FROM THE USA
WITH STACEY PHILLIPS

MSO Symposium Focuses On Industry Challenges And Preparing For The Future

During the 11th annual MSO Symposium, multi-shop owners / operators (MSOs), dealers, franchisees, and repair networks from across North America gathered to discuss industry challenges and prepare for the future. The event, hosted by the Automotive Service Association (ASA), was held on 31 October in Las Vegas, Nevada – the day before the SEMA / AAPEX Shows.

Conference organisers said the one-day event included insight on diverse topics that are top-of-mind for the industry's most influential collision repair operators.

Roy Schnepper, owner of Butler's Collision and Immediate Past Chairman of ASA, welcomed attendees and recognised sponsors and conference organisers, including Dan Risley, Vice President Quality Repair & Market Development at CCC Intelligent Solutions, along with Jennie Lenk and Brian Neesen.

"ASA recognises the importance of MSOs in the marketplace and the leadership, professionalism, and operational excellence they bring to the collision repair industry," said Schnepper.

"If it weren't for high gas prices in July, we would have actually driven more miles this year than pre-pandemic."

"The MSO Symposium continues to deliver relevant content, an outstanding and diverse line-up of speakers, and an opportunity for attendees to leave with actionable information for their businesses," said Risley, co-Master of Ceremonies for the event. "This year's event was especially impactful because some of the bigger topics of our day were covered, including inclusion and diversity, and environment, social and governance (ESG)."

Dean Fisher, President Collision Group at Driven Brands and co-Master of Ceremonies, recalled attending the MSO Symposium while championing an independent model with a franchise network of 200 locations. The network now supports 1000 independently owned facilities.

"So much has changed in our industry through the years, but the fundamentals of operational excellence and premier customer experiences are still the same," he said. "We've proven that MSOs enhance the marketplace with their service model."

The following is a summary of two presentations held during the event: The Long Tail of the Pandemic by Bart Mazurek, Vice President of Consulting & Services, Automotive Services Group at CCC Intelligent Solutions; and Trends of Consolidation, Private Equity and the APD Landscape by Vincent Romans, Managing Partner and CEO of The Romans Group.

THE LONG TAIL OF THE PANDEMIC

During his presentation, Mazurek provided insight into what the industry will likely face in 2023.

Mazurek said that the overall non-comprehensive claims count across the industry has increased 5.2 per cent to date versus 2021 but remains down by 11.1

Bart Mazurek.

per cent versus 2019. He foresees claim volumes will continue to build towards pre-pandemic levels.

Based on US government data, miles driven has recovered to within 0.8 per cent of the 2019 level. "If it weren't for high gas prices in July, we would have actually driven more miles this year than pre-pandemic," said Mazurek.

Driving patterns have also changed. "Hybrid work is here to stay, so people will continue to drive differently versus pre-pandemic," he said.

Commercial traffic has increased, such as Amazon, which tripled the size of its fleet over the last three years, helping to increase the number of miles driven in aggregate.

Mazurek said repairable claims, which decreased in the spring of 2020, are mostly back to pre-pandemic levels.

In terms of repair costs, he said the average repair in 2018 cost US$3000. "This year, we're looking at just north of US$4000." With inflationary trends, he foresees it growing to US$4500 in 2023. This is driven by various factors, including the number of parts replaced. "In a two-year span, we've gone from ten and a half parts to almost 12 and a half parts," he explained. "Those two additional parts are driving four additional hours of labour."

As cars have become more complicated to repair, Mazurek said that OEMs are often the only organisations with the ability to supply new parts. CCC research shows that repairs are taking significantly longer to complete. According to Crash Network research, shop backlogs are at record levels due to parts availability, technician shortages, and delays in responses from insurers.

As vehicles become more complex, repair costs will continue to rise, according to Mazurek. At the same time, scanning and calibration will become more important to ensure vehicles are rebuilt accurately and safely.

Mazurek said inflationary pressure, influenced by the supply chain, is also driving up repair costs. One of the side effects of the supply chain problem, which is expected to continue throughout 2023, is that used vehicle prices were sky-high. However, they are starting to decline. "They've come down a little bit, but that's really dictated by the availability and the price of new cars," said Mazurek, who predicted supply chain issues will improve.

New vehicle prices have also increased due to chip shortages. For example, a new vehicle that cost US$38,000 two years ago currently sells for US$48,000. "As a point of comparison, used car prices have gone up almost 50 per cent in that same time frame," Mazurek added.

He said it will take up to a year and a half for the new vehicle market to match Americans' expectations. "As used car prices remain high, the result is more difficulty to total out vehicles," he said.

"Shop backlogs are at record levels due to parts availability, technician shortages, and delays in responses from insurers."

CCC research shows that total loss frequency has fallen to 2018 levels due to high actual cash values (ACVs).

Mazurek also discussed the labour shortfall across the collision industry. With technician demand substantially outpacing supply, he said the industry must re-evaluate its approach. "I think that's something every MSO and repair facility needs to figure out – ways to fully staff their operations," he said.

Evaluating enrolment and graduation over the last four years, the number of students coming out of technical colleges and post-high school entering the industry has dropped every year. "For example, in 2020, there were 4500 technicians graduating nationally," said Mazurek. "In 2021, there were only 4250 graduates."

At the same time, there was demand for 25,000 technicians, a number that is projected to increase to 100,000 over the next five years. "It's a huge challenge and a limiting factor in how quickly vehicles can be repaired," said Mazurek.

Regarding DRP programmes, Mazurek said the average number of DRPs by dealerships, independents, and MSOs has decreased. "I think that has to do with repair facilities re-evaluating the DRP programmes based on the current market and their goals," he said.

Vincent Romans.

TRENDS OF CONSOLIDATION, PRIVATE EQUITY AND THE APD LANDSCAPE

Romans, a founder of the MSO Symposium, discussed consolidation, private equity, and auto physical damage (APD) landscape trends based on The Romans Group research compiled for 2021.

"I want to try to paint a picture of what the industry looks like – I see it in the form of a dynamic virtual tapestry," Romans told MSO Symposium attendees. "It's a tapestry of trends, facts and data… the trend is either your friend or foe."

He encouraged attendees to interpret the tapestry when evaluating their businesses, and the strategic and competitive behaviour occurring in the marketplace.

According to The Romans Group research, total collision repair revenue for 2021 was US$38.6 billion, not including approximately US$3.5 billion in glass repair, driven to a great degree by persistent increasing severity. Romans said the total addressable market (TAM) in 2019, prior to the pandemic, was the highest in history – US$38.2 billion. With the pandemic dip in 2020, the TAM went down by nearly 10 per cent.

Repairable claims in 2019 were 11,775,590. After dropping 16 per cent the following year, they have risen to be 13.7 per cent behind 2019.

"That, coupled with the delays in production and throughput, caused a lot

of opportunities and / or challenges," said Romans.

He emphasised 'relevant' and 'future-focused" (also known as future-proof), estimating there are 31,000 relevant, future-focused collision repair locations in the US, with an average revenue of US$1,245,161 per location. According to Romans, these shops look at their strategic and competitive position to succeed in the future. They do this through their proactive behaviour associated with strategic and tactical planning and ongoing self-education.

They are also lifelong learners, invest actively and as needed in their businesses, manage finances in a prudent and sustainable manner, and implement change that they believe will keep them competitive, relevant, useful, and successful in the future as their business situation evolves.

Looking at a 41-year trend for US collision repair independent and dealer-operated locations, Romans said projections show that by 2025, relevant and future-proof shops will dip below the 30,000 level.

This projection includes dealership consolidation, which in 2021 was the most active in history. There were 382 transactions with 707 dealerships sold, representing 1130 brands. Although that only equated to an average of 1.85 dealerships per transaction, Romans said it signals a structural change for dealerships over the next few years.

The Romans Group data showed that large multi-location operators (MLOs), banners and franchise networks earning more than US$10 billion represented 43.5 per cent of market share.

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Romans said there are a combined 19 private equity / public / strategic / debt investors that have invested in 14 MSOs, representing US$13 billion in revenue. This represents a 33.9 per cent market share of the 2021 US$38.6 billion TAM.

In Canada, five private equity and public investors represent a total of US$1.015 billion behind four MSOs, which is a 44.1 per cent market share. "That's not going to stop," predicted Romans. "I get calls from parties every week looking to know about this industry and where they should invest."

According to a chart provided by Focus Advisors, the combined footprint of the top five consolidators – Joe Hudson's, Classic Collision, Crash Champions, Gerber, and Caliber – tripled in the last five years from 1044 in 2017 to 3219 in 2021.

Romans also shared the number of MLO platform acquisition transactions in 2021 and 2022. There were a total of 334 companies representing both buyers and sellers between 2012 and November 2022, of which there were 71 in 2021 and 42 in 2022. These companies acquired 2698 locations, of which 363 locations were acquired in 2021 and 446 as of November 2022. During this period, US$7.962 billion in revenue was transferred to the acquiring MLOs, including US$991 million in 2021 and US$1.464 billion in 2022. A large amount of the revenue transfer in 2022 came from Crash Champions' acquisition of Service King.

"Every state in the union almost has had a transaction or more. That density will grow over the next few years," said Romans as he forecast the continuation of independent and dealer consolidation.

Looking ahead, he anticipates the industry will continue to shift as it embarks on the electric vehicle (EV) evolution and encouraged attendees to stay informed of the changes. These will include new federal bills passed prohibiting the registration of non-EVs in some states, a commitment by OEMs to obtain materials to manufacture EV batteries, AI computer vision, and how claims are processed through telematics embedded in vehicles.

"All of this you should be watching closely and how it impacts you in the future," he said.