

April 18, 1985

MEMO TO: Bob Mecherle
FROM: Bob McClanahan
RE: First Three Days of Audatex Aftermarket Part Locator
Experience---Aftermarket Body Parts Association Annual
Meeting---Projected Future Locator Results

This memo will confirm my discussions with you of April 18, 1985 and give you more detail.

The first three days of Audatex aftermarket locator (the second phase of the Three Stage Part Locator) have developed outstanding and unusual results. In the Lanham (Maryland) and Annandale (Virginia) offices, over three days:

- Processed 228 estimates.
- Located one or more aftermarket parts on 126 estimates, or a hit ratio of 55.31 per estimate.
- Located 279 separate parts, or a ratio of 1.22 parts per estimate.
- Saved a total of \$9,207.---Audatex has a method of computing the exact savings by comparing the aftermarket price against the O.E.M. price. Early results indicate an average savings of some \$33 a part.
- This works out to a \$1,535 a day savings for each office.

The system is very simple. Anytime an estimator puts a new part on an estimate that has an aftermarket equivalent, the computer compares the A/M price to the O.E.M. price and puts the lowest price on the estimate.---The system also compares the various prices of all the aftermarket distributors, inserting the lowest price of this group and includes the name, address and phone number of the "low price" distributor.

Audatex has a "hot line" for the distributors to enter new prices, to add new parts and to delete parts that are out of stock.

Audatex will delete any supplier furnishing poor quality parts or who fails to promptly (within 48 hours) deliver a part stated to be available.

Audatex and the aftermarket Body Parts Association have signed an exclusive contract to develop the critical mass of part inventory.

All the "ground rules" for this system have been discussed with the Association (by Ed Molkenbuhr of Audatex and me) over the past two years. They were covered again at the annual Association meeting this past week. There is great concern among the distributors that they will not receive their individual "fair share" of the market. I made the specific points at the meeting that they are involved in a highly competitive business, that pricing has not been and can never be discussed by anyone and that there is reason to believe that the aftermarket industry will have difficulty meeting the demand for these parts.

The "numbers" on parts found and savings are going to vary during the early days of implementing this system. My predictions are:

- We will develop a "hit ratio" over one or more parts being found on 50% to 65% of our estimates---I make two assumptions: 1) We will continue to add more and more parts to the A/M total inventory. 2) We must go to a 100% usage of Audatex (or Mitchellmatix, if that is the computer estimating service being used).
- We will find 1.2 to 1.4 parts per estimate.
- The savings will round out to close to \$35 a part.
- The total savings from the program are going to be so great that I hesitate to make an annual projection. It would, however, be reasonably safe to conclude that when our 350 largest claim offices are fully operational on the locator that each office will show a \$1,000 to \$1,500 a day savings. And, we will be able to specifically measure the savings results, every day, of each individual office.---This does not include the previously projected \$100 million annual savings from price reductions by O.E.M. to better meet A/M competition.
- The savings indicated are gross. Our net savings (because we have used some A/M parts) should "round out" at around 75% to 90% of the gross number.

Audatex has been able to develop a report of the 500 most used parts by state and nationally. We will be able to use this data with the manufacturers throughout the world to develop new

Bob Mecherle
Page 3
April 18, 1985

products. I have developed personal relationships with two major Italian companies (Mexicar and Olman) and three Taiwan companies (China Auto Company, Leigon and Lio Ho) who are most interested in discussing product development. These are five of the major world manufacturers who produce high quality parts. By working with this "core group", and others will follow, our company can continue to make a major impact on the price of collision repair parts. Of major significance, I am getting some personal assurance of plans to move some production from the Far East and Italy into the United States, as early as this summer.

While I understand that there are unwritten corporate guidelines on foreign travel, it is my recommendation that you find a way to allow the person who handles my job duties to be able to work in what is obviously a world market problem area.

I am also recommending that we establish corporate guidelines that we use a computerized estimate on 100% of all our estimates as soon as the locator service is available. (Our Annandale office is now doing this.) At this time, our claim offices are trying to second guess the system to save a 5% charge on low line estimates. By doing so, they are:

- Losing the advantage of avoiding computational errors.
- Losing the advantage of cutting out the overlap and included items.
- Losing the productivity advantage of letting the system "look up" labor and part charges.

(These three major savings items up to this point in time cannot be measured. Therefore, many offices have mismanaged this valuable tool by saving a few dollars on system cost, inadequate clerical staffing and literally wasted millions of indemnity dollars.)

Unless we change the guidelines, these offices will continue to mismanage the system and not realize the measurable dollar savings from the A/M locator program.

The regions still must exercise a considerable amount of management ability even though they use the system 100% of the time. This would include:

- Train the people to properly use the system.

Bob Mecherle
Page 4
April 18, 1985

- Maintain proper staffing of estimators (trends indicate a developing overstaffing problem) and clerical people (of which we have a present shortage).
- Maintain proper shop relationships (which are generally good but "pretty shaky" in many areas).
- Maintain proper relationships with A/M people, to include insuring an adequate supply of quality parts. (Generally, our people do not know the distributors and do not understand the product.)

I made these specific suggestions at a Pennsylvania claim management meeting this past week. It is my impression that there is great regional readiness for such a program.

I am working with Audatex to implement the A/M locator program throughout our company by the end of July. This is a substantial undertaking. While it involves some 38 cities, it will be more than 150 offices. It is expected that I will have to "recruit" 3-4 Service and Systems people to work nearly full time in this effort from now into August. Our consultants can help but would not be able to make this time commitment. The reasons for some urgency include:

- The obvious incredible savings potential during a heavy loss period.
- This system works well, is simple to operate and requires neither hardware, software nor personnel expense.
- We need a "massive attack" on the O.E.M. structure at a time when they have a unified all-out effort that seems to be directed toward destroying the A/M industry. This early and massive capital "infusion" into the A/M market will strengthen them for the long "war" ahead.

Your continued support of the locator effort, your thoughts on how to handle this pending foreign travel question, your thoughts on how to best implement a 100% computer estimate system (with Audatex or Mitchellmatix, if the latter works out) and any other suggestions will continue to be appreciated.


BMR:ph