

# CYBER-SALVAGE *e-Commerce:* *A Virtual Reality*

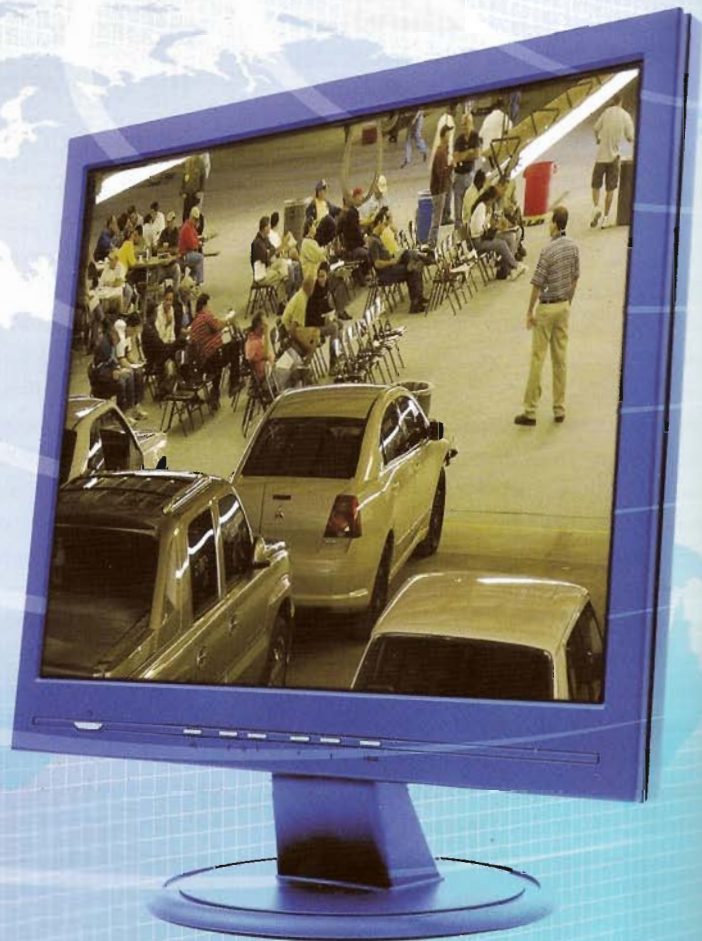
The Internet is proving to be a powerful and profitable place for Auto Recyclers to do business. And, ARA is leading the charge toward Cyberspace.

By Lynn Novelli

The Internet is shaping up to have the greatest impact on the recycling industry since the creation of the Hollander interchange. With nearly half of all salvage now being purchased online, those recyclers who learn how to effectively navigate the cyberspace universe stand to live long and prosper.

Computer-generated, vehicle repair estimates used by the collision repair industry and insurance companies, as well as computer-based parts searches, are now a way of life for most ARA members. To optimize the use of recycled parts in insurance estimates, the ARA E-Commerce Committee recently developed e-Commerce standards for recycled parts, and the Education Committee is working on their implementation.

Less familiar to ARA members is the concept of buying salvage vehicles over the Internet. Although Internet auctions never will replace live auctions totally, they are another time and resource management



# ARA's E-Commerce Committee Works to Protect Auto Recyclers in Cyberspace

New standards define parts and damage for electronic estimating; salvage vehicle standards next on the agenda.

"Like it or not, e-commerce is the wave of the future," says David Gold, new Chairman of ARA's E-Commerce Committee. The standing-room-only crowd that turned out for the committee meeting at the ARA Convention in September was proof that ARA members want to ride that wave.

Under Ginny Whelan's leadership as Chair, the committee has developed recycled parts standards for use in estimating, locating, and selling parts for insurance repairs. The ARA Executive Committee accepted the standards in early 2005.

"Our goal has been to build a common language for buyers and

inating the standards to all stakeholders. Her background as the E-Commerce Committee Chair should help ensure continuity in following through on the education and training aspects.

Under a recent agreement, the Collision Industry Electronic Commerce Association (CIECA) also will assist ARA in implementing and maintaining the standards.

With parts standards written and in the implementation phase, e-commerce standards for salvage vehicles are next on the committee's agenda, Gold says. His company, Standard Auto Wreckers in Scarborough, Ontario, purchases at least 50 vehicles a week on the Internet, so he has a good grasp of the issues.

"It's a free-for-all out there when it comes to buying salvage on the Internet," he says. "The Internet makes it easier than ever for unscrupulous, unlicensed buyers to purchase vehicles and ship them out of the country or use them for VIN switching scams."

With all that ARA and the automotive recycling industry have at stake, it is appropriate for ARA to assume a leadership role in e-commerce standards development, he adds.

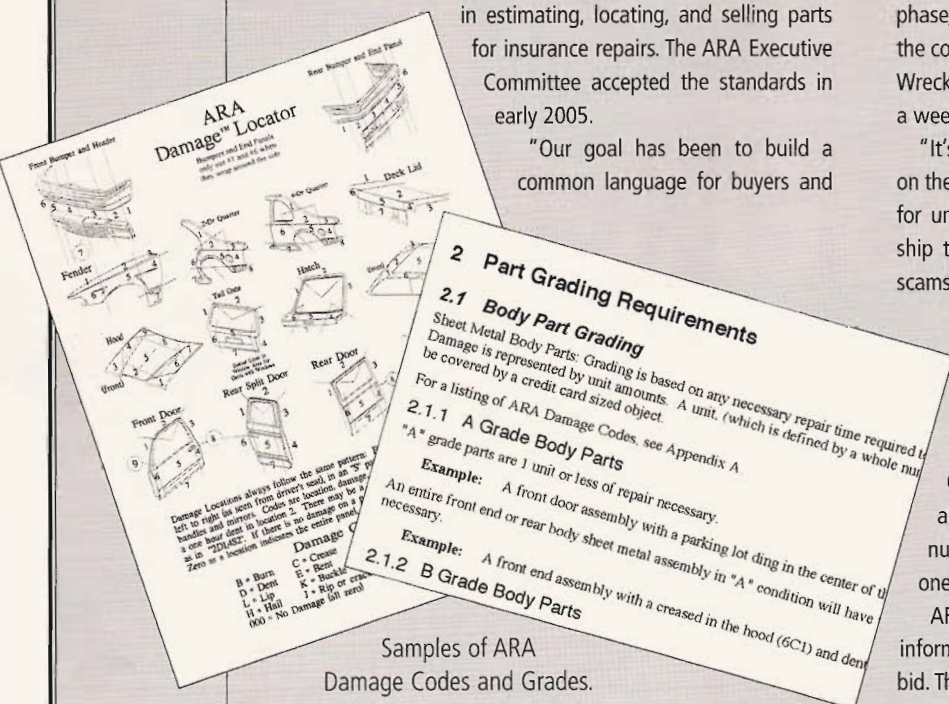
Based on the comments from ARA members at the E-Commerce Committee meeting, improving information about vehicles being sold on the Internet is the members' number one priority. "As it is, it's like buying a pig in a poke," one member commented.

ARA's position is that buyers need to have access to certain information about online salvage to be able to give a reasonable bid. That desirable information includes:

- The estimate that allowed for the total loss, specifically the list of parts needed for the repair;
- Detailed information about damage and condition, described in a standardized manner;
- More digital pictures of the vehicle;
- Vehicle mileage; and
- Buyer's profiles, including licensees.

"It's in everyone's best interest – the insurance companies, the insured, recyclers, and collision repair shops – to disclose more information that will result in a fair price for the vehicle. It's also important for recyclers to be able to obtain salvage in a fair, competitive environment," Gold says. "We can develop standards, but to make this work, we need to have everyone on board."

The rapid expansion of e-commerce is making the need for standards more apparent, he adds, and he hopes to expedite the standards development process.



Samples of ARA Damage Codes and Grades.

sellers that sets the parameters for conducting business on the Internet," Whelan said at the meeting.

The standards establish descriptions for parts and damage that make it easier for customers to use recycled parts as their first choice in estimating. "Being able to describe used parts in a standardized format that is accepted and used by all stakeholders is essential to increasing the use of recycled parts in insurance repairs," Gold explains. "And we all benefit when that happens."

The new standards for parts descriptions, damage descriptions, parts grading, cut lines, and use of recycled parts are posted on the ARA Web site, at <http://a-r-a.org/standardsandcodes.htm>. The next step, Whelan and Gold stressed at the meeting, is to educate recyclers, insurance companies, and the collision repair industry about the standards.

Whelan is now President of the ARA Educational Foundation, and that committee is shouldering the responsibility for disseminating

tool for recyclers, says E-Commerce Committee Chair David Gold. "Technology can put a recycler in the market more efficiently by giving him the opportunity to participate in more sales or more easily locate particular vehicles," he says.

The other side of the coin, however, is that online sales are fraught with opportunities for fraud. That, Gold says, is where and why ARA needs to get involved with comprehensive standards that protect its members' interests.

### Caveat Emptor

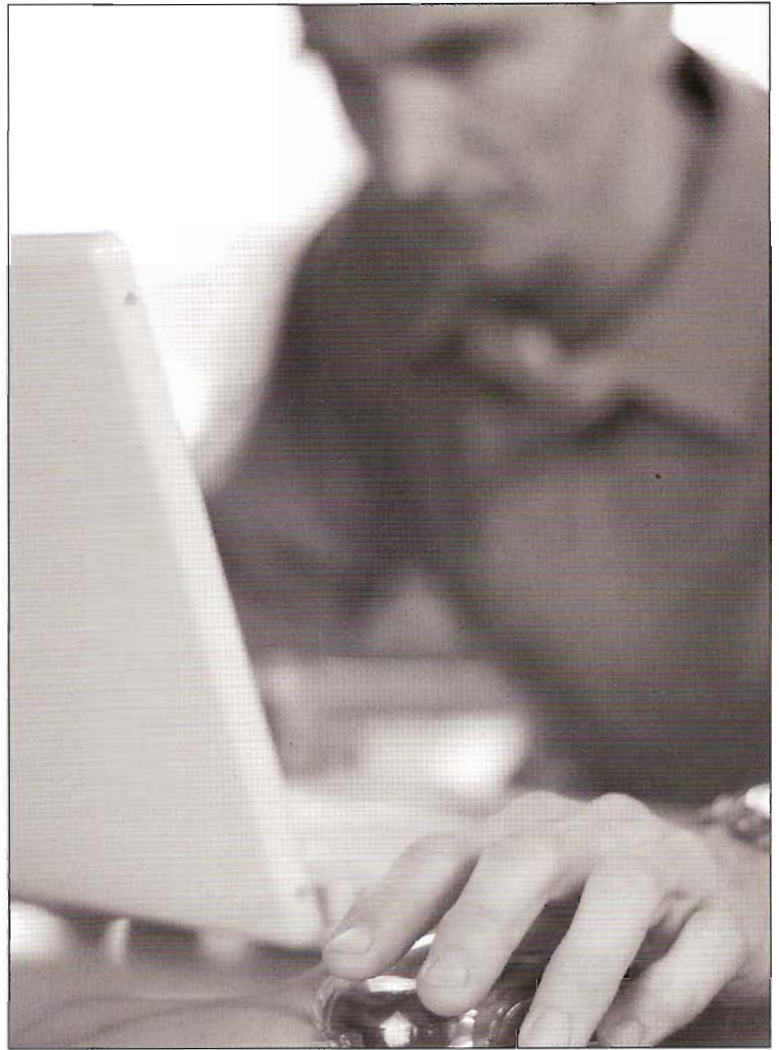
In the past two years, all of the large salvage auction companies, including Insurance Auto Auctions (IAA), Manheim, ADESA Impact, and Co-Part, have launched e-commerce sites for salvage. The concept is simple: the auction company procures salvage vehicles from rental car agencies, bank repossessions, insurance companies, or theft recoveries and posts its inventory on a Web site, including damage information and photos. There's a schedule of auctions by location, and buyers can preview vehicles online. The day of the auction, buyers watch or listen to the live auction via the Internet and enter their bids online, usually competing with bidders who are live at the sale.

E-commerce is a logical next step for the automotive recycling industry, Gold says. But buying salvage online has almost as many pitfalls as Amazon has books, and until e-commerce standards are established and put into practice, ARA members should be cautious before plunging ahead.

First, recyclers should have as much information as possible about a salvage vehicle before bidding at an online auction, Gold says. This is one issue that the ARA standards will address. "The product [salvage] is not uniform, and condition impacts value," he says. "We need to have detailed information about the vehicle so we can make a correct bid. It's also to the insurance companies' benefit - the more we know, the more we can pay for a vehicle."

Recyclers also should have some assurance that the other bidders in the sale have the legal right to salvage - another topic for the ARA standards. "This is one of the top concerns among our members," says Ginny Whelan, who preceded Gold as E-Commerce Committee Chair. "With all of our worries about procuring salvage and making sure it goes to the appropriate person, our members have the right to know who they are bidding against."

To ensure a fair and legal auction, this means that sale operators need to have a system in place to verify online bidders' credentials. Unfortunately, with the current systems, many ARA members feel that some



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auction sites do not adequately monitor or control who is bidding.

### Buyer Protection?

All of the auction sites, large and small, have addressed the issue of buyer credentials by requiring buyers to register, although Gold does not believe registration alone is adequate protection. Most auction sites limit registration to licensed dealers, dismantlers, rebuilders, and scrappers and do make an attempt to verify buyers' credentials, but no system is foolproof.

Registration typically involves signing up online for a login identity and password. ADESA Impact

requires buyers to either visit the local office to show licenses and bank information or mail copies to the company headquarters. "We are very strict on who we allow to buy," says ADESA Impact President Cheryl Munce. "Before we flip the switch, we make sure they are properly licensed."

IAA also requires registrants to present a dismantlers license at the local office before registration is completed. "We scan all licenses into the system and verify them before issuing a bidding card," explains Ken Armbruster, branch manager for IAA's Tucson, AZ, office. "When a buyer logs on to an online sale for bidding purposes, his license is checked by computer. We compare their license number against the information provided on their registration form, and we will inactivate the bidder's login if something doesn't match up."

Vehicle inventories, sometimes including the year, make, and model, the type of title on the vehicle, the location of damage, and the odometer reading, are usually readily available on sale Web sites. In most cases, going deeper into the site to view photos of vehicles, search for particular vehicles, or participate in auctions requires registration and a password. Any bidding restrictions by license aren't usually announced until a vehicle comes down the lane, so only registered buyers have access to this information.

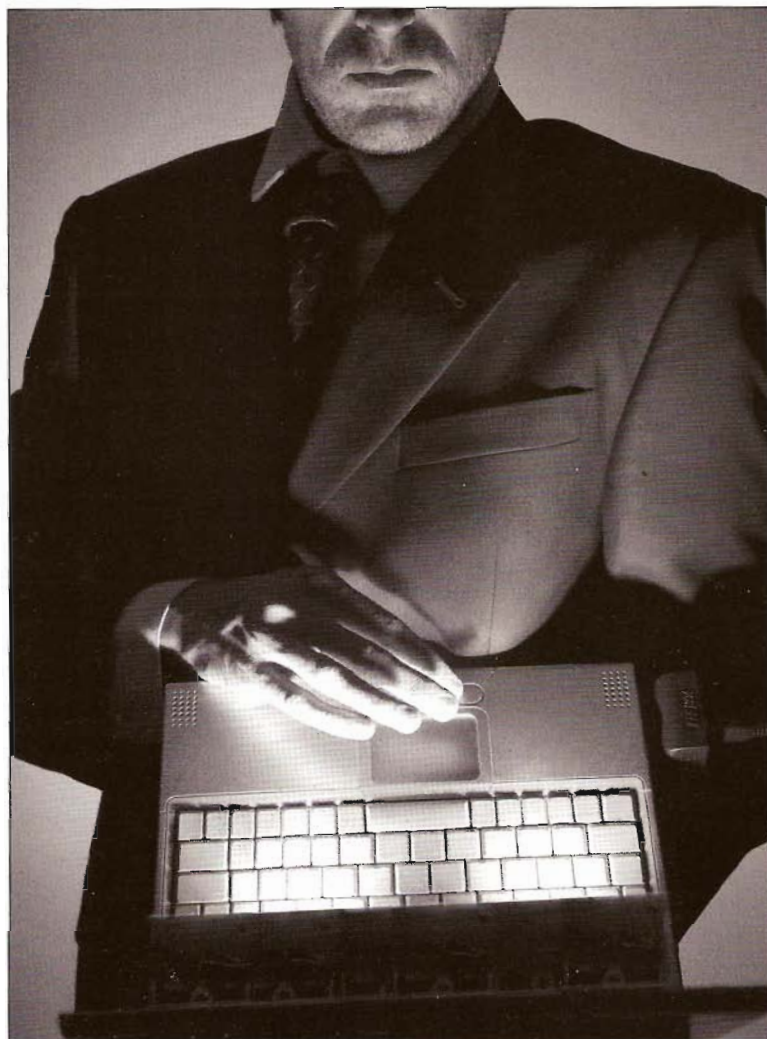
After a century in the whole car auction business, Manheim saw new opportunities in e-commerce and launched Total Resource Auctions (TRA) last year. Like IAA, TRA combines live and simulcast auctions. "We saw the Internet as an opportunity to expand our buying audience. At the same time, it lets buyers attend more sales without having to be away from their business," says TRA Vice President for Operations Bill Tiedeman, "The beauty of it is that you can participate from anywhere with Internet access and have live video and audio just like you were at the sale, seeing vehicles come through the lane."

That's also an underlying problem with e-commerce, Gold points out. "Unscrupulous, unlicensed buyers, who buy total loss vehicles and ship them out of the country, have always been a problem at live auctions," he says. "Now, the Internet just makes it that much easier. These buyers now can attend a sale from anywhere."

### New and Growing

As one of the newcomers to the Internet salvage world, TRA is still finding its way. Although its parent company Manheim is well established in other niches, it is in the growth phase with salvage.

For example, TRA still has only a limited number of online auctions compared with its competitors. At



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the end of 2005, the company offered 14 salvage auction locations mainly east of the Mississippi (with the exception of Phoenix, AZ). IAA already has weekly and biweekly auctions in more than 30 states. (Tiedeman does promise that TRA will have 30 by the end of 2006 and more than 40 by 2007's end.)

For ARA members, TRA's main limitation is that the company has not tapped into the insurance market yet to any extent. "We're the new kids on the block with the insurance companies," Tiedeman admits. "We do have contracts with insurance companies in Tampa, Pensacola, and Phoenix, and we are working to expand those relationships." At its other locations TRA is relying on rental vehicles plus bank and repossession salvage for its sale inventory.

ADESA Impact entered the online market in 2004 with its Live Block product and has wasted no time in ramping up to full speed. With 25 salvage auction sites in the United States and 12 in Canada, they already offer Internet buyers a large inventory of vehicles and continue to scope out potential new sites, according to Munce.

Like TRA and IAA, ADESA Impact has chosen the hybrid approach that combines online bidding with live. "We didn't want to take any buyers out of the market by going completely online," says Munce. "The hybrid approach gives buyers a choice, depending on their comfort level with the Internet."

The combination of live and Internet auctions has the added benefit of giving online buyers greater confidence in what they are buying compared with Internet-only auctions, she adds. "The guys on the ground are ensuring the value of that vehicle to the Internet buyer through their bids."

### Virtual Salvage

Two years ago, long-time vehicle auction leader Co-Part took the online concept to the max, creating the VB2 Virtual Internet Exchange. A solely online salvage sale, held every day of the week at noon EST, VB2 already has more than 100 vehicle pickup locations in the United States and a couple of dozen in Canada.

Although Co-Part promotes Virtual Internet Exchange as being the same as live auctions, there are some significant differences. The most obvious is that Co-Part contracts with insurance companies to provide a venue for selling total loss vehicles but does not acquire the titles to them. All of the vehicles are still in possession of the insureds, and the insured has right of refusal on the high bid, an arrangement that complicates the selling process.

Buyers and sellers register with Co-Part and pay a monthly fee to bid. Co-Part conducts the sales, so when bidding ends, Co-Part contacts the insurance company with the high bid information. The insurance company has 72 hours to notify Co-Part as to whether the insured accepts the bid or chooses to retain the vehicle.

If the insured accepts the high bid, Co-Part picks up and stores the vehicle for the buyer until title transfer is complete. At that time, the buyer must make payment and pick up the vehicle. Co-Part does offer buyers the protection of being able to cancel the sale if the vehicle is not exactly as it was at the time of the sale or in the event of a title discrepancy.

### Options Abound

For buyers who want to explore the brave new world of e-commerce further, there are hundreds of

small, independent salvage pools with online auctions. One of the easier ways to access multiple independent sales is through a portal like Bid-ICap.

Bid-ICap provides access to more than two dozen independent salvage pools through one Web site. "Buyers register once and pay one buyer's fee and can bid at any of the member auctions," explains Jerry Sullivan, one of the principals in the company. Buyers have the choice of placing a static bid for any vehicle in any auction or bidding during an auction with live simulcast.

Web sites like SalvageNow.com are the salvage industry's version of e-Bay. The SalvageNow Web site, for example, shows thousands of vehicles from rental car companies all over the country. Bidding on particular vehicles is open for three to seven days, and high bid wins. The "Bid Central" feature gives bidders access to 30 physical auctions via streaming video and five images of each vehicle.

SalvageNow may have some of the same potential problems as other e-commerce sites, but recyclers will like the amount of information it offers. This is one of the few sites that provides the insurance estimate for each vehicle, minus prices and labor but with complete parts lists.

Still another twist on e-commerce is the peer-to-peer approach that sets up direct communications between buyers and sellers. This technology matches up buyers' specific requests for parts or salvage with sellers' inventory. Sellers have the option of responding individually to each query or uploading their inventory onto a server and allowing the system to generate automatic responses.

Automotix, one of the pioneers in peer-to-peer technology, also offers the option of creating a "Private Marketplace." This feature lets sellers create a network of exclusive buyers; for example, ARA members could have their own network.

Buyers and sellers using Automotix must post business profiles and pay a monthly subscription fee of \$150 to \$200 to use the service. But it's up to the parties involved in a sale to verify profile information between them. For ARA members who want to check out this type of system, the Automotix software is available to download for free.

Online auction sites large and small are pulling out all the stops to attract legitimate automotive recyclers to their sales. "There's a lot of opportunity for ARA members in e-commerce, but also a lot of reasons to be careful. There are too many gray areas," Gold says, summing up the current environment. Looking ahead to the future, he adds, "Vendors have as much at stake as we do in this, and we need to work together to promote and protect everyone's interests." ♦