

February 2008 Management Article Interchange: We Need Only One Part 1 of 2

A few months ago, *The Answer Men* (Jim and Robert Counts) wrote an article asking the question: “Do We Need Another Interchange?” Please go read their article (<http://www.rpowersource.com/The%20Answer%20Man.html>) if you missed it because it clearly spells out many of the reasons that another interchange would be a very bad idea for our industry.

Jim and I used to be the young guys in the auto recycling business. However, that was 1980. Now, I suppose, we are more like the elder statesmen, or even the grey beards (no offense, Jim). All kidding aside, we have seen a lot over the last 25 years in the industry.

Both of us came up when there was ANOTHER interchange. In the late 80’s and early 90’s, when Hollander had little or no foreign car interchange, I wrote my own that covered all foreign vehicles, including current models. The computerized inventory system we used then allowed that.

Some younger operators may not recall those days when the insurers couldn’t or didn’t use our inventory estimates, unless we were on the “right” interchange. We had all the same factors then: OEM’s pulling on us, insurers pulling on us, computer companies pulling on us, and it was a REAL MESS.

It was a period that I can’t imagine our industry ever voluntarily re-visiting. Mitchell, at one point, even wrote a table that converted *our* system to *their* system and vice versa, but this was just a band-aid fix that was far from perfect. The ARA database attempted to collect and utilize all the data, but it was just a mess, and I’m being kind.

At first glance, we think that interchange is just an indexing system for parts that tells us which parts fit on what cars. One of the pioneers in our industry and co-creator of one of the computer systems for our industry, Howard Nussbaum, saw interchange as much more. He saw in the interchange the ability to create a “demand planning model.” A model that—when properly used with quality data—could actually tell us what to buy, how to price it, how and when it might sell, whether to save it or not, and even which cars to buy based on our actual current market data.

Without adequate interchange and the data that can be harvested from a single system, salvage yard owners are in a much worse position when they try to run their businesses based upon quality data about which parts sell. Having good data is certainly more critical today than in the past because our cost of goods has doubled over the last two decades.

Imagine for a moment what a traditional retailer would give to have the level of customer data that some of our systems gather. What if Macy’s could understand how many times a shopper looked at a red dress (vs. a blue one) relative to where it was located in the department store, how long she looked at it, whether she bought it or not, how many red

dresses they had and how long it took to sell them and at what discount, and even the probability of future sales. Yes, today the salvage industry has better information about the buying behavior of our customers than virtually any other industry has about theirs because of our single system of interchange.

Auto salvage operations that use interchange data to make business decisions are ahead of other industries because of the quality of data we can get from a single interchange. How much harder would it be to get reliable data to make key decisions on what to buy, what to salvage, and how soon it should be sold—if the data were spread across two systems or incomplete? How much harder would doing business be? Plain and simple, a second interchange is a bad idea.

Take it from someone with first hand experience working in a multiple interchange world; it's something better left in the past. Or, as I might say, been there, bought the t-shirt, and don't ever want to go back. This article is continued next month, so be sure to tune in then, as I discuss further negative implications of the proposal to add a second interchange.

Remember, only you can make BUSINESS GREAT!

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