

# IBIS Global Report 2018: USA

By Sam Street | 27 August 2018

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## MARKET OVERVIEW

Challenges/opportunities facing collision repair market

Repairers in the US market face the following major challenges:

- Small profit margins due largely to low labour rates insurers are willing to pay
- Competition from wealthy and successful multi-site operations (MSOs)
- Rising business costs related to new tools, equipment, training and marketing costs
- New automobile technologies that are regularly introduced into the market
- Continuing high numbers of total losses
- New repair technologies that need to be adopted, and
- A growing shortage of qualified technicians.

All these issues are explored in more depth in this review. While these challenges make it difficult to survive in the collision repair marketplace, there are more business opportunities than ever with more vehicles on the road and increasing numbers of accidents. To survive, shops need to adopt operations that allow them to grow and evolve as the market does.

## Market trends

Consolidation remains a driving issue in the industry. At the 2017 MSO Symposium during NACE Automechanika in Chicago, Vincent Romans, founding partner of The Romans Group, predicted that in the next four years the top four MSOs and those with revenue of \$10m or higher would encompass nearly 45% of the collision repair market (\$16.7bn of what will be an estimated \$37.6bn industry). During 2017, Romans noted that overall consolidation actually slowed as large consolidators moved away from buying smaller MSOs and instead focused on strategic cluster purchases. Romans believes this strategy will continue for several more years with large MSOs then refocusing on purchasing other MSOs.

While the prospect of competing against a small consortium of industry giants who own half the market might seem daunting, the available 55% of the collision repair industry still presents plenty of opportunities for other repairers. The industry continues growing in value with increasing numbers of repair opportunities. That's good news for shops.

However, a number of other challenges remain. Shops must continually upgrade both their repair skill sets and tools to handle new technologies and new duties such as alternative appraising models and photo estimating. Insurers continually raise requirements to be part of the direct repair programmes (DRPs). Shops must deal with technician shortages and quickly evolving vehicles technology (these trends are explored later on).

### **Specific bodyshop trends**

As previously noted, MSOs continue to grow. While the largest MSOs have slowed their consolidation of the industry (for now), regional and smaller MSOs continue to grab marketshare. The MSO model remains popular due to its ability to produce the level of revenue required for shops to reinvest and remain competitive.

### **Insurer influence on the repair sector and impact on supply chain relationships**

As they have for some time, insurers hold substantial control over the US repair market because they pay for the vast majority of repairs. Most US motorists carry automotive accident insurance for each of their vehicles, which many states mandate in order to operate a motor vehicle. Insurers therefore have a ready supply of millions of customers whose premiums they use towards collision repairs.

With so much economic power, insurers can dictate labour rates, repair procedures and parts procurement. Often they can determine which shops get their business since insurance adjustors can recommend customers use shops in their direct repair programmes (DRPs). (Note: By law, insurers cannot restrict a customer from using other shops, but many shops complain insurers still exert undo pressure on customers to send vehicles to DRPs.) Shops have complained for years that insurers suppress labour rates and push for repairs and aftermarket parts they say do not fully return a vehicle to safe, pre-accident condition in order to control costs. Collision repair labour rates are well below industry averages for mechanical work (\$49.01 hourly for collision against \$70-\$90 and \$90-\$125 hourly for mechanical work at independent and dealer shops, respectively, according to Quora). Low labour rates are a key factor contributing to closures of hundreds of shops, particularly small ones, over the last several decades that could no longer afford to compete.

Shops therefore have had to develop business models built on more efficient operations that cut costs and optimise profits per job while bringing in as much business as possible. This has led to the implementation of lean processing operations and other solutions aimed at efficiency and increased throughput. Multi-site operations (MSOs) have leveraged such solutions to take over large portions of the repair market. Many of these MSOs utilise multiple DRPs and seek out insurer-paid work.

As for supply chains, insurers continue to prefer shops use aftermarket and salvage parts over OEM versions since they tend to cost less. In the past, repairers complained that aftermarket versions lacked the quality, fit and finish of OEM, which forced shops oftentimes to spend uncompensated labour hours preparing these parts to be fitted to a vehicle. Repairers also complained that salvage parts too present a number of issues: their quality sometimes can't be guaranteed, OEMs do not support their use, and time spent locating and accessing them can negatively affect cycle times and raise repair costs. Recent anecdotal evidence suggests many repairers are more accepting of aftermarket parts if their past performance demonstrates they provide quality and safety. Also, repairers say insurers are more willing to drop requests for salvage parts if a new version can be accessed more quickly and therefore reduce repair costs.

### **Vehicle manufacturer involvement in the sector**

Manufacturers continue creating and expanding repair networks. General Motors, the largest US vehicle manufacturer, plans to roll out a new repair network this year. To join these networks, shops must satisfy a full range of requirements for training, tools, equipment etc. Some manufacturers restrict the sale of certain structural parts for specific vehicles to their network shops to ensure these are repaired correctly in the necessary environment. Manufacturers also are more aggressively marketing replacement parts to compete with aftermarket versions. Some, such as GM, are increasing the number of discounts on their parts and are using 'conquest' programmes to price match aftermarket products. Manufacturers also have begun upgrading warranties on their products. GM, for example, is upgrading warranty coverage for its Genuine GM and ACDelco parts lines.

Manufacturers too are increasing their training opportunities as manufacturer training becomes the most sought-after training in the industry.

### **Standards**

The US market is largely self-regulated. Some states require licensing of repair shops. However, licensing has little to do with repair standards. The US market has struggled for years to set industry-wide standards, but while groups like the Collision Industry Conference (CIC) spent years examining the issue with hopes to set industry standards, very limited progress has been made. Outside of shops monitoring themselves, any additional monitoring comes from manufacturer repair networks that mandate repair requirements and some insurer DRPs that specify repair practices.

### **Impact of new vehicle technology on the sector**

The biggest impact this past year came from efforts to ensure shops run pre- and post-repair scans on vehicles. Newer vehicles feature sophisticated computer networks that operate a vehicle's advanced electronic systems — everything from infotainment systems to critical accident avoidance technology such as lane departure warnings, cameras, lasers, long-range radar etc.

These systems rely on a series of sensors that must be in correct working condition. Many of these sensors are located in areas such as vehicle bumpers that are often impacted during collisions.

Even when sensors are located elsewhere or away from an impact area, they can still be damaged during a collision. Industry groups and auto manufacturers have issued statements and recommendations on the need to run pre-repair scans on vehicles during the estimate or damage analysis to identify any damaged sensors. Following the repair, these scans need to be performed again to ensure sensors are working properly.

Identifying, repairing or recalibrating some can be difficult since, in some cases, only OEM dealer-owned shops possess the necessary scanning equipment to perform this work. This means some vehicles have to be moved to a dealer shop for this work, which can add cycle time and other expenses to a repair.

Further, performing these scans on modern vehicles typically requires advanced scanning tools beyond what many shops may currently possess. These shops must therefore invest in new tools. Information providers have come to the aid of shop with updated software that can work with scanning equipment to detect problems and verify repair/recalibration for repair records.

Access to repair information also remains an issue. Manufacturers and information providers have made progress getting more accurate information to repairers sooner. However, some information may be accessed only via paid subscriptions. Carrying multiple subscriptions can be extremely expensive.

Also affecting the industry is the number of total losses. With some vehicle technology being extremely expensive to repair and replace, repair costs can pass thresholds where insurers write off vehicles as total losses. These are lost repair opportunities that deprive shops of potential revenue. While manufacturers, repairers and insurers have discussed ways to reduce the number of total losses, no significant solution is in sight.

### **Repair technology influence within the market**

As vehicle technology continues to advance, shops must reinvest in training and new/updated repair technology to stay current. Because the average age of vehicles on US roads is 11.6 years, shops still see many older vehicles with technology they have the capability to repair. However, as newer vehicles take their place, shops will to be compelled to adopt more modern repair procedures.

## **Skills and employment**

As the US automotive service workforce continues to age and retire from the industry, shops are facing serious shortages of technicians to do both mechanical and collision repair work. In fact, collision repairers face an even more difficult prospect since many newer tech students prefer to work on mechanical parts instead of vehicle bodies.

Part of the problem rests in the fact that many collision repair students leaving high school vocational programmes have very little repair experience. They learned about repairs and have conducted some, but they haven't had actual experience in a working shop. The same often holds true for post-secondary schools.

Shops are reluctant to bring on new hires with little experience since they must invest time and resources to properly train them. They prefer to bring on experienced help from other shops, but this labour pool is rapidly drying up.

This factor is leaving shops with few options outside of investing in their own training and mentoring programmes. Industry groups have been helping with these efforts. The I-CAR Education Foundation, for example, is helping pair shops with prospective new employees at hiring events. Shops also are investigating new hiring options, such as training service members who are leaving military duties or hiring more women. In the case of the latter, anecdotal evidence suggests there are a number of interested and trained women wanting to start collision repair careers but who are denied due, in large part, to antiquated ideas about women in the workforce.

Regardless of where shops find new workers, making sure they are properly trained remains an issue. Last year, a number of industry groups pointed to a report that showed most shops don't engage in regular training largely because they don't see it as a necessity. With what I-CAR calls an automotive 'technical tsunami' hitting the industry, this attitude is a reason for concern.

## **Trends/developments over the next three to five years?**

MSOs of all sizes will continue grabbing market share. Like other repair businesses, they will need to find a way to bring more technicians into the industry. Repairers everywhere will need to look to mentoring programmes and other solutions to fill shop positions. Indeed, with the collision repair industry doing well at this time, an influx of new help will be required to maintain its current health.

The growing sophistication and complexity of automotive technology could begin to force repairers to rethink their current business models. Auto manufacturers want to ensure all their products are returned to factory specifications to build brand loyalty. Insurers and customers need shops they can rely upon to return damaged automobiles back to pre-accident condition. The growing number of vehicle brands and models will continue forcing shops to invest in the training and tools to fix all these vehicles. At some point, shops may need to rethink what work

they will perform – more specifically, an argument is being made in the industry that many shops may need eventually to focus on specific brands/models or perform specific repair types and share work with other shops in new-found partnerships.

The industry landscape has changed dramatically just in the last several years. As vehicles change, the industry will continue to evolve. Current trends look to compel repairers to focus more than ever to form closer, more productive bonds with all their business partners to help them navigate their way through a changing market that needs to make collision repairs affordable to customers and profitable for repair businesses. Some cultural trends could be making these challenges even tougher to meet. With the latest generation of young people showing markedly less interest in being vehicle owners compared to their parents and grandparents and with urban centers and automakers focusing on autonomous driving vehicles, there could be fewer repair opportunities in the near future. Members of the repair industry will need to look to one another for solutions to keep this market both alive and thriving.

## **FACTS & FIGURES**

Population 327,330,600 (US Census Bureau 2018)

GDP US\$18.57tn (World Bank 2017)

Number of people who hold a full driving licence

222 million (Statista 2016)

Total vehicle parc 260 million (Statistica 2015)

Average vehicle age 11.6 years (Automotive News 2016)

Total new road vehicle sales

2015 – 7,396,300 (Statistica 2018)

2016 – 17,464,800 (Statistica 2018)

2017 – 17,134,700 (Statistica 2018)

### **Number of alternative fuel vehicles registered**

There are no reliable statistics here since US vehicles are registered by states, which typically don't supply statistics on vehicles apart from total number or listing by car or truck.

Alternative fuel vehicles can be tracked to some extent by the number produced by manufacturers. According to the National Automotive Dealers Association (NADA), in 2015 around 500,000 were sold. NADA also reports that from 2013 to 2015, the percentage of alternative fuel vehicles comprising the automotive market dropped from 3.8% in 2013 to 2.8% in 2015, with a majority of consumers opting for hybrids. From 2013 to 2016, hybrids accounted for 79.8% of the alternative powertrain market with 1.32 million hybrids sold.

NADA also notes that hybrids, as a percentage of all alternative powertrain sales, decreased from 83.2% of the market in 2013 to 76.7% in 2015. During that same period, electric vehicles saw a 50% increase in deliveries, though their market share remains low. In 2015, electric vehicles accounted for 14.4% of all alternative powertrain sales, or a 6.3% increase over 2013. NADA, however, did note that electric vehicle owners remain loyal and tend to turn in used electric vehicles for newer models.

### **Top three motor manufacturer brands by volume sold (2017)**

1. General Motors: 3,002,241
  2. Ford Motor Company: 2,586,715
  3. Toyota Motor Sales: 2,434,515
- (Automobile Magazine 2018)  
Top three models sold 2017

1. Ford F-series
  2. Chevrolet Silverado
  3. Dodge Ram
- (Business Insider January 2018)  
Number of motor insurers 199 (CarInsurance.com 2012)  
Top three motor insurers by number of vehicles insured

1. State Farm
  2. GEICO
  3. Allstate
- (Mitchell International 2016)  
Average motor insurance premium and excess/deductible

\$907.38 and \$500 (Quadrant Information Services 2014)

Annual cost of motor insurance fraud

\$5.6bn-\$7.7bn (Collision Against Insurance Fraud 2012)

Number of reported road collisions per annum

13.4 million (2016 National Highway Transportation Safety Administration and state sources)  
Number of collision repairs per annum

14.8 million (2016 Romans Group)  
Number of vehicle write-offs per annum

2.9 million (2014 Romans Group)  
Total accident repair market value

\$35.7bn (The Romans Group 2017)  
Insurance approved collision repair networks operating Yes  
Insurance owned collision centres in operation No  
Vehicle manufacturer approved collision networks in operation Yes  
Vehicle manufacturer owned collision networks in operation No  
Accident management companies active within market No  
Accident management company approved collision repair

networks in operation No  
Total number of collision repair operators

40,962 (US Bureau of Labor Statistics 2016)

### **Types of collision repair centres**

Independents: Yes  
Dealer: Yes  
Networks: Yes  
Group/multi-site operators (MSO): Yes  
Franchise operators: Yes

### **Largest operators by number of sites**

1. Boyd Group
2. Caliber
3. Service King

(Information sourced from corporate profiles of each MSO)

### **Average cost of repair**

\$3,388 (Mitchell International, December 2017)

### **Average cycle time of repair**

7.6 days (vehicles that were drivable when delivered)  
17.1 days (vehicles not drivable when delivered)  
(CCC, December 2016)  
Average key-to-key time 9.4 days (CCC, December 2016)  
Average labour rate

\$49.01 (Mitchell International, December 2017)

(As noted last year, this number is in constant flux with differences in market areas. In some cases, it will rise 1-2% in a market or state. However, the past year has seen an overall increase, in some states by a dollar an hour or more.)

Mobile collision repairers in operation Yes  
Number of mobile collision repairer operators

Unknown. There is no way to determine the number of mobile repair operators in the US.

Mobile SMART repairers in operation Yes  
Number of mobile SMART repair operators

Again, this number is unknown. There is no way to determine this number based on current data.

Other vehicle damage repair facilities/models in operation

The remaining repair facilities/models are express businesses that focus on same day or one-day repairs on bumpers (and similar parts). There are no reliable statistics on these facilities. Anecdotal evidence suggests they may be declining in number.