

MLOs on the Grow

New research suggests that consolidation will continue and multiple-location collision repair operators will continue to gain favor as insurers push DRP performance.

There are mixed opinions and a general lack of consensus within the U.S. collision repair and automotive aftermarket industries regarding the size and segmentation of multiple-location collision repair operators or MLOs. In an effort to begin to gain consensus around an accepted approach to the tracking and trending of this information, The Romans Group consulting firm researched and analyzed collision repair organizations that process \$20 million or more in vehicle repair revenue annually.

While the firm realized there were many collision repair businesses of significant size processing under \$20 million throughout the U.S. at the time it began the study, it identified and periodically tracked the \$20 million and over segment of the independent and dealership collision repairers as a simple starting point. Over time, these types of organizations have been classified and identified in a variety of ways. For the purpose of communicating and establishing a foundation for The Romans Group's research results, these repair organizations will be referred to as the \$20M multiple-location operators, or \$20M MLOs.

The baseline for this analysis is the generally accepted estimate of 45,000

collision repairers processing approximately \$30 billion of insurance and customer-paid collision repair revenue annually. This includes what the National Automotive Dealers Association (NADA) represents as approximately 8,383 dealer repairers processing \$9.8 billion in collision repair revenue. The balance of \$20.2 billion in vehicle repair revenue is processed by approximately 37,000 independent repairers.

The research results focus on MLOs' repair revenue, number of locations and markets served nationally and regionally for both dealership and independent collision repair \$20M MLOs.

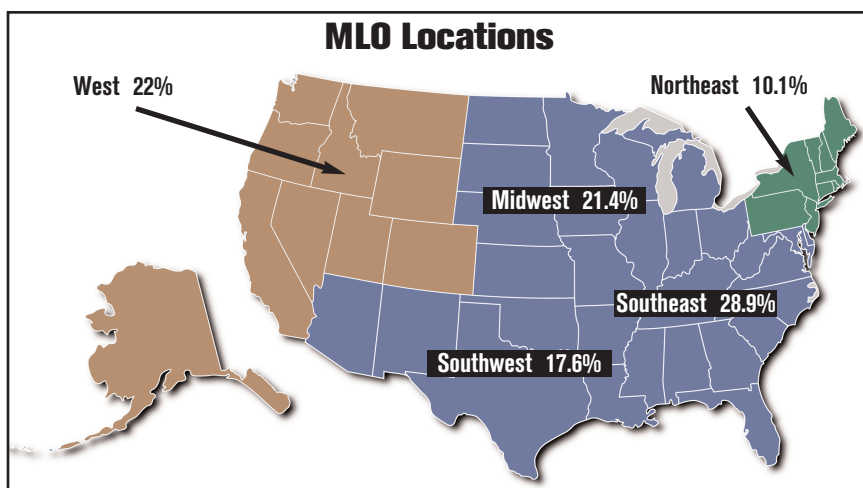
Based on the minimum of \$20 million in repairs processed annually, there were 57 independent and dealership collision repair \$20M MLOs identified nationally processing \$2.73 billion of collision repair revenue through 959 locations. These \$20M MLOs represent 2.1 percent of the total number of collision repair facilities nationally, and they process 9.1 percent of the total insurance and customer-

pay collision repair revenue.

The following is a current snapshot of this changing environment.

The regional representation of \$20M

U.S. Collision Repair Market <i>(Dollars in Millions)</i>	
Total Collision Repair Revenue:	\$30,000
Total Collision Repair Locations:	45,000
Total Number of \$20M MLOs:	57
Total Number of \$20M MLO Locations:	959
Total \$20M MLO Revenue:	\$2,728
\$20M MLO Share of Total Collision Repair Revenue:	9.1%
\$20M MLO Share of Total Collision Repair Locations:	2.1%



The regional representation of \$20M MLOs is highest in the Southeast at 28.9 percent while the lowest representation is in the Northeast at 10.1 percent.

MLOs is highest in the Southeast at 29.3 percent, with the lowest representation in the Northeast at 10.4 percent. The Northeast market continues to be dominated by smaller, independent repair organizations. As the competitive landscape continues to evolve and the larger organizations expand, the Northeast market area \$20M MLO trend, should it increase, will represent a strategic shift by those repairers.

"Markets are defined differently in the Northeast than they are in the broader plains or newer markets like

don't currently work within the Northeast to migrate into these areas and compete with the local market provider. I do still think though that, over time, these larger MLOs will gradually ease their way into the Northeast region. Additionally, the local market operators who are MLOs will continue to grow slowly and eventually take out the mom and pop non-MLOs, and the insurance companies will help facilitate that marketplace transformation."

This is part of what Romans believes is a "market correction" or

business because accidents don't happen on a planned manufacturing basis. There's seasonality, for instance, and other uncontrollable events like the fact that people will spend less on vehicle repair before a tax refund becomes available than after receiving a tax refund. Insurers are doing their best to offer a list of provider/repairers for the insured to choose from to handle the repair of their damaged vehicles so that these DRP providers are kept busy and operating more consistently. I believe that most progressive repairers will meet insurers' performance requirements for daily touch time and keys-to-keys cycle time, the way most good repairers will meet those standards is through improvements and commitment to lean and other production process improvement models."

Romans believes that the collision repairers who are able to make changes immediately will be the ones left standing. And those repairers tend to be larger single- and multiple-location operators who have more financial capability and stability, time and ownership and operating personnel dedicated with the appropriate level of attention to the rapid implementation of these changes.

Romans believes that if the pool of collision repairers available decreases significantly, those repairers that survive and expand their geographic marketplace footprint and capability will experience a gain in power and be able to have more influence on the repair process.

"I think some day the provider may have more influence in terms of influencing prices and process and procedures. But the insurance company still has the upper hand today," Romans says. "One of the challenges large MLOs have today is to be cautious of becoming 'volume vultures.' As 'volume vultures,' these repairers are looking for a large amount of repair volume that comes from companies like GEICO, Progressive, Allstate and State Farm. What may actually happen is that they would someday become 'capacity carcasses' or 'capacity casualties.' The reason is

U.S. Collision Repairer Market (Dollars in Millions)			
All Collision Repair Revenue:	\$30,000	\$20,200	\$9,800
All Collision Repair Locations:	45,000	36,617	8,383
Average Revenue per Location:	\$0.67	\$0.55	\$1.17
Number of \$20M MLOs:	57	31	26
\$20M MLO Revenue:	\$2,728	\$1,475	\$1,253
Number of \$20M MLO Locations:	959	559	400
Average \$20M MLO Revenue per Location:	\$2.8	\$2.6	\$3.1
\$20M MLO Share of All Collision Repair Revenue:	9.1%	7.3%	12.8%
\$20M MLO Share of All Collision Repair Locations:	2.1%	1.5%	4.8%

the Southwest, South Central and West Coast," explains Vincent Romans, president of The Romans Group. "An MLO would need to deal with the restrictive geography and long-term embedded competitors who have defined markets and defined brands. Also, you have jurisdiction of state, local and township influence and the associated restrictions for establishing new collision repair centers. You also have environmental restrictions that make it more difficult for these MLOs who

"leveling" that will occur. Consolidation, he says, will increase, and the number of collision repairers will better match the amount of available work to fewer providers.

"Given the amount of repair business currently available and the trend toward decreasing claims and fewer repairs, there are too many repairers and too much capacity available within many markets where there are still viable strong players (repairers)," he says. "It's hard to have a consistent flow of

Top 10 \$20M Multiple-Location Operators <i>(Dollars in Millions)</i>		
Rank	\$20M MLO	Type
1	Caliber Collision Centers	Independent
2	ABRA	Independent
3	AutoNation	Dealer
4	Sterling Auto Body	Independent/Insurance
5	Van Tuyl / AIG	Dealer
6	Sonic	Dealer
7	Group 1	Dealer
8	Boyd Group (Gerber)	Independent
9	United Auto Group	Dealer
10	Asbury	Dealer
Number of Locations		
Top 10 \$20M MLOs	483	
% of All Collision Repair Locations	1.1%	
% All \$20M MLO Locations	50.4%	
Revenue		
Top 10 \$20M MLOs	\$1,292	
% of All Collision Repair Revenue	4.3%	
% All \$20M MLO Revenue	47.4%	
Average Revenue per Location		
Top 10 \$20M MLOs	\$ 2.7	
All Collision Repair Average	\$ 0.7	
All \$20M MLO Average	\$ 2.8	

NOTE: Certain dealership collision repair organizations do not include parts revenue as a part of total revenue.

that one day, there will be so much repair volume moving through these MLOs that they will be asked to make some price and other concessions that they're not willing to make. They may find themselves in a position where the large amount of repairs they have comfortably and progressively been receiving are threatened to be reduced or totally re-recommended if concessions are not made."

The \$20M MLOs clearly have an advantage in terms of revenue generation. Smaller MLO and non-MLO repairers average \$619,241 in repairs processed per location while \$20M MLOs average \$2.8 million per location, over four times more. Romans explains why this is.

"In the insurance industry today, while local market relationships will continue to be important, the movement is away from primarily relationship-based decisions to a more centralized and performance-based approach to maintaining or generating direct-repair type of business. The \$20M MLOs appear to be able to accommodate that centralization through a number of areas. One, they provide a single point of contact across a broader

Top 10 \$20M Multiple-Location Operators by Type <i>(Dollars in Millions)</i>		
Rank	Independent	Dealer
1	Caliber Collision Centers	AutoNation
2	ABRA	Van Tuyl / AIG
3	Sterling Auto Body	Sonic
4	Boyd Group (Gerber)	Group 1
5	Service King	United Auto Group
6	True2Form	Asbury
7	Cars	Carl Sewell Group
8	Collision Revision	Bill Heard
9	Cook's Collision	Lithia
10	Kadel's	Darcars
Number of Locations		
Top 10 \$20M MLOs	388	284
% of All Collision Repairers	0.9%	0.6%
% of All Independent/Dealer	1.1%	3.4%
% All \$20M MLOs	40.5%	29.6%
Revenue		
Top 10 \$20M MLOs	\$927	\$851
% of All Collision Repairers	3.1%	2.8%
% of All Independent/Dealer	6.3%	6.8%
% All \$20M MLOs	34.0%	31.2%
Average Revenue per Location		
Top 10 \$20M MLOs	\$ 2.4	\$ 3.0
All Collision Repair	\$ 0.7	\$ 0.7
All Independent/Dealer	\$ 0.5	\$ 1.2
All \$20M MLOs	\$ 2.6	\$ 3.1

NOTE: Certain dealership collision repair organizations do not include parts revenue as a part of total revenue.

marketplace and across many more locations. And the insurance industry, which is also trying to maintain and/or cut back their loss adjustment expense, is relying more and more on those MLOs who have processes, procedures and systems in place to accommodate the DRP criteria and requirements.

"The small guy may be able to do that, but if you're the insurance company and all things are equal - process, procedures, quality, the ability to be flexible in pricing if that's a requirement, discounts, etc. - and you have a qualified single point of contact, by human nature it becomes easier to deal with the broader-based provider. It's a performance-ranked environment today."

Smaller and non-MLO repairers, those with total collision repair revenue below \$20 million annually, vary widely in claims processed per location. Independent

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\$20M MLO average repair revenue per location is significantly higher than that of their smaller and non-MLO counterparts at \$2.6 million versus \$519,000, over five times more average revenue per location. \$20M MLO dealer repairer performance also exceeds their smaller and non-MLO counterparts at a repairs-processed average of \$3.1 million per location versus \$1.1 million average per location for smaller and non-MLO dealer repairers, or nearly three times more.

"The bottom line is, the larger MLO dealerships that have a repair facility have a higher average revenue per location than independent collision repairers or even the large MLOs and their counterpart dealership non-MLO repair businesses," Romans says. "The reason is because a dealership has money to develop and build out a large repair facility due to the financial balance they realize from the front-end of their business. They not only have the insurance-influenced business, but also benefit from consumer-driven, non-insurance influenced business because of car sales.

The top ten collision repair \$20M MLOs are represented by four independent and six dealer groups. These

ten organizations account for 50.4 percent of all \$20M MLO locations and 47.4 percent of all \$20M MLO revenue. Geographically, they're most highly represented in the Southeast at 33.3 percent and are least represented in the Northeast at 7.8 percent.

Comparing the top ten \$20M MLOs from the independent and dealer groups, the independents have almost 37 percent more locations producing 8.9 percent more revenue than dealer repair organizations. However, the dealer repairers manage \$3.0 million in average revenue per location versus \$2.4 million per location for independent organizations.

Says Romans, "Dealerships continue to make aggressive commitments, and have gained a better understanding of insurance company DRP criteria than in the past. They want to operate and grow their repair operations because they see it can balance the soft times at the front end of the business." ☞

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