

CollisionWeek

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Vantage Points

The Role of Key Industry Assumptions in Your Company's Future

by Vincent Romans

Ten of the most common key assumptions about trends in this industry that must be considered when deciding your company's future.

Throughout the year, the Romans Group participates in numerous business and strategic planning engagements across many segments of the auto physical damage and property and casualty insurance industries. During the course of our work, we have the opportunity to collaborate with a wide range of experienced industry leaders, operators and decision makers.

These individuals make strategic decisions based on a number of key assumptions about this industry, such as the assumption that claims frequency will continue to decline, or the influence of DRP programs will continue to increase. Consequently, we see these assumptions tracked both informally, with a "business-as-usual" approach, and formally with a discipline of discovery, review and adjustment - reflecting any modifications to these assumptions in their business plans and daily operating environment.

It is important to have some understanding of these assumptions and their potential business impact to provide a platform and perspective for improved business planning and tactical operating decision making. Formulating this perspective while practicing the management discipline necessary to act accordingly on any assumption will allow your business to better manage risks and opportunities in the future.

Presented below are ten of the most commonly acknowledged key assumptions today. These ten are not all of the possible assumptions that could, or should, be considered, nor are they presented in any particular order of importance, or probability of occurring. These are current and evolving issues that cannot necessarily be predicted and controlled but should be leveraged or mitigated as appropriate.

You may have already recognized some of these assumptions. If not, you may want to consider what near and long-term impact they might have on your business. Diligent monitoring of these issues and assumptions can help you benefit from the winds of inevitable change they will bring.

1. The number of auto physical damage claims should continue to trend downward.

The increased use of "active" and "passive" collision-avoidance technology and the eventual acceptance and integration of "intelligent transportation systems," where vehicles will communicate with each other to avoid accidents, will save lives and reduce the number of accidents. As this technology continues to evolve, we expect to see it doing more of the "thinking and reacting" for the driver when accident avoidance is needed or when a driver's stress level is elevated.

As fuel prices continue to reach higher peaks, consumers will cross various "price pain" thresholds and reduce the number of miles driven. It is generally agreed that there is a direct correlation between miles driven and the number of accidents. The fewer miles driven, the fewer accidents there will be, resulting in fewer vehicles to repair.

Other assumptions and trends affecting accident rates to consider are:

- The graying of America (more senior but safer drivers up to a certain age).
- Continued movement toward safe driver insurance premium reward programs.
- More state-mandated graduated driver licensing (GDL) programs for new drivers.
- More public education programs about the risks of drinking and driving.

2. A reduction in the number of repairable vehicles will impact the collision repair marketplace on several levels.

As indicated in the research conducted on the size and number of multiple location collision repair operators (MLOs) presented in my December 2006 article, Advancing Our Insights into the Collision Repair Marketplace, there is a changing profile of collision repair operators within the industry.

Competition for market share will continue among both independents and dealerships. MLOs will continue to grow their market share. The collision repair franchise model, along with its brand, associated value proposition and repairer and insurance company deliverables, will continue to be a more acceptable and competitive model within the industry.

Dealerships with in-house collision centers will continue to steadily increase their market share presence at the expense of independent repair organizations.

Multi-Location Operator Facts

Based on the segment of operators processing \$20M in annual collision repairs there are 57 independent and dealership collision repair MLOs processing \$2.73 billion of collision repair revenue through 959 locations.

The total annual revenue for these 57 MLOs represents 9.1 percent of the estimated \$30.0B insurance and customer-pay collision repair revenue.

The MLO's 959 locations represent 2.1 percent of the total estimated 45,000 collision repair facilities in the U.S.

Of the 57 MLOs, 31 are independent and 26 are dealership collision repair organizations.

The 31 independent MLOs represent \$1.475 billion in revenue or 54 percent of the \$2.73M in collision repair revenue.

The 26 dealerships represent \$1.253 billion or 46 percent of the MLO repair revenue.

3. Continued aggressive consumer marketing by the insurance industry, along with the expansion of "concierge-style" claims handling programs and other volume-influenced DRP initiatives, will continue even as the insurance industry enters into a soft market where premium pricing will continue to trend downward or flatten for the foreseeable future.

Insurance carriers seek to further develop their market share and "hug" the customer or, as some may choose to see it, "dis-intermediate" the repairer from the consumer. Insurance company and collision repairer co-branding of claims process management and the customer experience will continue through high-volume influenced "concierge and assignment drive"-type programs with companies such as GEICO, Travelers and Liberty Mutual.

Enhancing the insurer-consumer relationship should increase direct repair program influence and utilization of their networks. This will happen because of insurance company inducements, incentives and dis-incentives offered to their insureds. These programs will ultimately have a "culling" effect on the number of collision repair shops needed.

4. Consumers are demanding more solutions from insurance companies and collision repairers to ease the repair experience and expedite the repair process.

Claimants are not as concerned, as was once thought, about the real or perceived conflict of interest created when insurance companies intervene in the repair.

From an insurer's point of view, it is seemingly better to "hug" the insured, than leave them to their own, uninformed collision repair decision-making. Insurance company referrals and repair guarantees are no longer enough, the consumer now seems to expect more insurance company intervention, support and direction.

5. The continuing over-capacity of collision repair providers increases competition for a decreasing number of claims, resulting in fewer repairers processing more DRP claims.

Currently, there is an imbalance between the collision repair facility supply side and the damaged vehicle demand side of the marketplace. The market will eventually right-size itself, resulting in a lower number of collision repair operators repairing a greater number of vehicles.

6. The ever-increasing influence of DRP programs will cause repairers to operate in a progressively more disciplined and organized performance-for-business environment.

Insurance companies believe that performance metrics are important and critical to the repair process for a number of reasons:

- Drive accountability
- Protect insurance company brand/reputation
- Best interests of the insured - manage and influence quality and costs
- Identify and mitigate fraud
- Drive continuous improvement
- Foster competition among repairers

The focus will be on an ever-expanding number of Key Performance Metrics (KPMs) including but not limited to the following:

- Daily/hourly vehicle touch time
- Various cycle times such as assignment to drop off, keys-to-keys and assignment-to-delivery
- Customer Satisfaction Index scoring
- Ratios such as repair/replace ratio and alternative to OEM parts
- Actual versus promised vehicle delivery time; keep the customer informed
- Requirements for increased utilization of technology such as Auto Watch and information data pumps that capture real time repair progress, rental and parts transaction processing and consumer satisfaction results.

In this environment, insurance company local market relationships are still important but they may become overshadowed by the repairer's marketplace comparative Key Performance Metric results and an insurance company's centralized management oversight and, therefore, will become secondary in determining repairer DRP provider participation.

7. There will be ongoing challenges in recruiting and retaining qualified technicians and staff as the need to adjust to new generational and cultural challenges become more complex.

Those who implement innovative human resource models that include employee sourcing and retention programs, training and development, and equity ownership or other "skin in the game" reward and ownership packages have an opportunity to gain a competitive edge in this area.

Companies will need to migrate toward the culture and organization changes necessary to implement business and production models such as lean, Throughput Solutions (TPS), and Six Sigma that utilize a team approach along with "sharing of the wealth" incentives and recognition. Additional employee equity transfer programs, along with fostering an environment of involved employee business decision making, will be the type of environment more likely to attract and retain the best talent.

Management will be pressed to consider broader employee sources, drawing on comparative industries such as service repair, quick fix/repair service, and large retail chains where there is a crossover of employee competencies that can be further developed within the collision repair industry.

8. OEMs will more aggressively develop market strategies to increase their parts market share and collision repair marketplace influence.

OEMs will also attempt to influence and require business, personnel and collision repair qualification standards of their dealerships providing collision repair. They will continue to implement legal, marketing and strategic alliance strategies that will help ensure their involvement and future development of market share within the auto physical damage aftermarket.

Alternative parts organization such as, CAPA, LKQ and Keystone and the Taiwan parts manufacturing cartel are pursuing their own competitive strategies. Meanwhile, Chinese and Southeast Asian manufacturers are lurking in the "daylight" ready to change the aftermarket parts manufacturing and distribution system.

It is inevitable that there will be parts supply chain influence and management by third-party intermediaries, possibly insurance companies, who will attempt to be more closely involved in improving the electronic parts process, controlling parts distribution and, intentionally or unintentionally, influencing pricing within the collision repair industry supply chain.

9. Competition among paint, body and equipment (PBE) distributors may drive increased mergers, acquisitions and consolidation.

PBE suppliers will find themselves in a "commoditized-only" environment for their products if they don't develop desirable, value-added services for the collision repair industry. They will find themselves being required to offer steeper discounts, impacting their margins and increasing the probability of consolidation.

There is a high likelihood of waterborne paint acceptance and implementation within the U.S. collision repair industry over the next few years. With that acceptance will come stricter legal and compliance issues. Migration to waterborne paint application will also bring both cost and margin improvement process opportunities as well as the new-process and adoption risks and challenges associated with implementing new procedures within the vehicle paint and repair process.

10. Technology will continually improve to reduce automobile accidents, and improve the underwriting and claims management processes.

- Accident avoidance and reduction through "passive and proactive" collision avoidance systems, and intelligent vehicle communication systems
- Electronic data recorders (EDR) and the ability to mine data on consumer driving patterns and accident details
- Electronic claims management from initial accident to final repair through on-board

vehicle GPS electronic data upload and diagnostics and broadband Internet communication.

Some might argue or agree, depending on your perspective, that this is the one ultimate long-term "big, hairy, bodacious" assumption concerning where the collision repair and property and casualty insurance industries will morph. It's a world where numerous, disparate suppliers, vendors and participants involved in the complex collision repair process are integrated through Web-based technology leveraging an electronic claims processing network of partners from the moment an accident occurs through the entire repair process. It would happen seamlessly in real-time while managing all personal and vehicle-condition-related matters associated with the accident.

This model, should it become reality, will have a dramatic impact on how the property and casualty and collision repair industries operate in the future despite the various hurdles of acceptance, education, integration, and execution.

Some might see this assumption as a "dead-on direction" while others see an impractical "never will happen" reality. Whichever view you maintain, the continued focus to improve the vehicle repair process and consumer experience will ramp upward by streamlining the entire claims process through partner and participant connectivity, improved workflow for more efficient processing and real-time management information for analysis and decision making.

How these independent-yet-connected key assumptions will play out and how they will impact organizations is uncertain. It will be those organizations that can identify and embrace what these assumptions may mean for their respective businesses that will be better positioned to adapt to them and leverage them for their benefit.

In the meantime, I would encourage you to internalize those key assumptions that make sense for you and your organization, and to think about what might happen within your business, industry and customer segments should they come to fruition.

The future dynamic claims processing model would involve integrating the capabilities of numerous market suppliers and claims process variables and systems such as:

- A technology platform capable of integrating all market participants
- An electronic claims management network of integrated participants
- Currently estimated to be as many as 25 different entities impacting or influencing the human and vehicle accident experience, repair, resolution, and disposition
- Telematics, black box data capture, transmission and analysis
- Radio Frequency Identification, RFID
- Software applications supporting
 - Insurance
 - Coverage determination
 - First notice of loss, FNOL
 - Appraisers
 - Provider network
 - Customer Satisfaction Index, CSI
 - Vehicle re-inspection
 - Fraud management
 - Personal injury
 - Emergency medical teams, EMT
 - Hospital
 - Injury evaluation
 - Towing and storage
 - Legal
 - Liability determination
 - Expert witness
 - Injury and crash analysis
 - Information process management and resolution
 - Estimatics
 - Audit and re-inspection
 - Rental car
 - Glass
 - Total loss resolution
 - Parts location and acquisition
 - Subrogation
 - Information analysis, management and knowledge development

The Romans Group LLC, founded in 1996, is based in Chicago, Illinois, and serves clients in North America and Europe. The firm provides experience-based consulting to assist management teams in achieving business goals and objectives by providing pragmatic, results-oriented solutions.

Our market and industry focus includes property and casualty insurance, automotive services, auto physical damage repair, paint and aftermarket parts and services supply chain, commercial and residential property repair and restoration. We advise on and provide resources for business organization and profitability improvement, strategic planning and implementation, consultative sales and marketing, mergers, acquisitions, divestitures and capital development, claims management and transaction processing, network management and development, business intelligence, technology and information management, and quality management. Our client base is comprised of both public companies and privately-held, independent businesses.