Margin Recovery in the Automotive Aftermarket: Extending the Win-Win Beyond the Series Lifecycle

This article is the third in our series on commercial margin recovery in the automotive industry and discusses the supplier's perspective.

For the first part of the series
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Introduction

In the automotive industry, the dynamics of cost recovery between OEMs and suppliers have long been a focal point, particularly during active series production. In our previous articles on margin recovery, we explored how auto manufacturers and suppliers can build a fair and equitable cost recovery relationship when facing margin pressures. A critical segment in this process that is often overlooked, yet holds great potential for margin recovery, is the aftermarket.

Rising cost pressures, trade tensions, increased competition and weakening demand are all weighing on the profitability of auto manufacturers[1], emphasizing the need to unlock value in previously untapped segments. At Alvarez & Marsal (A&M), we have worked extensively with automotive clients to address margin erosion across the product lifecycle, giving us a ringside view of the margin recovery potential in the aftermarket. We have frequently observed parts continuing to ship well beyond the end of production (EOP) at outdated price levels that fail to reflect current cost structures. What begins as a commercially viable arrangement during series production often becomes a loss-making endeavor due to insufficient internal tracking and a lack of systematic follow-up.

In this article, we will discuss the key challenges in the automotive aftermarket impacting profitability, and outline a structured methodology that enables suppliers to identify pricing gaps, align cross-functional teams, and engage customers proactively, resulting in margin recovery. This approach ensures commercially justified improvements without jeopardizing relationships or requiring formal claims, delivering measurable results under transparent stakeholder oversight.

Key challenges in the automotive aftermarket

Over the past decade, the automotive industry has concentrated its commercial recovery efforts on series production, where high volumes, formalized negotiations, and established escalation paths dominate. However, the aftermarket—particularly in the post-EOP phase—often remains commercially unmanaged. Parts continue to be supplied at legacy price points, which no longer align with the supplier's actual cost base.

The root cause is structural. As demand declines post-EOP, production shifts from high-volume automated lines to low-volume or manual setups, significantly increasing unit costs. Inefficient batch sizes, retooling, and logistical complexities further exacerbate the cost burden, while outdated ERP price points persist. This disconnect results in:

- Hidden loss-makers within the product portfolio.
- Eroded contribution margins, turning previously profitable items unprofitable.
- Ambiguity over pricing ownership in the aftermarket phase.
- Missed recovery opportunities, despite customer openness to adjustments.

The challenge lies rather in the absence of a structured approach than in general customer resistance. Our experience shows that OEMs respond positively to transparent, fact-based proposals. Needed, yet often missing, is a step-by-step process to quantify exposure, align internal stakeholders, and equip suppliers to act decisively.

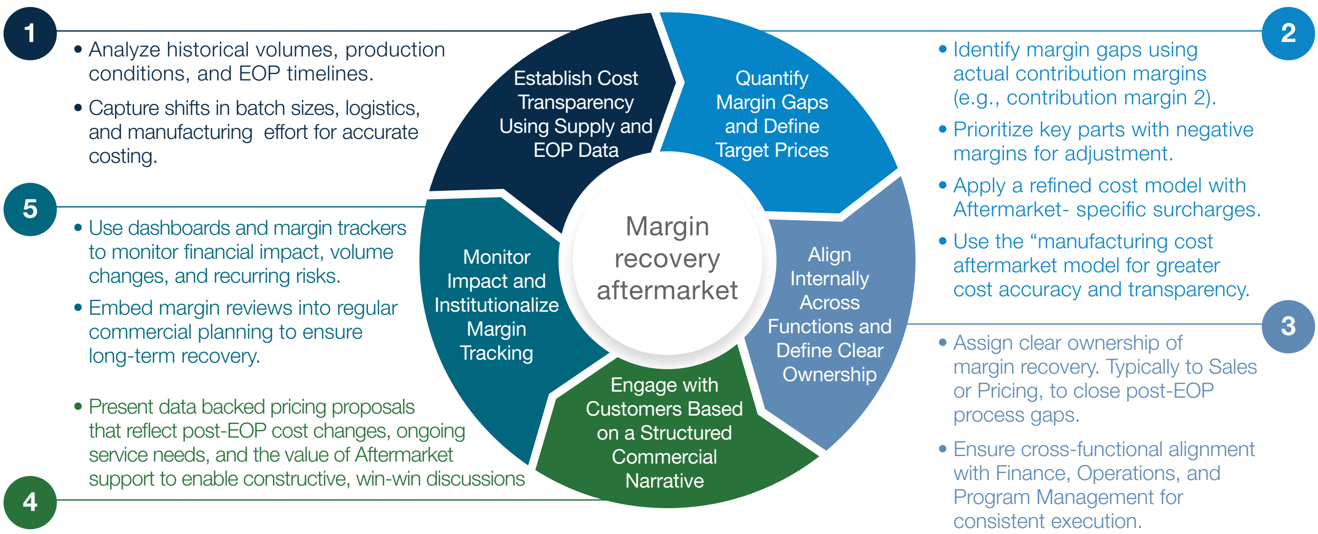
1 https://lazard.com/news-announcements/global-automotive-supplier-study-average-industry-profit-margin-drops-to-just-47

Five steps for aftermarket margin recovery

To unlock the full potential of aftermarket margin recovery, we recommend a five-step methodology rooted in transparency, cross-functional collaboration, and commercial discipline. This approach transforms unstructured awareness into actionable, value-generating outcomes.

Margin recovery automotive: Five-step methodology for aftermarket

A structured five-step approach to sustainably recover Aftermarket margins by establishing full cost transparency, aligning cross-functional ownership, and driving commercially disciplined actions from cost analysis to customer engagement and performance tracking.



1 Establish cost transparency using supply and EOP data

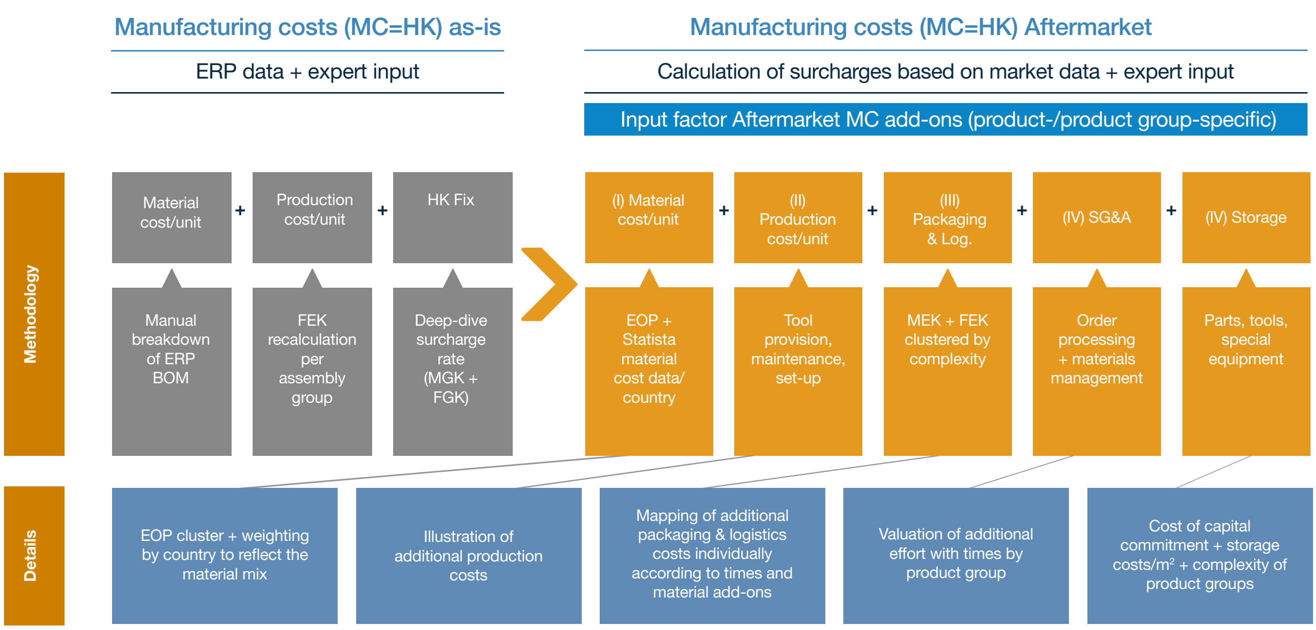
Recovery begins with a clear understanding of cost structures. Suppliers must analyze historical delivery volumes, production conditions, and EOP timelines to map current aftermarket activity. This involves capturing shifts in batch sizes, logistics complexity, and manufacturing effort to create an accurate cost model for each part or cluster.

2 Quantify margin gaps and define target prices

With cost structures mapped, suppliers can calculate actual contribution margins (e.g. CM2) and identify margin gaps across the aftermarket portfolio. High-volume or strategic parts with negative margins should be prioritized for adjustment. A refined cost model tailored to aftermarket conditions, incorporating surcharges for packaging, logistics, and storage, provides a realistic basis for pricing decisions.

The graphic highlights the contrast between the traditional cost calculation method and a refined model specifically designed for the aftermarket. The conventional approach primarily depends on ERP data and standard overhead allocations. In contrast, our aftermarket-specific model integrates additional market-driven surcharges, including costs for packaging, logistics, storage, and administrative activities and reflects cost structures proprietary to a low volume manufacturing environment. This enhanced methodology provides a more accurate and comprehensive representation of actual costs in the aftermarket environment, enabling more precise and informed pricing decisions. The detailed breakdown of input factors ensures full transparency and traceability throughout the value chain.

Aftermarket Manufacturing Costs structure and price implications



3 Align internally across functions and define clear ownership

A common barrier to aftermarket margin recovery is unclear ownership. Post-EOP, parts often fall outside active commercial processes, leading to persistent margin erosion. To address this, a dedicated function — typically sales or pricing — must take ownership of the recovery process. Cross-functional alignment with finance, operations, and program management ensures a unified approach, building credibility and enabling swift execution.

4 Engage with customers based on a structured commercial narrative

Customer engagement should be data-driven and solution-oriented. Pricing proposals must highlight the new manufacturing set up, removed from the high-volume series ecosystem, cost developments post-EOP, continued service requirements, and the overall value of aftermarket support. Positioning recovery efforts as a win-win ensures constructive outcomes, even in the absence of formal escalation channels.

5 Monitor impact and institutionalize margin tracking

Sustainable recovery requires ongoing monitoring. Implementing tools such as dashboards or margin trackers allows suppliers to evaluate financial impacts, track volume shifts, and identify recurring risks. Institutionalizing these practices ensures that aftermarket margin reviews become a routine part of commercial planning.

Case study: From blind spot to profit lever

Even in mature supplier organizations, the aftermarket is often commercially unmanaged, despite its growing importance in the margin mix. A recent engagement with a leading European Tier-1 supplier illustrates the transformative potential of a structured aftermarket recovery approach.

Over 10 weeks, our team collaborated with the client to analyze cost structures, validate margin baselines, and prepare for targeted price discussions. The key finding was that the standard costing data as reflected in the client's ERP data did not reflect the reality of aftermarket economics, resulting in a major distortion of perceived profitability. For example, a part showing a near-breakeven CM2 in the ERP system was in fact generating a loss of over €20 per unit when recalculated based on accurate aftermarket conditions. This underlines the critical importance of rebuilding the cost baseline before entering price discussions. Without it, recovery efforts lack credibility and risk overlooking structurally unprofitable items.

The next step of the analysis focused on 25 representative parts across five strategic accounts, serving as a proxy for the broader portfolio.

Approximately one-third of the parts analyzed were operating at negative margins due to outdated pricing. Targeted price adjustments and portfolio optimization resulted in a CM2 uplift of over 50% for affected items, translating to a 2.9 percentage point EBIT improvement across the aftermarket business.

This initiative not only delivered immediate financial benefits but also established a repeatable framework for future recovery efforts. By recalibrating cost baselines and engaging customers transparently, the client turned a neglected segment into a strategic profit driver.

How A&M can help

At Alvarez & Marsal, we help suppliers strengthen the capabilities and routines needed to manage commercial value across the full product lifecycle. Our teams bring deep automotive expertise, combining consulting and line management experience with hands-on knowledge of turnaround, cost structures, categories, technologies, and negotiation skills. We support clients from profitability and pricing analysis to the design and implementation of the right aftermarket strategy for their portfolio.

Conclusion

As competition in the automotive landscape heats up, profitability cannot rely solely on series production. As OEMs extend model lifecycles and cost pressures intensify, the aftermarket is emerging as a critical margin lever. Treating it as a strategic priority, rather than an operational afterthought, can drive significant value.

By adopting a transparent, data-driven approach and fostering constructive customer engagement, suppliers can achieve scalable margin recovery not just during production but across the product's entire lifecycle.

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