

ABPA Meeting
Maui, Hawaii
April 16, 1997

Here's my semi-annual update on CAPA.

In terms of what's happening, maybe the best way to describe it is as follows: it's the top of the ninth, bases are loaded, the count is 3 and 2 and you're behind by 3 runs.... Oh, and one more thing, the pitch is absolutely guaranteed to be a soft one, right down the middle. In other words, this is your chance and, as you heard from Bob Zeman, it is a critical time regarding quality, as you heard from Jack Falucca, it could be your best.... Everybody is waiting to see what you are going to do.... swing and miss, not swing, or hit one out of the park.

The bottom line is, this is a critical point for the aftermarket part industry.

As far as CAPA goes, we are in great shape; the new standards have withstood the scrutiny of the car companies, a recent crash test designed to show CAPA parts as substandard had us coming out on top, and we now know that manufacturers, if they choose, can make parts that meet CAPA standards.

In part we are in such good shape because we took a challenge from Kim Wood very seriously. Some time ago, he said that distributors were ready to push CAPA parts, but they had to be able to count on the CAPA seal to mean something. The parts had to be consistently good. And he was frustrated because he was paying thousands in excess labor costs because of poor quality. CAPA's board also said, the time for development is over. a CAPA seal on a part must mean quality.

CAPA has responded to Distributor concerns about quality and program implementation. We have spent over 9 years educating manufacturers and the past 5 years of sensibly and fairly implementing standards. We have hired bilingual business consultants to insure that important policies and procedures were not getting lost due to cultural differences and to insure that our communications were accurate and unambiguous. We have translated all correspondence and standards, we have provided interpreters at meetings. In short, we've done our homework, we've crossed our t's and dotted our i's. We went beyond reasonable expectations in responding the concerns of distributors.

Let me take a very few minutes to highlight CAPA's recent history in order to give you a more concrete idea why we are very positive about our current position.

- Way back in 1993, CAPA started explaining the new standards to manufacturers, including SPC, a mechanism they could use to monitor their processes, assure consistency, and improve quality. In addition, SPC would actually save manufacturers money, once they invested in setting it up and using it.
- In mid-1995 we sent manufacturers an advance draft of the new QSM which provided plenty of opportunity for them to comment. We also presented a number of seminars explaining the standards, detailing implementation schedules, and answering questions.
- In January 1996, three years after we exposed them to the new standards we began to phase them in— not cold turkey. but a full year phase in. During that year, CAPA worked closely with each manufacturer, re-explaining all aspects of the new standards,

responding to individual questions, and explaining the rationale behind all of the standards. In effect, for absolutely no charge, we provided complete training in the use and application of SPC.

So where are we now? By last quarter of 1996, it became clear that most manufacturers had no intention of monitoring their own quality and taking necessary actions to prevent problems. They chose not to use SPC. Apparently, they are convinced that the market will bear less quality than CAPA standards require.

As a result of this decision by the manufacturers, and because of our commitment to the specific request by Kim Wood and the general position of the board, we had no choice but to increase inspections of CAPA parts in order to insure that parts that did not meet our standards would not enter the market as CAPA Certified. Again, however, we proceeded with a very liberal phase in. Last December we announced increased inspections to more closely monitor compliance to the QSM, explaining that their unilateral decision not to use SPC gave us no choice. For three months, the manufacturers were given opportunities to resolve problems we identified in during our increased inspections, with the understanding that as of April 1, 1997 phase-in of the 1996 QSM would finally be complete. Now, any non-complying lots discovered by these inspections will be decertified at the factory.

Our increased inspections are going a long way to respond to Kim Wood's challenge. As of April 1, decertifications at the factory have increased dramatically. We estimate that during the next few months we will lose about 50% of the currently Certified parts. This is because, right now,

manufacturers have made it clear that complying to CAPA standards is not in their best interests or a top priority.

As the sole purchasers of CAPA manufacturers' products, you have complete control over what type of product you will accept in your warehouses. The only possible influence on the type of product you sell would be by your customer. Recently, during a very productive and candid meeting with the manufacturers in Taiwan, I asked why they wanted lowered standards -- their response was that their customers were very happy with the current level of quality and that CAPA standards were "too strict, not necessary."

Given that we now have responded to the challenge set for by KimWood and given that you do have complete control over what you will accept, there are some obvious questions that will be put forth to your industry:

- Do you think that CAPA standards are reasonable? Or, are you satisfied with the quality of non-CAPA parts?
- Do you think the future of your industry is providing consistently high quality parts to meet the needs of DRP's? Or are you content with the substantial profit you are making selling to shops who don't require CAPA quality?

So here comes that ball, aimed squarely at the sweet spot in your strike zone.....all of us are watching to see what you do. As you consider your decision, here are some factors to consider:

- We understand that the manufacturers are considering petitioning

CAPA to ease the standards..under the threat that there would be a mass walk out if CAPA does not agree.

- Since April 1, in an unprecedented fashion, some CAPA inspectors are being harassed in a number of factories. We now have to send in our Validator's senior staff person to intervene.
- CAPA manufacturers have made it clear that there is no financial incentive for them to make the investment necessary to comply with CAPA standards. At our recent meeting, they admitted that fully complying with CAPA standards meant taking a financial risk for which they saw little benefit given the buying preferences of their customers.
- And sales of non-certified parts are booming. For example, the largest after market parts manufacturer, is now running 2 - 12 hour shifts and three production lines and they are short staffed in the QC area. As such, CAPA has had to assign 4 inspectors to the factory, to assure that non-complying parts do not get out into the market with CAPA seals.
- Insurance companies are investing and considering investing in collision repair shops.
- Car companies scoring a victory in Europe which, because of GATT, could give them a fist-hold in the U.S. Congress.
- And, just this morning, we received a call from Bob Redding, Vice

CA40538

President of the ASA, who indicated that body shops were going to mount a state by state effort to pass legislation that would ban the use of aftermarket parts during the first three years of a car's life unless those parts are CAPA certified. This is position is and incredible departure from previous positions taken by the body shop industry and will have profound implications.

In spite of these facts, every single distributor I have talked to absolutely, positively insists that they are doing all that they can to encourage manufacturers to make CAPA parts. The largest among you, who represent up to 70% of the purchases from CAPA manufacturers, insist that you will not tolerate non-CAPA or poor quality parts. Taking these pronouncements at face value and considering what the manufacturers are actually doing, it is clear that your industry has not been able to convince CAPA manufacturers that a serious effort to build CAPA quality is necessary. The bottom line — You have tried everything you can possibly think of to get your suppliers to sell you a product that you claim to want and are willing to pay for, but your suppliers, for whatever reason, are not doing so.

Whatever the reason for this rather extraordinary situation, let's look at three potential results:

- Another channel of distribution will be established that meets the needs of the 70-80% of the high quality shops.
- Insurance companies, in frustration, may cut special deals with car companies and stop using aftermarket parts.

- Your industry decides that being the exclusive suppliers of the less discriminating shops is a tenable market position.

You can likely think of other scenarios. Whatever happens, it is clear from our vantage point that significant changes will result because of your inability to get your suppliers to provide you with CAPA quality parts continues.

We at CAPA, thanks in part to our response to the challenge set forth by Kim Wood, are strategically poised to be of service to any entity looking to evaluate the quality of the product they purchase. But right now it is clear that distributors are at bat and we're all waiting to see if you take the pitch.