

Trends, Changes and Shifts Related to the Aftermarket Parts and Property and Casualty Insurance Industries

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I was asked to present my views today not necessarily as an expert on the aftermarket parts industry, despite having just enough knowledge to be dangerous in this area, but as an expert in monitoring and analyzing business, market and industry trends and patterns related to the property and casualty insurance, automotive services and the aftermarket parts industries.

My experience in these industries spans 17 years. During this time, I was involved in many of the supply chain segments from OEM through auto body repair, salvage and various segments in between. My business career also includes over 30 years of domestic and international experience involving a broad range of business experience from direct sales through general management.

Today, The Romans Group's practice, in the broadest sense, focuses on business, market and strategic development as well as change management. During this time, I either personally experienced or helped to facilitate and implement numerous leading edge business, market and strategic initiatives within the auto body repair, property and casualty insurance, airfreight, and automotive glass replacement industries.

One of the core competencies of The Romans Group is the study and analysis of the numerous trends and patterns that have either failed or have become full-fledged strategic initiatives affecting many of the supply chain segments within these industries. These initiatives were either initially rejected or ignored; however, many eventually came to market and were either favorably accepted or intentionally avoided. A number of these strategic initiatives eventually evolved into paradigm shifts causing significant behavior changes over time.

In the end, several of these strategic initiatives were permanently established over time and accepted as significant market shifts that most organizations learned to work with, accept, reject, or leverage for their benefit. Following is a brief history of some of the more controversial and notable paradigm shifts that many either never saw coming or did not believe would take hold but they eventually did.

- In the mid-1970's, OEM's and first-tier suppliers adopted Total Quality Management (TQM), a quality shift implemented to fend off the Japanese penetration of the U.S. auto market due to consumer acceptance of Japanese cars.
- Beginning in the late 1970's, property and casualty insurance companies instituted and expanded their use of Direct Repair Programs (DRP) through their direct repair networks. DRP's represented an evolving trend toward reluctant adoption that caused much consternation as it continues to do today. Today, DRP programs account for anywhere from 35% to 80% of vehicles repaired depending on the insurance company and market.
- Over the years we have witnessed growth and consolidation of car manufacturers, glass installers, auto body repair, paint, parts, salvage, and other related business and networks.
- Within the auto body repair industry, shop management systems have been introduced and adopted.
- Certified Auto Body Parts Association, CAPA, was designed, developed and launched by the insurance industry approximately 18 years ago.
- The reluctant acceptance and integration of estimating software through the three principal information providers which is used in the repair process in over 25,000 shops today.
- More recently, Allstate acquired Sterling; re-setting the standard and raising the concerns of auto body repairers regarding the trend of body shop consolidation and auto body repair influence and ownership direction.

Now we see the possible beginning of yet another paradigm shift developed through the early understanding and adoption of a Total Quality Management Process, not only within the aftermarket parts industry, but also within the broader auto body repair industry. Various quality management initiatives have been employed, such as QS 9000, ISO 9000, TS 16949, ISO 14000 (Environmental), Total Quality Management (TQM), Six Sigma, etc. As recently as a few years ago most of these initiatives didn't even approach the radar screen with the auto body repair industry.

As we have all experienced, adversity in our business and personal lives frequently compels people to seek creative new ways to deal with the adversity at hand and to develop new behavior that often leads to new pathways to one's future success.

The Avery decision against State Farm was the aftermarket parts industry's adversity that compelled many of the aftermarket parts supply chain participants and insurance companies to pursue behavior changes and a new and uncharted business direction. At the time of Avery, the current way of conducting business concerning the use of aftermarket parts came under attack. Avery impacted all of the constituent business segments in the aftermarket supply chain; manufacturing through end users.

Adversity also poses tough choices around whether market players should be early decision maker adopters or later followers around how an industry will react and change to overcome its adversity. My experience has been that if a workable solution to adversity is researched, developed, implemented, and managed properly, significant benefits may be realized by being one of the early adopters who take the risks associated with the perceived solution.

Since the Avery decision, I have seen a more collaborative approach develop among many of the constituent groups in the aftermarket supply chain. They proactively sought a solution and took the risks associated with introducing the Total Quality Management Process to aftermarket parts manufacturing and distribution. This is similar to the standards, processes, methods, and practices associated with the manufacturing and distribution of OEM parts. It represents a major paradigm shift for the aftermarket parts industry.

The TQM process is being managed and performed on an integrated basis through Global Validators and the Manufacturer's Qualification and Validation Program (MQVP) under the internationally recognized standards of QS 9000, ISO 9000 and TS 16949. These standards are applied from manufacturing through distribution and finally to the end user whether it is an insurance company, distributor, repair facility, or vehicle owner.

As you probably know, Global Validators, Inc., in conjunction with Nationwide Insurance, numerous aftermarket parts manufactures and Keystone Distributors, collaborated, developed and implemented the Manufacturer's Qualification and Validation Program-MQVP. Global Validators is responsible for the ongoing administration of The Manufacturer's Qualification and Validation Program. MQVP involves every stakeholder in the aftermarket supply chain including manufacturers, distributors, insurance companies, collision repair facilities, and vehicle owners.

MQVP's adherence to quality-based, internationally accepted standards throughout the entire business process reflects this industry's response to its adversity by some forward thinking companies by providing an innovative solution involving all participating segments insuring that an aftermarket part follows this quality process:

- The process begins by incorporating the After Market Parts Approval Process (AMPAP), similar to what the OEM's employ for the manufacturing of OEM parts through PPAP.
- Prior to being placed into MQVP, the part goes through a review of how it was engineered and manufactured, including all documentation, and is then put through several Vehicle Test Fits (VTF) before the part enters the distributor and repair installation supply chain.
- The replacement part should perform in all areas of form, fit, function, performance, durability, and appearance equal to or better than the original equipment part it was designed to replace.

- The process incorporates Global Online Certification System (GOCERTS) and has a complete part traceability file, from raw material through to installation with the repair facility that performed the repair.
- It also utilizes a built-in cure process through an on-line reporting system, Global On-line Corrective Action Reporting (GOCAR), in case there is a real or perceived problem that needs to be addressed.

All of this is supported by the underpinnings of the Total Quality Management Process (TQMP) which assures that the part has been engineered, manufactured and distributed according to QS 9000 and ISO 9000 standards as also applied by OE manufacturing and distribution worldwide.

In summary, what we have with MQVP is a well-thought-out solution to an industry's adversity rather than what could have been the beginning of the end for the aftermarket parts industry as we once knew it. Adopting the Total Quality Management Process, TQMP, for aftermarket parts is and has been good for the industry and all its constituent groups. The benchmark and standards for manufacturing, distributing and installing aftermarket parts through Global Validators and MQVP have raised the bar for quality and performance. Those who avoid or reluctantly accept the change associated with this paradigm shift will risk reaping the benefits associated with this change not only for themselves, but for the various industry segments and consumers they serve.

In closing, I would like to leave you with something that many of you have probably heard before but I believe is worth repeating:

People can be divided into four groups:

*Those who make things happen,
Those who watch things happen,
Those who wonder what has happened,
Those who don't realize anything has happened.*

I suggest that you consider positioning yourself within the first group; embrace change. Change in the aftermarket parts industry is going to happen whether we like it or not.