

April 30, 1985

MEMO TO: All Operations Deputy Regional Vice Presidents
Auto Division/Claim Managers
Divisional Claim Superintendents
Audatex Coordinators

FROM: Robert D. McLanahan E-3
Assistant Vice President Claims
Corporate Headquarters

RE: Implementation of the Audatex-PAL (Parts and
Assembly Locator) System

The purposes of this memo are to announce the implementation of the Audatex-PAL (Parts and Assembly Locator) System, to describe the potential benefits of this program and to request information from our divisional claim superintendents.

Over the past two years, we have worked with the Audatex Company to develop the capability to automatically locate aftermarket parts while the computerized estimate is being prepared. We have also worked with the aftermarket part industry to have available the critical mass of quality collision repair parts.

The concept was originally field tested on "stand alone" systems in the Lanham, Maryland and Annandale, Virginia service centers. As of April 1, 1985, the final automatic locator product was piloted in the Lanham and Annandale offices plus two California locations, San Jose and Hayward.

Just briefly, when any replacement part is needed, the system will determine whether an aftermarket alternative is available, compare the price level of the aftermarket part and the original equipment (O.E.M.) part, put the lowest price part on the estimate, indicate when an aftermarket part is used, and give the name, address and phone number of the aftermarket supplier.

A management report will be available to you to report the number of dollars saved, which will be the difference between the O.E.M. price and the aftermarket price. You will find that savings to be highly significant. The early reports are indicating an average savings of \$2,500 a week, per office, with the Lanham office having a high of \$6,000 for one week.

This is an unusual technological advancement. You do not have to buy hardware, develop software or hire new people. You just "turn it on" and use it.

"Turning it on" is critical. We are recommending that you use an Audatex estimate anytime a part is involved. There are literally thousands of quality aftermarket parts available, all the way from a tail light lens through the front bumper. More parts continue to be added to the inventories. Because it was not possible for an estimator to be aware of the existence of thousands of aftermarket parts, the new ones that are regularly added to the inventory, the prices and the names of the distributors, it is easy to understand why our prior usage of these parts was minimal.

There is a considerable need for system management even though you follow the guideline of 100% usage when one or more parts are on the estimate. This includes:

- Being aware of new distributors and parts to add to the data base.
- Having well trained estimators and input personnel.
- Proper use of the management reports.
- Adequate staffing. (We have had an historical shortage of input operators. This has often caused the Audatex system to be "shut down" for days and even weeks at a time. Because of a shortage of clerical personnel, one major city has had their total Audatex system "shut down" about 40% of the time for over a year.)

This kind of management will shift from a form of "second guessing" the best time to use the Audatex system, which at best realized a few dollars savings a month, to managing a technology that can yield literally thousands of dollars a month in each office.

The savings report will be an excellent indicator of whether you are getting full value of this new technology.

We plan to implement this system companywide by about the end of July. This will require visiting some 38 cities and working with about 150 offices. Members of our staff will be in touch with the divisional claim superintendents and Audatex coordinators to develop an implementation schedule for all locations. It is expected that this will involve local meetings with aftermarket

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distributors, management meetings to discuss the concept and usage guidelines and a training meeting with the input operators.

It would be appreciated if all divisional claim superintendents will find a way to send me, within the next week, a listing of all recommended aftermarket distributors in their areas, particularly bumper and radiator people. We do have a basic national list available to supplement the lists that you will send me. Our guideline is to include distributors that handle at least 500 different parts, that will guarantee quality and that will guarantee delivery within 48 hours.

While there is an adjustment period for the shops and some dealer resistance (though a number of authorized O.E.M. dealers are, in fact, distributors), our Linham and Annandale offices have demonstrated over a period of time that the program "works", which our San Jose and Hayward offices have verified.

As a matter of interest, we expect to add an automatic used part locating service to this system within about one year.

Your usual excellent support is very much appreciated.



ADM:pb

cc: Executive Assistants
G. Robert Necharle
Property Consultants