

February 28, 1991

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RICK CAIN

MEMO TO: Rick Cain  
FROM: Gerry Westerfield  
RE: CAPA Only/CAPA Preferred Parts

This is in response to your February 12 request for a list of advantages/disadvantages as to CAPA Only/CAPA Preferred/State Farm Criteria programs. You also asked that I indicate which option I prefer.

CAPA ONLY / CAPA PREFERRED

ADVANTAGES

- \* Demonstrates visible State Farm support for a certification program;
- \* Encourages manufacturers to obtain parts certification;
- \* Simplifies our selection process, eliminating the need to survey suppliers, etc.;
- \* Simplifies position before legislature/regulatory bodies;

DISADVANTAGES

- \* Limits the potential number of non-OEM parts to be used, due to the limited number of CAPA certification;
- \* Limits State Farm's focus on quality to a program designed, administered and controlled by others who may not share our perception of the need for quality;
- \* Provides a clearly identifiable "target" for OEM campaigns. An attack on CAPA would also attack State Farm;

\* May prove to be an unnecessarily costly position. If manufacturers of high quality parts begin to perceive no advantage to CAPA certification, they may disregard the program altogether and launch their own quality-driven campaign, offering high quality, non-certified parts in direct competition with CAPA certified parts as well as OEM parts. Parts in this segment would not be available to State Farm.

Rick, this is an issue that cannot be simply reduced to two columns, weighed and decided. It is an extremely complex situation in which the potential advantages and disadvantages change almost daily. In a not-too-brief recap of events I will try to lay out the past and present, and speculate on the future for your understanding of which option I prefer.

In 1984, our Research Department noticed a drop in OEM prices. The cause was traced to non-OEM competition which had then been in place for about two years. State Farm launched a campaign to share in the savings through a price-driven focus on non-OEM parts without regard to quality. ADP quickly attached itself to our efforts and developed the "PAL" system which automatically located and identified non-OEM parts and inserted the lowest priced part into our estimate. ADP did establish certain quality criteria, but abandoned them after a short time "on advice of counsel." We were not informed and were, essentially "hung out to dry" by our own lack of insight and over-reliance on ADP.

In November 1986, we published GCM #430 which identified a quality-driven criteria for the consideration of other than new OEM parts. That set of guidelines, with modest revisions, served to redirect our attention from price to quality and it has served us well ever since.

CAPA was conceived to serve as a legislative/regulatory focal point. The Automotive Body Parts Association had made an earlier, underfunded attempt to develop certification guidelines. That program was replete with political, self-serving overtones and was doomed at the outset. CAPA was formed and took over funding and administration.

The program got underway after about eighteen months of having established a severe credibility problem throughout the repair industry. Once CAPA became a viable entity, the OEM sector

viewed it as a potential threat and launched its own anti-CAPA campaign, spearheaded by Ford Motor Company's Ken Myers.

There were two non-parallel developments underway. We had dug ourselves into a deep hole in 1985 and had begun to get ourselves out by mid 1987; CAPA was formed in 1987, immediately dug themselves into a hole and just now is taking the steps needed to get out.

The current situation is that State Farm's guidelines for consideration of non-OEM parts (GCM #430) is highly regarded throughout the repair industry, the envy of most other insurers, and beyond credible attack from the OEM sector. I understand that a recent memo over the name of an executive of one of the "big three," misquoting State Farm's guidelines came under such a vicious attack from the repair industry that the "ghost-writer" was reduced and transferred. That is a rather impressive endorsement of the validity of our position.

Meanwhile, CAPA certified parts continued to fail under the zealous scrutiny of the OEM, resulting in de-certification and probationary status for the manufacturers.

Bottom line, the State Farm guidelines have achieved maturity and acceptance while the CAPA program still is undergoing growth pains. This is not intended to be critical of CAPA. It got off to a much later start and experienced nearly eighteen months of ennui under inept management, while we got our problems behind us.

The situation is far from settled.

Ford lowered prices. Keystone raised prices on CAPA certified parts. Ford OEM parts are now less expensive than CAPA certified parts available from Keystone. Keystone non-owned stores also stock non-certified parts priced at attractive savings compared to OEM or CAPA certified parts. Nissan, Toyota and GM are now reducing prices. Keystone may well increase its prices on comparable CAPA parts while its dealers also offer lower prices on non-CAPA parts.

Regardless of what appears on our estimate, the repairer may order a CAPA certified part at a higher price (doubtful), an OEM part at comparable cost (likely), or a non-certified part from at substantially lower cost and greater profit (highly likely).

If the part is not satisfactory we will authorize substitution with OEM in the interest of prompt repairs. The repairer and supplier gamble and State Farm loses.

Given the yet-to-be-established credibility of CAPA quality, the current pricing upheaval, the desperate OEM attacks on anything

related to the threat of CAPA, and the relative invulnerability of our own GCM #430 guidelines, I would find it difficult to recommend that State Farm abandon its present GCM #430 guidelines in favor of a CAPA only/CAPA preferred program.

*Derry*  
GSW:ph

- Attachments:
- > Typical OEM ad
  - > International Automotive Industries response to Illinois House Bill 2007/US Senate Bill 791 (June 16, 1987)
  - > Werner/Research - Ford Warranty (October 7, 1988) (Ford subsequently adopted "Lifelong warranty for replacement parts)
  - > Ford Motor Company - release of survey results struggling to find a bright side, Ford did not repeat the press release (May 30, 1989)
  - > GM's version of a "disclosure" statement attempting to shift responsibility/liability to the insurer's representative naming non-OEM parts. (Failed) August 1989
  - > Memo from Parr to Sorenson - predicts extensive, subjective testing of non-OEM parts by OEM with followup attacks on failures in advertising efforts. This prediction has proven to be accurate. (November 27, 1989)
  - > Commercial repairer analysis of CAPA certified non-OEM parts (July 16, 1990)