

Certified Automotive Parts Association
Inter-Industry Communication Forum
Las Vegas, NV
December 1, 1994
Minutes

Attendees: see attached list

1. Welcome

Gillis welcomed almost sixty attendees representing the collision repair, insurance, distributor, manufacturer and electronic estimator industries.

2. Antitrust Statement

The antitrust statement was read.

3. Gillis explained the two basic assumptions for the meeting.

A. Assumption #1

People are attending because they believe that there is a benefit to CAPA's continued existence to each industry represented. CAPA's role of certifying high quality alternatives to car company parts benefits the marketplace. The following industry-specific reasons for CAPA's continued existence were provided at previous meetings:

- Collision repair industry
 - less friction between shops and insurance companies
 - less government involvement
 - more repairs (fewer totals)
 - quality alternative to car company parts
- Insurance industry
 - cost containment
 - less regulatory pressure
 - less friction
 - competition
 - quality alternative to car company parts
- Distributors
 - improved image
 - less friction

- fewer returns
- improved quality

- Manufacturers

- improved image
- technology transfer
- increased marketplace opportunities
- upgrades quality system

B. Assumption #2

Gillis also assumes that people's presence indicates that each individual in attendance is willing to contribute to enhancing CAPA's success in the marketplace--at the very least by participating in this advisory capacity.

4. Current Issues

Gillis explained that the collision repair industry is not the same as it was five years ago, nor will it be the same in three years. For example, collision repairers may no longer be able to say that the only reason they use aftermarket parts is because the insurance company pays only for aftermarket parts. They need to keep repair costs down, while also providing a quality job. This requires an understanding of the difference between a certified part and a non-certified part--and buying accordingly. In addition, insurance companies may be held to a higher level of accountability regarding the quality of repairs they are willing to pay for. Current issues that illustrate these two premises are:

A. Issue #1

Within a month the Auto Repair Task Force of the Association of Attorneys General is slated to release a major report about the auto repair industry. One of the top three issues identified as needing attention is "differences between manufacturer-made and aftermarket parts." CAPA has spoken to this group. They are familiar with CAPA and CAPA believes that they may conclude that non-car company parts which are not CAPA certified are of questionable quality. They understand that competition in the marketplace is good and that CAPA certified parts offer a viable alternative to car company parts.

Should collision repairers not use certified or car company parts on insurance paid repairs, the collision repair industry image will suffer another blow. Should insurance companies choose not to encourage the use of both plastic and sheet metal certified parts, insurance commissioners may begin to ask questions. Should distributors not offer quality certified parts in greater numbers, they will continue to struggle in their efforts to make in-roads in selling to larger, full service body shops. And should manufacturers see no economic benefit to making certified parts, the number of certified parts will go down.

B. Issue #2

Within the last two years, both legislative and industry discussions have focussed a great deal of energy on, and attention to, salvage titling. These discussions hint at a compromise which would brand titles as salvage if damage repair exceeds 70% to 75% of the pre-accident value of the vehicle. Today many insurance companies total vehicles at 80%. When these changes are made every industry in attendance will be profoundly affected. Simply put, lowering the salvage trigger will mean fewer cars to repair, while making more salvage parts available for the remaining repairs. One of the most significant ways to keep a decrease in repairs at bay is to contain auto repair costs. Part cost containment will be a significant factor in achieving that goal.

5. Part Availability

The consensus among industries is that there are not enough certified parts. A flow chart was distributed to help focus on the CAPA part availability issue. Defining each industry's marketplace behavior facilitates better understanding of how the chain of distribution of CAPA parts is affected by that behavior. The diagram illustrates CAPA's understanding of how CAPA parts flow through the marketplace.

A. First Observation

-CAPA plays no role in the channel of distribution. CAPA sets quality standards to which Manufacturers can voluntarily comply. With the exception of facilitating meetings such as this one, and some educational

efforts, CAPA does not set standards for any of the other industries nor does it have a contractual agreement with any of those industries.

B. Second observation

Insurance companies do not buy parts. In a "defacto" way, they stimulate their use by authorizing, recommending, or paying for the use of only certain types of parts, but they are not directly involved at the point of purchase.

C. Third Observation

CAPA has heard from distributors, body shops and insurance companies that they want CAPA parts. We are told, however, that wanting parts and getting them are two different things. In 1994 the manufacturers took a bold step. They redoubled their efforts to increase the number of certified parts, without a guarantee of demand. It appears, however, that without a significant change in marketplace demand, the momentum will be lost. The question for manufacturers is: Will the marketplace warrant continued momentum and a continued increase of certified parts?

D. Fourth Observation

Collision repair representatives expressed the following three concerns:

- Insurers do a poor job of educating/advising their policy holders:
 - of CAPA part usage policies
 - that CAPA parts offer a certified alternative to car company parts
 - of providing policy holders with printed material explaining these two issues

- Insurers fail to acknowledge that if they want CAPA to succeed in the marketplace, they must encourage the use of CAPA parts because they are the only party in the equation who gains financially

- Manufacturers:

- fail to ensure that there is adequate inventory available
- provide no advertising or promotion of their products to educate the consumer
- offer no incentives to encourage shops to use their products instead of those of the OEM's

6. Discussion Topic

A major theme repeated in previous Inter-Industry meetings (June, 1993 and September, 1994) was that, in addition to the small number of certified parts, it's hard to get certified parts by CAPA. Associated comments include:

A. There is no demand

Comments made by collision repair shop owners, state and local association and franchise representatives indicate that they see a need for CAPA and, if the parts are readily available and of consistently high quality, shops will use them. In other words, they perceive that the collision repair industry will provide the demand for CAPA parts once convinced of quality and quantity.

B. There are not enough parts

The consensus among all industry segments was that there are still not enough certified parts. Gillis reiterated that manufacturers must be convinced that it's a worthwhile investment to certify parts. Once they are, availability should no longer be a problem.

C. No differentiation between CAPA and non-CAPA:

Collision repair industry representatives indicated that most shops do not know the difference between CAPA certified and non-certified parts. Distributors indicated that shops rarely request certified parts. Repairers requested that manufacturers, insurance companies, distributors or CAPA provide point of purchase explanations to car owners about certified products. They indicated that

this type of information would also help educate collision repair professionals about CAPA.

In 1995 CAPA hopes to mount an educational campaign geared toward the collision repair industry. One of the first steps in the campaign is the CAPA designated packaging used by the nine CAPA Total Quality Manufacturers (CTQMs) which will be evident in the market place by the beginning of 1995.

D. Insurance company policies are confusing\estimates do not clearly identify CAPA parts

Some of the electronic estimators are considering or have already incorporated a specific, clear CAPA designator on the estimate. The point was made that some insurance companies perpetuate the confusion between certified and non-certified parts by their terminology on the estimate, for example, using "QRP" and "LKQ" designations. Clarifying the estimates and terminology should make the ordering process easier, while educating collision repairers.

7. Final Discussion Question: What are the consequences to your industry or business if CAPA ceases to exist?

This inter-industry group drew the same consensus as the two other groups previously convened by CAPA: that CAPA serves an important role for each of the associated industries. Gillis outlined some of the efforts CAPA plans to undertake internally in 1995 to address issues which were raised at this meeting. He summarized by reiterating that each individual present must consider how he or she and his or her company can contribute to the consensus goal of CAPA's success in the marketplace. He encouraged each of those present to take action to achieve the goal.

8. Summary

Gillis thanked the attendees and indicated that the group would meet again in 1995, both to keep the lines of communication open and to evaluate the status of supply and demand for CAPA parts. He encouraged attendees to contact CAPA if they identify any improvement or deterioration regarding the issues mentioned OR if they have any ideas about how to facilitate CAPA's success in the marketplace.

ATTENDEE LIST

ABRA	Charlie Baker
Allstate Insurance Company	Frank D. McGiboney
Anderson's Automotive Service	Bob Anderson
Apex Auto Parts, Inc.	Leader Yu
Automatic Data Processing	Lynn Peyton
Automatic Data Processing	Bob Ohr
Automatic Data Processing	Susan Raifman
Automatic Data Processing	Rick Turri
Automatic Data Processing	Mike Upshaw
Automobile Club of Michigan Group	Rene Monforton
Automotive Service Assn. of Michigan	Dennis Liphardt
Automotive Service Association	Sharon Wiley
CA State Insurance Company	John Rubins
CAPA	Karen Fierst
CAPA	Jack Gillis
Carstar Automotive, Inc.	Beryl Carlew
CNA Insurance Company	James Bradley
Conjoin Key Industries Co. Ltd.	Jason Chung
Craftsman Auto Body, Inc.	Jerry Dalton
East Dragon	Andrew Chin
East Dragon	Andy Huang
Entela	John Bardaville
Entela	Karen Vail
Evergreen Auto Parts Manufacturer Co.	Mac Liao
Ferrari Brothers	Mark Ferrari
Gordon	S.M. Chen
Gordon	H.C. Lin
Jerry's Body Shop, Inc.	Jerry Kottschade
Kansas Bumper & Body Parts, Inc.	Bob Shelinbarger
Keystone Automotive Industries, Inc.	Charles Hogarty
KTJ Imports	Wen Wu
Lehman's Garage, Inc.	Richard Cossette
Liberty Mutual Insurance Company	Frank Bradbury
Mitchell International	Mike Bunney
Mitchell International	Donald Cameron
Nordan Distributors, Inc.	Jeff Childs
Nordan Distributors, Inc.	Hank Lewis
Nordan Distributors, Inc.	Bryan Lewis
Nordan Distributors, Inc.	Ron Valdez
North Star/NECO	Kim Wood
NY State Auto Collision Tech. Assn.	John Pitschi
Old Dominion Body and Frame	Patty McConnell
Ontario Auto Collision	Larry Jefferies
P.O.Y. Auto Parts Supply, Inc.	Leon Young
Polywheels Manufacturing, Ltd.	Sean Milligan

Safeco Insurance Company
Safeco Insurance Company
State Farm Insurance
State Farm Insurance
Tech-Cor
Tech-Cor
Tong Yang Industry Co., Ltd.
MSAA
Yung Shine Industrial Co.
Yung Shine Industrial Co.

Tim Clark
Wayne Browne
Bob Cheeseman
Gerald Colbert
Bill Anderson
Jerry Harn
Vincent Chou
George Rosen
Juh-Fuei Lin
Andy Wang