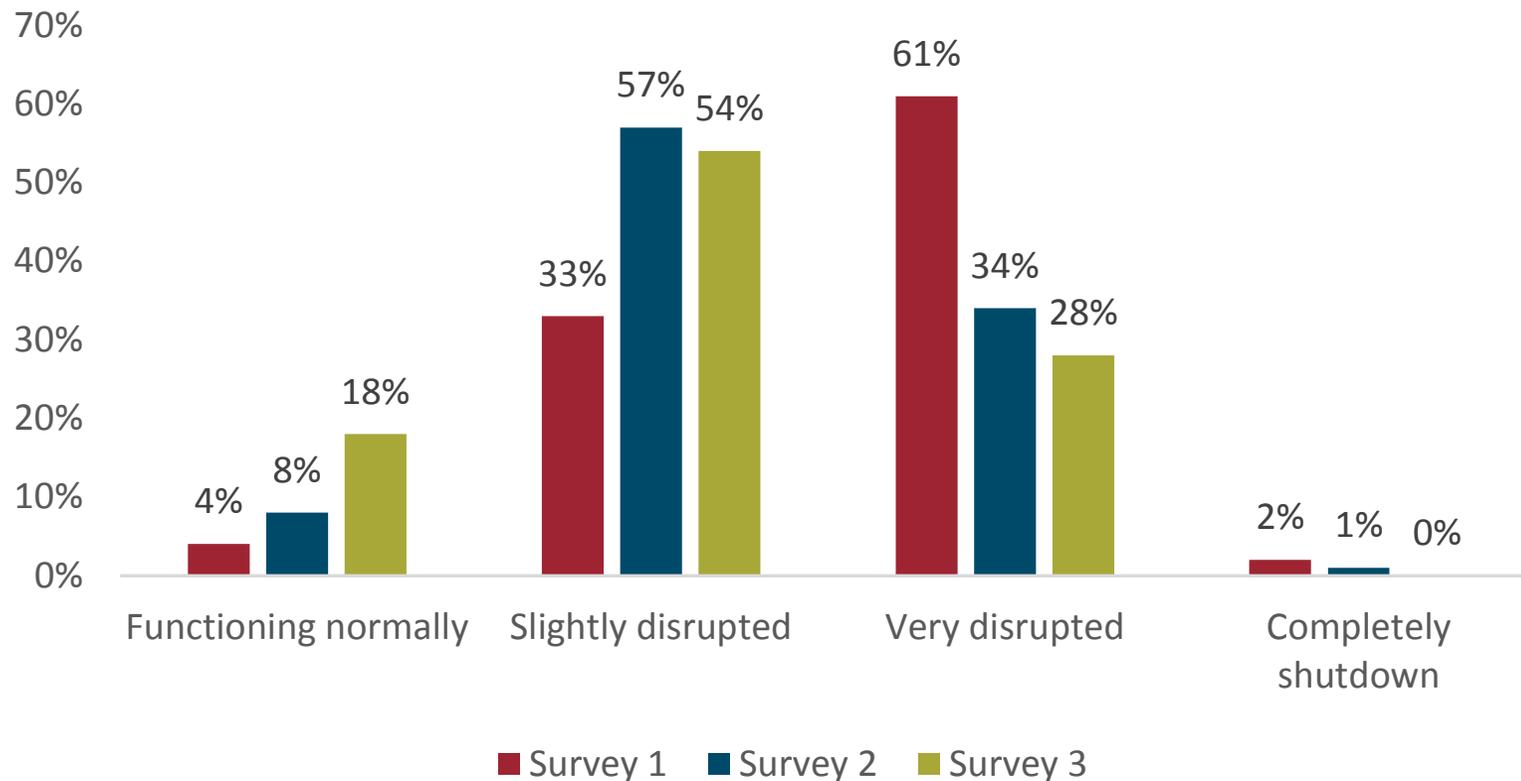
Change in revenue of **'slightly disrupted'** - **54%**:

	↑ 10% & up	↑ 1-10%	↔ +/-	↓ 1-10%	↓ 11-20%	↓ 21-30%	↓ 31-40%	↓ 50% or more
Aug 2020	8%	11%	8%	20%	20%	19%	11%	3%
Sept 2020*	7%	13%	13%	22%	25%	11%	8%	2%
Oct 2020*	4%	15%	15%	24%	20%	12%	7%	2%

*approx. forecast

IMPACT OF COVID-19 ON BUSINESS OPERATIONS - COMPARISON

Survey 1, 2 & 3 comparison

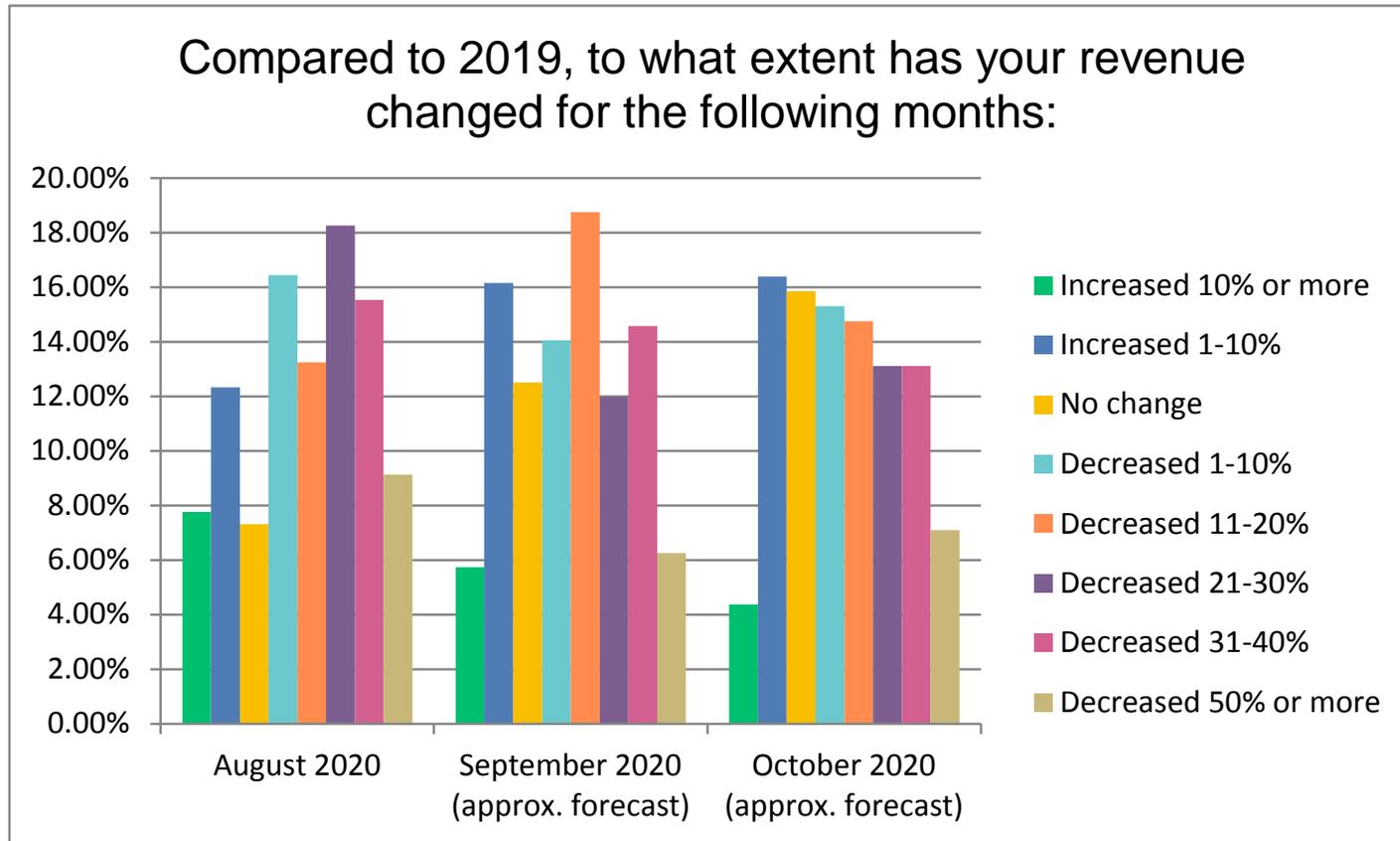


A comparative analysis of surveys #1, 2 & 3 reveal some stark differences. The most striking difference is in the number of businesses who report being 'very disrupted'. In survey #1 (April/May 2020), a whopping 61% of businesses were 'very disrupted'. This number fell sharply in survey #2 (June 2020) by almost half (34%). Continuing in the same trend, only 28% of aftermarket businesses report being 'very disrupted' in survey #3 (September 2020).

Another major difference noticed between the time periods observed is the steady increase of businesses that are 'functioning normally' – growing from 4% in survey #1 to 8% in survey #2, and sitting at a healthy 18% in survey #3.

But it's not all good news as there is a significant increase in businesses that are 'slightly disrupted' – growing from 33% in survey #1 to 57% in survey #2, showing a slight decline in survey #3 at 54%.

CHANGE IN REVENUE FOR ALL RESPONDENTS



The survey results clearly highlight that 43% of respondents have experienced moderate to severe impact* on their revenues in August 2020. Projections for September (33%) and October (33%) are modest with clearly half the industry being adversely impacted.

The top category (18%) for August are businesses reporting revenue decrease by 21-30%; 19% of businesses forecast a loss of 11-20% in revenue for September; while the largest categories for October are the 'no change' (16%) and 'increased 1-10%' (16%).

While there still remains a lot of uncertainty due to second lockdown measure, the overall results show an upward trend for most businesses.

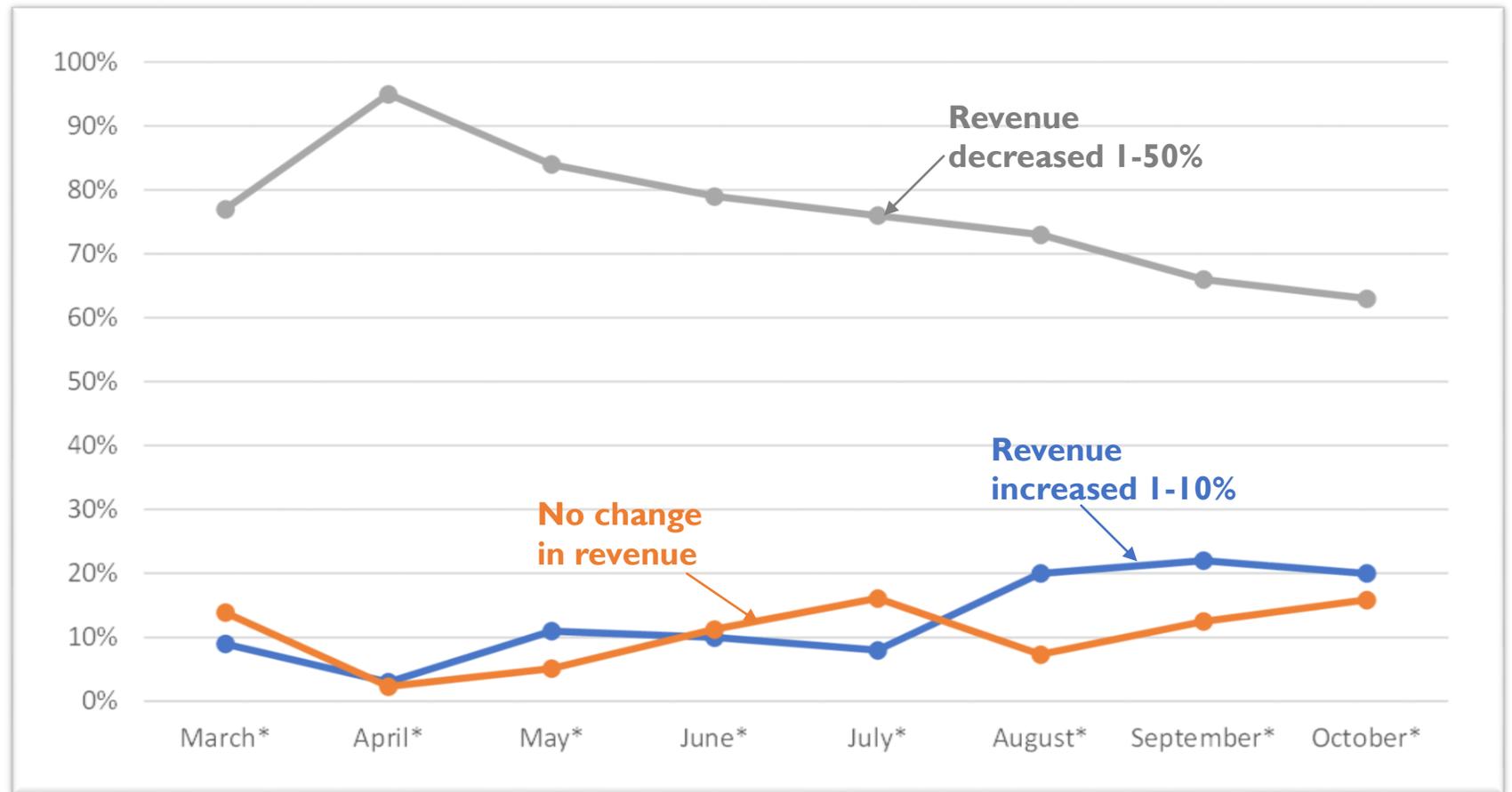
*Revenue decrease by 21-30% to 50% or more

REVENUE CHANGE – TREND ANALYSIS

A trend analysis of changes to revenue for all surveys starting from March up to October reveal that the industry is on the mend.

Decrease in revenue was immediate when the pandemic-related closures started in March (77%) reaching its peak in April (95%). Numbers stayed stable in May to August (84% to 73%) dropping down to a 66% in September and 63% to October.

Meanwhile, businesses reporting increase in revenue has increased steadily from March (9%) to October (20%). September (22%) reported the highest gains by aftermarket businesses.



*approx. forecast

CURRENT CONDITIONS RELATED TO BUSINESS OPERATIONS

Are you currently operating with:	Survey #3	Survey #2	Survey #1
Increased safety and sanitizing practices	79%	76%	84%
Events, conferences and meetings cancelled	35%	38%	43%
Reduced operating hours	19%	28%	33%
Offering curbside pickup and home delivery	28%	25%	34%
Other	13%	11%	10%

Comments:

“Working normally”

“Expanding to new business ventures”

“Employees hours cut due to lack of business”

“We are actually ahead of Last Year's Sales”

“less work coming into business”

“Loss of Revenue during our busy season due to lack of customers - starting to get back to normal”

From a business operations standpoint, the outlook is more stable compared to results from previous surveys. There was a slight decrease in ‘safety and sanitizing practices’ (76%) potentially because of increased costs of cleaning and sanitizing vehicles but the cost was offset by some insurance agencies such as MPI and ICBC who chipped in with allowances for collision repair shops that are likely to continue till early next year.

A significant drop is noticed in the number of businesses (19%) reporting ‘reduced operating hours’ indicating that business has picked up in tandem with increased vehicle usage in the summer and beginning of fall.

CURRENT CONDITIONS RELATED TO STAFFING & HR

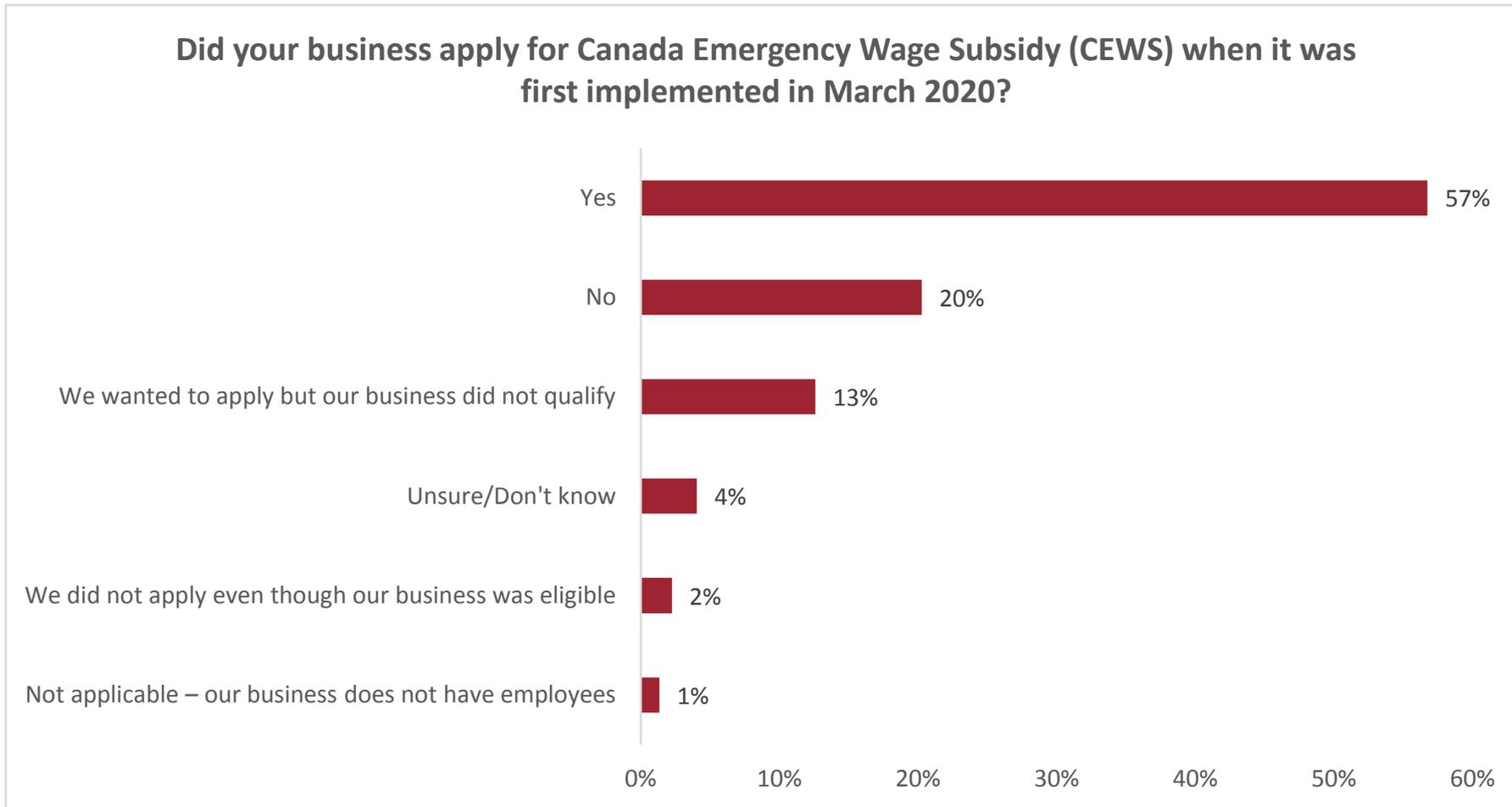
Are you currently operating with:	Survey #3	Survey #2	Survey #1
Employees laid off due to reduced business	36%	47%	61%
Reduced productivity due to current staffing conditions	27%	33%	41%
Re-hiring laid off employees	20%	24%	15%
Employees working from home	10%	16%	22%
Employees on sick leave due to illness or self-isolation (related to COVID-19)	5%	13%	22%

Comments:

“Our Employees Refused to Return to work struggling to find replacement staff.”
“running 2 shifts (night shift) to accommodate parents at home for children“
“Employees hours cut due to lack of business”
“Dealing with customer and staff stress due to covid-19 daily”
“Temp layoffs or extended holidays.”
“Very little insurance work”

There is a steady drop in the number of businesses (36%) reporting laying off employees due to reduced business. Productivity (27%) has also increased slightly by 6 percentage points since the last survey (33%), along with fewer businesses (10%) reporting employees working from home. This could be due to the nature of collision and mechanical repair businesses that require staff’s physical presence. Another significant improvement for the sector is businesses (20%) being able to re-hire previously laid off staff made possible by the relief measures offered by the government.

STATUS OF AFTERMARKET BUSINESSES & CEWS



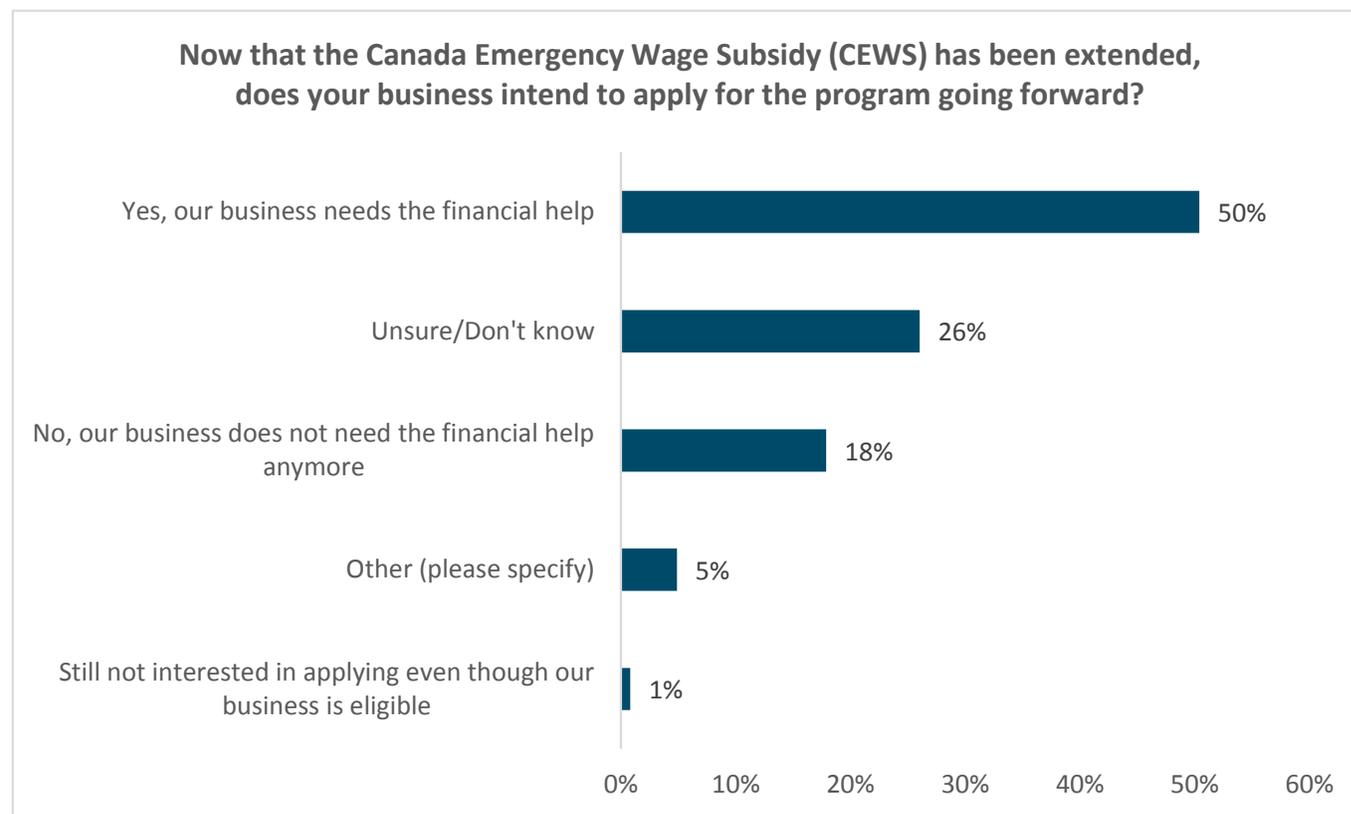
Answered: 222
Skipped: 2

BUSINESSES THAT APPLIED FOR CEWS IN MARCH – 57%

A follow-up question was asked to those businesses (57%) that had applied for CEWS in March 2020. The goal was to understand their intentions going forward since the government had announced changes to CEWS.

50% of businesses indicate that they are still in need of financial help from the government and intend to apply again. The businesses who intend to apply also report being 'slightly disrupted' (55%), 'very disrupted' (32%) and 'functioning normally' (13%).

Aftermarket businesses that applied for CEWS also report applying for other financial relief measures such as CEBA* (57%), CERB** (18%), CECRA*** (5%), and other non-government financial institutions (8%). Only 21% of businesses applied solely for CEWS.



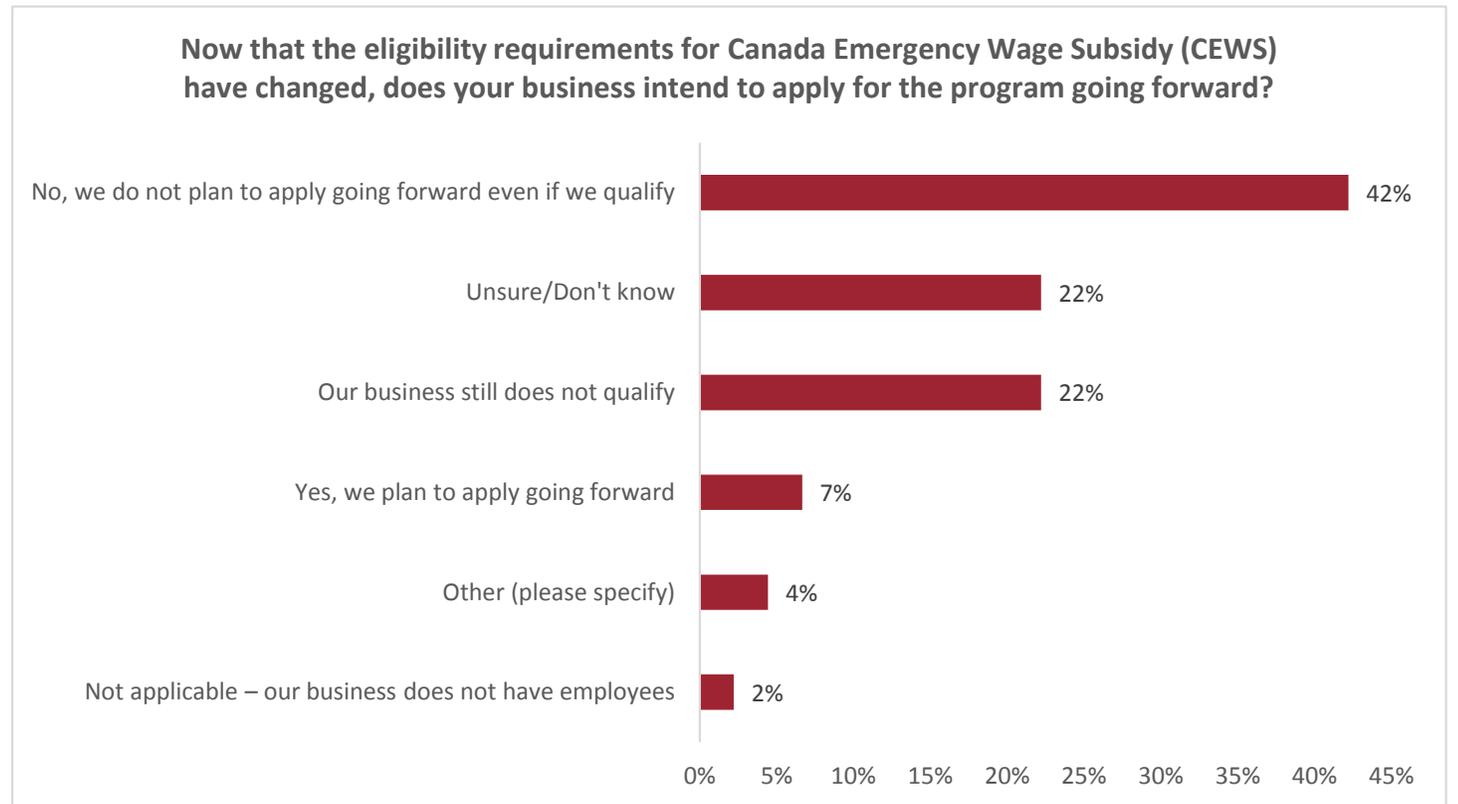
*Canada Emergency Business Account; **Canada Emergency Response Benefit; ***Canada Emergency Commercial Rent Assistance Program

BUSINESSES THAT DID NOT APPLY FOR CEWS IN MARCH – 20%

A follow-up question was asked to those businesses (20%) that had not applied for CEWS in March 2020. The goal was to understand their intentions going forward since eligibility requirements for CEWS were amended.

42% of businesses maintain that they do not plan on applying regardless of their eligibility status. Whereas 22% of businesses still do not qualify for CEWS despite the changes to eligibility requirements. A mere 7% of respondents intend to apply going forward while 22% remain uncertain.

It is interesting to note that a majority of respondents (57%) in this category did not apply to any other financial support measures either. Whereas 27% of businesses applied for CEBA* and 12% opted for CERB**.



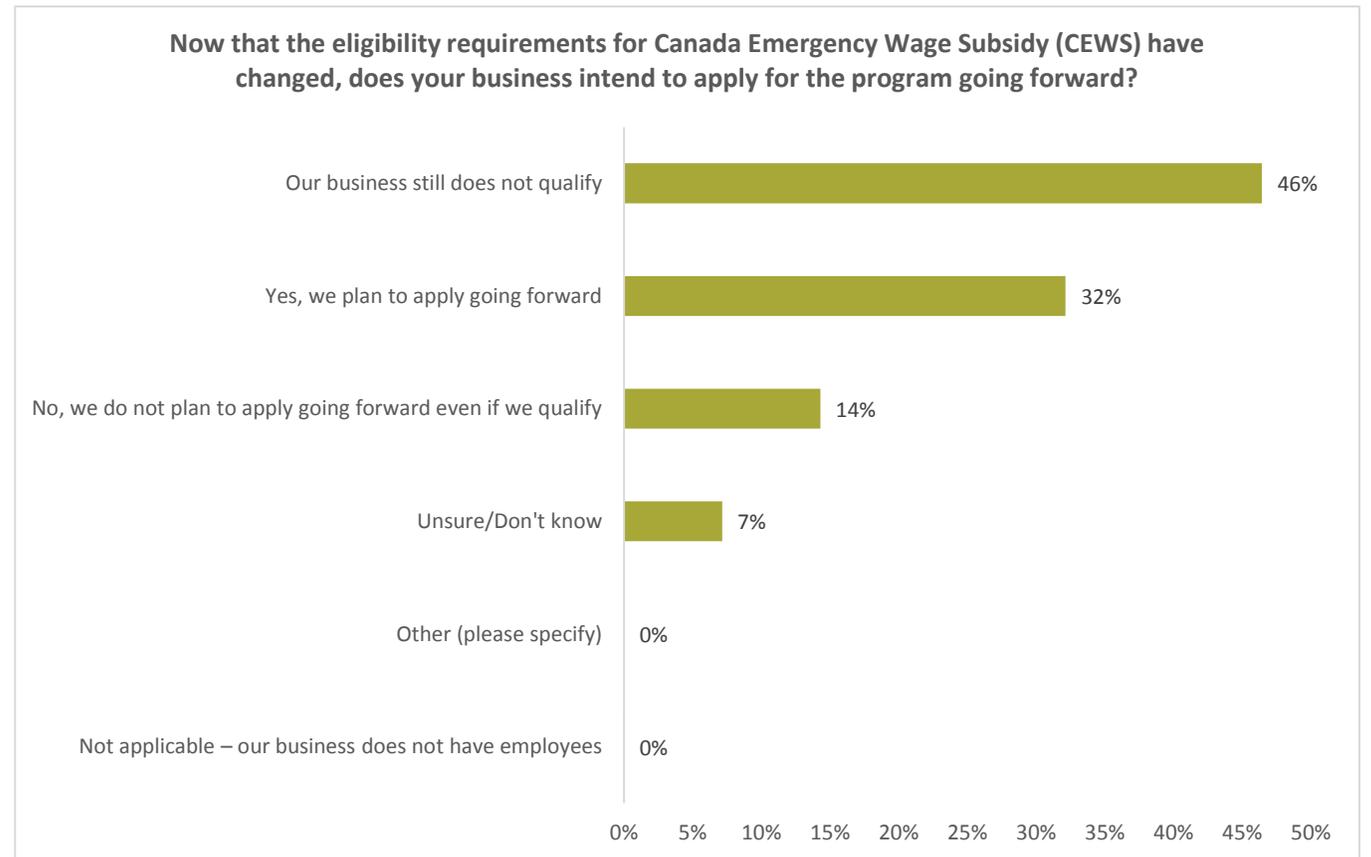
*Canada Emergency Business Account; **Canada Emergency Response Benefit.

BUSINESSES THAT WERE INELIGIBLE FOR CEWS IN MARCH – 13%

A follow-up question was asked to those businesses (13%) that wanted to apply for CEWS in March 2020 but were unable to because they were not eligible. The goal was to understand whether the newly amended eligibility requirements for CEWS were more suitable for their business.

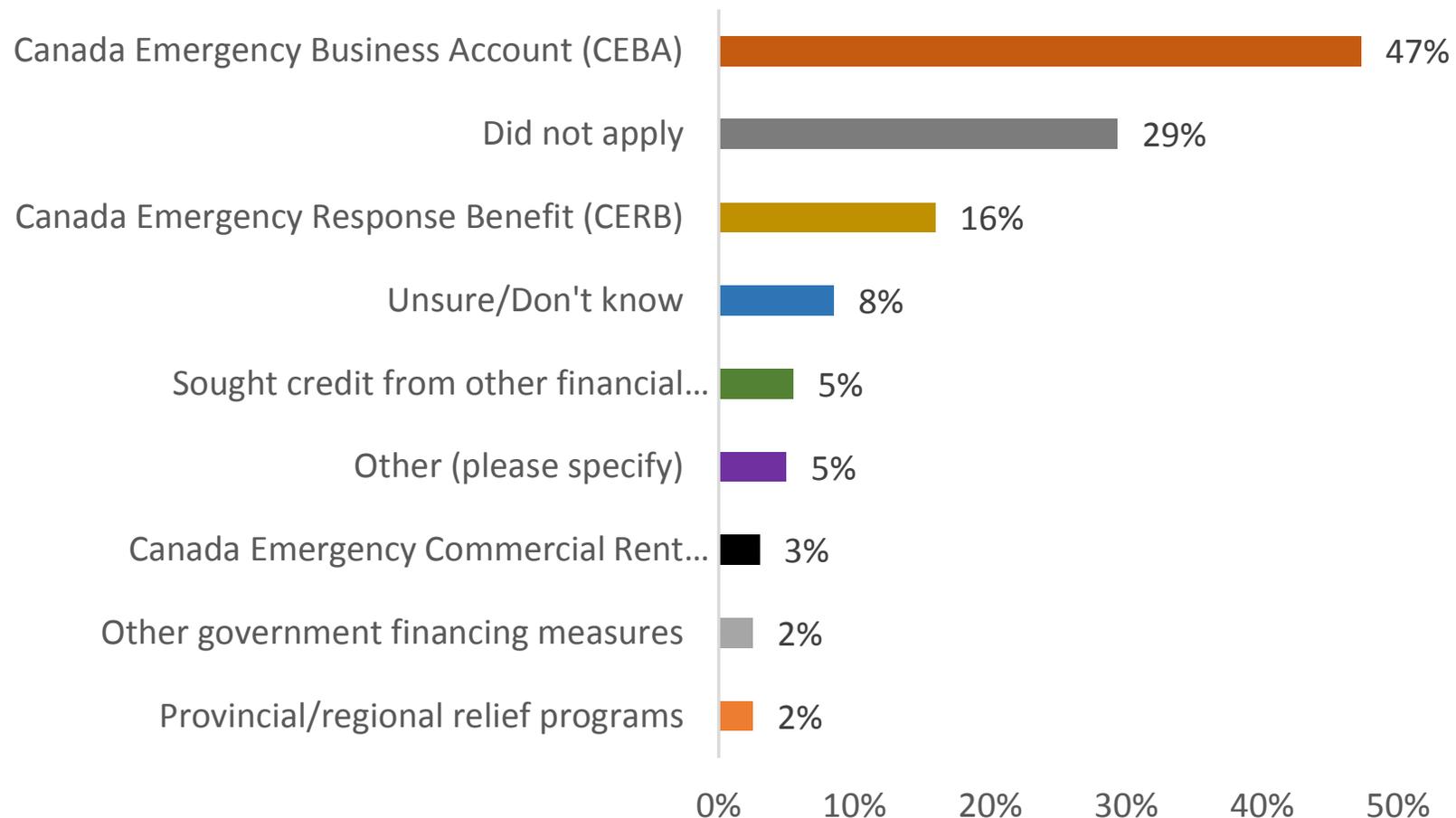
46% of businesses were still unable to qualify for CEWS. 32% of respondents report that they plan on applying going forward indicating that the new eligibility requirements are favourable to their business. On the other hand, 14% of businesses qualify for the next round of CEWS applications but no longer wish to apply even though they meet eligibility requirements.

48% of businesses were however able to apply for CEBA* while 30% did not apply for any other financial relief measure. 7% of respondents applied for CERB** instead.



*Canada Emergency Business Account; **Canada Emergency Response Benefit.

FINANCIAL SUPPORT MEASURES FOR THE AFTERMARKET



This question on financial support measures did not include CEWS as previous questions in the survey had dealt with CEWS exclusively.

The findings indicate that 47% of aftermarket businesses applied for CEBA while another 16% of respondents opted for CERB. Only 3% of respondents applied for CECRA while the remaining sought other relief programs.

Those who 'did not apply' (29%) or were 'unsure' (8%) either did not qualify, were unaware of these measures, or did not want to "pay back extra" in the future.

SUPPLY CHAIN (PARTS/MATERIALS) CHALLENGES

Are you currently operating with:	Survey #3	Survey #2	Survey #1
Delays in obtaining vehicle parts, etc.	75%	68%	59%
Disruptions experienced by suppliers	63%	57%	51%
Unable to offer my products/services goods due to disrupted supply chains	12%	13%	12%
Other	4%	13%	18%

Comments:

"Ok at present"
"Rail car delays on raw chemical due to CN rail "
"Weekly parts deliveries instead of daily"
"Suppliers parts people working from home not good"
"No issues at this time"

Supply chain delays have considerably increased (75%) since the first survey in April/May 2020. There is also a slight increase in the number of businesses reporting 'disruptions experienced by suppliers'. A qualitative analysis of 'other' responses (4%) indicate that supply chain delays are not affecting this small cohort of businesses.

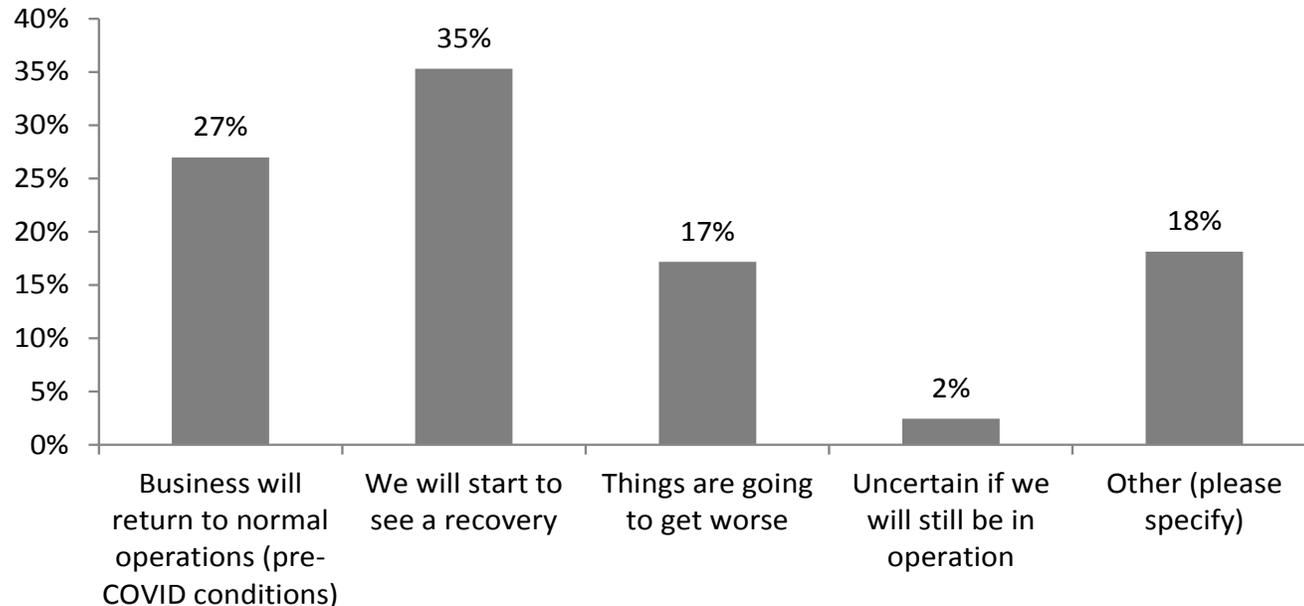
Overall, the onset of supply chain delays have been gradual but steady. The industry needs to take note that further pandemic-related lockdown measures can lead to more supply chain challenges that the industry has not witnessed so far with the pandemic.

BUSINESS OUTLOOK CONFIDENCE LEVELS

35%
RECOVERY

17%
GET WORSE

What is the most likely forecast for your business for the next 30 days:

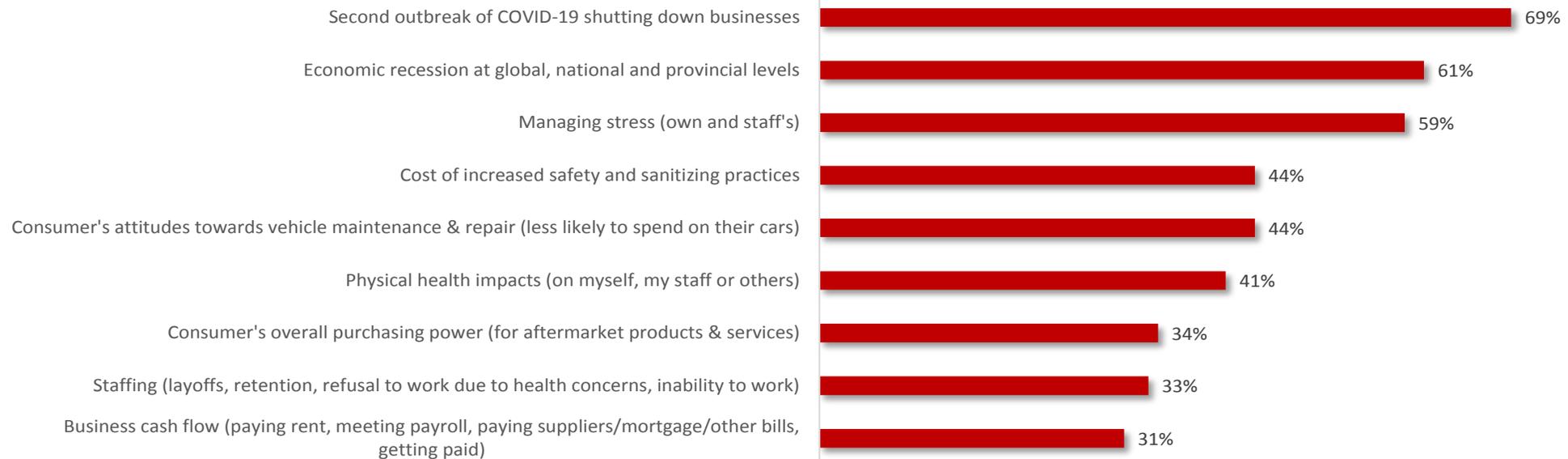


Optimism levels have fallen sharply since the last survey in June 2020. Only 35% of respondents expect to see a recovery, compared to 56% in the last survey. Similarly, 17% of businesses forecast that ‘things will get worse’, whereas only 12% had reported feeling that way in the previous survey.

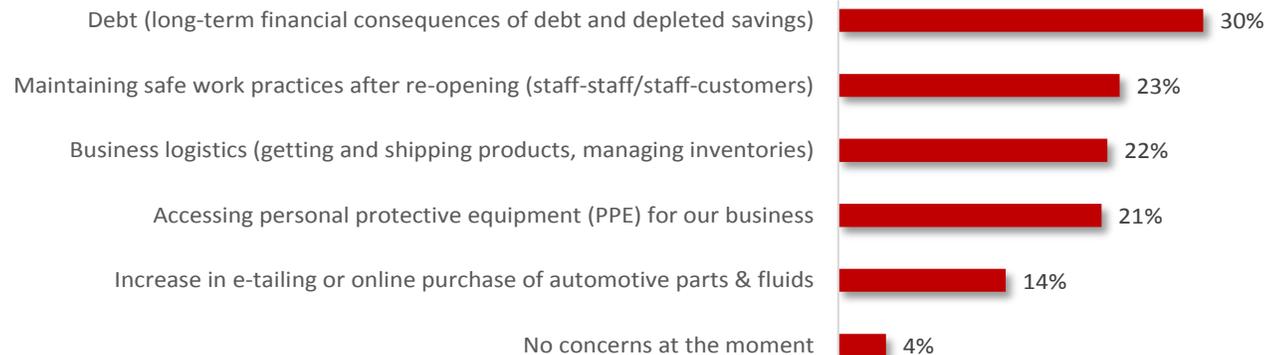
Surprisingly, there is a substantial increase in the number of respondents (27%) who believe that ‘business will return to pre-COVID conditions’ compared to 18% who believed that in the last survey.

The low optimism levels could be because the industry was entering into a second wave of pandemic-related lockdowns in September. An assessment of qualitative comments (18%) indicate that the industry remains **highly uncertain**.

MAIN CONCERNS OF AFTERMARKET BUSINESSES



→ Top 10 industry concerns



→ Low priority concerns

INDUSTRY CHALLENGES

‘Are there any other challenges that you would like to share?’ Some of the responses to this open-ended question include:*

- “Hard to get people to work when the government is paying for people to stay at home.”*
- “Getting past 2020 has been, and will continue to be a challenge.”*
- “Insurance companies continuing to look to collision shops to balance their budgets”*
- “Hard to do business when we have no idea where we will be next year and how we will survive our personal challenges as well”*
- “CEBA application has been delayed several times. Little information or assistance available. Forms are generally confusing and once the application is submitted you are not able to review the application if there are changes required.”*
- “Our shop is busiest during the months that Covid-19 first hit Canada. Moving forward and making up for that lost revenue is going to take years not months...”*

**comments appear verbatim*

KEY TAKEAWAYS

- **82% of businesses report being disrupted.** A further breakdown reveals 28% of businesses are 'very disrupted' while 54% of businesses are 'slightly disrupted'.
- No respondents had to close down operations (0%) while **18% report that they are functioning normally.**
- **43% of respondents** report **moderate to severe impact** on their revenues in August 2020. However, businesses seem to be stabilizing in their forecasts for September and October 2020 with only 6% of businesses and 7% of businesses reporting loss of revenue by 50% or more respectively.
- These data points indicate that the **industry is continuing to take reasonable steps to implement physical distancing** and other safety measures to keep their staff and customers safe:
 - Increased safety and sanitizing practices - 79%
 - Reduced operating hours - 19%
 - Offering curbside pickup and home delivery - 28%
- One-third (36%) of businesses report laying off staff while productivity (27%) has also increased slightly by 6 percentage points since the last survey (33%), along with fewer businesses (10%) reporting employees working from home.

KEY TAKEAWAYS - CONTINUED

- **57% of businesses applied** for Canada Emergency Wage Subsidy (CEWS), whereas **20% of respondents did not apply** for CEWS in March 2020 when it was first implemented.
- On the other hand, 13% of businesses report that they did not meet the eligibility criteria, whereas 2% businesses deliberately chose not to apply even though they qualified for CEWS.
- When it comes to **supply chain challenges**, aftermarket businesses report that delays are on the rise:
 - Delays in obtaining vehicle parts, etc. - 75%
 - Disruptions experienced by suppliers - 63%
 - Unable to offer my products/services goods due to disrupted supply chains – 12%
- The business outlook is **still highly uncertain**. Industry is less optimistic than it was in the previous reporting period (June 2020) with only **35% of respondents** thinking that a recovery is possible in the coming months. A jump of 5 percentage points in those who think the industry is going to 'get worse' (17%). A decent percentage (27%) believe that business will return to pre-COVID conditions while some businesses (2%) have raised doubts if they will even be in operation.
- **Top three industry concerns** of aftermarket businesses are:
 - Second outbreak of COVID-19 shutting down businesses - 69%
 - Economic recession at global, national and provincial levels - 61%
 - Managing stress (own and staff's) - 59%