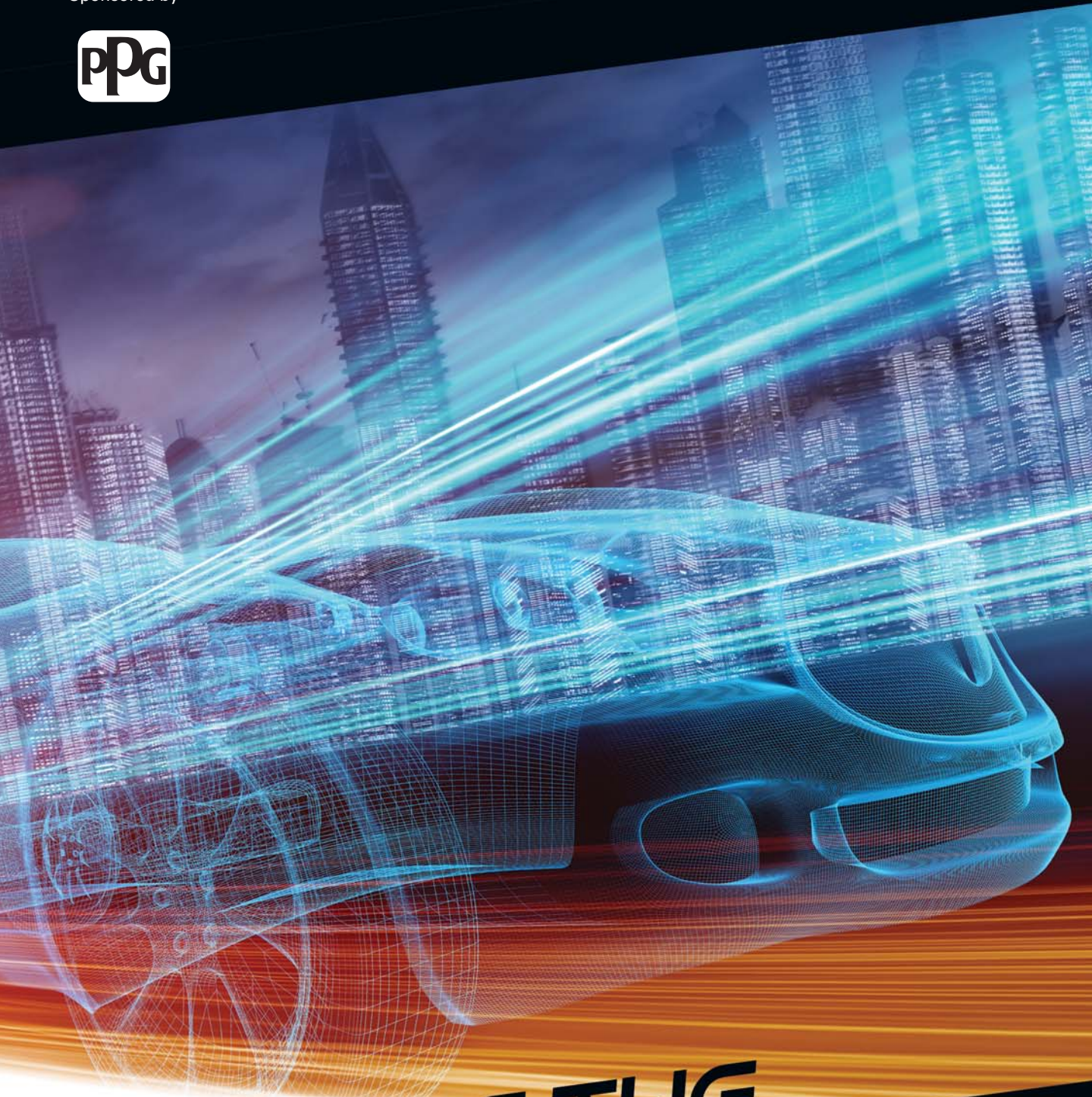


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STATE OF THE INDUSTRY

2015-2016

Prepared by

BODYSHOP
BUSINESS



On the Upswing

By Greg Benckart
PPG Vice President, Americas,
Automotive Refinish

We at PPG are delighted to sponsor this year's definitive State of the Industry report for the challenging yet highly rewarding business of collision repair. While our industry continues to deal with a rapidly changing industry and the ever-increasing complexity of modern-day vehicles, we are seeing some positive tailwinds.

With low gas prices as a major contributing factor, last year's miles driven reached and surpassed the high water mark of 2007 – something we didn't expect to see until 2020. Similarly, vehicle registrations are up, further increasing collision repair potential. Another positive bellwether is the recent uptick in the number of collision shops, reversing the multi-year trend of decline. And paint cost as a percentage of the overall repair continues to remain stable. Against this backdrop, we encourage you to review this industry report as you seek insight on how to maintain a sustainable and successful business into the future.



THE FUTURE

Autonomous cars, exotic substrates and sophisticated technology are dominating conversation in an industry that's holding its own despite talk of increasing collision avoidance capabilities and a generation that doesn't want to drive.

By Jason Stahl

At the PPG MVP Conference held April 24-26 in Scottsdale, Ariz., one of the featured speakers, Jim Carroll, a self-described futurist, trends and innovation expert, told the collision repairers in attendance, "I get paid to scare people to death."

And so he told them that car companies' goal is to reduce the number of deaths caused by car crashes to zero by 2020. And by 2020, he said every car will have: a SIRI button; augmented reality screens with heads-up display; glasses-free 3-D dashboards; interactive in-car billboards; and payment technology embedded into the in-car dashboard experience.

"Companies are losing control of their future because of computers in Silicon Valley," Carroll said. "Think big, start small and scale fast."

Another speaker at the event, Josh Linkner, added, "It used to be the big [companies] beating the small. Now it's the creative beating the complacent. It's about solving complex problems in unorthodox ways with limited resources."

While Carroll may have frightened the group, Greg DeCamp, general manager, Collision, Refinish USA and Canada at PPG, provided some optimism.

"Things that are going on in the market right now indicate 2016 will be a good year," said DeCamp. "Claims have been up four to five percent over the last two years. In the first quarter of this year, they're up 4.7 percent. A lot of this is driven by cheap gas. Miles driven set a record in 2007, but we were well over the 2007 peak by the end of 2014 and it is continuing to grow led by cheap gas. We hear that Millennials won't drive and would rather take Uber, yet there were two million more vehicle registrations last year. Lots of this is good."

IS HERE

Vehicle Complexity

These aren't your fathers' cars anymore. Vehicles can no longer be repaired solely by heat and hammers – in fact, heat is the enemy of a lot of the exotic materials in these modern-day marvels in that it can destroy their structural integrity.

Aluminum is the material that has been talked about most, ever since Ford introduced the all-aluminum 2015 Ford F-150. But the steel manufacturers are not going to sit on the sidelines and watch aluminum take over – they're coming up with ways to make their products, for example advanced high-strength steel, lighter as well. The reality is vehicles are becoming an amalgam of different substrates, and body shops have to know how to identify these materials and what the recommended repair procedures are.

And then there are the computers and electronics. Body shops are finding more and more of a need for tools they may not have needed in the past, such as scan tools. Simply replacing a sideview mirror on a 2015 Ford F-150 requires recalibrating the truck's entire computer system. The question, "Is the system working?" has changed to, "Is the system calibrated correctly?"

For example, not all sensors store codes or faults. Sometimes the sensors don't know there's a problem because they're not calibrated correctly. For instance, a seat might not know if what's sitting in it is 30 lbs. or 90 lbs. because the sensors haven't been recalibrated. It won't put a light on the dash or store a code or fault; it just doesn't know it's not working correctly. That's why recalibration is required because there is no light to tell technicians that the calibration is off. These would include

forward crash warning systems and blind spot detection systems. Many of the OEMs and technical service bulletins provide this information, but if a shop isn't offering its techs access to it, they won't know about this.

Will repairing a certain area of a bumper affect the sensors within it and prevent the radar from detecting another object? Will the bake cycle in a booth damage any sensors? These are technical issues shops never used to have to deal with.

Autonomous vehicles are coming faster than anyone ever dreamed of, and they represent change which, of course, makes people uncomfortable. The shops that look at that change as a challenge and adapt to it will be the ones best positioned for future success.

Refinishes

Refinishes today are more complex, too. Today's paint chemistry is a necessary blend of air quality regulations and consumer desires. Environmental restrictions about solvent and particulate content drive what coating resins vehicle manufacturers employ. Dramatic finishes incorporate eye-catching and striking color effects that help sell cars.

Matching color and effect quickly makes refinishing collision damage very challenging. Chip decks, chromatic arrays and spectrophotometers all help to merge the unique color research and sophisticated chemistry of the paint companies with the talent of the shop painters. Locating a suitable match quickly is the key component. Quality materials, clean spray environments and – most importantly – trained painters enable shops to refinish to pre-accident condition with ever better coatings.

Certification

It has been reported that 60 percent of consumers who have to return their vehicle to a body shop for a problem will sell or trade their vehicle within one year. Of that 60 percent, 65 percent will change vehicle brands when they sell or trade their vehicle. That's a big reason why more and more car manufacturer certification programs are appearing: brand protection.

Collision repairers can no longer "wing it" or rely on their experience to properly and safely repair vehicles. Instead, they need to rely heavily on OE repair data, and one way to gain access to that data is through certification. Certification is also providing a way for shops to differentiate themselves in their respective markets, and gain additional exposure as the automakers promote these shops via "shop finders" on their websites, among other things.

OEMs have said within two or three years, vehicles will notify them when they get in an accident as well as tell them whether the vehicles are non-drivable as a result. Chances are those cars will go to certified body shops.

Consumers

With a more vested automaker comes a more educated consumer as well. Car buyers now receive literature on why it's important to take their vehicle to a certified facility and have access to websites that show them what can happen if non-original parts are installed on their vehicles. They're also seeing more and more stories on the evening news about vehicles that were not repaired properly and what the consequences were.

This consumer also expects a clean

STATE-by-STATE Breakdown of the

State	U.S. Census Estimated Population 2015	Light Vehicles Data (NHTSA) 2013	Reported Crashes	Crash Rate Reported Accidents	Total Crashes (est.)
Alabama	4,858,979	4,623,250	128,307	0.028	256,614
Alaska	738,432	735,387	12,576	0.017	25,152
Arizona	6,828,065	5,108,989	107,348	0.021	214,696
Arkansas	2,978,204	2,276,116	58,591	0.026	117,182
California	39,144,818	26,635,920	745,806	0.028	1,491,612
Colorado	5,456,574	4,436,974	100,881	0.023	201,762
Connecticut	3,590,886	2,711,074	118,848	0.044	237,696
Delaware	945,934	908,830	22,453	0.025	44,906
Washington D.C.	672,228	304,353	19,456	0.064	38,912
Florida	20,271,272	14,295,320	317,195	0.022	634,390
Georgia	10,214,860	7,471,253	342,156	0.046	684,312
Hawaii	1,431,603	1,269,289	35,540	0.028	71,080
Idaho	1,654,930	1,614,803	22,348	0.014	44,696
Illinois	12,859,995	9,708,973	285,477	0.029	570,954
Indiana	6,619,680	5,330,422	193,013	0.036	386,026
Iowa	3,123,899	3,313,465	49,968	0.015	99,936
Kansas	2,911,641	2,489,492	58,472	0.023	116,944
Kentucky	4,425,092	3,876,241	145,974	0.038	291,948
Louisiana	4,670,724	3,735,592	292,272	0.078	584,544
Maine	1,329,328	1,121,905	28,896	0.026	57,792
Maryland	6,006,401	3,665,285	92,518	0.025	185,036
Massachusetts	6,794,422	4,793,527	125,285	0.026	250,570
Michigan	9,922,576	7,845,193	289,061	0.037	578,122
Minnesota	5,489,594	4,923,037	77,707	0.016	155,414
Mississippi	2,992,333	2,027,035	71,284	0.035	142,568
Missouri	6,083,672	5,578,540	139,307	0.025	278,614
Montana	1,032,949	1,357,438	20,385	0.015	40,770
Nebraska	1,896,190	1,785,310	30,171	0.017	60,342
Nevada	2,890,845	2,105,925	49,466	0.023	98,932
New Hampshire	1,330,608	1,321,894	29,984	0.023	59,968
New Jersey	8,958,013	6,817,556	289,304	0.042	578,608
New Mexico	2,085,109	1,782,075	39,604	0.022	79,208
New York	19,795,791	10,139,430	304,804	0.030	609,608
North Carolina	10,042,802	7,523,392	295,790	0.039	591,580
North Dakota	756,927	790,651	18,977	0.024	37,954
Ohio	11,613,423	9,799,540	269,082	0.027	538,164
Oklahoma	3,911,338	3,298,661	69,430	0.021	138,860
Oregon	4,028,977	3,472,478	49,510	0.014	99,020
Pennsylvania	12,802,503	9,888,077	124,077	0.013	248,154
Rhode Island	1,056,298	804,803	43,901	0.055	87,802
South Carolina	4,896,146	3,771,779	113,260	0.030	226,520
South Dakota	858,469	903,860	16,620	0.018	33,240
Tennessee	6,600,299	5,143,024	173,507	0.034	347,014
Texas	27,469,114	19,203,160	445,829	0.023	891,658
Utah	2,995,919	1,973,621	55,637	0.028	111,274
Vermont	626,042	573,908	13,798	0.024	27,596
Virginia	8,382,993	6,721,051	121,763	0.018	243,526
Washington	7,170,351	6,080,382	99,709	0.016	199,418
West Virginia	1,844,128	1,354,776	51,376	0.038	102,752
Wisconsin	5,771,337	4,919,172	118,254	0.024	236,508
Wyoming	586,107	793,687	14,564	0.018	29,128
U.S. Total	321,418,820	243,125,915	6,739,541	0.028	13,479,082

Methodology

- Population:** The number of people in the state in 2015 as estimated by the U.S. Census Bureau. (Source: U.S. Census Bureau, Population Division)
- Light Vehicle Registrations:** The total number of automobiles and light trucks registered in that state in 2013. (SOURCE: U.S. Department of Transportation, Federal Highway Administration, Highway Statistics, MV-1 and MV-9, available at www.fhwa.dot.gov/policyinformation/statistics.cfm as of June 2015).
- Reported Crashes:** The total number of vehicle crashes reported to authorities. Depending on that state's data reporting capabilities, this typically refers to the years 2011 to 2014 except for West Virginia, where the latest report was in 2003. Data was collected mainly from state websites or by contacting the appropriate government agency. The actual number was obtained from all the states except for California and Hawaii, where it was not available and the number of crashes was estimated by using the national average rate. The national average crash rate is 0.028. The rate varies significantly from state to state and has a strong influence on the collision repair potential for that state. The crash totals include accidents involving just one

Collision Market

Damaged Vehicles (est.)	Repaired Vehicles (est.)	Repair Dollars Per State	Number Of Shops	BSB Repair Potential Per Shop	Vehicles In Use Per Shop	Repaired Vehicles Per Shop
384,921	250,199	\$625,496,625	644	\$971,268	7,179	389
37,728	24,523	\$61,308,000	86	\$712,884	8,551	285
322,044	209,329	\$523,321,500	537	\$974,528	9,514	390
175,773	114,252	\$285,631,125	429	\$665,807	5,306	266
2,237,417	1,454,321	\$3,635,803,080	4,230	\$859,528	6,297	344
302,643	196,718	\$491,794,875	624	\$788,133	7,111	315
356,544	231,754	\$579,384,000	387	\$1,497,116	7,005	599
67,359	43,783	\$109,458,375	81	\$1,351,338	11,220	541
58,368	37,939	\$94,848,000	15	\$6,323,200	20,290	2,529
951,585	618,530	\$1,546,325,625	2,320	\$666,520	6,162	267
1,026,468	667,204	\$1,668,010,500	1,205	\$1,384,241	6,200	554
106,620	69,303	\$173,257,949	122	\$1,420,147	10,404	568
67,044	43,579	\$108,946,500	185	\$588,900	8,729	236
856,431	556,680	\$1,391,700,375	1,637	\$850,153	5,931	340
579,039	376,375	\$940,938,375	782	\$1,203,246	6,816	481
149,904	97,438	\$243,594,000	583	\$417,828	5,683	167
175,416	114,020	\$285,051,000	460	\$619,676	5,412	248
437,922	284,649	\$711,623,250	649	\$1,096,492	5,973	439
876,816	569,930	\$1,424,826,000	636	\$2,240,292	5,874	896
86,688	56,347	\$140,868,000	232	\$607,190	4,836	243
277,554	180,410	\$451,025,250	590	\$764,450	6,212	306
375,855	244,306	\$610,764,375	1,052	\$580,575	4,557	232
867,183	563,669	\$1,409,172,375	1,441	\$977,913	5,444	391
233,121	151,529	\$378,821,625	897	\$422,321	5,488	169
213,852	139,004	\$347,509,500	352	\$987,243	5,759	395
417,921	271,649	\$679,121,625	863	\$786,931	6,464	315
61,155	39,751	\$99,376,875	189	\$525,804	7,182	210
90,513	58,833	\$147,083,625	390	\$377,138	4,578	151
148,398	96,459	\$241,146,750	238	\$1,013,222	8,848	405
89,952	58,469	\$146,172,000	223	\$655,480	5,928	262
867,912	564,143	\$1,410,357,000	1,044	\$1,350,917	6,530	540
118,812	77,228	\$193,069,500	179	\$1,078,601	9,956	431
914,412	594,368	\$1,485,919,500	2,383	\$623,550	4,255	249
887,370	576,791	\$1,441,976,250	1,230	\$1,172,338	6,117	469
56,931	37,005	\$92,512,875	148	\$625,087	5,342	250
807,246	524,710	\$1,311,774,750	1,451	\$904,049	6,754	362
208,290	135,389	\$338,471,250	496	\$682,402	6,651	273
148,530	96,545	\$241,361,250	402	\$600,401	8,638	240
372,231	241,950	\$604,875,375	2,061	\$293,486	4,798	117
131,703	85,607	\$214,017,375	169	\$1,266,375	4,762	507
339,780	220,857	\$552,142,500	589	\$937,424	6,404	375
49,860	32,409	\$81,022,500	199	\$407,148	4,542	163
520,521	338,339	\$845,846,625	798	\$1,059,958	6,445	424
1,337,487	869,367	\$2,173,416,375	2,692	\$807,361	7,133	323
166,911	108,492	\$271,230,375	263	\$1,031,294	7,504	413
41,394	26,906	\$67,265,250	114	\$590,046	5,034	236
365,289	237,438	\$593,594,625	828	\$716,902	8,117	287
299,127	194,433	\$486,081,375	708	\$686,556	8,588	275
154,128	100,183	\$250,458,000	205	\$1,221,746	6,609	489
354,762	230,595	\$576,488,250	873	\$660,353	5,635	264
43,692	28,400	\$70,999,500	63	\$1,126,976	12,598	451
20,218,623	13,142,105	\$32,855,261,654	38,974	\$843,005	7,007	394

vehicle and those of multiple vehicles, as well as motorcycle crashes. The total includes property damage-only crashes, crashes that resulted in injuries and crashes involving fatalities. Some states may have different thresholds for reporting a vehicle crash. Typically, this is a minimum of \$1,500 property damage. Some states may not express all crash data through a single reporting agency (typically the Bureau of Public Safety or the Highway Patrol). In these instances, the total shown for that state will be less than the actual number of crashes.

- **Crash Rate:** The percentage of registered vehicles that are involved in reported crashes during the year. The national average for the 48 states for which actual data was available is 0.028 (about 3% of all vehicles per year).
- **Number Of Shops:** This is the actual number of businesses as of March 2016 that have the primary U.S. Standard Industrial Classification (SIC) System code for automobile and truck body repair and paint shops.

STATE OF THE INDUSTRY

shop and a quality, fast repair at a great price. They may expect to be able to submit photos of their damaged cars they took with their cell phones and have estimates written from them. They may have purchased their insurance online, may demand an app that allows them to connect with a shop from the crash site and may want to request an estimate from a shop via its website. They will most likely try to find a shop by Googling “auto body shop [city] [state].” They may want to “like” a shop on Facebook, or follow it on Twitter or Instagram. It is through one of these channels that they may choose to ask for help after hitting a deer. Social media is a great way to connect with customers, yet only a small percentage of shops utilize it.

Consolidation

Once confined to only a certain part of the country, consolidation has exploded to where the Big Four (ABRA, Gerber, Caliber and Service King) now have locations all across the U.S., including the East Coast.

Although it's predicted that consolidation in 2016 will slow down, with most of the small- to medium-sized chains already acquired, this trend will continue changing market dynamics and providing healthy competition.

KPIs

Insurance companies are putting more and more emphasis on key performance indicators, or KPIs, mainly cycle time, touch time and CSI. It's all about the performance metrics these days, and those shops that want the lion's share of insurance work need a reliable and accurate way to measure and track these metrics and prove their numbers are better or at least on par with the market averages.

KPI measurement is one of the reasons insurers like the MSO model, with others being strong brand, single point of contact and consistency of

What Percentage Of Your Business Is Generated From Each Source?

Advertising.....	11%
DRPs.....	29%
Fleets.....	5%
Insurance Referral	11%
Word-of-Mouth	34%
Car Dealer.....	7%
Other	3%

Source: 2015 BodyShop Business Industry Profile

processes. MSOs go after insurance work aggressively and, in markets they have saturated, have raised expectations in regard to these KPIs.

Despite the insurers' love of the MSO model, the reality is that the industry is still largely made up of small, independent mom-and-pop shops that are holding their own through word-of-mouth and emphasis on personal relationships and quality work.

The struggle for all, both big and small, will be to keep up with the training, tools and technology the modern-day rocketships are requiring, which are changing at a pace the industry has not ever seen before.

Future Workforce

The industry is still fighting the dilemma of an aging workforce and not enough younger people interested in replacing them. But there are positive signs all around.

The Collision Repair Education Foundation, which is dedicated to supporting collision repair educational programs, schools and students to create qualified, entry-level employees and connect them with an array of career opportunities, has gone from raising \$300,000 in 2009 to \$50 million today. Not only that, the organization has started holding career fairs all across the country bringing together hundreds of high school and college collision students, industry members and sponsors. The first one, in 2014, raised more than \$200,000, which the foundation will use to support scholarships and grants for collision schools and students.

Also, some of the larger shop organizations are taking the bull by the horns and instituting or planning on instituting their own development programs where prospective employees are shown a clear path for moving up the ladder laden with incentives so that they can envision a prosperous career in the collision industry. Other shops are designing a program to facilitate and manage the process of bringing an intern into a shop and creating an environment that will motivate a person to remain with the shop no matter what.

Conclusion

The collision industry is facing a lot of challenges, but so are a lot of other industries. And just like in other industries, those who embrace those challenges and stay one step ahead of them will be best positioned for future success. The industry has adapted to change before, and many are confident that it will adapt to the current volley of changes happening now and in the future. ■

THE ESSENTIAL 3 T's

Technology, training and throughput performance remain essential drivers for success in 2016.

By Greg Benckart
PPG Vice President, Americas,
Automotive Refinish

Staying on top and competing effectively in the ever-changing business of collision repair is naturally a never-ending challenge. Yet, the odds of competing successfully increase dramatically if your shop's business plan focuses on keeping pace in three key areas: technology, training and cycle time performance. Part and parcel with the business plan is tapping into the industry's many resources that can assist in these areas.

There's no doubt that technologies used in vehicle construction continue to impact the business. The growing use of high-strength steel, aluminum and composite materials is now expanding beyond luxury vehicles to less expensive models, so it's critical to keep in step with the required tools, equipment and the latest repair procedures.

Don't overlook the front end, administrative side of the repair process. At PPG for example, we continue to update our MVP program's Advanced Estimating course to keep your team on top of creating accurate estimates in light of evolving construction materials.

In the refinish arena, advancements

in OEM coatings technology and the introduction of more sophisticated colors, including translucent finishes and now even quad-coats, present color-matching challenges that must be addressed. So it's wise to take advantage of refinish training and the latest color tool updates to ensure your refinish technicians have the knowledge and the means to get the color right the first time. It's an area on which PPG places primary focus. We're dedicated to continuously updating our color database and tools as well as our painter certification courses where technicians learn about new products and best practices for matching more exotic finishes. We're also devoting considerable investment in product advancements, such as new clearcoats featuring proprietary resin technology.

The need for continuous training in this ever-evolving business remains more critical than ever. View it as an investment that pays dividends not only in improving your KPIs but also in increased sales and gaining access to new work as well.

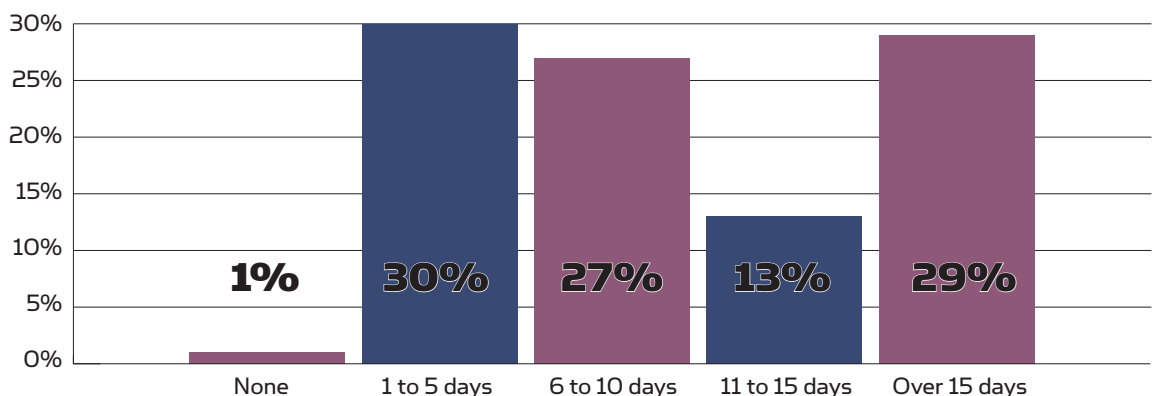
Any training initiative should be based on a realistic assessment of your shop's capabilities in context of the performance metrics valued most by the insurance carriers. First and foremost is your shop's throughput or cycle time

performance, which continues to be key for gaining access to work. This metric presents significant challenges for most shops and is a good reason why PPG's MVP Lean for Collision training program of Green Belt, White Belt and Rapid Improvement Workshops is in high demand.

Process improvement historically has been focused in the shop where the actual repairs are performed. But administrative costs in the front office have been climbing over the years, primarily due to more complex DRP programs. So your process improvement effort shouldn't overlook improving upon the complexity, cost and speed of your administrative processes. PPG, for example, is responding to this need through its new Lean for Administrative curriculum. This on-site MVP workshop focuses on the front office – what is done, who does it, how long it takes, and most importantly, how it can be done more effectively at lower cost.

Last year, more than 16,000 collision industry personnel attended PPG training courses across North America. That's a good indication that progressive collision centers are indeed taking advantage of the many resources available to keep pace with today's business climate. ■

How Many Days Has Your Shop Collectively Spent In Training Sessions/Seminars In The Past Year?



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