

May 12, 1993

Memorandum to: CAPA Committee

From: John Werner

Re: Affect of Competition

The Research Department has been monitoring every OEM public announcement of part price reductions. We code each part number that has been announced for a reduction and then compare to all remaining part numbers to track the percent increase, weighting by the number of times we use these parts on State Farm estimates.

As you can see from the attached tables, the OEM has compensated for part price reductions with corresponding price increases. I have attached a chart that shows on an overall basis, OEM part price increases have matched the Consumer Price Index. Before major proliferation of aftermarket parts, the OEM has outstripped the CPI. The OEM has retained their overall revenue flow; however, the insurance industry's watchful eye has kept the OEM in line with CPI increases.

In addition, the auto manufacturers are much more sensitive to the way we rate their vehicles for damageability through IRG adjustment rating. This has caused the OEM, in many cases, to carefully price their replacement products. In fact, Saturn Corporation purposefully reduced the price of their replacement parts to achieve better ratings and also to discourage the introduction of aftermarket parts, although there is an aftermarket bumper cover for Saturn.

I will send Joe Fincher a copy of the body shop focus group, for distribution to the rest of the committee.

I am sending Mike Misch a comprehensive study of specific OEM pricing practices for his review.

JW

Estimated Annual Increase in Parts Prices For Parts Not Targeted by Auto Manufacturers Insurance Industry

	Percent Increase Per Part	Average Increase Per Part	Parts Placed on Estimates (Millions)	Annual Increase (Millions)
GM	11.8%	\$6.16	38.7	\$238.6
Ford	6.0%	4.16	20.4	84.7
Toyota	6.0%	3.83	10.3	39.4
Nissan	10.9%	7.13	6.9	49.2
Total				\$411.9

Estimated Annual Insurance Industry Savings from OEM Part Price Reductions

	Parts Reduced	Date of Reduction	Percent Reduction Per Part	Average Reduction Per Part	Annual Savings (Millions)
GM	857	2/1/92	15.0%	\$17.14	\$87.7
Ford	190	12/1/90	9.7%	13.14	22.7
Toyota	111	1/1/90	13.3%	13.84	13.1
Nissan	144	12/1/91	28.5%	40.05	37.0
Total					\$160.5