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On Monday, June 18th, PartsTrader CEO Rob Cooper issued an “Open Letter to the Automotive Services Industry” to discuss their new parts ordering system. The letter’s intent was to counter negative industry reactions to PartsTrader, as well as to assure collision repairers that they “are in control of the process” and PartsTrader “will not enter into any insurer relationship that prevents repairers from making their own decision about choosing a supplier.” The letter assured that they “are committed to repairers being in control.”

This proclamation is interesting given that the one most critical element to repairer control has already been seemingly compromised; the lack of choice over whether or not the repair facility will use PartsTrader to procure their parts on State Farm claims.

Is it not contradictory to PartsTrader’s stated rule to allow State Farm to exclusively mandate the use of their program, eliminating the repairer choice in how their internal parts location and ordering process work? If willing to bend on their repairer-choice rule for State Farm, are there other rules which were outlined by PartsTrader that they may be willing to bend for carriers in the future?

There is some degree of irony that PartsTrader believes all suppliers should have a “fair” chance to win a repairer’s business, while their company has entered the market in what some feel is an “un-fair” or un-competitive manner – through a mandate from the largest national property & casualty insurance carrier. Is this company not willing to compete with the traditional ordering process they claim to have a better solution for? Certainly, nothing is stopping PartsTrader or State Farm from coming to the industry with a value proposition for their parts procurement and ordering process, and demonstrating to suppliers and repair facilities why this process is more beneficial than the traditional ordering process. This would allow suppliers and repair facilities to make their decision to participate based on the merits of the program, rather than being based on an ultimatum to use PartsTrader or no longer be welcomed to participate in their Select Service.

Feedback from both repair facilities and parts suppliers have indicated that the program has directly caused greater levels of inefficiency and increased concern over profitability. End-users have indicated an opinion that the product was far from ready to go to market, failing to have adequate support to fix the myriad of challenges the program created for both buyers and sellers of collision replacement parts. In the meantime, both State Farm and PartsTrader have urged repairers not to make decisions without “fully understanding” or personally trying the system. But those who have used PartsTrader have shared comments that are very critical of the process. In a direct communication to PartsTrader, one dealership who spent several months as a PartsTrader supplier

removed themselves from the program indicating that “not only did [they] do duplicate work that [they] didn’t have to do in the past, [they] only saw a 24% order rate to quotes” in comparison to the 93-95% fill rate they experienced through the traditional ordering process costing time and money.” In fact, every supplier that we have spoken with has shared similar conclusions, regardless of whether their company supplied OEM or alternative replacement parts.

While the PartsTrader letter references “lean” and continual improvement of the parts supply chain, they simply fail to articulate how a bidding process in fact improves efficiency. Many repair shops currently utilize electronic parts ordering directly through their management systems or other specific software of their own choosing. In many cases, it is a one-click process to place your orders from known and trusted suppliers. Placing an estimate for bid, waiting the insurer-mandated period of time, analyzing the bids, then placing the order isn’t more efficient on paper; and in feedback from repair facilities and dealerships which have tested it themselves, indicates it isn’t more efficient in reality either. With State Farm previously claiming that one day of rental on their claims costs them an approximate 43 million dollars, it is hard to fathom why there would be support, let alone mandate, of a process that is so counterintuitive to “lean” work flow unless there were a more significant gain to be had elsewhere from the process.

But promoting a “lean” process isn’t the only claim that the system appears to fall short of. In the letter, PartsTrader indicates a presiding belief in a win-win scenario, attempting to outline the benefits to all parties, while failing to actually define a current direct benefit to repairer facilities. Unfortunately, there is no “win-win” when one party benefits from another’s loss. The letter claims that a well-integrated, quality managed platform will increase efficiency. Unfortunately their system to date is not well-integrated, even by State Farm’s own admission, and a bidding platform by design is not intended to drive quality (good or bad), but is in fact intended to drive pricing. In the case of a reverse bid, it is intended to drive pricing down. The forthcoming ranking system which was mentioned is also not truly a benefit of the system, but a necessary (and currently non-existent) tool needed for the system to work if repair facilities are expected to consider bids from unfamiliar vendors.

Most repair facilities wouldn’t need research information or ratings on their current suppliers based on their years of experience in dealing with them, honing a working relationship based on trust, service and price. However, if businesses are suddenly asked to consider purchasing from unfamiliar vendors supplying parts from varying distances away, yet suddenly a repair facility may need to do added administrative research, reading reviews and comparing star-based ratings to confirm if saving money at the cost of service or quality makes sense. Again, this practice in itself negates the efficiency the system claims to produce in the first place. In their own release, intended to dispel negative reactions and convince repair facilities of the value of their service, PartsTrader still failed to outline a distinct benefit of mutual equivalence for the repair facility. Is there really a question as to why shops are reticent to be mandated to use a platform where the very creators of the program can’t outline a solid value proposition?

Also in the open letter, PartsTrader cited “irrelevant comparisons” to the product it released nearly a decade ago in New Zealand (NZ). In a recent trip overseas to meet with NZ repairers face-to-face, Society of Collision Repair Specialists (SCRS) officials discussed the program with shops currently required to use the bidding platform by nearly every insurance carrier in the country. We learned of dramatic reductions in efficiency and diminished profit margins on parts, with some carriers paying as

little as 5% mark-up on parts. When we asked these repairers how they got to this point, the response was simple and short; when the program was introduced, it was pitched as a mechanism to help improve their parts procurement practices and more effectively locate parts. There was not a single shop that didn't regret accepting the new process in their business in 2003, nor a single shop that did not feel it opened the door to further insurer influence over their business. According to the repairers we spoke with, prior to PartsTrader being implemented, OEM and aftermarket parts were priced to insurers at a retail price and repairers would pay a trade price which was equivalent to a discount off the retail price.

Interestingly, PartsTrader explains in their letter that some primary differences between their U.S. platform and the NZ program is that in NZ the "insurers have access to a repairer's buy prices," "repairers must get insurer approval on every parts purchase choice," and that "insurance companies mandate a 24 hour wait time for quotes." Who in NZ determined that the insurer had the authority to define those limits? Was it the repair facilities' choice? Currently, the only reason those restrictions don't currently exist at those extremes for shops in the U.S. is because no carrier has currently required them to be in place. Given the history that exists, if a carrier were to impose such restrictions, is it fair to assume PartsTrader would establish and enforce them as they have on other continents?

The letter includes a statement to their "initial client," which appears to be a clear reference to State Farm Insurance Company. It is clear through the public communications that both State Farm and PartsTrader see the value in the relationship and program they have developed together, but the value to the other entities affected by the program has been less than transparent. The biggest question to be answered still remains; is there any value to be had for repairers, and if there are, do the benefits outweigh the burdens?

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About SCRS: Through its direct members and 39 affiliate associations, SCRS is comprised of 6,000 collision repair businesses and 58,500 specialized professionals who work with consumers and insurance companies to repair collision-damaged vehicles. Additional information about SCRS including other news releases is available at the SCRS Web site: www.scrs.com. You can e-mail SCRS at the following address: info@scrs.com.