

Autobody News November 2014 Newsletter

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SIDEBAR to MSO Consolidations in CA Heat Up Industry

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Read: [MSO Consolidations in CA Heat Up Industry](#)

Autobody News asked Vincent Romans, the founding partner of The Romans Group LLC, to comment on the recent MSO consolidations. Romans has over 30 years of consulting and operating experience with domestic and global enterprises. The Romans Group LLC, established in 1996, provides business, market, financial, and strategic development advisory services to the property and casualty auto physical damage insurance, automotive services, property restoration, and related supply chain segments.

Why are we seeing an increase in the number of consolidators acquiring MSOs and do you think this trend will continue?

We are at the early stage of consolidation, contraction, convergence and constructive transformation in the collision repair industry. Within this industry construct, private equity has stepped up its interest in acquiring MSO consolidators. This interest is backed by unprecedented private equity and strategic buyer cash seeking investment opportunities in the MSO model which today provides strong cash flow, growth through both organic and acquisition growth and shorter term investment cycles that ultimately drive higher valuations.

How will it affect the collision repair industry?

We will continue to see large multiple location operators (MLOs) be acquired by the four MSO consolidators. The still fragmented industry will continue to contract to a more normalized number of required collision repairers throughout the United States over the next decade. Today, three collision repair segments, ?\$20M, ?\$10-20M and the franchise multiple location, MLO, operators represent 24% of the US collision repair market. I expect this market share for these three segments to grow over the next three years. Additionally, we should shortly see the first MSO with annual revenue of \$1.0B. Through September YTD 2014 we have seen \$650.0M in annual revenue transferred through multiple location transaction acquisitions among the four MSO consolidators.

What are the relevant issues facing the collision industry today?

There are numerous trends and prevailing conditions that offer both risk and opportunity for repairers today. No one trend or prevailing condition has the impact that the confluence of these prevailing trends and conditions have. It is when one understands that these individual prevailing conditions are part of a confluence of many individual dynamic prevailing trends and conditions, that you start to realize the order of magnitude and the exponential impact they have and will continue to have on the new world order of collision repair within the broader auto physical damage ecosystem. We will continue to see how one company's transformation is another's disruption, while one company's innovation is another's disintermediation. Some of the short and long term conditions include, but are not limited to changing macro-economic influences, globalization, consolidation causing industry structural changes, telematics and the movement to an integrated electronic claims process model, accident avoidance technology associated with semi-autonomous and eventually autonomous vehicles (VEHBOTS), private equity and strategic buyers, predictive analytics, down turn in accident frequency, MSO performance

contracts, hybrid claims management models, insurers embracing the MSO model, trained technician shortage, parts procurement, repair segmentation, urbanization and others too numerous to mention here.

How does an independent shop fit in the picture?

Independent high performance, brand recognized shops will continue to provide solid alternatives to the large MSO consolidator model especially with insurance companies that embrace their own customized repair models and prefer to have non-MSO providers in the market or a mix of MSO consolidators and local market independents. Additionally, specialty repairers who perform any number of niche market or high value repair alternatives will have a place in the future collision repair industry. Autobody News asked Vincent Romans, the founding partner of The Romans Group LLC, to comment on the recent MSO consolidations. Romans has over 30 years of consulting and operating experience with domestic and global enterprises. The Romans Group LLC, established in 1996, provides business, market, financial, and strategic development advisory services to the property and casualty auto physical damage insurance, automotive services, property restoration, and related supply chain segments.

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What is the benefit/challenge of being an MSO vs. a single-location shop when forming a relationship with insurance companies?

MSO consolidators and many non-consolidator MSOs have the personnel, sales/marketing structure and budget to frequently call on insurance company corporate decision makers as well as multi-level contacts

regionally. They participate on insurance company advisory or review boards which brings them to the table for input, old business and new concept discussions, and collaboration on current and future business process and performance models. They develop multi-level personal relationships that help when issues need to be resolved quickly. However, if service deteriorates somewhere in the country for a larger MSO it could have negative ramifications across their national footprint or some other regional market of theirs. The MSO consolidator offer insurers broader multiple market coverage than smaller MSOs and independents. However, local market MSOs and independents can and do market that they provide that laser focus local market performance that insurers want. Many independents and local market MSOs position and market themselves as high performers relative to the MSO consolidator in their geographic niche. A strong recognized brand with top performance metrics relative to a MSO consolidator can give the independent and local market MSO a competitive edge when vying for insurer DRP business. MSO consolidators are also offering self-managed and co-managed capabilities for customized and new DRP models, quality assurance and self-audit process and procedures, call centers, and single point of contact, all of which helps reduce costs for the insurer while positioning the MSO consolidator for business that the independent operator may find more difficult to secure.