

Collision Repair Industry:

# Paint and Material Compensation and Cost Study

Improving Paint and Material Compensation Through Industry Collaboration

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January 8, 2012

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## **Executive Summary**

The Paint and Material Compensation Cost Study is based on a peer-contributed panel of over 65 collision industry professionals. A cross-sample of representatives were interviewed to articulate their perspectives on the issues surrounding paint and material compensation from the viewpoint of their respective constituencies.

If requested, future topics will be discussed with the panel and feature a wide range of data, ideas and expertise. We anticipate the study will generate further discussion and introduce new evidence and ideas that evolve in the collision repair industry.

### **Study Topic: Paint and Material Compensation Methodology**

Innovative advances in paint and material technology have undoubtedly improved the quality of collision repairs in the United States. For some Repairers, receiving proper compensation for these advances have not presented a problem. For others, the lack of properly negotiated rates or alternative compensation methods have presented some serious challenges.

Although profitability on paint and materials may not be viewed as the most significant driver of a shop's success, it could be an inhibitor if not permitted to keep pace with future concerns.

On July 20th, 2011, in Salt Lake City, UT, the Collision Industry Conference (CIC) Refinish Committee, comprised of: Moderator, John Bosin, (Fix Auto), Doug Kelly, President, (CynCast), Aaron Marshall, CEO, (Marshall Auto Body), Joe Mattos, CEO, (Pro Finishes Plus) and Richard Palmer, CEO, (ComputerLogic), presented the topic: "Improving Paint Shop Efficiency in a Consolidating Market". A segment of the presentation included the impact on the current methodology for paint and materials compensation in consideration of existing or potential new technology.

Due to time constraints, the panel had only a limited opportunity to fully discuss the topic during the scheduled session. To further explore the challenges related to this compensation methodology issue, panelist Richard Palmer commissioned this independent study.

In the interview process, key individuals and organizations have been identified to interact with the CIC Refinish Committee and continue the discussion.

## **Study Objectives**

1. Consider the opinions of a representative cross-sample of constituencies to clarify the profitability/performance dynamic of multiplying the number of refinish hours/units by a specified dollar rate as a primary method of compensation for paint and material usage.
2. To identify the different methods of paint & materials compensation being used and estimate their prevalence in the industry so that the CIC Refinish committee can recommend alternative solutions based on the advantages and disadvantages of each method.
3. To identify the strengths and weaknesses of the different compensation methods relative to their accuracy, fairness and ease of use.
4. To encourage suggestions from study respondents and consider factors important to the acceptance of alternative compensation methods/systems by the insurance carriers.
5. Build an environment of collaboration by harnessing the power of the collective efforts of selected individuals considered to be influential in future collision repair discussions.

## Study Questions

1. What is your opinion of the current methodology used for paint and material compensation?
2. On a scale of 0 to 10 with 0 being “not important at all” and 10 being “extremely important”, where would you rate Paint & Material Compensation on the list of other issues that you're monitoring? Why would you rate that number to the issue?
3. What different methods of Paint & Materials Compensation are you aware of? What would you say are the advantages and disadvantages of each method?
4. If it were up to you, what method would you use to address the P&M Compensation issue?

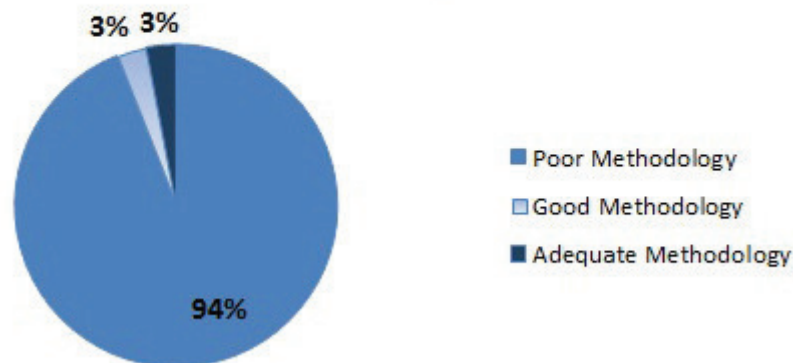
This report attempts to provide decision-makers with a third-party view of what a broad spectrum of industry stakeholders consider most important in the paint and material compensation discussion. It offers successfully proven alternative methods of compensation being used today and collaborative insight to add flexibility with fairness to insurers, repairers and suppliers in addressing the issue.

## Top Three Collaborations

### Collaboration #1

#### **94% Agree that the Current Paint and Material Compensation System is a Poor Methodology**

#### **Opinion of Current Methodology Used For P&M Compensation**



– See Question #1 (page 12) for verbatim responses –

- 64 study respondents (94%) consider the primary method currently used to compensate Repairers for their paint and material usage a “poor” methodology.
- 2 respondents (3%) consider the primary compensation method a “good” methodology. The two respondents were both Repairers representing an Independent Shop with revenues of \$2M or below and a Dealership.
- 2 respondents (3%) consider the primary compensation method an “adequate” methodology. One of the respondents represented a Multi-Location Network (Franchise) and the other represented an Estimating Software Provider.

## Collaboration #2

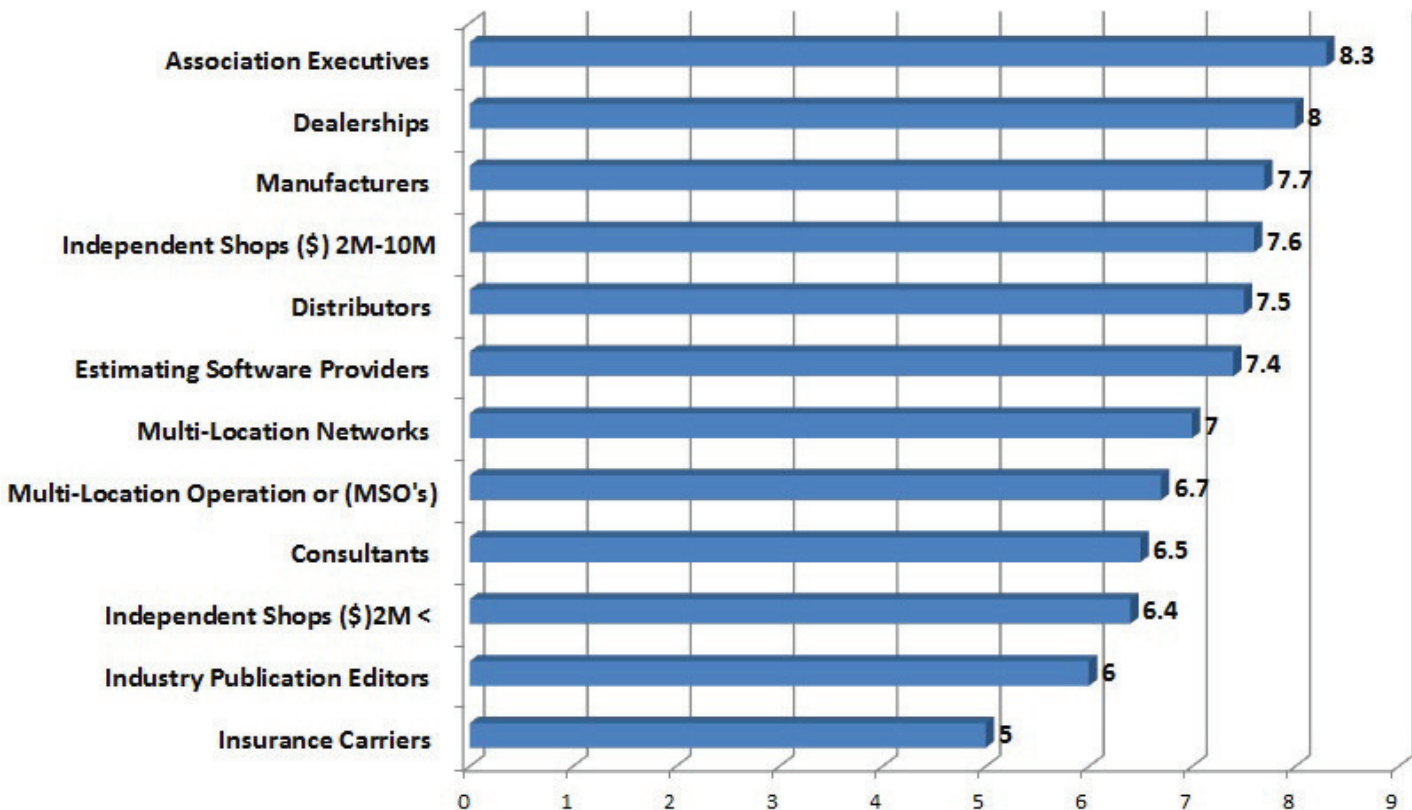
### **P&M Compensation is an Important Issue but Varies by Constituency**

Two questions were asked to rate the importance of the paint and material compensation issue.

*Question #1.) On a scale of 0 to 10 with 0 being “not important at all” and 10 being “extremely important”, where would you rate Paint & Material Compensation versus the other issues that you're monitoring? Question #2.) Why would you rate that number to the issue?*

Question #1 yielded an overall mean rating of “7”

#### **Importance of P&M Compensation Issue by Constituency**



– See Question #2 (page 15) for verbatim responses –

## Collaboration #3

### **Insurers and Repairers Have Accepted Alternative Calculation Methods For Paint and Material Compensation**

Through persistent negotiations, many of the Repairers interviewed have been successful in recovering what they consider to be proper compensation for their paint and materials through the use of various paint and material calculation methods. Study Respondents were asked to evaluate five different paint and material calculation methods being used today and rate each one on a “Low”, “Medium” or “High” rating based on their perceived degree of accuracy, fairness and ease of use. The responses are averaged below.

## CURRENT PAINT AND MATERIAL CALCULATION METHODS

	Accuracy	Fairness	Ease of Use
Fixed \$ Rate x Refinishing Hour/Unit Formula	Low	Low	High
Manual Itemization of all Paint and Materials Used	Varies	Medium	Low
P&M Calculators	Medium	Medium	Medium
Paint Scale x Ratio Factor for Materials	Medium	Medium	Low
P&M Management System	High	High	Medium

Nearly all of the Repairers indicated that most Insurers they work with on a daily basis have on some, or all, occasions paid off of a detailed invoice generated by one of the alternative methods mentioned above. It was confirmed from interviews from all of the constituent groups and other industry sources that 100% of the top 10 insurers (State Farm, Allstate, GEICO, Progressive, Farmers, Nationwide Mutual, Liberty Mutual, USAA, Travelers, American Family Mutual), representing nearly 70% of all repairs, routinely accept detailed invoices from several of the recognized paint and material estimating programs or alternative methods currently being used in the industry on a sporadic, arbitrary and geographic basis.

### Top Three Confrontations

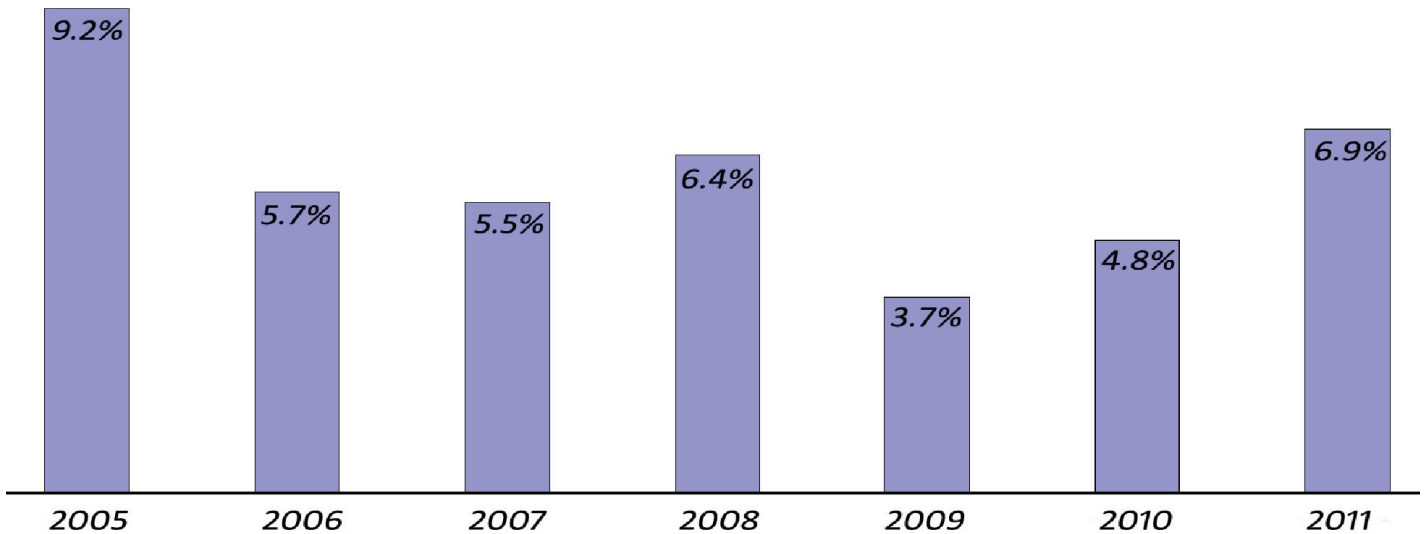
#### Confrontation #1

### The Variance between the Cost Increases in Paint and Materials Proportional to Repairer Compensation is a Growing Concern

#### ANNUAL AVERAGE COST PERCENTAGE INCREASE FOR PAINT AND MATERIALS

[2005 – 3rd Qtr. 2011]

SOURCE: COMPUTERLOGIC, INC.



In other words, if a quart of toner was purchased in 2005 for \$100 and the average paint and material percentage increase was compounded every year for the next six years, in 2011, the toner now costs \$150.53.

## NATIONAL AVERAGE DOLLAR RATE USED TO PAY REPAIRERS FOR PAINT & MATERIALS BASED ON REFINISHING HOURS/UNITS

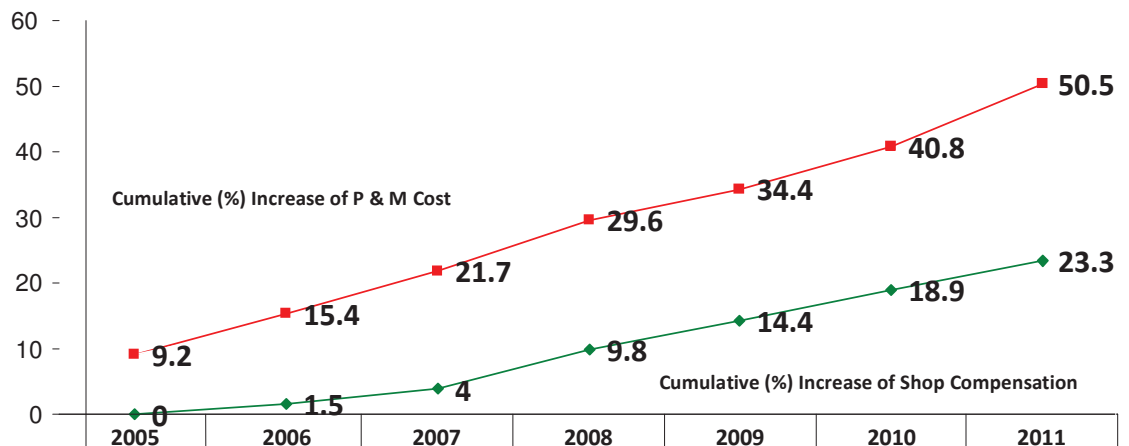
SOURCES: MITCHELL INDUSTRY TRENDS REPORT [2005 – 3rd Quarter 2011]  
COLLISION REPAIR INDUSTRY INSIGHT [2010 Report]



Based on the previous graph reflecting the annual paint and material increases, if the average dollar rate used to pay repairers in 2005 was \$24 per refinish hour/unit and the rate was adjusted to simply keep pace with the proportional increases, then a rate of \$37 should be extended in 2011.

## CUMULATIVE PERCENTAGE INCREASES FOR PAINT AND MATERIALS 2005 – 3rd Qtr. 2011

SOURCES: MITCHELL INDUSTRY TRENDS REPORT [2005 – 3rd Quarter 2011]  
COLLISION REPAIR INDUSTRY INSIGHT [2010 Report]  
COMPUTERLOGIC, INC



	2005	2006	2007	2008	2009	2010	2011
◆ Repair Facility Compensation	0	1.5	4	9.8	14.4	18.9	23.3
■ Paint & Material Cost	9.2	15.4	21.7	29.6	34.4	40.8	50.5
Variance	9.2	13.9	17.7	19.8	20	21.9	27.2

The graph above reflects a significant 27.2 % variance between the cumulative percentage cost increases in paint and materials over the past seven years proportional to the cumulative percentage compensation rate (\$) received by Repairers.

## Confrontation #2

### **Insurers and Repairers Define Paint Procedures Differently than Body Procedures which Causes Compensation for Certain Paint and Materials to be Eliminated**

According to study respondents, collision repair materials include more than just refinishing or paint materials. Various fillers, primers, sealers, adhesives, sandpapers, and other compounds are common in a collision repair.

Some Repairers interviewed mentioned that a common body panel repair procedure referred to as feather, prime and block, is a function of the paint department because it requires the use of a surface coating.

Some Insurers maintain that certain procedures, which may include feather, prime and block, are a function of a body procedure and should be paid as body labor, thereby not requiring payment for paint materials. It was also mentioned that if the majority of repair facilities are not regularly including certain procedures on their estimates, then Insurers, following the prevailing competitive practice in a market area, may not compensate Repairers for such procedures.

There are a number of procedural definitions that need to be clarified, however, in April 2006, the CIC Estimating Committee presented the following statement to add clarity to the compensation discussion surrounding the feather, prime and block procedure.

The repair process associated with damaged painted body panels typically involves multiple operations; body repair, feather, prime, block, and refinish. The body repair process includes metal finishing and/or the use of body fillers to return the body panel to its undamaged contour. The repaired area is finished to 150 grit and free of surface imperfections. Feather, prime and block are not-included refinish operations that complete the process from 150 grit to the condition of a new undamaged panel. The refinish process starts at the condition of a new undamaged panel and is outlined and documented in printed and/or electronic time guides. The body/paint labor and materials necessary to prepare the repaired area from 150 grit to the condition of a new undamaged part is a valid and required step in the process. The labor and material allowance for these operations requires an on-the-spot evaluation of the specific vehicle and damage.

## Confrontation #3

### **An Overwhelming Number of Working Hours are Spent by Both Insurers and Repairers in Negotiations to Address the P&M Compensation Issue**

The study respondents indicated that, initially, the current methodology of the multiplier was initiated to streamline the relationship between Insurers and Repairers and relieve the shops from the burden of meticulously tracking their paint and material usage.

However, over time it was indicated that for smaller repair jobs with fewer refinish hours, Repairers are not receiving adequate paint and material compensation. In contrast, for large repairs with correspondingly larger refinish hours, Insurers believe that materials charges become excessive.

For this reason, many Insurers have imposed thresholds on paint and material charges over a specific dollar amount to address the issue. Also, changes in refinish labor times, such as clear coat labor thresholds, have had the effect of reducing materials reimbursement to the shop.



## **Conclusion:**

The CIC is a forum where collision industry stakeholders come together to discuss issues, build broad understanding, find common ground, and communicate to the industry at-large, issues such as the paint and material compensation discussion.

The study panel indicated that alternative compensation methods will continue to be necessary to keep pace with future cost increases and heightened industry standards. Defining what specific paint and materials are actually being paid for and are necessary in a repair may add clarity to the issue.

Since a compromise would indicate that each side has to give up something, (which as the interview respondents indicated is not likely to occur), perhaps a minimum degree of collaboration should be considered to address the most pressing confrontation of the rising cost of paint and materials.

Unfortunately, countless hours of negotiation are wasted over these paint and material compensation issues. Perhaps now is a good time for the industry to form a Paint and Material Task Force made up of representatives from all sectors of the industry (Repairers, Insurers, Distributors, Manufacturers, and Others) to determine what is the best way to address a solution to this issue. The focus of the Task Force would be to make payment for paint and materials as fast and easy as today's method, but be based on the accuracy and fairness when dealing with refinish options (e.g., types and colors) used in the vehicle market place today.

## **Research and Acknowledgments:**

The findings and recommendations presented herein build on and add to a small but growing body of research that explores the challenges associated with the rising cost of paint and materials in the collision repair industry. The report focuses on the primary methodology being used to compensate repairers for paint and material usage based on a prevailing competitive pricing model and refinishing rate multiplier. Information was gathered from:

- Statistical data compiled from U.S. Census Data and the U.S. Bureau of Labor Statistics;
- Quantitative and qualitative research compiled from numerous organizations and collision repair facilities.
- Information regarding paint and associated materials as reported through phone interviews conducted with decision makers in the United States considered to have influence in the area of collision repair issues based on their industry involvement or shop performance.

## **About the Author:**

Steven Lanza is a Managing Partner with Richfield Associates and has 18 years of market research and consultative experience.

Steven has a significant breadth of experience in the construction industry and a contributor to the National Truck Equipment Association News (NTEA News) for the past 3 years. He has also led market research projects to expand the communication efforts for the construction industry in addition to some of the most recognized political, commercial and non-profit organizations worldwide.

## Study Methodology:

The methodology for this study included qualitative phone interviews to reduce interviewer bias and address the challenging context of the paint and material compensation issue. The study confidentially included the following group of representatives.

1. **“Influencers”** (18 interviews)
  - 5 Association Executives from Influential Collision Repair Associations – **(A)**
  - 8 Consultants considered experts based on their collision industry experience – **(C)**
  - 5 Editors from leading industry publications – **(E)**
  
2. **“Repairers”** (30 interviews)
  - 30 Collision repair facility decision makers proportionally selected and weighted by “type” to appropriately represent their respective presence in the industry. Each representative met the criteria of having either a primary or significant level of influence over paint and material decisions within their organizations. Incidentally, a significant portion of Repairers were from award winning shops gathered from three industry leading publications.
  - 10 Independent Shops representing annual sales of (\$) 2M-10M – **(IA)**
  - 8 Independent Shops representing annual sales of (\$) 2M or Less – **(IB)**
  - 4 Dealerships – **(D)**
  - 5 Multi-Location Shops (MSO’s) – **(MLO)**
  - 3 Multi-Location Networks (Franchises) – **(MLN)**
  
3. **“Suppliers”** (20 interviews)
  - 7 Executives from collision repair industry Estimating Software Providers – **(ESP)**
  - 5 Executives representing collision repair paint and material Manufacturers – **(M)**
  - 4 Executives representing Distributors of collision repair paint and materials – **(D)**
  - 4 Executives representing top Insurance Carriers to the collision repair industry – **(I)**

A few weeks into the process a fact became clear that forced a revision in the project methodology:

- Retrieving the data from the Insurance Carriers was met with resistance and required Former Insurance Executives to respond to the study questions.

## Study Question #1

- **What is your opinion of the current methodology being used for paint and material compensation of multiplying the number of refinish hours/units by a specified dollar rate?**

### Question 1. INFLUENCERS

Association Executives (A), Consultants (C), Industry Publication Editors (E)

Industry Segment Respondent	What is your opinion of the current methodology used for paint and material compensation?
A	It's antiquated and nonsensical.
A	It's self destructing itself. The glass industry has already self destructed with only a few players left. This situation most closely aligns itself to the medical industry in what they are willing to pay for reasonable and customary. And, if you don't go with a network, they won't pay for anything. Then the patient is responsible for a co-pay and remaining balance.
A	It's all over the board with such a lack of consistency on everyone's part.
A	It's antiquated and not a true measure of what's being used.
A	The current method has allowed the insurance companies to have far too much power in the transaction, and they have abused their authority.
C	The multiplier for the shops is great if you're getting \$36-\$40 and overall you're better off. If you're in geography with a low multiplier rate, such as under \$30, it's a struggle.
C	It's the most idiotic thing I've ever heard of in my life. Having paint and material rates based off of refinishing hours is like saying that we're going to compensate you on anesthesia based on how long the surgery takes. It doesn't account for anything such as the size, weight or even the age of the patient. I realize that the insurance companies want to reduce everything down to a formula, but every claim has to have its own unique aspects.
C	Claims cost represent about 80% of all costs for an auto insurance company. Doing things the same way as yesterday is OK in the auto insurance although it's not the same in any other industry. Although auto insurance companies are in the risk business, they are in the most risk adverse business in the country.
C	There is no real justification from the insurance companies as to what they are willing to pay and should be paying to the body shops for their repairs.
C	So many things that need to be changed but the complexity and viability of the change are why nothing is likely to happen.
C	It's dated
C	It's a joke
C	The current methodology is really insufficient and it's not accurate to truly compensate what is required with the complicated paint and materials that are needed to get the job done in today's repair.
E	It's totally obsolete.
E	It's antiquated and needs to be revised.
E	It's not an accurate system.
E	It's not quite working. There was a time and day when it may have been working in the 80's, but at the rate that cars and materials are changing, it's outdated.
E	The shops are getting reimbursed on refinishing hours times a prevailing area rate. It's not as profitable for the shops as it used to be and the painted surfaces are getting smaller and smaller. So, since there's a decline in the surface area you're dealing with, the formula presents a problem.

## Question 1. REPAIRERS

Independent Shop (\$2M-10M (IA), Independent Shop (\$2M < (IB), Dealership (D), Multi-Location Shop (MLO), Multi-Location Network (MLN)

Industry Segment Respondent	What is your opinion of the current methodology used for paint and material compensation?
I A	It's a guess and has not nearly allowed the shops to keep pace with the rate increases.
I A	It doesn't matter what my opinion is because there is an industry accepted flat rate calculation and you have to negotiate with insurance companies to have them pay for anything over it. And the one insurance company that you file a law suit against can take away \$250,000 of business from you.
I A	The method is not consistent and ludicrous especially when you put a cap on a non-justified price.
I A	It's wide open, and nobody is here on the behalf of the body shops. Insurance companies determine what a fair and reasonable charge is and get away with it.
I A	This has been an issue with me. I've taken steps to be more efficient with paint and materials than I ever have in the past and recently introduced goals with incentives so that I can be properly compensated for my paint and materials.
I A	It's asinine for any shop. I have 16 direct repairs and 4 demand a paint cap or threshold. Now I have them pay for it on the last line of the estimate that reads, "additional paint and material over threshold".
I A	The current method being used saves millions of dollars in paint and materials for the insurance companies. Businesses are failing, and we need to come up with a plan to stabilize our business and fight for our money.
I A	It's an uphill battle with every vehicle and you have to get approval if it's higher than the hourly rate.
I A	It's an antiquated system that makes no sense to either side.
I A	In my opinion, it's a fantasy and not even accurate, so we lose money every day.
I B	It's an antiquated system. We can only go so long in business and lose money. We have paint and material costs that go up from 6 to 8% a year and the methodology doesn't even touch that increase. We can't continue to absorb these prices. We don't live in a free enterprise system because we're left up to the Insurance companies as to how much they will pay us.
I B	It's ridiculous.
I B	The methodology of the multiplier (rate x hr. formula) is the wrong approach to take. Some shops are always looking for a home run and fail to take care of their P&M costs by setting their targets. My setup is through my accounting system which calculates an X amount of dollar ratio cost on my dry supplies. So some month's it means that it's .27 on every dollar on P&M and another month's it could be as high as a .37 average. Then we apply the adjustment.
I B	It's antiquated and outdated and hard to change in any defined market.
I B	It's unscientific and nonsensical beyond belief that good people would tolerate a system such as this.
I B	It's cheap and easy to use and will probably be in place until every shops get's off the DRP system because I don't want to have to spend \$250 a month on an invoicing system that creates verbiage that the insurance companies won't pay on.
I B	Overall, based on my situation its fine. I can use the PPG system to document to get what I need in case I'm not receiving enough.
I B	Overall, it's a pretty good system. Even with the yearly price increases from the suppliers, we've still been able to make a profit.
D	It's not founded on anything. The variance between what the cost for a pint of paint is can be anywhere from \$40 to \$140. Your cost is not only based on how much time it takes to put it on the car.
D	I'm not a huge fan, and it's not as good as it could be. However, there is no perfect solution.
D	There is no advantage to the current system of the rate multiplied by the refinishing hour method because it may cost \$1000 just for the paint. Then you're already over the cap.
D	It's functional.
MLO	It's a poor system.
MLO	The formula methodology doesn't take into account the cost increases. Which means if you don't charge the customer, you lose?

MLO	It's completely wrong. The fact that there are markets that are getting \$30, for example, and some that are getting \$22 doesn't make sense because paint cost the same no matter where you are.
MLO	It's outdated and not in line with the level of sophistication and technical requirements of the industry today. I also think we're kidding ourselves if we don't take into account the cost of one paint code over another and try to get by on what they determine is our allowance.
MLO	It's archaic. There are tools that we're moving to that allow us to be more accurate on associated product, but the insurance companies have not agreed to accept it because they may not want to determine what it may imply.
MLN	The industry has so many different calculators. Let's get one that set's benchmarks, picks a number and then sticks with it.
MLN	It's an old method that's been adequate especially when you get into the tri-coats and high-end repairs.
MLN	I'm somewhat indifferent. So, whatever they want to use - as long as they can get to my number.

### Question 1. SUPPLIERS

Estimating Software Provider (ESP), Manufacturer (M), Distributor (DST), Insurance Carrier (I)

Industry Segment Respondent	What is your opinion of the current methodology used for paint and material compensation?
ESP	It's not what's actually being used so it's not an accurate system.
ESP	It's quick and easy and good for the insurance companies because it's one less thing for an adjuster to not have to negotiate through on a job-by-job or line-by-line estimate basis.
ESP	It's not an exact science.
ESP	It doesn't have accuracy.
ESP	Shops accept the refinishing hour formula and accept whatever the insurance companies say, but it is in no-way the true cost of what they paid for paint and materials.
ESP	It's a faulty system that lacks accuracy.
ESP	I believe the word would be barbaric.
M	There are two buckets: you're either an insurer that profits from the system or you're in a body shop where you are given thresholds and not given fair compensation (much less make an adequate profit). 1 out of 30 shops do a good job at managing inventory, so it's a necessity to have a system to help a shop better manage their business.
M	We need another method to actually capture what's being used and not just guessing. That's the right thing to do. The vehicles are becoming more complex, and it's at the point where it is overly increasing the cost for the materials, and, sooner or later, something has got to give. And no matter what the insurance companies say, they are talking out of both sides of their mouth. They say they want safety, but not at the expense of profits.
M	It's broken when the insurance companies cap the shops and eliminate materials needed in the repair.
M	The formula per paint hour never seemed practical and never works well at all.
M	I think it's rather ridiculous, and it should be based more on logic and reason than what it's based on now.
DST	It's antiquated and has been around for years, but it's not the best system - just accepted.
DST	The system is not all that bad. The dollar value for paint has been depressed somewhat.
DST	It's the most obscure and skewed methodology I've ever seen.
DST	Shops are getting squeezed from the insurance companies and forcing them to buy cheaper materials and parts to meet their needs - not the customer's needs.
I	It's not indicative of what is taking place on the car. Possibly in the liquids, but not on materials.
I	They are all in favor of a new approach, but no one was in favor of testing it.
I	It's an old system, but the insurance companies don't want to pay that much for paint and materials.
I	It's an old tainted method.

## Study Question #2

- On a scale of 0 to 10 with 0 being not important at all and 10 being extremely important, what would you rate paint & material compensation on the list of issue's that you're monitoring? Why would you rate that number to the issue?

### Question 2. INFLUENCERS

Association Executives (A), Consultants (C), Industry Publication Editors (E)

Industry Segment Respondent	Rating	What would you rate paint & material compensation on the list of other issues that you're monitoring? Why would you rate that number to the issue?
A	9	The states we cover all have the challenge of being properly compensated.
A	9	It's an area where we've seen some interest and need to focus on what adjustments that the shops can consider in the area of paint and materials.
A	8	It's not necessarily the insurance companies fault, but the industry has allowed it to happen.
A	8	Even though we have relief in our state for paint and materials, it's not enforced efficiently.
A	7	It's a critical issue, but because there are so many other issues that are a 10 (such as steering) that it doesn't get as much attention. But the shops have to make a profit.
C	9	I recently came from a paint store, and they asked me how many square feet of space that I'm painting in order to determine what the wall size and surface paint coverage should be. Never did they ask me how much time it would take in order to complete the job. That's what the insurance companies are doing to the body shops when they use the refinishing time times at flat rate formula.
C	8	Paint and materials are a component of overall profitability for the shops. Capping and thresholds are deliberately attempting to keep their profits at the bottom, not at the top.
C	7	Paint and materials only account for about 4% of cost.
C	5	It's demographically driven. If you're in Washington DC and you're on a \$26 multiplier with say 10 hours of refinishing time, you're at \$260 and it's a challenge. Iowa and Montana are at a higher multiplier and it's not as big an issue for those shops. In the grand scheme of things, you have to look at paint and materials as a small portion of the overall repair cost. Gross profit on labor and parts need to be more highly considered than associated or allied products. However, it's not as much of an issue for the MSO's who are used to receiving good discounts based on volume. It's the independents that have the high-level of importance on the issue.
C	3	Paint and materials only contribute 10% of profit potential to the shops.
C	7	One of the things that a shop owner, MSO or executive has to look at is how do I leverage my position with my suppliers to bring down my cost of repair. And paint and materials is an area where I can either increase or stabilize my bottom line.
C	7	I think paint and materials is still very, very important, but the first thing I do when I get into a shop is to get some kind of organization in place.
C	5	There are more important issues than getting paid properly for paint and materials.
E	8	The costs keep going up, and the shops are not being compensated appropriately.
E	7	Shops regularly see other areas such as parts and labor as a higher priority.
E	7	More pressing issues.
E	4	There are more important issues, such as training, that need to be addressed.
E	4	Because of the sheer fact that there are other important issues.

**7 Average Rating**

## Question 2. REPAIRERS

Independent Shop (\$) 2M-10M (IA), Independent Shop (\$)2M < (IB), Dealership (D), Multi-Location Shop (MLO), Multi-Location Network (MLN)

Industry Segment Respondent	Rating	What would you rate paint & material compensation on the list of issues that you're monitoring? Why would you rate that number to the issue?
I A	10	Paint and material rates are huge. I was just talking with State Farm today who told me that there are 10 other DRP's in this area that do not charge them over the threshold. (Respondent called the biggest one and confirmed it.) I spend between 20K to 23K per month on paint and materials, and my \$32 per refinish hour is not enough to cover the cost of primers, clear coats, paints and other associated product.
I A	8	The insurance companies have a 98% reliance on an hourly flat rate method that they use and certain insurance companies will cap it at say \$300 and won't allow you past that amount.
I A	8	It's not the biggest problem that the industry is suffering from, but it is a concern.
I A	8	Insurance companies are stonewalling the shops and will not accept calculated invoicing - (for paint and materials).
I A	8	You're talking a lot of dollars since 99% of the vehicles that come through here need some sort of paint or material.
I A	7	There are all kinds of paint hours and other factors that people are getting paid adequately for. I would rather try to get paid for two hours more refinishing or paint time since it increases the price more than the materials do.
I A	5	There are so many other areas that are more important, but paint and materials are the second largest cost issue I deal with.
I A	5	There are a lot more pressing and important issues to deal with.
I A	9	The issue of paint & materials comes up a lot with insurance companies. Insurance companies are smart, and they've figure out that if they can arbitrarily monitor and control rates, they can control costs.
I A	4	If the industry made paint and material compensation issues available for discussion and insurance companies would accept a standard system, it would be higher than a 4. The industry is changing too fast, and we don't consider paint and materials high enough on our list of priorities to be able to deal with it.
I B	10	We're constantly losing money on paint and materials and labor rates. When you're constantly losing money, you can't afford to provide training and buy the equipment necessary to keep up with the changes in the industry. We just want to be paid for what we use. Whatever is reasonable and necessary to do in order to put a car back to its pre-accident condition. It's when you don't complete things and get paid for them that it's a problem. So, it's critical that, on the repair, you are correctly charging for what you use and working on behalf of the owner of the vehicle. The insurance carrier rates are increasing higher than what we're receiving, so why isn't the increase being passed through to the shops? The role of the Insurance company is to verify damages and negotiate claims. It's important for a system that is in place for paint and materials be based on list price. Then, if necessary, work your way down, not on cost plus markup and working your way up. You should not have to tell someone what your profit should be. To find a solution you need to educate shops on what their true costs are, but everyone wants instant results. So, they are ignorant to what needs to happen, and they don't want to listen and act on what needs to be done.
I B	10	I'm passionate about every area where I can make a fair profit.
I B	8	It's one of the many profit centers that should be available to us, and we should be able to let our customers and the insurance companies know what we're charging them.
I B	8	It's important to bring everyone together on the compensation issue.
I B	6	Eight to ten years ago it was a big issue, but not as much now.
I B	5	Paint and Materials only account for a small portion of our numbers. It's 9% and in the lower portion of issues I'm facing.
I B	5	We use paint management software that tracks how much paint is used on every job and also includes what the cost is for materials.

I B	0	We don't deal with caps, and nowhere is there a third party policy where it's written that they can limit coverage.
D	9	Insurance companies come in and try to put a cap on everything, and we have to fight to get what we deserve.
D	8	I used to make a lot more profit 2 years ago then I'm making now. I'm still making a profit, but you get price increases every 6 months - then another increase from the paint companies after that. They try to stagger them, but I'm making nothing like I was before.
D	8	It's one of those things that, if you do it right, you can make money, and if you do it wrong, you can lose money really fast.
D	7	It's not the biggest issue.
MLO	10	It's an important area because the insurance companies have done a great job in shoving everything into a material, which has seen 8-10% increases at a time and not been reimbursement to the shops in over 3 years.
MLO	9	The rising cost of materials exceeds the ability to be properly compensated for what you use.
MLO	4	It's not the most pressing issue right now that requires our immediate attention.
MLO	7	Because of the loss in gross profit since paint and material prices are going up, and we're being reduced because there are not enough increases to keep up with the pace.
MLO	4	Paint and material compensation is less than 10% of my gross dollars compared to other costs that I receive on a daily basis. It equates to about 1 to 2% per day. Even if I have a gross profit in the range of 50%, 60% or 70%. It's small compared to other issues.
MLN	8	There is a lot of room for error in the compensation for paint and materials based on color mismatches, damage etc.
MLN	7	After trying to secure work into their shops and worrying about getting their hours down to 7 hours per vehicle, 70 to 100 shops are going away every month largely due to less capacity and higher deductibles and paint and material increases.
MLN	7	Mostly we are compensated fairly, but use it inefficiently. Similar to the government who does not work within their budget. We have inadequacies and should know more and get more of what we deserve.

## 7 Average Rating

### Question 2. SUPPLIERS

Estimating Software Provider (ESP), Manufacturer (M), Distributor (DST), Insurance Carrier (I)

Industry Segment Respondent	Rating	What would you rate paint & material compensation on the list of issues that you're monitoring? Why would you rate that number to the issue?
ESP	10	We've attempted to do the right thing for the right reason in the right way in the area of paint and material accuracy and predictability.
ESP	8	Shops are underpaid for their paint and materials.
ESP	7	For the smaller jobs, they're not paid enough. For the middle size jobs, they're making OK money. For the large jobs, they're over compensated.
ESP	7	Paint and materials rank lower than labor rates in industry concerns.
ESP	5	I don't dig deep into those issues.
ESP	3	The only thing I care about is my client's opinion on it. If it's not as much of an issue for him, it's not for me. The vast majority of repairers have told me that paint and materials make up only 7% to 9% of the total estimate, and it's not a big deal until it comes up every 3 to 7 years.
ESP	10	Without knowing your cost, that's where the major problem falls.
M	8	Shops deserve better payment for their true actual usage of materials.
M	8	There is only three ways to increase sales: reduce your costs, increase the number of repairs, or a combination. And since you can't cut your costs much more than you're already doing, you have to be as profitable within the areas that can be controlled as much as you can. It may seem like the smallest percentage in the overall repair of a vehicle, but it's one of the biggest checks they write out every month, which puts the focus on materials which should be an area that they



		should know what they are paying for and how to make a profit from it.
M	8	A strong financial customer is better for the industry.
M	7	We have to place the paint and material perspective in terms of how important it is to the body shop and, for the most part, paint and materials is never more than 10 percent, in terms of the cost/sale in a body shop. It's even less than 10 percent. So, it's not the overwhelmingly most important thing for a collision center as getting along with Insurance companies.
M	7	Although we monitor it, we see it four steps down the chain. So since we're not on the front lines, it doesn't have as much of an impact on us. We have lots of tools to make sure that the shops are being compensated properly regarding the job costing function and also offer a paint shop management system, which helps them categorize things and makes understanding their costs even more manageable.
DST	9	Most shops are making money or they'd be out of business, but they need to cover expenses.
DST	8	The medical profession counts every needle and bandage under life and death urgent circumstances. Why can't we do the same in collision repair?
DST	7	When you're talking about 9% to 10% tied up in P&M, it's not as important as the labor side.
DST	4	Shops have a small portion of their business that involves their paint and materials, but it's one of the largest checks they write. A (2M) or (2.5M) a year shop can easily write a 15K to 20K check every month, but it normally averages out to about 7% of each job they complete.
I	7	It's pretty much a guess as to what price is good for a paint and material reimbursement.
I	6	There are more pressing issues.
I	5	Insurance companies do not always trust the shops. The lack of trust comes in when they're asked if they're actually using everything they are billing for. What insurance companies want them to do is write a competitive estimate up front. Some shops are not honest and are capable of deliberately stealing at an insurance company's expense.
I	4	It's not an issue that has come up recently.

## 7 Average Rating

### Study Question #3

- If it were up to you, what method would you use to address the Paint and Material Compensation issue?

### Question 3. INFLUENCERS

Association Executives (A), Consultants (C), Industry Publication Editors (E)

Industry Segment Respondent	What method would you use to address the Paint and Material Compensation issue?
A	The system that makes the most amount of sense is one that includes straight forward invoicing and the accurate cost of what is used because every business certainly deserves to make a profit, and it's the most logical approach. It's not a great answer, but it goes against the current perpetuation of a poor practice in which we're either trying to make it better or keep it stagnant for up to 4 years when the issues becomes hot again.
A	Speaking as an Association Director, there are a lot of issues here. It's not necessarily the insurance companies' fault. The bottom line is that body shops allowed it to happen. The strong repairers are the ones that don't consider the insurance company a customer. In the early 90's DRP's were established to allow repairers to increase their efficiency by allowing the vehicles to be more readily approved by an insurer because of a special relationship. I don't think anyone had the vision of the DRP's to morph into a situation where the insurance company is the customer. The first step is to set the criteria so that anyone (legislatively) can become a DRP based on written and available criteria. Next, stop going so deep with the insurer as to treat them like a customer. Understand, however, that if you're receiving an additional 100 cars a month from an insurer, they should receive some kind of a discount. Also, you would need a state-to-state solution and not federalize the issue or they may go to a system such as the insurers might

	have two types of policies. Network policies vs. everyone else, which would heavily favor the network policies.
A	We need standardization and education (although good luck with that one). The majority of shops don't participate in what could make things easier for them. There needs to be an agreement between insurers and dept. of insurance commissions because right now there is no policing in place.
A	Make the calculation (fact based) and pay for what has been used on the job. Having so many multiple layers has prevented it from evolving and introduced a distorted price point, which has limited conversations over time to protect their own self-interests.
A	Each shop should setup their own program based on their cost and buy one of the calculators, and if they don't pay after you've shown them the invoice, take them to court.
C	This won't work in every state, but there needs to be a standard in every state where there are no caps or thresholds. Then fully define what is a part vs. what is a material. Then assign a tax code to each material so the states can be properly taxed, the invoicing can become better standardized, and if a shop wants to make 25% on materials and another shop wants to make 45% on materials, they have a standard from the state as to how to define what's being used. This will work in some states. Other will have to use an invoicing system and use the print off from the paint scales in the calculation to work in areas that have multipliers below \$30 per refinish hour.
C	Using paint calculators is the only way to properly account for what paint and materials were actually incurred however, you're hard pressed to get insurance companies to pay off the calculated rate. Indemnification is compensating an insured for a loss that's incurred or in other words, pays what the actual cost of what repair included.
C	Bring all of the parties under one roof who really represent each of the three groups (body shop owners, insurance companies and paint and material suppliers) also have operators in the room, which include (what we call metal bangers - the ones who actually repair cars). So, when you're in a room talking about paint and material compensation, everyone will know what everybody else is talking about.
C	I would use some type of calculation system that would include the suggested retail price and calculate a complete paint and material invoice within the estimate.
C	One company (not five) needs to come up with a solution so you don't have too many people influencing the standardization.
C	With the people I've worked with on the shop side, the people that have the best performance have effectively created their own internal metrics for paint and materials and applied that to their organizational platform. I think there is good logic there because people are saying essentially look, we don't trust anybody's package out there, so we're going to roll out our own package, metrics and performance guidelines.
C	I'm rather bias because I'm familiar with Rick Palmer's system and I think it's one of the best system's on the market today.
E	There needs to be research to develop a more logical system that incorporates the square inches of a panel surface along with material usage. I don't see a solution coming from anyone but a third-party company with a larger estimating provider such as the big three getting behind them.
E	Itemized invoicing is what is needed. Insurers just want them to be as accurate as possible.
E	The only way you can make this work is to have the technician document what exactly was put on the car and calculate it down to the actual data.
E	Whether you feel good or bad about it, the system needs to be run off the estimating system - not as an add-on. In the end you should get your liquids from a square footage formula and have the technicians say what they used.
E	Charge the insurance companies as a pass through on what it cost as a reimbursement allowance of what went onto the car.

### Question 3. REPAIRERS

Independent Shop (\$ 2M-10M (IA), Independent Shop (\$2M < (IB), Dealership (D), Multi-Location Shop (MLO), Multi-Location Network (MLN)

<b>Industry Segment Respondent</b>	<b>What method would you use to address the Paint and Material Compensation issue?</b>
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I A	The multiplier is literally a guess, so take that off the table immediately and look at a system like Rick Palmer's because at least it's somewhat on the same planet. The technology needs to be there and it's a race for the IP's to come up with something that the shops will accept.
I A	You need to have a paint scale that's electronically hooked up to data provider or invoicing system. Then when it's mixed, it's measured and it's reflected in the invoicing system. To do that is complicated, but in order to get paid, this is what I have to do, or I have to go by a pre-established calculated rate and hope I make money and try to raise my calculated rate. We have one of the highest rates in the area, but we don't get paid all the time because we have insurance companies that stonewall us. If you run the numbers on a month to month basis you determine that you're losing money on paint and materials. How do you stay in business when you're losing money on paint and materials? They are forcing me to lose money every single day I run into this problem. Eventually they will have to give insurance companies paint and material costs from an advanced calculation system and go to the governmental level, which could involve state commissions on insurance and have them regulate how to handle paint and material costs. But right now, I'm sorry; I'm not going to do it. So, even if I had the coolest system that measured it out of the gun and off the scale and knew exactly how much I used so I knew how to bill it, the insurance companies would still have the power to come in and say no, I'm not paying it. We have the power to negotiate it (that's what I do), and I negotiate with insurance companies every day, but they have this thing where they say that I only pay \$31 in your area, and what can I say? One day I want to say this is the paint and material price from the manufacturer that produces globally. This is what this paint costs retail and have them pay it.
I A	When you approach insurance companies or people like partners (and don't treat them like adversaries), and work together on solutions to find a common ground and resolve issues, it can be fair to the insurance companies, body shops and the customers.
I A	I don't know how we can address it. I've sat down with the Insurance Commission office and shared how much money the state had been getting ripped off in taxes. The body shops have nothing to offer. The insurance companies have taken everything (and do not see the future) and have decided to only make the changes when they're forced too. We shouldn't have our labor rates controlled by the insurance companies either. We're one of the most efficient industries in the world and the rise in cost for us is outpacing our profits. The state needs to say that it's too subjective when it comes to the issue and give us the option to use the paint scale and direct cost to be compensated on.
I A	The only way to do it is to generate invoices. But I'm not so certain that I should be the guy setting up the computer invoicing system. I think simplicity is the answer because you don't want to scare the hell out of the insurance side and rattle their ship because they don't truly believe your numbers or because it's too complicated. You need to build credibility and know that the key to anything is to know as a shop owner, what you want from your dry's as a fair gross margin that's honest and not greedy. But the sooner we get off the multiplier the better.
I A	Eliminate the cap and eliminate those insurance companies that don't pay for blend time on panels.
I A	Teach my competitors how to add additional lines on the bottom of the estimates to cover the additional paint and materials for each job that goes over the threshold. I think it's the association's job, but someone's got to do it because the non-business people are hurting the rest of the industry by bending to every one of the insurance company's requests.
I A	Mix everything on the scale and invoice the bill so it's reflecting what you've used.
I A	I don't know because the industry doesn't consider paint and materials high enough on our list of priorities to be able to deal with it.
I A	I would use strictly an invoicing system tied into the paint system.
I B	You need to have a state-to-state system so that no one gets away with any special pricing. For paint labor hours, you could have zone pricing, but materials should be the same across the country. There also needs to be a task force with State Commissioners on it to tackle the issues within their authority.
I B	You have to drive the system based on the actual paint and body hours and calculate the materials at the end of each job so you know what you've used.
I B	Keep it the way that it is.
IB	Go back to square one when we didn't have programs and shops that feared losing business if they got off the program.
I B	Let's get the method as accurate as possible from a third party standpoint and approach the State Insurance Commissions. Give them a presentation of the PMCLogic system and show them how the system works so that the price for (half) of a roloc disc is \$X. Verify the number with whatever rate the manufacturer

	was charging and validate the accuracy. After the system was demonstrated, determine what their stance is on using this standardization system as a means of moving forward with the other Insurance Commission offices to generate their interest and buy-in.
I B	Bill us strictly on usage and cost with a step to spell out with a percentage markup that will allow us to account for a profit that we deserve.
I B	Use the PMCLogic calculator, which should be the standard in which everybody should be using one system. Then, no one would question the credibility.
I B	I'd probably leave it. But I would think that the industry will have us work off of an invoice and back up to our paint and material costs in the future if we had any discrepancies.
D	The insurance companies need to let the shops know that they will pay on a calculation at the time of the estimate - not after the fact. It should also be included in the estimating system. I don't understand why they can't do it. The paint companies can update their prices overnight on their systems. Why can't the estimating companies do the same thing with all P&M costs?
D	Inflation and labor rates should follow the same percentage and not be adjusted every 5 years. I have not received an increase in over 5 years. There needs to be a study by each vehicle manufacturer to determine what a proper time and repair takes. An extensive time study for each panel and the exact materials it takes to complete the repair.
D	The insurance companies should not cap anything. They should pay off of invoices of the actual materials used and stop cutting paint times and shifting them to body times.
D	I would cut down the multiplier and use an RMC system to take into account the type of paint and account for materials that were used on the vehicle.
MLO	We need better compensation mainly in the areas of primers, fillers, seam sealers, tape, paper and sandpapers. An itemized list of what materials were used on the vehicle is what should be used to be compensated for exactly what you're using. No formulation should be used so that it would level the playing field. A system needs to be set up so that it provides good standards, easy to use and the company distributing the program needs to do their homework by keeping up with the current prices as they increase on the day of the increase.
MLO	You need to start with the paint and material manufacturers in order to be more active in the industry and communicate it more clearly to the insurance companies as to what the shops are facing and make a legitimate decision to implement an automated system to make it possible for the shops to be properly compensated due to the increases.
MLO	You have to engage all of the stakeholders (Insurers, Repairers, Vendors and people like Rick Palmer who develop these systems) to create an even-handed solution for everyone that includes a standard methodology. It has to reflect the actual cost of the paint and materials because right now it's just a guess (which is not conducive to building trust.) The method also needs to be short, fair and reasonable for the insurers to accept it.
MLO	Let's say that if you're using PPG Envirobase paint, a specific clear and hardener... grab the correct pricing from the manufacturer even at the exact time of the price increases. Get some backing from the Insurance companies that there is a more scientific way to calculate the associated products and base you're pricing on the actual amount of product used.
MLO	The paint companies (could not come together legally) but would have to calculate the cost based on paint code and a per oz. price. Also, include in what the prime and block would be, which is variable and currently not always being considered.
MLN	Plain old trust and production standards. The insurance companies do not have to be held to the anti-trust rule, but they should be. So they understand that shop owners are getting tired and concerned about exit strategies that reduce their income and may cause them to have to give away their business.
MLN	You need a different type of calculator which will indicate at what time you need to invoke the calculator over the formula. You should only have to use the calculator about 25% of the time and it's only through training and experience dealing with all makes and models of cars that you could accomplish it. Perhaps identifying certain situations, such as a hail storm, could trigger the use of the calculator, for example.
MLN	You can create systems, but for the amount we pay for them, sometimes it isn't even worth it. The bottom line is we have to make money, and it's up to us to make it efficient. Every part of the business has to be profitable or you have to make it up somewhere else - mostly on labor and parts.

### Question 3. SUPPLIERS

Estimating Software Provider (ESP), Manufacturer (M), Distributor (DST), Insurance Carrier (I)

Industry Segment Respondent	What method would you use to address the Paint and Material Compensation issue?
ESP	The most accurate system would be a system based on the actual repair vs. replacement vs. blending vs. actual square footage or decimeter along with the proper paint code. But it would take a paradigm shift to drive that change, which is daunting here (in the U.S.) but easy for us elsewhere because it's already working in Europe.
ESP	You have to put regulatory pressure on the insurance companies from the State Departments of Insurance to allow the shops to use the calculators and not be raked over the coals for using them.
ESP	The only way you can make this a science is to have the tech in front of the car and know what exactly was put on the car and treat the materials as static (almost like a part that has to go on the car). Then you remove the subjectivity basis on which we're calculating now to the actual data.
ESP	Use RMC from Mitchell because you will never get a win-win on both sides.
ESP	Use GAP (Generally Accepted Practices) of documenting everything that went into the vehicle repair and have the shops paid for everything that they have into each job.
ESP	Use the PMCLogic system to provide extensive inventory management reporting to properly equip body shops, distributors and insurance companies with the most accurate documentation and up-to-date pricing necessary for shops to consider better efficiencies and material alternatives.
ESP	Base it on what it is - the panel and square footage because you have to go back again and know that everyone is using different paint products and different brands.
M	Implement an inventory management system into the shops and allow compensation on actual usage.
M	There has to be third parties that can get the support of the insurers by putting pressure on them do the right thing.
M	Every one of the shops should be receiving bigger dividends by using a logical system to measure their usage, especially when there is a decreased capacity of cars to repair in the market.
M	Use what was actually used in the repair. To some degree, we have guides as to what the paint usage is but not necessarily to the degree in which we're including adhesion components, flex additives and clear coats. We should also have side-by-side comparisons as to what systems are being used for consistency.
M	I would take the published refinisher price of the paint, and I would have a formula that took into account the amount of square inches that had to be painted and would work out some algorithm or ratio with that.
DST	The method I would use is to take it out of the shop's hands. Have a square footage calculation that determines how many dollars are in the estimate based on a fair markup and have a three-tier system. One tier is for the high-end reds, another tier is for the low-end whites and another is for everything else including pearls and tri-coats. Then let the system fill in for the associated products.
DST	Use PMCLogic because it has been recognized as the most viable product by most insurance companies because it's easy to use and integrated into a shops estimating system based on actual averaged materials and not on labor. No other system compares.
DST	Use PMCLogic to count your material and liquid costs and bill accordingly.
DST	Have them get paid for what goes on the car. Period. Include what it costs for the paint.
I	Help shops cut deals with distributors, which can increase their profits between 50K to 100K by purchasing brand X, Y or Z. Possibly even changing brands of paint and accounting for materials through a calculation system is the way to do it. Also, have a forum for the shops with good choices for the shops that include organizations such as SCRS. A consistent message needs to be reinforced. Also, training is necessary to be able to press on an adjuster when they don't want to pay for a process or material is important.
I	I think the whole thing about getting the Insurance Commissioners in on this paint and material compensation issue in terms of using a calculation is too complex, and it needs more science than Insurance Commissioner's have time to think about. If I'm addressing it, first I would use an extremely efficient repairer, (and that's a big assumption) one that has total control over their paint and materials in terms of usage, waste and theft. You could probably go to something like a cost (plus) basis. Because the

	insurer could be assured that the repairer was just not paying attention to their materials. And there would be a proper implied method and along with the paint companies mixing system computer program and then mark it up with whatever could be negotiated in their particular market.
I	The only way is to direct the issue at a forum such as CIC where Repairers, Jobbers and Insurers come together and form committees with solutions that are unbiased then begin a grass roots effort to gather the masses so that they all pull together and go viral.
I	If you give them what they want for paint and materials, there is no incentive for them to be more efficient. So, some type of calculation system is what we need.