OPPORTUNITIES FOR
SRI LANKAN AUTO MOBILE COMPONENTS
IN FRENCH MARKET

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01 SUMMARY

The French automotive industry is a key sector for the French economy. Though the over¬capacity that characterized French markets has slowed down import. French OEMs suffering from price competition are transferring the price pressure onto their local suppliers; making sourcing beyond European borders an attractive alternative yet another opportunity for competent newcomers from DCs. A fast growing market in Europe is the aftermarket. End consumers tend to reduce the cost of ownership by using non-original spare parts when servicing their cars. This huge segment, too, offers many opportunities for suppliers from DCs. The success factors for DC exporters pursuing any of these openings, by becoming a player in the global supply chain, delivering to subsidiaries abroad, getting integrated as a contract manufacturer or serving the aftermarket in Europe, is reliability and a sustainable combination of excellent quality and low, fair prices.

02 Market Description

France is the third largest vehicle producer in Europe after Germany and Spain. In 2015, approximately 1.97 million vehicles (passenger, heavy and light duty vehicles) were produced in France, out of 21 million produced in the E.U. For France, this represents a production increase of approximately 8.2% compared to 2014. Approximately two-thirds of vehicles produced in France are either PSA or Renault.

03. MARKET FOR PARTS

CAPTIVE PARTS:

These parts are manufactured either by the car manufacturer or Tier 1 supplier. In certain cases, the research and design of these parts are guaranteed by both parties. These parts include engines, car body components and frames. Car manufacturers have traditionally held a grip on this market and put pressure on the Tier 1 suppliers not to compete with them in this niche, hence the reference to "captive". Despite the initial European Union Commission's proposal to open the market, the situation has not evolved much in France.

ORIGINAL PARTS:

Tier 1 suppliers supply 75% of vehicle parts. These parts are produced under car manufacturers' specifications. These parts are submitted to tests and benefit from the same guarantees as those used by car manufacturers on new vehicles.

PARTS EQUIVALENT TO ORIGINALS:

These parts are manufactured according to the standards of Tier 1 suppliers, who certify a quality equivalent to original parts.

STANDARD PARTS:

These parts are reconditioned with systematic changes to all parts for wear and tear and replaced with original parts or equivalents. These remanufactured parts, as they are reconditioned by Tier 1 suppliers, benefit from an assembly and testing process identical to that of original parts. The market for remanufactured parts is a growing segment in France. The Tier 1 automotive spare parts manufacturers are also leading the remanufactured automotive parts sector in France.

RENOVATED-STANDARD PARTS:

These parts are renovated by specialized repair networks such as engine mechanics that use processes and products validated by Tier 1 suppliers. Consequently they are covered by Tier 1 suppliers' warranties. It is more a question of amount and category of parts for the moment.

RE-USED PARTS:

This market is relatively new, specific and responsive to the needs of a limited group of clients. The parts that are in good condition at the end of a vehicle's life are salvaged for re-use. A process is being implemented to guarantee the quality and traceability of the parts for the client. Currently, most reused parts are engine components. Insurance companies are pushing to see if more parts types can be repaired and reused instead of being replaced with new parts. If they are successful, this could leverage the development of this market. It currently represents 2% of the spare parts market in France.

FOR MORE INFO:

- CBI Channels and segments: Automotive parts and components - https://www.cbi.eu/sites/default/files/market information/researches/channels-segments-automotive-parts-components-2016.pdf
- European Association of Automotive Suppliers (CLEPA) http://clepa.eu/
- Information about European policy and legislation, intellectual property rights and a list of European car part suppliers and associations
- European Automobile Manufacturers' Association (ACEA) http://www.acea.be/

Statistics, a lot of market information and information on the legislation for the European automobile sector

04. EXHAUST SYSTEMS

DEMAND AND TREND

France is the second largest market in EU for Exhaust systems.

The new trend is the use of new lightweight and sustainable materials (e.g. aluminum, plastics and nano-materials) and combinations of materials is becoming more important.

BUYER REQUIREMENTS

- Quality Management: ISO 9001 & ISO TS/16949 Certification on CSR
- Sustainability diagnostic report (self-assessment)
- Technical standards set by EU legislation in order to guarantee vehicle and environmental safety

MORE INFO:

- https://www.youtube.com/watch?v=hRghHKufMW8&list=PLVgDaw1NnOSAiK06sG6kWcpui Cut XRjZg
- Buyer Requirements: "Automotive Components in Europe" https://www.cbi.eu/sites/default/files/market information/researches/buyer-requirements-automotive-components-2016.pdf

It is difficult to provide a general overview of exhaust systems prices due to the large variation in parts types and models, but it is possible to take some insight into the margins imposed by the supply chain. Based on the margin ranges, DC suppliers selling to a tier 3 supplier in the OEM supply chain could price their products at between 64% and 81% of the OEM delivery price.

- ❖ In the Original Equipment sector, the price is set by contracts of four years or more, which usually include a 3-5% price reduction each year after the first year.
- ❖ In the aftermarket sector, the prices are negotiated every year.

05. HYDRAULIC COMPONENTS

Most of the leading suppliers to the European market for hydraulic parts are from developed countries, there are some exporters from developing countries as well in the European market. Focusing on innovative market segments (e.g. mechatronics and hybrid hydraulics) could also become a unique selling proposition for exporters from developing countries exporters. The increasing demand for outsourcing, particularly by major players, offers potential opportunities for exporters from developing countries. Exports of hydraulic components are destined partly for after-sales/maintenance and service purposes. Suppliers of hydraulic systems often sell their systems with after-sales and maintenance services.

BUYER REQUIREMENTS

The exact requirements of the hydraulic parts are obviously specified by the customer, and they can vary from customer to customer. In general, parts should be completely protected against corrosion.

In General there is no specific legal requirements apply to metal parts. If the part is to be used in a finished product, the exporter has an obligation to export a safe product to Europe. The Liability for defective products (Directive 85/374/EEC) refers to finished products. The Product Liability Directive states that European importers are liable for the products introduced to the European market. In principle, however, European importers can pass on claims to their producers/exporters. If a complete hydraulics product or equipment is exported to Europe, the PED directive {CE-marking, Pressure Equipment {Directive 97/23/EC) may apply. Other than that ISO 9001 is the minimum standard that European buyers expect when searching for new suppliers.

QUALITY REQUIREMENT

The quality standards of individual companies in France are perceived to be lower than those in Germany, Austria, Switzerland, the Netherlands and Northern Europe, but higher than those in Spain and Italy.

CORNPETITION / TRENDS

Top 3 leading suppliers to France are from Germany, Denmark and the USA. China, Turkey, Brazil and India are the top developing country suppliers to France.

The hydraulic equipment industry is been in a trend towards outsourcing of manufacturing activities, primarily from India and China. The major players have been particularly likely to outsource production, while small and medium-sized companies have tended to keep production local. The main reason for outsourcing has been the availability of inexpensive labor and the skilled workforces in these countries. On the other hand, Chinese companies are involved in the acquisition of some German hydraulic companies. One example is Linde Hydraulics, which has two plants in China.

The profitability of hydraulic components imports and exports is influenced by the exchange rate between the euro and the US dollar, as products that are sourced globally are paid in US dollars. This can be affected on the price level of imports.

IMPORT TARIFFS

For hydraulic parts, a low 2.7% duty is levied on European imports from developing countries. Some countries benefit from a preferential 0% tariff (Indonesia, Pakistan, Vietnam, the Philippines, Bosnia and Egypt).

RECOMMENDATIONS

- Exporters can improve their chances dramatically by adding value to the parts with such labor-intensive processes as polishing and TIG welding.
- Focusing on innovative market segments (e.g. mechatronics or hybrid hydraulics) and choosing to develop particular products for those segments, instead of producing a large range of products, could become a unique selling proposition for our exporters.
- Approach importers with sample test campaign.

SOME FRENCH IMPORTERS & USEFUL LINKS/ SOURCES

- ACE, BICT, Distribution Hydraulique et Prestation Service, FP Hydraulique Hydelec, Hydraucom, Hydrauma Industries, Hydrokit, Hydrola, Le Groupe France Hydraulique, Merle
- Artema - French association for bearings, transmissions and mechatronics
- Fluides & Transmissions - specialized fluid power magazine. You can search for products and companies. Go to 'search by technology' and choose 'hydraulics'.
- Industrie Paris - industrial design and production fair held annually in March, even years in Paris andoddyeainlyon
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06. PASSENGER SEATS

Within the EU, France is the most important importer of vehicle seats, the highest import values for seats from developing countries have been recorded by Germany and France.

However Germany's CAGR for imports from developing countries has been declining for the past few years and therefore France offers the best opportunities for the future.

European buyers do business with suppliers from only a few developing countries. Seat suppliers from Turkey have had considerable success. China is the second most important supplier. The third and fourth leaders are Tunisia and Albania.

There is no record that France import complete passenger seats from developing countries. But there is a market for metal frames, textiles, foams and other materials.

MARKET & TRENDS

- Instead of basic safety features, offering additional features to passenger safety will provide competitive advantage in the market.
- Innovative features for rear seat safety will make huge potential since rear-seat safety is still relatively primitive.
- Demand for thermal and long-term comfort seats
- Increasing demand for lightweight products
- Encouraging the use of innovative and environment friendly materials

EXPORT REQUIREMENTS

- Whole Vehicle Type Approval (WVTA) End of Life Vehicles (ELV)
- CE Marking
- Implement ISO 9001and ISO TS/16949

COMPETITION

There are three major Tier 1 suppliers in EU market JCI, Faurecia and Lear represent¾ of the production. Due to their cost reduction and lower margins always create high pressure on Tier 2 and 3 suppliers.

- China and India
- After-market lesser quality seats €500 - €700
- High quality seats €1000 - €2000

SUGGESTIONS

Large lower-tier supplier tries to do business directly with OEM'S as they are likely to be interested in reducing their Tier 1 suppliers, focusing on this may be open up an opportunity to tie up with OEM suppliers.

Need to increase production volumes as supplier in order to go for strategic mergers with OEM'S as they are looking for large lower-tier suppliers.

In order to gain a better overview of prices for specific products and models, better to contact wholesalers directly.

http://www.adient.com/-JCI

http://www.faurecia.com/en/about-us - Faurecia

http://www.lear.com/Site/Company/ - Lear

MORE INFO:

- https://www.cbi.eu/market-information/automotive-parts-components/buyer-requirements/
- http://exporthelp.europa.eu/thdapp/display.htm?page=form/formyExport.html&docType=main& languageId=EN

07. OPPORTUNITY FOR SRI LANKAN EXPORTERS

Increasing the average age of French car market create opportunities for replacement parts (new or overhauled}. Sri Lankan exporters should enter into partnerships with spare parts wholesalers and retailers and specialize in high-volume, labor-intensive replacement parts.

CHANNELS & SEGMENTS

The two major European automotive customer segments for DC exporters include the OEM segment, composed of the original equipment manufacturers (OEM) and Tier 1-3 suppliers, and the Aftermarket segment, composed of those providers that supply accessories, spare parts, second-hand equipment, and other goods and services used in repair and maintenance of existing vehicles.

The aftermarket segment seems to be the greatest potential, as do the supply contracts with the Tier 2 and Tier 3 OEM supplier segment.

- **OE Part Manufacturers:** produce parts and components that are later retailed under the vehicle manufacturer's brand name as being suitable for that brand
- **Independent Part Manufacturers:** are typically independent small and medium sized companies that produce non-branded parts OEM Distribution Network includes
- **OEM-owned distributors:** tasked with selling parts to authorized, independent and traditional repairers and parts distributors
- **Independent Distribution Network:** distributes an extensive range of replacement parts of different types and brands, ranging from original spare parts, parts that are of matching or higher quality or parts modified for the age of a vehicle. Independent distributors mainly supply commercial end users, such as multi-brand repairers, roadside patrols, fleet owners and other retail companies. They manage stock, incoming orders, outgoing deliveries

- **Owned/Franchised Dealers:** are dealers that sell a particular automotive brand and provide original parts and guaranteed services for that brand of vehicles
- **Multi-brand Dealers:** are dealers that sell a number of automotive brands and typically provide original parts and guaranteed services for those brands
- **Independent service providers:** are service providers in the aftermarket that are notattached to any OEM brand
- **Small Garages/Service Stations:** are non-brand providers of small repairs and selected automotive parts

COMPETITION

Competition amongst suppliers within the EU is quite intense. Competition is also increasing slightly between suppliers from developing countries within the European automotive parts and components industry. Within this market, high-volume suppliers from China and India are quite prominent, but South Africa and Thailand maintain a considerable presence as well. As the Chinese and Indian carmakers aim to develop rapidly in Europe over the next 5-10 years, they may potentially bring some of their local suppliers with them, thereby further increasing competition.

RECOMMENDATIONS

- Aftermarket is best accessed through the independent channel
- It is good to aim to enter a market as suppliers to the lower tiers, since these are not so locked into strategic partnerships as OEMs and tier 1 supplier and are more likely to engage in supplier switching. Good business relationships with the lower tiers may eventually lead to more direct contact and business with the OEMs.
- We should work on innovation and R&D, if we want to become strategic suppliers to the OEMs. (Through product differentiate)
- Try to tie up partnerships with Indian and Chinese exporters

India is set to become the largest Auto components hub in the world by 2020.

The $16.2 billion French auto parts maker Valeo is looking at investing about $100 million in India in the next two to three years.

French tire manufacturer Michelin announced plans to produce 16,000 tons of truck and bus tires from its Indian facility this year, a 45 per cent rise from last year.

Magna International, Canada's giant auto parts supplier plans to open 3 new plants in India by 2019.

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