

State of the Industry

2010-11

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State of the



Assessing the "Big Picture"

By **Greg Benckart**
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On behalf of PPG, we invite you to examine this special report on collision repair's State of the Industry 2010-11.

Like with any business, it remains essential to devote time away from our day-to-day and focus on the big picture of the business climate in which we are operating. This is especially vital given today's economy and the current state of collision repair. While these are challenging times for all of us, they can act as a positive, driving force for evaluating your operation, strengthening any weak links and implementing changes to improve your competitive advantage.

As your industry partner in collision repair, it is our goal at PPG that you find the information in this special report useful and beneficial for strengthening your company's business model and positioning it for future success.



Market overcapacity, persistent economic woes and rapid changes in technology are altering the collision repair landscape and accelerating the industry's contraction.

By **Jason Stahl** / Editor

"The entire industry is evolving so fast, it's hard to keep up," said Jim Guthrie, CEO of Carcrafters at the recent PPG MVP North American Business Solutions Fall Conference.

Truer words were never spoken. Old repair methods are no longer applicable to modern-day vehicles. Consumers, their expectations, and their methods of choosing a collision repair facility and spreading word-of-mouth are changing. The world's attitude toward the environment is changing. People's driving and spending habits have changed, some believe permanently due to the second-toughest economic conditions the world has ever experienced. All of these conditions have made it exceptionally difficult for body shops to survive.

Then you look at the overcapacity situation that still exists in the collision repair market. Most agree that there are now about 39,000 to 45,000 shops, but some think that half that number could handle the available repairs today. As a result, insurers have reduced the number of their preferred facilities.

Shrinking Repair Pool

Why are there fewer and fewer repairs to go around? Ever since the late 1980s/early 1990s when center high mounted stop lamps (third brake lights) became federally mandated in vehicles, crashes have been on a steady decline. Other factors that have been cited for helping the decline are safer roads, less miles driven, higher salvage values (thus more total losses), an aging vehicle population, record-low new car sales, collision avoidance technology, a high number of uninsured motorists, higher deductibles and a record number of people (especially over the last couple of years) who are choosing not to spend their insurance checks on fixing their vehicles.

Not only are there fewer repairs for shops to compete for, insurers are funneling more work to fewer shops, leaving some shops that had previously been heavily reliant on insurance work scrambling to make up for the shortfall. And no shop has been immune to this market dynamic – both DRP and non-DRP shops have been impacted. It seems, however, that those independent shops with solid histories, a bias for continuous improvement and good marketing programs in place have been able to weather the

Industry 2010-11

storm, while those shops that continue to work under a more traditional performance model are experiencing more difficulty.

Even though most shops would easily rank insurers' reduction of the number of their preferred facilities as one of the industry's top challenges, there are a few shops that believe that this has helped more than hurt them. What there can be little doubt about is that this action has furthered the divide between DRP shops and non-DRP shops.

Still, it's interesting to note that, according to the latest *BodyShop Business* Industry Profile, there was a steady decline from 2003 to 2007 in the number of shops that said they were better off due to a DRP arrangement (83 percent to 65 percent). That seemed to indicate that shops were growing cold to the DRP business model. However, that number rebounded to 76 percent in 2009, perhaps indicating that the current economic conditions that make repairs hard to come by are leading repairers to believe that being on a DRP at least means stability and survival for another day.

Consolidation

Some feel that the only shops that will be left in the collision repair industry are the "mega shops" and very small shops. Shops hovering around the \$1 to \$2 million gross sales figure are thought to be in the most jeopardy, as their overhead costs are high enough to make it that much harder for them to keep their doors open versus a shop that has only one or two employees.

systems in place to ensure consistency, quality, speed and competitive price. These shops offer consistent repair performance, brand recognition, nimbleness when it comes to adapting to market needs, and the ability to handle claims processing, IT management and other administrative tasks that in the past typically have been relegated to insurers. This trend is causing some shop owners to contemplate whether expanding their operations or con-

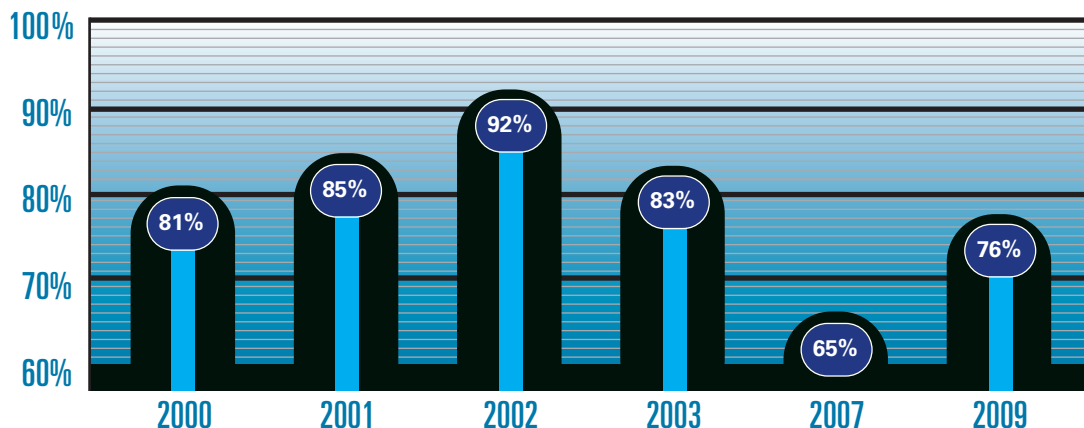
For any shop to have a chance at surviving, it will have to adapt to new consumer demands.

The industry is currently experiencing steady consolidation, with the big chains acquiring or converting more and more shops. Insurers have a growing preference for doing business with collision repair facility operators that have strong market presences, the ability to increase capacity, and rigorous

verting to a franchise is the right move for them.

Insurers are scrutinizing shops' performance metrics more than ever as a way to more precisely determine what shops can best deliver their needs, so those shops that already have or are in the process of implementing systems

Percentage Saying Shop's Better Off Due to DRP Arrangement



Reasons cited for being better off due to DRP arrangements include more workflow; more referrals; more exposure to new customers; and steady business. Since DRP affiliation, 40% of respondents say their profit margins have increased, 36% say they've stayed the same and 24% say they've decreased.

State-By-State Breakdown of the Collision Market

	Population 2009 (est.)	Light Vehicles (Polk data) 2008	Reported Crashes	Crash Rate Reported Accidents	Total Crashes
Alabama	4,708,708	4,353,849	135,227	0.0311	270,454
Alaska	698,473	549,544	10,578	0.0192	21,156
Arizona	6,595,778	4,324,067	106,767	0.0247	213,534
Arkansas	2,889,450	2,271,982	63,137	0.0278	126,274
California	36,961,664	30,047,073	823,290	0.0274	1,646,580
Colorado	5,024,748	3,906,581	107,040	0.0274	214,081
Connecticut	3,518,288	3,065,609	83,998	0.0274	167,995
Delaware	885,122	743,076	20,360	0.0274	40,721
Florida	18,537,969	15,098,852	243,342	0.0161	486,684
Georgia	9,829,211	7,334,758	342,534	0.0467	685,068
Hawaii	1,295,178	1,033,454	28,317	0.0274	56,633
Idaho	1,545,801	1,073,468	22,992	0.0214	45,984
Illinois	12,910,409	10,629,125	292,106	0.0275	584,212
Indiana	6,423,113	5,424,642	205,421	0.0379	410,842
Iowa	3,007,856	2,772,424	56,518	0.0204	113,036
Kansas	2,818,747	2,323,510	65,858	0.0283	131,716
Kentucky	4,314,113	3,343,550	128,552	0.0384	257,104
Louisiana	4,492,076	3,766,715	155,829	0.0414	311,658
Maine	1,318,301	1,082,863	28,715	0.0265	57,430
Maryland	5,699,478	4,712,725	95,349	0.0202	190,698
Massachusetts	6,593,587	5,545,761	136,384	0.0246	272,768
Michigan	9,969,727	9,486,458	290,978	0.0307	581,956
Minnesota	5,266,214	4,149,762	73,498	0.0177	146,996
Mississippi	2,951,996	1,859,656	73,739	0.0397	147,478
Missouri	5,987,580	4,757,819	155,849	0.0328	311,698
Montana	974,989	902,388	21,975	0.0244	43,950
Nebraska	1,796,619	1,574,165	34,662	0.0220	69,324
Nevada	2,643,085	1,670,405	53,156	0.0318	106,312
New Hampshire	1,324,575	1,220,092	41,000	0.0336	82,000
New Jersey	8,707,739	7,866,388	301,233	0.0383	602,466
New Mexico	2,009,671	1,660,048	46,441	0.0280	92,882
New York	9,541,453	13,380,842	316,231	0.0236	632,462
North Carolina	9,380,884	6,545,681	230,791	0.0353	461,582
North Dakota	646,884	651,677	16,387	0.0251	32,774
Ohio	11,542,645	10,374,267	298,647	0.0288	597,294
Oklahoma	3,687,050	2,911,098	71,218	0.0245	142,436
Oregon	3,825,657	3,035,529	41,271	0.0136	82,542
Pennsylvania	12,604,767	10,105,154	128,342	0.0127	256,684
Rhode Island	1,053,209	892,311	24,449	0.0274	48,899
South Carolina	4,561,242	3,003,672	111,980	0.0373	223,960
South Dakota	812,383	798,252	16,994	0.0213	33,988
Tennessee	6,296,254	4,679,830	152,843	0.0327	305,686
Texas	24,782,302	16,970,755	428,667	0.0253	857,334
Utah	2,784,572	1,659,093	56,367	0.0340	112,734
Vermont	621,760	617,919	13,730	0.0222	27,460
Virginia	7,882,590	6,244,084	116,744	0.0187	233,488
Washington	6,664,195	4,491,576	102,859	0.0229	205,718
Washington, D.C.	599,657	280,119	16,147	0.0576	32,294
West Virginia	1,819,777	1,516,497	39,896	0.0263	79,792
Wisconsin	5,654,774	4,862,619	125,103	0.0257	250,206
Wyoming	544,270	509,920	17,429	0.0342	34,858
U.S. Total	307,006,590	242,081,704	6,570,940	0.0282	13,141,880

Methodology

- Population:** The number of people in the state in 2009.
- Light Vehicle Registrations:** The total number of automobiles and light trucks registered in that state as of July 1, 2008.
- Reported Crashes:** The total number of vehicle crashes reported to authorities, which typically refers to the year 2007 or 2008 but, in some cases, might be from an earlier year. The actual number was obtained for 45 states. For some states, data was collected from state websites, the National Highway Traffic Safety Administration's site, or by contacting the appropriate government agency. For the remaining regions, the number of crashes was estimated by using the national average rate. The national average crash rate is 0.0274. The rate varies significantly from state to state and has strong influence on the collision repair potential for that state. The crash totals include accidents involving just one 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 45 states for which actual data was available is 0.0274 (about 3% of all vehicles per year).

	Damaged Vehicles	Repaired Vehicles	Repair Dollars per State	Number of Shops	BSB Repair Potential per Shop
	405,681	263,693	632,862,360	703	\$900,590
	31,734	20,627	49,505,040	92	\$537,164
	320,301	208,196	499,669,560	515	\$971,062
	189,411	123,117	295,481,160	492	\$599,986
	2,469,869	1,605,415	3,852,996,265	3,967	\$971,331
	321,121	208,729	500,948,695	595	\$841,648
	251,993	163,795	393,109,173	586	\$671,293
	61,081	39,703	95,286,122	104	\$919,041
	730,026	474,517	1,138,840,560	2,100	\$542,181
	1,027,602	667,941	1,603,059,120	1,265	\$1,266,960
	84,950	55,217	132,521,873	175	\$758,481
	68,976	44,834	107,602,560	261	\$412,081
	876,318	569,607	1,367,056,080	2,028	\$673,931
	616,263	400,571	961,370,280	1,011	\$951,023
	169,554	110,210	264,504,240	884	\$299,159
	197,574	128,423	308,215,440	587	\$525,463
	385,656	250,676	601,623,360	763	\$788,291
	467,487	303,867	729,279,720	685	\$1,063,959
	86,145	55,994	134,386,200	300	\$447,238
	286,047	185,931	446,233,320	677	\$659,328
	409,152	265,949	638,277,120	1,180	\$540,986
	872,934	567,407	1,361,777,040	1,704	\$799,165
	220,494	143,321	343,970,640	1,094	\$314,301
	221,217	143,791	345,098,520	426	\$809,634
	467,547	303,906	729,373,320	1,083	\$673,550
	65,925	42,851	102,843,000	261	\$393,853
	103,986	67,591	162,218,160	510	\$318,225
	159,468	103,654	248,770,080	221	\$1,126,676
	123,000	79,950	191,880,000	287	\$668,478
	903,699	587,404	1,409,770,440	1,157	\$1,218,681
	139,323	90,560	217,343,880	254	\$854,339
	948,693	616,650	1,479,961,080	2,660	\$556,343
	692,373	450,042	1,080,101,880	1,382	\$781,324
	49,161	31,955	76,691,160	229	\$334,254
	895,941	582,362	1,397,667,960	1,962	\$712,282
	213,654	138,875	333,300,240	603	\$552,847
	123,813	80,478	193,148,280	515	\$375,366
	385,026	250,267	600,640,560	2,809	\$213,830
	73,348	47,676	114,422,824	204	\$559,580
	335,940	218,361	524,066,400	652	\$803,980
	50,982	33,138	79,531,920	249	\$319,868
	458,529	298,044	715,305,240	857	\$834,389
	1,286,001	835,901	2,006,161,560	2,928	\$685,164
	169,101	109,916	263,797,560	314	\$840,334
	41,190	26,774	64,256,400	154	\$418,336
	350,232	227,651	546,361,920	842	\$648,948
	308,577	200,575	481,380,120	755	\$637,961
	48,441	31,487	75,567,960	34	\$2,249,046
	119,688	77,797	186,713,280	306	\$609,696
	375,309	243,951	585,482,040	1,246	\$469,859
	52,287	33,987	81,567,720	122	\$669,027
	19,712,820	12,813,333	30,751,999,432	44,791	\$701,775.09

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- Total Crashes:** There are nearly 7 million traffic crashes reported each year, but the federal government estimates that at least as many go unreported. What the actual number may be is unknown. Some estimates have the total number of crashes at over 16 million annually – meaning that less than half the accidents are reported to police. This analysis uses the assumption that the actual number of accidents is twice the number of those reported. It may be as high as three times the reported number, and this would have a large effect on our estimates. The total crashes figure is thus the approximate number of crashes in each state (and probably lower than the actual number in many cases).
- Damaged Vehicles:** Though many crashes involve only one vehicle, some can result in 2, 3 or more damaged vehicles. Some involve only a bicycle, motorcycle or trailer, or otherwise result in damage that won't be seen in a collision repair shop. In this analysis, we assume that each crash results in 1.5 damaged vehicles.
- Repaired Crashes:** Not all crashed vehicles are repaired. Some sources report that up to 20% of such vehicles are being totaled, and another fraction, though not totaled, are not being repaired. We estimate that about 65% of damaged vehicles are being repaired. This column represents the total crashes multiplied by 0.65.
- Repair Dollars per State:** Vehicle crashes can vary significantly in severity. For the purposes of this report, we assume that crashes in one state result in the same damage value as those in another area. We're using an average of \$2,400 per repair. The figure for each state does not include non-collision related repairs such as rust repair, repainting, customization, detailing, non-collision glass repair and other vehicle body/interior repairs that are not caused by a crash. Thus, the total for each state and the national total will not equal the estimated total repair/refinish market quoted by other sources.

to most easily and accurately track these metrics on every single vehicle will most likely get an increasing share of insurance work.

One franchisor declared the next couple years as perhaps the best business opportunity it will ever see to increase market share, hinting that it feels an increasing number of shops will continue to struggle and, as a result, will look at the possibility of converting to a franchise.

Price Pressure

The pressure for shops to produce high-quality repairs at low prices hasn't wavered. If anything, it has increased. Some of the factors include insurers' reduced investment portfolios, shrinking premium dollars and increasing competition for those premium dollars. This all adds up to insurers being more aggressive with cost containment strategies.

Meanwhile, shops are faced with increasing costs from upgrading equipment necessary to perform the proper repairs on modern vehicles, training their employees on the latest repair techniques, and investing in management, estimating and performance-tracking software solutions to stay current with market demands. Increased cost containment strategies from insurers coupled with increasing business costs have forced shops to rethink their business models and pursue leaner

ones that increase efficiency and reduce waste.

The Changing Consumer

The consumer of today has changed, too, putting added pressure on shops. For any shop to have a chance at surviving, it will have to adapt to these new consumer demands.

The world of instantaneous commu-

nication has consumers desiring to be constantly updated on repairs, giving cutting-edge shops a reason to consider installing repair status tracking systems.

ness of the repair – has to be better than ever before given that the average consumer has the ability to praise or deride a shop to thousands of people via the Internet. The Internet is where many consumers are searching for shops now, so shops have to rethink their marketing strategies and consider such things as website upgrades and search engine optimization. How far up on the list does their shop name show up when doing a Google search?

Consumers also have handheld mobile devices at the scenes of accidents that allow them to begin the claims process there, which has forced shops to think of ways to connect with them at that moment versus when they first walk in the shop...if they ever do.

Summary

The bottom line is that conditions for collision repair facilities are tougher than they've ever been in the history of the industry. Those shops that either let go of the "old way" of doing things years ago or have at least accepted the fact that they have to change will be in the best position for future growth and success.

The visionaries who saw the future well in advance and proactively geared up for change will be the ones with the best chance to survive. Those that played reactionary roles will likely get left behind.

TOP 5

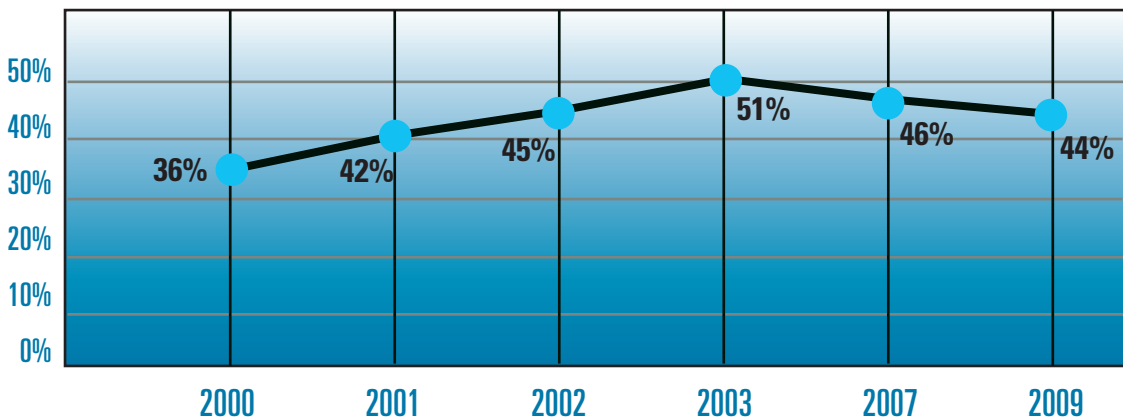
Challenges Cited by Shop Owners

1. Making a profit in general.
2. Getting labor rate increases.
3. Keeping busy.
4. Insurer reduction of preferred facilities.
5. The economy/getting on a DRP.

nication has consumers desiring to be constantly updated on repairs, giving cutting-edge shops a reason to consider installing repair status tracking systems.

The overall consumer experience – influenced by such things as the cleanliness of the shop, the friendliness of the staff, the shops' "green" practices, and the quality and timeli-

Percentage Involved in DRPs, 2000-2009





The New Normal

Thriving within the realities of today's collision repair business.

By Jim Berkey

Director, PPG MVP Business Solutions

The change that is impacting collision repair has been well chronicled in this report. It really comes down to the fact that we are now playing by a new set of rules. It is a completely new game in collision – the New Normal.

Whenever transformational change takes hold of an industry, it serves to level the playing field. Those who were very strong in the old model will not necessarily be strongest in the new model. In other words, what got us here will not keep us here.

Perhaps the most daunting challenge is the fact that the industry is consolidating faster than ever. This New Normal impacts everyone – collision centers, paint suppliers, insurance companies and distributors. As any industry consolidates, there are ultimately fewer, stronger players. There are stronger relationships between these fewer players, and these relationships tend to be performance-based. Deals become larger and business changes hands faster than ever before. If your business is going to grow, it will take capturing business from someone else.

It is essential, then, to develop the most effective relationships with those in the industry who are doing the right things, performing the best, and are most likely to survive. Partner with the best! At PPG, we understand how the New Normal impacts our customers. We are ensuring our products and value-added services provide our partners the best chance to capitalize on the opportunities that lie ahead.

For example, our customers are hav-

ing unparalleled success with PPG's waterborne basecoat technology. Talk to a painter who's using the product, and he or she will tell you the success they're experiencing with quality, color accuracy, ease of use and improved productivity. There's no doubt in my mind that these shops now think of PPG waterborne technology not only as an environmental solution, but also as a marketing tool providing empiri-

While continuous performance improvement is essential, shops also need to be the best at marketing that performance. If we consider nothing else but the evolution of social media, it requires us to re-think how we are marketing our businesses. We need to effectively reach customers who are making more Internet-based decisions than ever before. We need to manage our digital reputation. Chances are

“For some, the change within the industry represents extraordinary opportunity, while for others that same change may threaten their very existence.”

cal evidence of their shop's high quality standards.

Many of our customers across the country are gaining a leadership position within their markets by systematically implementing more effective processes that can simultaneously meet market demands for quality, speed and cost. PPG has over 1,400 graduates from our MVP Green Belt training, a four-day comprehensive workshop designed to prepare shop owners and their employees to recognize and drive waste from their processes. It involves not just training, but the on-site support that many require to successfully implement the process changes.

that someone is online right now talking positively or negatively about your business. If your collision center needs expert guidance in the area of marketing, consider attending PPG's new MVP Accelerated Sales & Marketing Systems course. This new workshop offers a bounty of ideas and strategies for keeping pace with the times.

The game has changed and will continue to change. What appears to us today as a constant churn of challenges is the New Normal. We encourage you to partner with the best, embrace the challenges ahead and thrive as never before.



Take your shop to the next level.

With PPG Technology and Expert Guidance.

Looking to achieve a competitive edge in today's demanding collision repair marketplace? Then take advantage of PPG's highly acclaimed MVP Throughput Performance training and industry-leading waterborne basecoat technology offering the latest advance in color matching accuracy. Two proven examples of how PPG is helping today's progressive collision centers gain the competitive advantage in quality, speed and cost.



Aim high. PPG will help you get there.



MVP THROUGHPUT PERFORMANCE

