

# Shifting *AUTOMOTIVE RECYCLING* Paradigm



2020  
Industry Forecast  
and Challenges



# Shifting Paradigm OF AUTOMOTIVE RECYCLING

Professional automotive recyclers are experiencing rapid shifts on an all encompassing level, from business model, data integrity, acquiring inventory, customer expectations and more. The industry's response to these challenges are determining its future.

By Caryn Smith

**T**he automotive recycling industry has a rich 76-year history serving a vital role in the world's recycling efforts," says Jonathan Morrow, M & M Auto Parts, and Immediate Past President of the Automotive Recyclers Association (ARA). "Automobiles are the most recycled consumer product in the world today. As an industry, we have always endured change and it has made us better. In my lifetime, I have not experienced a disruption, particularly in the U.S., that has rocked our industry's core more than the ones being experienced today."

Auto recycling as a business model remained largely unchanged until the late twentieth-century digital boom. With computerization and the rise of e-commerce came industry-wide innova-

tion, expansion, and profitability, growing to \$32 billion in U.S. annual sales. It also brought higher levels of competition, consolidation, and pruning of the industry. Salvage acquisition and recycled auto parts sales now reach beyond physical locations into cyberspace and have drastically increased head-to-head competition between auto recyclers, as well as with global players as the industry expands into more countries.

With time now measured by the speed of light, it is requiring forward-thinking automotive recyclers to retool their business strategies in just about every way.

The most critical issue facing the industry is misconceptions of its importance and inner workings, which has led to overarching policies that could severely impede business. Educating consumers and industry stakeholders

of the critical role that recycled original equipment manufacturer (OEM) parts play in today's automotive repair market has proved difficult, but that is something the ARA is working to change.

## Position of Strength

"The professional automotive recycling industry is being squeezed on all fronts – from OEM repair standards, suppression of scrap prices, and too many unlicensed operators," says Scott Robertson Jr., Robertson's Auto Salvage and ARA's First Vice President. "We need to differentiate

the professional auto recycler from illegal operators who taint our image. The quicker we do this, the better."

OEM Repair Guidelines and Position Statements contribute to industry misperception. Directed at mechanical and collision industry

repair processes, these documents often outright prohibit the utilization of genuine OEM recycled auto parts in repairs. Concurrently, while 2015's Fixing America's Surface Transportation (FAST) Act included a provision requiring car manufacturers to provide automotive recyclers with original equipment (OE) parts data for recalled components, OEMs continue to deny auto recyclers access to that data – even though it IS provided to all other related industries.

These two issues combined – as well as a drop off in interchange numbers – are major obstacles for auto recyclers largely in the U.S. market.

**OEM REPAIR GUIDELINES:** The intent of OEM repair guidelines are to determine procedures sanctioned by automakers to make sure that any technician performing



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**REALITY  
CHECK  
AHEAD**

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auto repairs understands what it means to fix the vehicle correctly, according to the manufacturer. They inform collision and mechanical repairers on what an OEM allows or disallows in the repair process, across the model lineup. The underlying intent to mitigate the risk of a bad repair has resulted in blanket statements that have affected the automotive recycling industry. Guidelines are sanctioning only the use of “new” OEM auto parts in repairs, and explicitly restricting the use of “recycled” auto parts, which are lumped together with “aftermarket” parts.

Furthermore, it comes as no surprise that the OEM Position Statements, which state their general policies and positions, do not even acknowledge recycled auto parts and the fact that they are genuine OEM parts.

“This restrictive language is detrimental to the entire auto recycling industry,” says Morrow. “Where does that leave professional automotive recyclers dedicated to harvesting quality recycled OEM auto parts for reuse? Without profits, our businesses cannot sustain the important work of dismantling and recycling end-of-life vehicles.”

The average vehicle on the road is now 11.8 years, and manufacturing of replacement parts by OEMs continues for an average of four years after a vehicle’s production. What is the plan for OEMs to make available the necessary “new” parts on these older cars? Negating the use of “recycled” auto parts leaves those vehicles exposed to premature insurance total loss status. Consumers are left without the economical choices that recycled auto parts provide.

“We are working diligently to create positive relationships and educational opportunities with the automotive manufacturing community to help them understand that our industry has millions of dollars of their original OEM parts in inventory – quality products to be used safely in the repair process,” says Sandy Blalock, ARA’s Executive Director. “We want to build an understanding that we are true partners to OEMs, especially as blockchain looms on the horizon.”

“We are not the OEMs’ adversary,” says Marty Hollingshead, Northlake Auto Recyclers Inc. and ARA’s Second Vice

President/Treasurer. “We have perfectly good quality and safe OEM parts in our inventory. Consumers and repairers need a viable parts alternative, and we have historically provided it with success. Studies show that vehicle owners whose auto is five years or older typically do not buy new replacement cars. Fixing their car is the best option.”

**OEM RECALL PARTS NUMBERS:** Recalls are rising with no end in sight. More than 32.7 million affected vehicles were accounted for in recalls mandated by the National Highway Traffic Safety Administration (NHTSA) in 2018. Another estimated 159 “voluntary manufacturer notice” campaigns affected a minimum of 14.5 million vehicles. This translates to one in four vehicles on U.S. roads with at least one open recall.

“ARA continues to work through our valued congressional partners to gain access for automotive recyclers to OEM parts data that was afforded by law in the 2015 FAST Act,” says Delanne Bernier, Vice President of ARA Government Relations. “This data is critically important to their business and the safety of consumers.”

Once received, the parts data will easily populate the auto recyclers’ inventory management systems in real-time and be available electronically. In automotive sales, cars now have a unique set of parts; therefore OEM parts numbers are attached to a car’s Vehicle Identification Number (VIN). With the VIN and access to OEM parts numbers, an auto recycler can easily identify what parts on a repair vehicle are recalled, and remove those parts from their inventory.

Instead, auto recyclers must rely on labor-intensive processes to accomplish this same task. Because auto recycling inventory management systems utilize industry-unique interchange numbers that do not match OEM parts numbers, recyclers must ask the customer a series of qualifying questions to accurately identify the parts needed. Once identified, they reach outside of their data-driven system, to such places as the NHTSA and OEM websites, to find recall information before selling any parts.

With tight repairer cycle times, delivery schedules and high quality expectations driven by insurance companies,

this time-consuming process is viewed as a negative customer service experience. Receiving OEM parts data would resolve this and ensure consumer safety.

**INTERCHANGE:** OEM parts information includes interchange data – assigned numbers that link parts to the vehicles they fit, which could be multiple makes and models. This data has historically been given to auto recyclers by automakers. Several car manufacturers have ceased to provide interchange for new models and the trend is growing. “Our industry is about interchangeability. Having that disrupted would be a big challenge,” says Bill Stevens, Fenix Auto Parts, at a recent industry event.

“The industry is rapidly moving towards web-based search tools,” says Joey Cox, Cox Truck & Van, Inc. “Recycled parts and interchange numbers are essential to effective auto repairs. It is imperative that we get the data from automakers, especially for interchange.”

## Turning Obstacles into Opportunities

While position statements, parts numbers, and interchange are overarching concerns, other aspects of business contain roadblocks and doors of opportunity.

With e-connectivity, auto recyclers compete for product (salvage cars) on a global scale at significantly increasing prices. They experience more competition for parts sales and higher customer expectations. Where business relationships ruled the past, the new deal makers are: product availability, price, time of delivery, and product delivered as expected or better (i.e.: little or no damage). This is driving down profit margins and forcing the industry to unify under standard process and procedures.

**COMMERCE WITH AN E:** The days of parts orders by phone are quickly coming to an end. Electronic parts procurement is growing as a primary communication from buyers – and eBay and Amazon are the platforms to watch. Smart auto recyclers maximize online accurate parts descriptions and show multiple parts images to set customer expectations. Recyclers unwilling to comply with this level of detail are at risk.

“Our industry is behind, but it is headed the right way,” says Stevens. “The way to get the client to call you is to correctly explain [online] that you have the part. Then the phone rings.”

**PROCESS & PROCEDURE:** As an industry, auto recyclers are maverick entrepreneurs. “While we all sell recycled auto parts and process scrap, our industry has many different business models. What we really need is to adhere to basic standards and processes to insure our overall sustainability. Much of this is tackled in ARA’s certification programs,” says Robertson.

Ultimately, as long as a recycler has product, price, delivery, and parts as described in place, it levels the playing field between large and small operations. But many are scrambling to catch up. “The ability to consistently duplicate what we do from a production and

delivery standpoint,” says Mike Kunkel of Profit Team Consulting, “and buying enough of the right vehicles that make money is a challenge.”

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**COST OF DOING BUSINESS:** Margins are shrinking and costs are rising, and it is driving some automotive recyclers to sell or close, and compelling others towards innovative growth.

The bottom line: It costs more now to make less on recycled parts. “The labor market is competitive, the cost of staffing and benefits has risen rapidly. The cost of salvage is staggering compared to the past,” reflects Shannon Nordstrom, Nordstrom’s Automotive Inc. and chair of ARA’s Certification Committee. “Recyclers that do not smooth out the inefficiencies in their businesses will have a hard time finding consistent profitability and put their business at risk.”

Tightening expenses and learning to direct income effectively is the key to longevity in today’s current marketplace.

## Positioning for Growth

With an open mind, progressive auto recyclers are working to identify, inventory and sell more parts by expanding beyond the traditional top parts. They are establishing core recovery programs, and other profit models. As assemblies contain more parts, auto recyclers are selling more items separately, such as electronic sensors or LED lights – all to boost their bottom line

“The market is changing, the types of parts we are selling are changing, and we continue to refine and integrate our level of detail on inventory to match the new demand for parts that were not common to sell in the past,” says Nordstrom.

“The drift between large and small recyclers will continue to widen,” says Kunkel. “Those in the middle will be at risk. We will see growth among multi-site operators, especially regionally. Parts trading networks will be a key to success for some.”

In fact, trading groups, where a network of recyclers agree to standards and share inventory to fulfill orders, are trending. “I think being in a trading group to have access to more parts is a great way to meet customer demand,” says Cox. “The facilities willing to work together makes growth possible and affordable.” For smaller yards, it is a way to continue to compete with larger multi-location facilities, and not fall short of customer expectations.

**TRAIN TO GAIN:** More advanced vehicles, such as electric battery hybrids, will force higher levels of safety and training for auto recyclers’ employees. ARA University (arauniversity.org) is the premier training platform that helps progressive recyclers educate their teams.

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The platform is undergoing enhancements in the coming year, and as of September 1, 2019, ARA University is available 24/7 to all ARA direct members as an exclusive member benefit.

“This is essential to our existence,” says Robertson. “Our industry needs continuous training of our employees. It is a key piece in separating the professional automotive recycler from unlicensed operators. The quicker we differentiate ourselves, the better. ARA University offers quality, relevant certification classes for our employees. Trained and educated employees help everyone.”

Vehicle advancements: Auto recyclers still have time to understand advanced collision avoidance technology, but not much. NHTSA says, “Self-driving vehicles are a future technology concept rather than one that you’ll find in a dealership in the next few years. ... A variety of technological hurdles must be overcome before these types of vehicles could be available for [wide] sale in the United States.” They estimate a slow roll-out from 2025 to 2035, mostly focused in the Asia Pacific region.

Yet, advanced driver assistance systems (ADAS) are the ones to watch now. The ADAS are poised to increase from around \$32.5 billion in 2018 to over \$74 billion by 2025, according to Global Market Insights, Inc. Again, only those recyclers who maintain savvy training systems will capitalize on this market.

**CERTIFIED FOR SUCCESS:** Certification is rising to a necessity for auto recyclers, yet it is still seen by most as a hindrance. When common standards are embraced, the industry will receive more widespread acceptance as a mainstream auto parts provider. As more collision and mechanical repairs are required by OEMs to be certified, it makes sense that parts suppliers will require similar qualifications.

ARA is establishing global standards to replace the NSF program, recently withdrawn from the marketplace. Yet, since 1994, ARA has offered the Certified Automotive Recycler (CAR) and Gold Seal programs for the highest credentialing to automotive recyclers.

Certification is not about manufacturing for automotive

recyclers; it is processes and procedures to ensure recycled auto parts are properly handled in dismantling, inventory, storage and shipping. A universal set of standards for consistency in quality, delivery, and expectation will ultimately bring more opportunity.

“Certification is a long-term commitment. The industry must adhere to the basic CAR standards,” says Nordstrom, who leads the ARA’s initiatives. “We should not only follow the CAR as a baseline effort, but embrace procedures that assure the highest quality of results – the ARA Gold Seal standard. Certification has its highest impact when a 3rd party audit is in place, which Gold Seal requires.”

“It is not easy,” Nordstrom continues, “but the commitment is necessary. As a main proponent of certification, my company – and others like Cunningham Brothers in Rustburg, VA who achieved Tier 1 GM Supplier status for excellence in service – are leading by example to create consistency in operations.”

“As more advanced standards and processes are currently being written, I urge any auto recycler to see if they are a match to your business model,” says Robertson. “A chain is only as strong as its weakest link. We are all in this together. ARA has made the certification process more streamlined to enable all recyclers to participate, which will help both individual business and our entire industry.”

It is becoming more evident that auto recyclers who come together, stay educated, and share industry best practices with each other are best positioned for future sustainability and growth.

“While it certainly isn’t obligatory to be a part of a larger group such as ARA to succeed,” says Morrow, “with all the obstacles coming our way, I believe for my business that it definitely helps to unify with others. It provides us benefits that pays residual income in the form of best practices and protection from those who could diminish our prominence in automotive repairs.” 🚗

Caryn Smith is the editor of *Automotive Recycling* magazine, and covering the automotive recycling industry for over 20 years.