



IMPACT OF COVID-19: AFTERMARKET BUSINESS CONDITIONS SURVEY

Prepared by Automotive Industries Association of Canada

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RESPONDENT PROFILE

Total respondents:	n=363
Parts manufacturer	17
Major retailer	11
Wholesaler	28
Warehouse distributor	18
Mechanical & tire service	71
Collision repair shop	183*
Other	35

Number of employees**:	n=363
1-6	115
7-25	191
26-100	29
101-1000	15
More than 1000	10
Other	3

***under normal circumstances*

- Fieldwork: Conducted between Monday, 20th April, 2020 to Friday, 8th May, 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

- **VERY DISRUPTED – 61%**
- SLIGHTLY DISRUPTED – 33%
- COMPLETELY SHUTDOWN – 2%
- **FUNCTIONING NORMALLY – 4%**

At time of survey launch, the industry was in its second month of dealing with the pandemic. Majority of aftermarket businesses (94%) report that their businesses are 'very to slightly disrupted', while a small percentage (2%) are completely shutdown.

4% report that its business as usual, however, 33% of this respondent group is still reporting revenue decrease of 50% or more in April 2020.

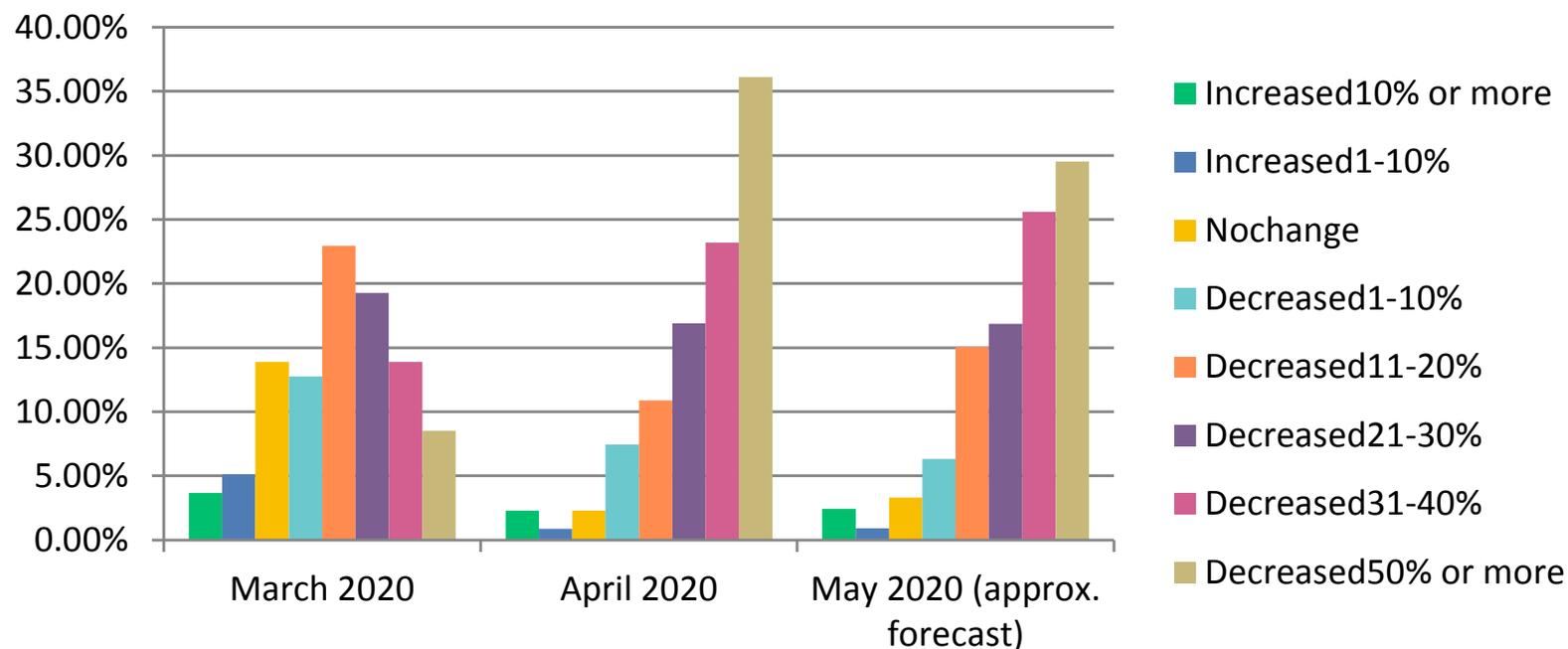
Change in revenue of 'very disrupted' respondents:

	↑ 10% & up	↑ 1-10%	↔ +/-	↓ 1-10%	↓ 11-20%	↓ 21-30%	↓ 31-40%	↓ 50% or more
March 2020	3%	5%	11%	9%	22%	23%	18%	9%
April 2020	1%	0%	0%	3%	6%	13%	27%	50%
May 2020*	1%	0%	1%	1%	9%	16%	29%	41%

*approx. forecast

CHANGE IN REVENUE FOR ALL RESPONDENTS:

Compared to 2019, to what extent has your revenue changed for the following months:



The survey results clearly highlight that two-thirds (77%) of respondents reported moderate to severe impact on their revenues in March and April 2020.

The responses for May 2020 indicate that there are still high levels of uncertainty among parts manufacturers, wholesalers, and mechanical and collision shops on business continuity and outlook with majority of them (30%) still expecting a decrease in revenue of 50% or more.

CURRENT CONDITIONS RELATED TO STAFFING & HR

Are you currently operating with:

Employees laid off due to reduced business	61%
Reduced productivity due to current staffing conditions	41%
Employees working from home	22%
Employees on sick leave due to illness or self-isolation (related to COVID-19)	22%
Re-hiring laid off employees	15%
Other*	10%

*Other:

“working with stress”

*“difficulty in getting back those on CERB***, saying they are still afraid”*

“We will be laying off staff soon”

“kept employees on full time on Gov promise of CEWS 75% wage subsidy.”

“re hired 2 out of 7 employees, just to try and keep business afloat. we are in financial survival mode. nothing more!”

The impact of reduced businesses has been swift and significant with over half the respondents having to lay off staff (61%). Only 15% businesses were able to (or have attempted to) re-hire previously laid off staff which reflects poorly on the Canada Emergency Wage Subsidy (CEWS) offered by the government. According to CFIB**, 30% of small businesses were able to avoid layoffs or recall employees who were already laid off through CEWS. This indicates that either the measures have not been effective for the aftermarket or that the businesses were unable to apply for them.

** Canadian Federation of Independent Business (CFIB): Your Business and COVID-19 – Survey #4

***Canada Emergency Response Benefit (CERB)

CURRENT CONDITIONS RELATED TO BUSINESS OPERATIONS

Are you currently operating with:

Increased safety and sanitizing practices	84%
Events, conferences and meetings cancelled	43%
Offering curbside pickup and home delivery	34%
Reduced operating hours	33%
Sought credit from financial institutions to cover operating costs due to revenue shortfalls*	30%

**According to Canadian Federation of Independent Business (CFIB), 1 in 5 businesses do not qualify for Canada Emergency Business Accounts (CEBA) as those with payrolls under \$50,000 are not eligible for support.*

92% of the respondents of AIA Canada's survey are small and medium sized businesses (less than 500 employees) and may not be eligible to apply.

For the corporate sector, client/customer visits have been banned and working from home policies are in effect, these being the most common measures to handle the pandemic. However, owing to the nature of car repair work, most aftermarket businesses cannot implement a 'zero contact' policy for their customers, which explains the increase in safety and sanitization practices (84%).

On 8th April 2020, Manitoba Public Insurance (MPI) announced a new program that started covering the extra cost of cleaning and sanitizing vehicles before and after repairs during COVID-19.

SUPPLY CHAIN (PARTS/MATERIALS) CHALLENGES

Are you currently operating with:

Delays in obtaining vehicle parts, etc.	59%
Disruptions experienced by suppliers	51%
Other	18%
Unable to offer my products/services goods due to disrupted supply chains	12%

Comments:

“Nothing out of the normal”

“So far so good as far as receiving product from suppliers”

“no real change in parts availability”

“Starting to see some shortages in getting parts”

“PPE shortage”

A qualitative analysis of responses under ‘other’ (18%) indicate that supply chain delays had become quite the norm by the second month of the pandemic (April 2020) when this survey was rolled out. This indicates the inter-connected nature of the global supply chain and that aftermarket businesses had time to brace for impact. Businesses do report delays in obtaining PPEs (personal protective equipment) given the increase in safety and sanitation practices.

Some collision shops are reporting that OEM dealers have decided to move their wholesale parts business to a cash-on-demand model. This practice is proving to be a challenge for shops who are already experiencing cashflow issues.

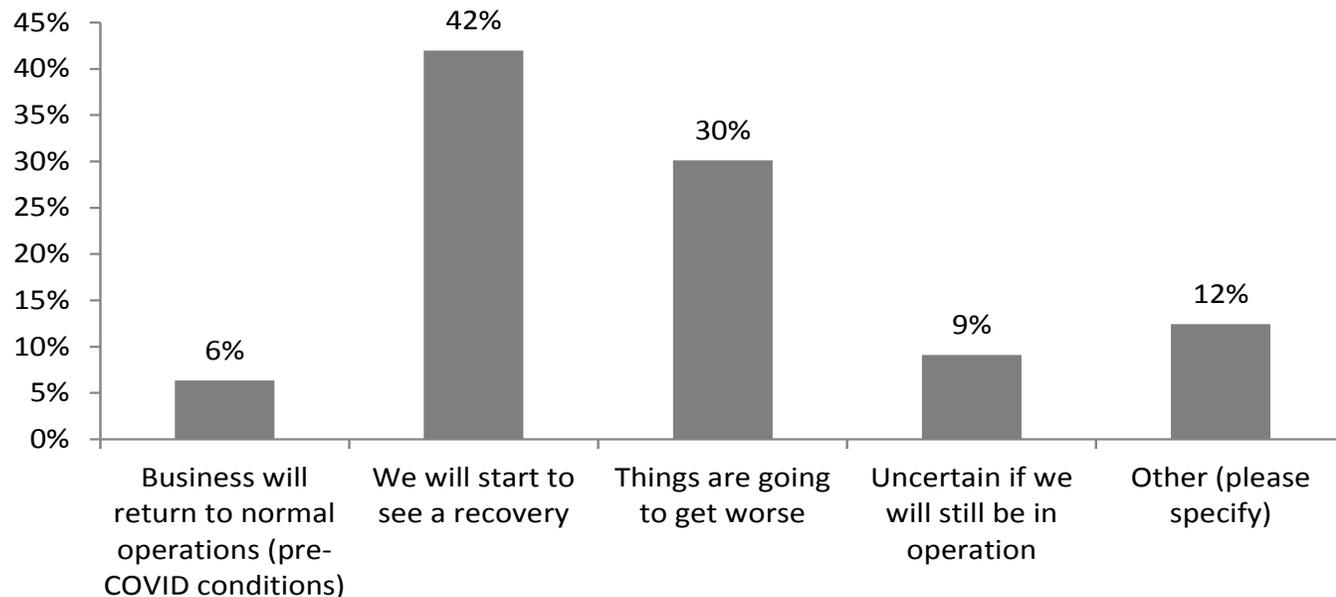
Even if aftermarket businesses are not currently experiencing disruption of any type, there is still significant concern around COVID-19 pandemic’s impact on supplier operations and business outlook.

BUSINESS OUTLOOK CONFIDENCE LEVELS

42%
RECOVERY

30%
GET WORSE

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



The top-of-mind question for industry businesses is, “How long will this last?”. Qualitative analysis of ‘other’ (12%) responses reveals that the business environment outlook is highly uncertain.

The survey results showed a cautiously optimistic response, with 42% of respondents thinking that their impacted businesses will start to see a recovery in the next 2-3 months. This is on the proviso that the virus outbreak is under control, lockdowns are being eased, and demand also returns.

On the contrary, 30% of respondents believe that the situation is only going to get worse and that it may take more than a year for impacted businesses to return to pre-COVID conditions.

GOVERNMENT ASSISTANCE

What measures would you like to see implemented by the government and other agencies to support your business during this crisis?

Some of the responses to this open-ended question include:

- “The \$40K loan is good, 75% wage subsidy is very good. If you are not down the 30%, you are limited in what support is available. As business starts to get better, but not near where it was, the decline requirement needs to be adjusted, even at -15%, that is very difficult to keep the business' going.”
- “They need to understand certain businesses better, 30% decrease to a wholesaler is huge, 20% or more is still a very large number.”
- “I think the government is doing what it can but sooner or later all these bills will need to be paid.”
- “Instead of down 30% how about if they were to top up the employers to suit the shortfall. Down 10 subsidize 10 Down 20 subsidize 20 up to a Max of down 75 subsidize 75. We will likely be down 20-25% and qualify for 10% Five more points down we would qualify for 75%. Pretty big incentive to close for a couple of days if you ask me. The subsidy offered does not fit the need and will leave a bunch of businesses short and will allow many others to make a profit.”
- “The government needs to keep focusing on prevention and containment for the time being or all this money they're giving out will only be wasted if we have to shut down cities again because they were in too much of a rush to get things moving again.”

KEY TAKEAWAYS

- 77% of respondents reported **moderate to severe impact** on their revenues in March and April 2020. Businesses are facing cash flow issues and will find it increasingly difficult to keep employees on payroll if the economy does not open up.
- 61% of respondents describe their businesses as 'very disrupted':
 - 23% businesses reported loss of 20% revenue in March 2020,
 - 50% businesses reported loss of 50% or more revenue in April 2020
 - 41% businesses forecasting loss of 50% or more revenue in May 2020
- A smaller percentage (2%) of respondents had to close down operations while another 4% report that they are functioning as normal with some revenue losses.
- Many businesses have reported feeling high levels of stress due to **uncertainty and keeping employees motivated**. According to one respondent, *"Its hard to get all the information in a timely fashion to meet government guidelines for help financially, we would like to bring back our employees under the 75% rule but everything seems hard to reach or understand."* The initial response to the COVID-19 pandemic has resulted in an information overload.
- When it comes to staffing issues, 61% businesses have laid off employees while 84% have implemented increased safety and sanitation practices. About one-third businesses have applied for some sort of credit from financial institutions (30%).
- The business outlook is **highly uncertain**. Industry is cautiously optimistic with under half of respondents (42%) thinking that a recovery is possible in the coming months while 30% expect the situation to get worse. Only a small percentage (6%) believe that business will return to pre-COVID conditions while some businesses (9%) have raised doubts if they will even be in operation.