

April 23, 1993

Memorandum to: Mike Misch  
Bob Medved  
George Avery  
Gerry Westerfield  
Joe Fincher

From: John Werner

Re: CAPA

### 1. State Farm Quotes of Part Numbers that Qualify for CAPA Certification

Jim Brandt, Research, has completed an analysis of State Farm quotes of part numbers that have CAPA certification. This analysis is attached. Out of the possible 376 total part numbers, Jim located 316 that have been indicated on State Farm Audatex estimates. Fourth quarter experience was projected to annual estimates. Supplement activity is represented, to the extent that a supplement was completed on Audatex.

The numbers were factored to represent State Farm annual usage. The assumption here is that the other computerized services and manual estimates would have located these parts in the same proportion.

The part numbers are rank ordered by total dollar volume. The first part is a General Motors hood. When damaged and replaced, this hood was quoted 31.7% of the time as quality replacement. The average savings was about 20%. Quality recycled was quoted in about 4% of the replacements. The amount of interchange between vehicles is also shown.

As you scan through these figures, you will note that our lowest percentages are for sheet metal, higher for headlamp mounting panels or front-end panels, and greatest for bumper covers. No surprise.

### 2. Survey Ideas

At our first meeting, it was proposed that we use our estimators to collect CAPA usage information as part of the normal supplement process. This offers a convenient method to determine if the shop actually did use a CAPA part that was quoted, and if not used, why not.

I would like the group to also consider a survey of CAPA usage after the repair is complete. One of the disadvantages of using an estimator to conduct a "before the repair is complete" survey is local body repair industry reaction,

which would be potential better compliance during the survey period. This is where we want to be in the long term; however, it may detract from our initial objective, and that is to determine the "real world compliance" as it exists today and the typical body shop actions.

Although more difficult to conduct, I suggest that part of our activity would be to identify historical estimates, where we quoted CAPA parts, and then inspect for compliance.

The Research Department and Auto General Claims completed a similar survey for corrosion performance of aftermarket parts in 1988. I have attached a copy of this study and an example of a form used by our Property Claim Trainers in the conduct of this survey.

There are many potential problems with this type of study:

1. Does the fender/part have to be removed to determine CAPA compliance?
2. If the CAPA seal is not present, can the manufacturer be determined?
3. Can we determine from the body shop final bill and/or the claim file the final disposition of the part? Was OEM replaced for the quoted aftermarket? Was there a phone supplement? Was the insured involved in any decision to change part type?

Survey forms can be computer generated from our computerized estimate files, merging with claim master record information.

### 3. Body Shop Payoff

The more I have thought about giving the shop 1/2 of our OEM-to-aftermarket margin profit, the more I don't like it. In fact I'm having problems with any incentive.

It's a bribe. I think the industry would also see it as such. One of our main objectives in this whole process is to have the CAPA parts stand on their own merit. The OEM prices have been steadily falling to match aftermarket pricing. The aftermarket often responds by reducing their prices further. What used to be an expensive part, is now less expensive, OEM or QRP.

We discussed several incentives. Maybe the best incentive is that in this ever increasing competitive environment for our repair business, the body shop gets our business - period.

JW