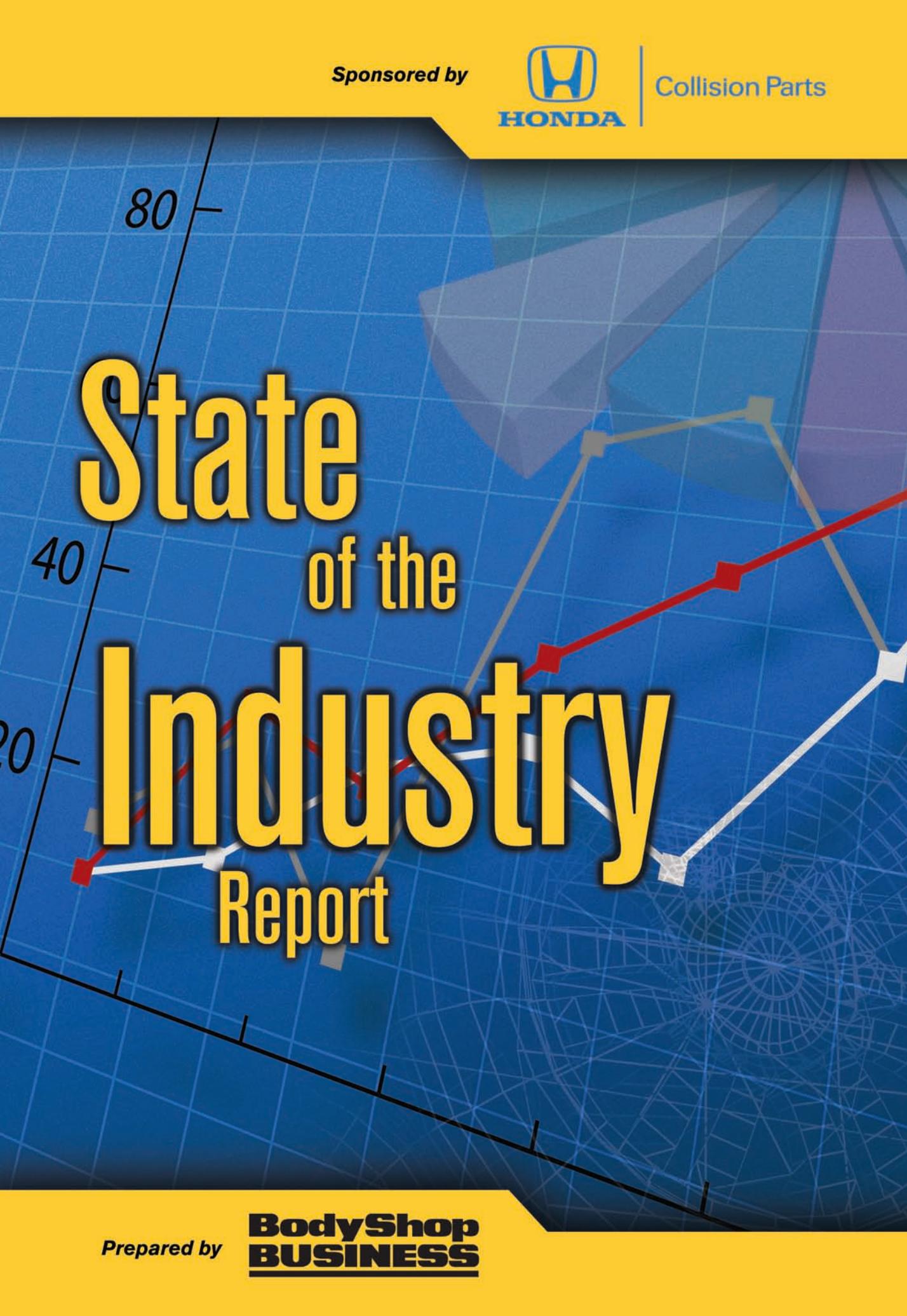


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Collision Parts

A background graphic featuring a blue grid with a white line graph. The graph has a vertical axis on the left with tick marks at 20, 40, and 80. Three lines are plotted: a red line with square markers, a grey line with square markers, and a white line with square markers. The red line shows a steady upward trend. The grey line fluctuates, peaking around the 40 mark. The white line starts at the 20 mark and trends upwards. The text 'State of the Industry Report' is overlaid on the graph in a large, bold, yellow font with a black outline.

State of the Industry Report

Prepared by

**BodyShop
BUSINESS**

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State of the Industry 2008

Too many shops, not enough work, too much insurer involvement and not enough business expertise on the part of shop owners continues to wreak havoc on body shops' bottom lines.

It's been a year since *BodyShop Business* last reported on the state of the collision repair industry, and not much has changed. If anything, things have gotten worse for body shops. Things certainly haven't gotten better, specifically taking note of the recent high-profile closing of a multi-location operator and a franchise operation's nationwide release of an open letter to the industry detailing the industry's troubles and calling for a "responsible pushback" against insurance companies. It seems that even those collision repair facilities that decided "high volume" would be the key to making an acceptable profit in the direct-repair model of doing business with insurance companies have found that strategy isn't working.

Survey Says

One look at the response back from a survey conducted by *BodyShop Business* in 2007 shows the industry's changing attitude toward direct-repair programs (DRPs). In 2003, 65 percent of DRP shops thought the concept of DRPs was good for the industry. In four short years, that number dropped to 36 percent. Coupled with the fact that 65 percent of respondents who are on a DRP said they were better off than if they weren't on one (a significant decrease from 83 percent in 2003), this would seem to indicate that shop owners still value DRPs in regard to sales volume but are getting squeezed more and making a lower net profit. The following numbers would seem to support that: 76 percent said that since being on a DRP, their profit margin has either

stayed the same or decreased compared with only 24 percent who said it increased.

Supply and Demand

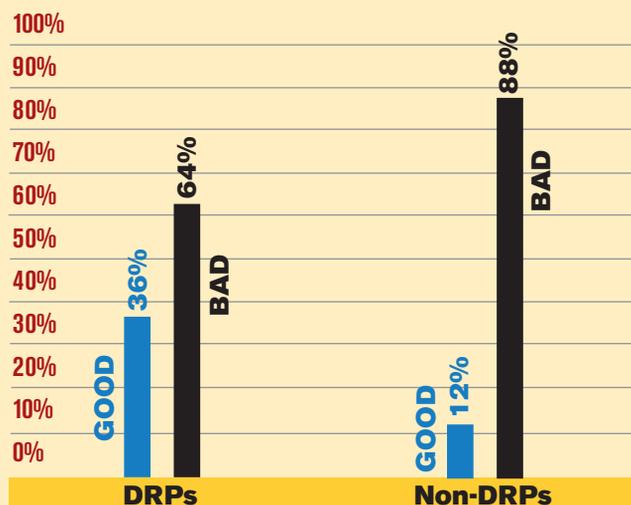
The bottom line is that insurance companies are having their way with body shops because of market conditions. It comes down to the laws of supply and demand, and right now, there are too few repair jobs and too many shops. Shops are desperate for work and will do anything to get it, including working for free or at a net loss. They would rather hang on to the work even if they have to grant an insurance company so many concessions that it's unprofitable rather than give it up and watch another shop take it on. As long as this environment exists, insurance companies will continue to have the upper hand while shops suffer.

The pendulum will swing the other way some day as the weak shops close and market conditions reverse to where there are too many repair jobs and

too few shops, but the guess as to when that will happen varies. At IBIS 2005 in Switzerland, a presenter indicated that the number of shops in North America is forecasted to be reduced 40 percent by 2010 – four out of 10 collision repair facilities will be gone by 2010. Those shops that are the best at controlling costs, operating efficiently, keeping up with training and technology, and delivering everything a customer wants – quality, service and speed at a lower cost – will be the ones left standing.

Why is there a smaller repair pool? The reasons are many: insurance companies "total-
continued on pg. 6

Do You Think the Concept of DRPs Is Good or Bad for the Industry?



DRP shop owners who say DRPs are bad for the industry significantly increased from our last Industry Profile in 2003, when only 35% said they were bad. Coupled with the fact that 65% of respondents who are on a DRP said they were better off than if they weren't on one (a significant decrease from 83% in '03), this would seem to indicate that shop owners still value DRPs in regard to sales volume but possibly are getting squeezed more and making a lower net profit. The following numbers would seem to support that: 44% said that since being on a DRP, their profit margin has stayed the same, while 32% said their profit margin has decreased compared with only 24% who said it increased.

State-by-State Breakdown of the

	Population 2007 (000)	* Light vehicles (Polk data) 2006	Reported Crashes	Crash Rate Reported Accidents	Total Crashes
Alabama	4,627	4,330,493	143,994	0.0333	287,988
Alaska	683	529,723	14,619	0.0276	29,238
Arizona	6,338	4,202,809	139,265	0.0331	278,530
Arkansas	2,835	2,197,250	67,485	0.0307	134,970
California	36,553	28,373,361	532,725	0.0188	1,065,450
Colorado	4,861	3,730,085	111,088	0.0298	222,176
Connecticut	3,502	3,056,254	81,770	0.0268	163,540
Delaware	865	728,364	21,345	0.0293	42,689
Florida	18,251	14,845,775	256,200	0.0173	512,400
Georgia	9,545	7,122,472	347,653	0.0488	695,306
Hawaii	1,283	1,010,494	11,006	0.0109	22,012
Idaho	1,499	1,076,201	28,238	0.0262	56,476
Illinois	12,853	10,415,707	421,532	0.0405	843,064
Indiana	6,345	5,423,625	192,724	0.0355	385,448
Iowa	2,988	2,736,547	58,434	0.0214	116,868
Kansas	2,776	2,309,762	65,460	0.0283	130,920
Kentucky	4,241	3,328,820	127,252	0.0382	254,504
Louisiana	4,293	3,734,655	109,444	0.0293	218,887
Maine	1,317	1,067,341	35,226	0.0330	70,452
Maryland	5,618	4,678,515	109,130	0.0233	218,260
Massachusetts	6,450	5,505,937	158,082	0.0287	316,164
Michigan	10,072	9,572,743	315,322	0.0329	630,644
Minnesota	5,198	4,131,355	78,745	0.0191	157,490
Mississippi	2,919	1,873,844	54,913	0.0293	109,826
Missouri	5,878	4,700,482	168,981	0.0359	337,962
Montana	958	871,227	22,186	0.0255	44,372
Nebraska	1,775	1,518,710	32,780	0.0216	65,560
Nevada	2,565	1,653,737	61,142	0.0370	122,284
New Hampshire	1,316	1,212,802	40,885	0.0337	81,770
New Jersey	8,686	7,717,711	255,425	0.0331	510,850
New Mexico	1,970	1,638,227	49,318	0.0301	98,636
New York	19,298	13,084,230	383,432	0.0293	766,863
North Carolina	9,061	6,419,000	231,592	0.0361	463,184
North Dakota	640	630,174	18,467	0.0293	36,934
Ohio	11,467	10,198,815	334,206	0.0328	668,412
Oklahoma	3,617	2,923,030	75,511	0.0258	151,022
Oregon	3,747	3,057,256	44,878	0.0147	89,756
Pennsylvania	12,433	10,106,026	128,342	0.0127	256,684
Rhode Island	1,058	878,912	46,319	0.0527	92,638
South Carolina	4,407	3,007,112	111,983	0.0372	223,966
South Dakota	796	782,213	16,254	0.0208	32,508
Tennessee	6,157	4,567,331	133,845	0.0293	267,690
Texas	23,904	16,250,207	476,210	0.0293	952,421
Utah	2,645	1,647,423	53,905	0.0327	107,810
Vermont	621	614,244	18,000	0.0293	36,001
Virginia	7,712	6,120,676	151,692	0.0248	303,384
Washington	6,468	4,476,429	131,181	0.0293	262,362
Washington, D.C.	588	274,329	8,039	0.0293	16,078
West Virginia	1,812	1,491,234	51,376	0.0345	102,752
Wisconsin	5,602	4,783,369	125,174	0.0262	250,348
Wyoming	523	477,851	15,882	0.0332	31,764
U.S. Total	301,616	237,084,889	6,668,657	0.0294	13,337,314

Methodology

- **Population:** The number of people in the state in 2007.
- **Light vehicle registrations:** The total number of automobiles and light trucks registered in that state as of July 1, 2006.
- **Reported crashes:** The total number of vehicle crashes reported to authorities, which typically refers to the year 2005 or 2006 but, in some cases, might be from an earlier year. The actual number was obtained for 40 states. For some states, data were collected from state Web sites and 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 crash rate of 0.0293. 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 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 40 states for which actual data were available is 0.0293 (about 3% of all vehicles per year).

Collision Market

	Damaged Vehicles	Repaired Vehicles	Repair Dollars per State	Number of Shops	BSB Repair Potential per Shop	Vehicles per Shop
	374,384	262,069	628,965,792	805	\$780,897	5,377
	38,009	26,607	63,855,792	128	\$500,124	4,149
	362,089	253,462	608,309,520	588	\$1,035,385	7,153
	175,461	122,823	294,774,480	608	\$485,082	3,616
	1,385,085	969,560	2,326,942,800	4,600	\$505,822	6,168
	288,829	202,180	485,232,384	701	\$692,398	5,323
	212,602	148,821	357,171,360	689	\$518,180	4,434
	55,496	38,847	93,233,287	126	\$741,359	5,792
	666,120	466,284	1,119,081,600	2,410	\$464,426	6,161
	903,898	632,728	1,518,548,304	1,443	\$1,052,443	4,936
	28,616	20,031	48,074,208	216	\$222,566	4,678
	73,419	51,393	123,343,584	287	\$429,709	3,749
	1,095,983	767,188	1,841,251,776	2,290	\$804,181	4,549
	501,082	350,758	841,818,432	1,220	\$689,925	4,445
	151,928	106,350	255,239,712	1,032	\$247,325	2,652
	170,196	119,137	285,929,280	698	\$409,688	3,309
	330,855	231,599	555,836,736	900	\$617,926	3,701
	284,553	199,187	478,049,659	743	\$643,370	5,026
	91,588	64,111	153,867,168	347	\$443,984	3,080
	283,738	198,617	476,679,840	767	\$621,454	6,099
	411,013	287,709	690,502,176	1,372	\$503,340	4,014
	819,837	573,886	1,377,326,496	1,892	\$727,912	5,059
	204,737	143,316	343,958,160	1,212	\$283,906	3,410
	142,773	99,941	239,858,966	496	\$483,275	3,775
	439,351	307,545	738,109,008	1,309	\$563,683	3,590
	57,684	40,379	96,908,448	300	\$323,546	2,909
	85,228	59,660	143,183,040	559	\$256,270	2,718
	158,969	111,278	267,068,256	258	\$1,034,186	6,404
	106,301	74,411	178,585,680	338	\$528,485	3,589
	664,105	464,874	1,115,696,400	1,345	\$829,539	5,738
	128,227	89,759	215,421,024	314	\$686,229	5,219
	996,923	697,846	1,674,829,855	3,156	\$530,600	4,145
	602,139	421,497	1,011,593,856	1,590	\$636,319	4,038
	48,015	33,610	80,664,604	247	\$326,948	2,554
	868,936	608,255	1,459,811,808	2,302	\$634,127	4,430
	196,329	137,430	329,832,048	711	\$463,664	4,109
	116,683	81,678	196,027,104	599	\$327,235	5,104
	333,689	233,582	560,597,856	3,317	\$169,018	3,047
	120,429	84,301	202,321,392	236	\$856,713	3,722
	291,156	203,809	489,141,744	755	\$648,248	3,985
	42,260	29,582	70,997,472	275	\$258,586	2,849
	347,997	243,598	584,635,268	983	\$594,722	4,646
	1,238,147	866,703	2,080,086,626	3,324	\$625,869	4,889
	140,153	98,107	235,457,040	392	\$601,146	4,206
	46,801	32,761	78,625,505	173	\$455,009	3,555
	394,399	276,079	662,590,656	998	\$663,653	6,130
	341,071	238,750	572,999,476	879	\$651,610	5,091
	20,902	14,631	35,115,127	42	\$831,324	6,495
	133,578	93,504	224,410,368	360	\$623,362	4,142
	325,452	227,817	546,760,032	1,484	\$368,397	3,223
	41,293	26,841	64,417,392	146	\$441,457	3,275
	17,338,508	12,134,891	29,123,738,598	51,959	\$565,385	4,401

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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 more than 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:** Although 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 1.3 damaged vehicles.
- **Repaired vehicles:** Not all crashed vehicles are repaired. Some sources report that up to 20% of such vehicles are being totaled, and another fraction, although 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.

continued from pg. 3

ing” more vehicles, increasing prevalence of stability-control/crash avoidance technology, high gas prices (people driving fewer miles), safer roads, milder weather conditions and more “cash-outs” or people opting not to repair their car and instead using their insurance check for something else. Insurance companies claim they don’t track this figure, but those in the know claim it’s probably between 10 and 20 percent. Also, drivers are reporting fewer crashes to their insurance companies. Nobody knows precisely why fewer auto claims are being filed with insurance companies, but it’s likely due, at least in part, to fear of retribution: Consumers fear a raise in their premiums or even being dropped by their insurer if they do file a claim.

Repairer Concerns

By a long shot, the biggest complaint heard from shop owners is too many vehicles are being “steered” away from their shops by insurance companies to ones within the insurers’ preferred networks. And it’s not just non-DRP shops that are the victims – more and more DRP shops are complaining, too. Some shops want to see the whole DRP concept overhauled or abolished; others would simply like to see bad DRPs go away. But fear rules right now because of, once again, market conditions. Shops solely reliant on DRP work know that dropping it could spell disaster, so they would rather keep it even if it means just breaking even. This way, they can at least stay open and keep their employees and hopefully be around when things do take a turn for the better.

Right up there with steering as far as things shop owners say are creating a hostile business environ-

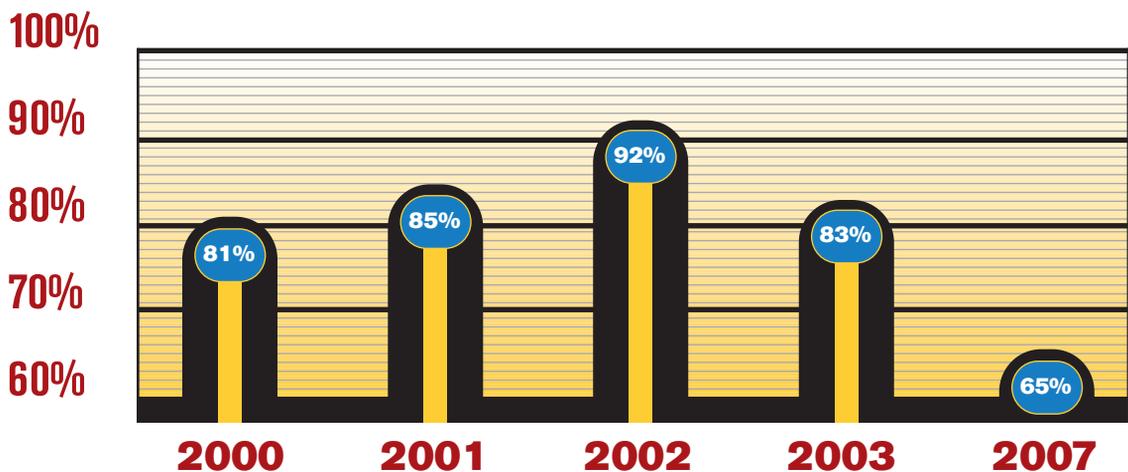
ment for them is labor rate suppression. Shops aren’t able to charge what’s necessary to make an acceptable profit because of insurance companies’ insistence on paying the “prevailing rate” in a given market region, which insurers say is based on surveys they’ve conducted or other information they have. Therefore, Shop A that has better training and equipment than Shop B can generally not charge any more than Shop B, effectively reducing collision repair to a commodity. Once again, the supply/demand phenomenon is in part dictating this. Shops are desperate for work, so there’s always one willing to do the work for the rate the insurer insists on paying.

Shop owners overall are expressing a desire to take back control of their businesses and put a halt to such things as insurance companies dictating how their customers’ vehicles are repaired, but they’re unsure how to go about that without suffering potentially devastating consequences. They understand that they need to do a better job of marketing, educating their customers about the claims process and understanding their financials in order to know their true cost of doing business.

Summary

Body shops realize they need to become more adept at running a business instead of fixing cars. At the same time, they’re at the mercy of market conditions. Sometimes, whether a decision is right or wrong depends on the shop and its regional market dynamics. Those shops that make more right decisions than wrong ones and continue to make improvements in operating efficiency will most likely be around when the much anticipated “market correction” occurs.

Percentage Saying Shops Better Off Due to DRP Arrangement



Reasons cited for being better off due to DRP arrangements include more control of repair decisions; increased business volume; the ability to write an accurate estimate; streamlined claims handling and repair process (inspect vehicle, write the estimate yourself, start repair immediately, no waiting for supplements); reduced cycle time; and better CSI. Since DRP affiliation, 24% of respondents say their profit margins have increased, 32% say they’ve decreased and 44% say they’ve stayed the same.

Daily Stock Orders Benefit Collision Repairers



■ TORRANCE, Calif., Feb. 1, 2008 – American Honda Motor Co, Inc. is pleased to announce the completed launch of its Daily Stock Order (DSO) system, providing Honda and Acura dealers with daily parts delivery. The enhanced service level to dealers is designed to provide superior parts availability across the spectrum of parts consumers, including collision repairers and independent mechanical repair shops.

Honda's Troy, Ohio, Parts Center (PC) was the first to launch DSO on Nov. 6, 2006. Subsequent PCs launched the new system, averaging about one PC per month and completing the rollout with the Alpharetta, Ga., PC in August 2007.

Before the rollout of DSO, dealers typically placed Scheduled Stock Orders on a weekly basis, supplemented with Daily and Urgent parts orders, the latter two incurring freight charges borne by the dealer. Under the new system, dealers can order parts on a daily basis at no additional cost. Depending on a dealer's proximity to its PC, the majority of dealers can order parts as late as 3 p.m. and receive them by 7 a.m. the following day at no additional cost to the dealer. American Honda calculates that 88 percent of dealers will receive their parts order by 7 a.m., while up to 95 percent of dealers will receive their order by 9 a.m.

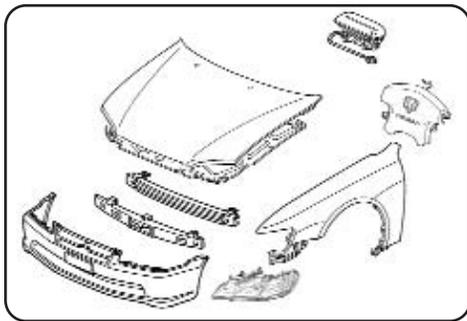
As part of the new delivery system, dealership parts managers have been trained by American Honda on how to best take advantage of a new parts stocking strategy, which reduces inventory depth while increasing breadth to optimize parts availability, resulting in higher customer satisfaction for all parts-consuming market sectors.

The new system will inherently provide a better array of parts in stock at the dealer level and will better facilitate the acquisition of those odd or finish parts sometimes needed on collision repair supplements or on a vehicle-down situation for mechanical repairs.

The launch of the new system had been pending for more than five years as Honda made internal infrastructure and logistics enhancements, including a \$25 million upgrade to its warehouse management system, which enables more efficient processing of parts orders. Parts are now delivered to dealers in specially designed cages, minimizing parts damage. The result is a system-wide parts fill-rate of 98.5 percent with minimal damage, thereby optimizing the number of parts deliverable to collision repairers and mechanical shops.

Honda and Acura Collision Impact Kits Expanded

■ TORRANCE, Calif., Feb. 1, 2008 – American Honda Motor Co, Inc. is pleased to announce the expansion of its Collision Impact Kit program to include select 2007 Honda and Acura models. These will include:



- 1998-2007 Honda Accord Sedan, Hybrid and Coupe
- 1996-2007 Honda Civic Sedan, Hybrid and Coupe
- 2002-2007 Honda CR-V
- 1999-2007 Honda Odyssey
- 1999-2007 Acura TL
- 2001-2007 Acura MDX
- 2001-2003 Acura CL

Honda and Acura Collision Impact Kits provide, at a substantial cost savings, those parts commonly damaged in a major front-end collision, thereby reducing the overall repair cost and enabling some borderline vehicles to be repaired rather than totaled.

Kit parts include front bumper cover, absorber and support beam, right and left fenders and headlamps, hood, airbags, driver's airbag, driver's pre-tensioner seat belt and SRS control unit.

Vehicle applications go back to 1996 for select Honda models and 1999 for select Acura models. For most 2002 and newer Honda Collision Impact Kits, the passenger side airbag has been replaced with the SRS unit and driver's side pre-tensioner seat belt because of changes in airbag deployment technology.

The kits are available through any respective Honda or Acura dealer. Contact your local dealer for full details and application information.

It's No Accident!

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