

# Rear View Mirror



## Q&A

**Vincent Romans,**  
founding partner, The Romans Group

*Vincent Romans started his business career in 1973 when he worked with Flying Tigers, the world's largest airfreight airline. There he held a number of field and corporate positions. In 1986 he started his work related to auto physical damage when he joined USA Glass/VISTAR, an auto glass company, where he helped develop the USA Glass Network.*

*Later, after several years at CCC Information Services, he realized his experience gave him an ability to see the big picture in areas linked to collision repair, property and casualty*

*insurance, and other auto physical damage industries. So he started The Romans Group, which helps businesses attain improved performance, growth and expansion.*

*Romans tracks trends for the industries he serves. He participates in and facilitates numerous advisory councils and helps create strategic alliances and partnerships between industry suppliers and collision repairers as well as insurance companies. Here, free of charge, is his advice for what you ought to be doing now to ensure your future success.*

### **Q What big-picture changes are you seeing in the collision repair industry?**

We're seeing gradual consolidation in collision repair, and I would suggest we're going to see it in the paint, body and equipment (PBE) and other auto physical damage-related industries. There are many examples of consolidation such as LKQ buying Keystone, Farmers acquiring AIG and ongoing acquisitions of collision repairers by other growth-oriented multiple location operators (MLOs).

### **Q What's driving the consolidation of collision repairers?**

A decreasing number of accidents and a decreasing number of claims and repairable vehicles. The current economic situation has accelerated unemployment and underemployment, which has taken people off the roads. Some insurance companies report accidents down as much as 20 percent in some markets and up to 50 percent in others during the last two years. Those ranges will eventually normalize, but the normalized num-

ber of accidents will probably move down to a lower base line and remain there. The proliferation and adoption of accident avoidance and safety technology systems in vehicles will also drive accidents down.

### **Q How about insurance? What trends do you see that affect repairers?**

Insurers continue to raise the performance bar for collision repairers. If a given repairer isn't able to produce the high performance metrics—like CSI, cycle time, the use of alternative parts to OEM parts—and if they're not ranked in top 25 to 50 percent quartiles of those metrics, then there's less likelihood of them staying on a DRP or appraisal program identification/rotation list.

### **Q Speaking of DRPs, what might the future hold for those?**

I see insurers having increasing ability to influence or sway the consumers to their choice of collision repair network providers through incentives or through other insurance policy agreements. For the top 10, the conversion rate today ranges from 20 to 65 percent depend-

ing on the insurance company and the market. I see insurers' conversion capability increasing over time.

The smaller shop that doesn't have the trained personnel and technology to fix sophisticated cars or the sales and marketing capability to offer brand and value proposition to the insurer—versus some of the large to very large operators that can—will get fewer DRP or appraisal program business. Of course, there will always be a need for the smaller player in certain markets.

As MLOs grow, their brand becomes more powerful and convincing to the consumer. The insurance company's desire to co-brand with what they believe is a high-end brand recognized performer, in order to make it easier to influence insureds and maintain and grow their market share, will have a big impact on smaller collision repairers.

Competition is fierce for insurance companies. So they're looking to quickly reinvent and re-engineer most of their DRP and preferred provider programs. The ability to adapt to frequent, multiple DRP changes and to effectively manage those changes will become



a risk and opportunity for all repairers, especially the smaller ones. It will be important to have your employees adapt to accommodate those changes quickly, whatever they are.

**Q You've been tracking market share trends for \$20-million-and-above operators for the last three years.**

**What have you discovered about them?**

At the end of 2008, we identified 54 operators processing \$20-million-and-above who represent 10.7 percent of the \$30 billion collision repair market, or about \$3.2 billion. That's up from 9.1 percent in 2006. We expect to see an upward trend in their market share.

I estimated, using a variety of first- and third-party sources, there were about 41,500 collision repair locations at the end of 2008. That's down from about 45,000 repairers in 2006 and 43,000 in 2007. That's a reduction of 3,500 in four years. I think we'll come close to dipping below 40,000 by the end of 2009.

Let's look at the bright side. If 10.7 percent of the business is processed and

captured by 54 \$20-million-and-above operators, that still leaves 89.3 percent for the other operators. Here's the twist: I have a fairly good feel that there is a big segment that does between \$10 and \$20 million. If you were to add that segment to the \$20-million operators, they probably have 30 to 40 percent of all the business processed—and growing. That's going to pose a growing risk for the smaller operators.

We found that those 54 operators have 999 production facilities processing an average revenue of \$3.2 million, which is up from \$2.8 million in 2006. Those not in the \$20-million-and-above category average \$670,000 per location. That's a big difference, but it doesn't mean the operator processing \$670,000 isn't doing a profitable business; it means there are large operators who are also successful. The question is: Who has the ability to be more successful in the future and how is success defined? Do those very large operators have the ability to overshadow the smaller ones and affect their profitability and desired growth?

**Q What's happening in the paint industry?**

We're going to see a changing PBE distribution model. There will continue to be a need for local market jobber distribution and support services, but there will be fewer of them. There is also a gradual trend, especially for the large MLOs, of more centralized warehousing and distribution. Some larger MLOs might even have their own warehouses, operate them and distribute to themselves and others in the market.

**Q What about parts?**

Look for growth of alternative parts because of the macroeconomic impact on the OEs and some aggressive competitive moves by companies like LKQ as well as new business models, like bumper repair for collision repairers.

In 1998 OE parts, as a percentage of all parts used on a vehicle, was in the low 70s. In 2008 it was down to 68 percent, and I expect that to drop a point or two by the end of the year. We see use of aftermarket parts at 13 to 15 percent and recycled parts at 12 to



14 percent. Use of reconditioned parts has moved up, from 2 percent in 1998 to 7 to 9 percent today.

I expect to see competition heat up between alternative parts and OEM manufacturers because of the importance high quality available parts play in the repair process, especially in satisfying both the consumer and the insurance companies' repair needs, metrics and expectations.

### **Q Give us your best guess: Describe your industry five years from now.**

The traditional collision repairer who bangs out the body of a car and repairs it will no longer be the model. In the future, highly sophisticated repair centers will be technically savvy, will have the ability to remanufacture complex sophisticated cars, and they won't just be fixing vehicles. They will have a number of horizontal and vertical service extensions. They may do glass, bumper repair, mobile service of some kind, small dent repair, 24-hour or same-day express repair. The ability to change the collision repair model to include other services will be part of the equation.

My belief is that we will continue to see not only the \$20-million-and-above operators grow in size and market share, but also the \$10-to-20-million operators, as long as they can perform and maintain the high performance metrics required by the insurance industry and consumers, and frankly their own high performance standards, which should be the most important benchmark anyway.

If they don't think they need to improve the business through managing cycle time—or if they don't have a recognized brand name that represents quality and performance through word-of-mouth, repeat customers or other marketing and advertising—they're eventually going to be squeezed out by those who are larger and who manage to integrate these and other operating elements better.

The franchise conversion model is starting to look a little better for small operators because it offers them training and development, brand association, and regional and national selling and marketing to insurance companies that they couldn't necessarily develop or maintain on their own. I see this

as more acceptable than it was in the past and suspect we'll see some growth in this area.

As repair time flexibility needs increase, we'll see more swing shifts, 24-hour models and 10-hours-a-day-over-six-days models. Insurance companies today are communicating that they would like to see repairers offer seven-days-a-week service.

The jury is still out on whether insurers will push repairers to adopt that schedule, or whether some repairers will have the foresight to move quickly and capture the market share gain that could come from such a schedule. These new work-hour schedules will help foster additional business services that will also be offered during these more flexible work schedules.

We're also starting to see changes in the technology around accident assistance and post-accident disposition. After a car crash, either through GPS or telematics, information will be sent to different service providers—such as towing, EMT, rental car, collision repairers and hospital providers—alerting them to the accident. GM's OnStar is already attempting to provide these kinds of services and we will start to see other actions from companies like Ford which will offer a competitive service through SYNC, its vehicle GPS capability.

### **Q What are the most important things collision repair operators can do now to prepare for the future?**

I am convinced that those who implement some kind of lean process improvement and culture—who accelerate and expedite their own production repair and general business processes by taking waste out of the business—will be viewed not only by insurers as more competitive and desirable to work with, but will be better independent operators. In the end, those repairers will be more successful.

The changing marketplace dynamics requires that it's time to create your own brand, competitive position and advantages that can be leveraged both independently and in conjunction with business alliances and partners that are beneficial for the growth and development of your business. ✱