



Preferred Auto Repair NETWORK

## WHERE DO WE GO FROM HERE?

Preferred Auto Repair Network (**PARNET**) was designed to get body persons, technicians, body shops and other physical damage providers to band together in order to increase their market share by providing lower cost services to volume physical damage repair purchasers. Similar in concept to the health industry's health maintenance organizations (HMO's), **PARNET** looks to find willing partners in insurers, third party administrators (TPA's), governmental groups and others who are presently involved in contracting for the repairs of motor vehicles of some form. **PARNET** represents a market-oriented approach to physical damage repair and vehicle maintenance. Organizations opting to use **PARNET** will find that their costs have been reduced dramatically and the quality of care and repair improved.

We anticipate that **PARNET** will have a significant role in the future of vehicle care in the United States, and the lessons learned will be put to use in the future to continue to align the interests of those who provide the service with those who purchase the service. However, the immediate goals for the most part will be reduced costs and increased quality of care for our subscribers and increased profits for our providers.

### **Definition:**

**PARNET** is a formal arrangement of selected body persons, technicians, bodyshops and other vehicle care providers who agree to provide repair services to a select group of subscribers at previously negotiated rates and to accept a thorough review of the repair services provided and procedures followed. In return, these providers can expect an increase in their market share, prompt payment, and a reduction of administrative detail resulting in increased overall profit. **PARNET** services are marketed to motor vehicle care purchasers on the basis of cost reductions resulting from internally generated efficiency. **PARNET** is predominantly a fee-for-service arrangement in which the subscribers have an economic incentive to use a **PARNET** provider. **PARNET** takes advantage of the same type of systems used by HMO's such as prospective payment systems and peer review organizations.

### **Objectives of PARNET and Its Channel of Distribution:**

The objectives of **PARNET** are to control vehicle care costs (especially physical damage repairs) by encouraging the use of cost effective, efficient providers of repair services. This results in a greater market share and higher volume for the preferred or select providers. **PARNET** achieves its objectives by acting in concert with its distribution channels; third party administrators (TPA's), employee benefit brokers (EBB's) and consultants, insurers, managing general agents (MGA's), self-funding organizations, labor unions (Taft-Hartley), governmental organizations and the subscribers themselves. Each of the channels has its own objectives that complement those of **PARNET**.

### **Provider Objectives:**

Providers themselves have created the need for **PARNET**. In recent years there have been substantially more closings of repair facilities than openings. Additionally, today's higher-

technology, unibody constructed vehicles require more than the heretofore "Mom and Pop" repair facility can afford to provide without the marketing and technical assistance of the PARNET service organization.

## **Trends and Pressures Leading to PARNET**

### **Repair Costs:**

The primary driver of this alternate delivery system (ADS) innovation is rapidly inflating repair costs. These skyrocketing costs have forced insurance companies, as well as other private and public organizations, to seek alternative ways to save costs, often by neglecting to perform necessary repairs and/or service. As industry began reviewing ways to reduce its expenditures, the federal government compounded industry's problems by doing the same. This intensifies pressure on the private sector to reduce expenses.

### **Corporate Pressures to Reduce Costs:**

Large corporations often saw insurance costs as contributing to a competitive disadvantage and looked for ways to reduce overhead costs by self-funded repair plans. As a by-product of self-funding, data becomes available that permits cost analysis and identification of efficient and inefficient repair and service practices. In some areas, companies can begin pooling their data to develop statistically accurate profiles of providers. Such an atmosphere causes these repair service purchasers to begin looking to competition among providers as an attractive solution to inflation. This type of competition among providers can often lead to cost cutting techniques without proper regard for quality control.

### **High Technology:**

Several factors also were at work that contributed to increasing costs of physical damage coverage. Unibody construction, expensive diagnostic equipment, sophisticated measuring and straightening devices and other similar technologies can be grouped in the automobile's high technology revolution. Add to this higher replacement vehicle costs and the reasons for effective alternatives in today's marketplace become more and more evident. In addition, high tech demands continue to fuel the already increasing expectations of improved quality of repairs and service.

### **Surplus of Providers:**

In some areas of the country, there is a surplus of providers. The expanding number of alternative service purchasing specialists and markets requires contemporary marketing techniques that the average shop environment is incapable of addressing. In our current market-driven economy, a surplus of providers places a downward pressure on prices. At the same time, shops are required to expend substantial sums to meet the technological demands of today's vehicle repairs and environmental protection. These opposing forces cause a shop to cut corners at every possible opportunity, often resulting in improper repairs or increased incidence of fraud. PARNET allows the shop to market effectively, as well as take advantage of purchasing, production control and planning techniques and other economies of scale that are the natural outgrowth of the PARNET program. Add to this growth the appearance of expert advisory panels, advanced computer systems and training seminars to insure qualified repair technicians. The result is increased market share at more competitive rates, as well as lowered costs.

## **Insurance Industry Climate:**

Recent business environment. In the past several years, insurers have been in turmoil. A hardening in the property and casualty cycle, higher loss costs resulting in poor underwriting performance, lower interest rates and declining investment portfolios, withdrawal of many insurers and reinsurers from the marketplace, increasing competition from companies using self-insurance and captive markets, and the changing regulatory climate were the major contributors to this turmoil. Insurers have emerged necessarily more flexible and ready to try new ideas.

New competition. The rapid decline in reinsurance availability has resulted in a decreased capacity for insurance companies. Add to this the fact that only a few insurers have sufficient dominance to bargain effectively with providers for lower rates and the resultant situation is one in which many insurers are now willing to be creative just to stay alive.

## **PARNET Trend:**

The manifestation of these trends is the groundswell towards PARNET. Advances by similar organizations in the health industry over the past decade present a view of the near future of the vehicle repair/care industry. Insurers and other large fleet owners will look to create alliances to take advantage of group purchasing power. This activity should leave little doubt that the growth of PARNET statewide and nationally over the next few years will be a significant factor in the motor vehicle repair and service industry.

## **Providers:**

Shop selection. PARNET organizers next turn their attention to the enlistment of providers (the organizers are themselves providers). A shop is usually selected first because it serves as a geographical base for the subscribers, inasmuch as there is a limit to how far subscribers will travel to reach a provider. PARNET creates situations in which subscribers are referred to geographically dispersed shops rather than to a single location. In some cases, however, shops may not join, but participating shops and PARNET's utilization review board may still monitor their charges and practices. The facilities chosen must have an acceptable community reputation. PARNET will select shops with more efficient practices and proper repair techniques. Contracts signed with the providers vary as to what they emphasize and the specific services required.

Staffing. Particular attention is paid to the various personnel that comprise the providers' staff. PARNET requires that body persons, frame persons and other service technicians be properly trained and certified to perform the tasks for which they are employed. Letters of reference and other evidence of certification are frequently required to establish the requisite qualifications. The selection process today is based more on subjective judgment than hard facts. Criteria used in evaluating the provider records are quality of service, results and the judicious use of approved repair techniques. Although there is a cost associated with the evaluation process, it is not prohibitive and the benefits are of critical importance.

## **Removal of Providers:**

It is important that PARNET have a set procedure for the fair, impartial and formal removal of providers whose performance is unsatisfactory. This includes both the providers who are inefficient and those who are ineffective. Both have the effect of driving up the costs and providing poorer service, which results in a reduced attractiveness of PARNET.

## **Resource Review:**

The final step in the organization of **PARNET** is setting the resource utilization review procedure in place. This includes not only post-service reviews but also pre-service reviews. No savings can be achieved if the cost per incidence goes down but the number and cost of supplements and workovers go up. The best tool for monitoring provider performance is computer analysis. We have been part of the development of much of the software necessary to perform these functions.

## **Advantages to the Repair Service Provider:**

Under **PARNET**, the repair service provider assumes little financial risk, retains its traditional fee-for-service payment structure, improves cash flow, has the potential for an increased market share and has the promise of increased utilization of facilities. Cash flow is enhanced through prompt payments from subscribers of guaranteed substance. By encouraging subscribers to select shops from a list of participating providers, market share and efficiency can be increased by as much as 50%. **PARNET** offers a shop a broader mix of customers, which makes better use of a shop's facilities.

## **Acceptance by Providers:**

Acceptance of **PARNET** continues to grow despite reluctance on the part of some non-aligned providers. Repair facilities have tasted the future, and what they should have sensed is not supported by the traditional marketing methods that have carried them into the present. They should be moving to link themselves with payers, creating new delivery systems. **PARNET** looks to be rewarded for the efficiencies it fosters through its programs. It keeps track of inefficient providers, since this adversely affects its short-term profits and long-term stability of relationships. Once the inefficient providers are identified, the formal procedure for their severance from **PARNET** is exercised.

## **Conclusions:**

Essentially, the vehicle care market has moved from an oligopolistic market to a free market and open competition. Whenever this happens (as witness airline deregulation), the consumer benefits by an oversupply of providers. Markets, however, are dispassionate and have no sympathy for those who cannot afford to participate (i.e., the indigent and others not covered by some form of vehicle care plan). This is where we must have interference by an external source, the government.

**PARNET** will prove to be one of several effective vehicles in this market shift. Its immediate effect is to lower repair costs for both the purchasers and users of the system and to increase the volume of business for its providers. At the same time, it serves as a disruptive force for the provider community by decreasing the volume of business for nonparticipating providers and to those who for several reasons are unable to participate in this market.

**PARNET** and other alternative delivery systems (ADSs) are necessary steps in moving toward the ultimate goal of the vehicle service market in the United States: providing quality vehicle service at the lowest possible cost to all those who require it. Whether we can ever achieve this goal is an irrelevant question. It is the direction in which we are moving, and **PARNET** is one of the vehicles that will move us in that direction.



Preferred Auto Repair NETWORK



A division of the PC GROUP Family of Companies

### **The Texas Roll Out Event Update**

Dates/Cities: June 12, 2001 - Dallas  
Place: Adams Mark Hotel, 400 N. Olive Street

Dates/City: June 14, 2001 - Houston  
Place: West Chase Hilton Hotel, 9999 Westheimer Road

Times: 6:30pm to 10:00pm (Both locations)

Here is a list of our trading partners who will be present with their product booths set up around the meeting rooms:

ADP	Mitchell International
AutoVista	NextPart.com
Laser Mate	

The purpose for these vendors being at the meetings is to introduce them as part of the PARNET Family, so to speak, and how we integrate each into our material damage portion of the claims handling business. This is not a start up program. We currently have an aging mid-size book of policyholders throughout Texas; with the highest concentration located in the greater Dallas/Ft. Worth and Houston areas. Jeff Hendler will serve as our MC and Speaker for these two gatherings, as well as, all future city/state roll-outs.

**R.S.V.P. Correction: We apologize for this error. The correct telephone number to R.S.V.P. is: 1-888-4PARCARE (472-7227) ext. 226.**

Sincerely,

John W. Junk, Executive VP  
PARNET Corporation



Preferred Auto Repair NETWORK



A division of the PC GROUP Family of Companies

# Thank you for coming tonight!

*Please tell us a little bit about yourself and your business.  
If you are a multiple shop owner, please use separate forms for each location.*

## Your Business Location / Information

Name (shop) \_\_\_\_\_ Date \_\_\_\_/\_\_\_\_/\_\_\_\_

Address \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_

Telephone (\_\_\_\_) \_\_\_\_\_ Fax (\_\_\_\_) \_\_\_\_\_ Email \_\_\_\_\_

Owner/Manager Name(s) \_\_\_\_\_

## Your Business Type

(check one) \_\_\_\_\_ Corporation \_\_\_\_\_ Partnership \_\_\_\_\_ Sole Proprietorship

(check one) \_\_\_\_\_ Independently Owned/Operated  
\_\_\_\_\_ Dealership Owned/Operated

## Your Building / Structure

(Under roof)

Total Area \_\_\_\_\_ sq. ft.      Repair Area \_\_\_\_\_ sq. ft.      Office Area \_\_\_\_\_ sq. ft.

Training Area \_\_\_\_\_ sq. ft.      Storage (parts, misc) \_\_\_\_\_ sq. ft.

(outside)

Vehicle Storage \_\_\_\_\_ (vehicles)      Customer Parking \_\_\_\_\_ (vehicles)      Employee Parking \_\_\_\_\_ (vehicles)

I understand this questionnaire is for informational purposes only and will not be a basis to rate the quality and workmanship of my repair facility. I also understand that this information will remain confidential and is the property of PARNET Corporation.

Prepared By \_\_\_\_\_ Signature \_\_\_\_\_ Date \_\_\_\_/\_\_\_\_/\_\_\_\_ REVISED 6/2001/JW