INDUSTRY SNAPSHOT

Automobile Body Repairing and Painting

Key Statistics, Market Trends & Business Practices

Industry Overview

Around $35 billion is spent on body repairing and painting; by comparison, an estimated $115 billion is spent on "underhood" or "undercar" mechanical service and repair. According to the Automotive Aftermarket Industry Association (AAIA), close to 300,000 outlets in the U.S. perform automobile service and repair – ranging from one-location independent garages to multiple-location franchise operations, and including new-car dealerships, gas stations, discounters and warehouse clubs.

Automotive body repairing and painting operations are typically independently owned, but some are part of franchise operations. Maaco Auto Painting & Bodyworks is the largest franchise in the industry, with over 500 locations in the U.S. and Canada.

Issues and Trends

The number of auto body and repair shops grew from 34,681 in 2004 to 36,805 shops in 2007, according to the annual "How's Your Business?" survey (*AutoInc.*, December 2007). The increased competition puts downward pressure on prices and profits, and gives auto insurance carriers greater control over how and where their policyholders go for repairs.

Auto Body Repair Industry Trends

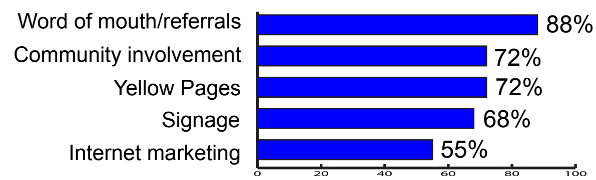
- More than half of the respondents (57%) reported sales growth in 2007 of around 12%. Among the 21% who reported a decrease in sales volume, most cited the struggling economy as the primary factor.
- Growth in revenue is driven in large part by greater congestion and longer commuting times on U.S. highways, as well as by the surprisingly steep cost of repairs following fender benders. A new bumper on a Nissan Maxima, for example, costs $4,535.
- Despite some frustration with insurance company reimbursements, nearly three-fourths of the respondents said they are confident about the future and expect an increase in sales during 2008; 21% said they anticipate no change and 6% said they expect sales to fall.
- Insurance companies, footing the bill for most repair work, several years ago began asserting more control over how repairs are made – and who makes them. The most dramatic move was made by Allstate, the second-largest auto insurance company in the U.S., when it acquired 60 locations of Sterling Collision Centers in early 2001. Progressive, Geico, Travelers and others are now setting up one-stop service centers to handle every aspect of the claim and the repair.
- Owners of auto-body appearance and detailing shops (which do not rely on insurance company reimbursements), are expected to fare well in the future, due to three primary factors: first, as the price of new cars continues to rise, by around $1,000 every year, vehicle owners tend to better maintain their vehicles rather than buy new ones. Second, people also tend to keep their cars longer – around 7.5 years, up from 5.5 years in 1970. And third, fewer people wash and wax their own vehicles than in the past; instead, many choose to pay a detail shop so they have more time to spend with their families or other leisure pursuits.
- Some consolidators continue to thrive; however, as a whole, they represent less than 5% of the industry. Consolidators and networks are groups of independent shops that join together for support, economies of scale in purchasing, and a unified image.

Sources: Bodyshop Business, December 2007; New York Times, May 26, 2007; Wall Street Journal, March 1, 2007.

In what many industry participants and analysts describe as a challenging industry, operators face increased competition and lower reimbursement from insurance companies, resulting in a dip in profits. To offset losses, many shops are diversifying their services, which often include mechanical repair, glass repairs, custom painting, professional detailing, and car rentals.

Collision repair businesses spent an average of $15,595 on marketing and advertising efforts in 2007, down from $19,289, according to *AutoInc.'s* "2007 How's Your Business?" survey. Almost two-thirds of body shops surveyed (65%) said they have a company website, and more than half engage in Internet marketing campaigns.

Body Shop Advertising Vehicles
Media Usage, by % of Respondents Using Each



Source: *AutoInc.*, "How's Your Business?" Survey, December 2007.

Value of Products and Services in the Industry

The average "job ticket" for work performed in the industry is $1,916 (*AutoInc.*, December 2007), a handy number to have when conducting a return-on-investment sales presentation to shop owners. Another useful measure is average household spending (in this case, $309*), which helps determine market size and market share. In an area of 40,000 households, it is fair to assume that about $12.3 million is spent on auto body repair and painting. If a shop owner generates $2 million annually, his or her market share would be about 16.2%, a baseline for measuring future performance.

*Calculated by dividing $35 billion by 113 million households.

Critical Success Factors

- Remember that the vehicle owner is the customer, not necessarily the auto insurance carrier. Set customers' expectations about how long it will take for their vehicles to be repaired (the industry average is 16.2 days), periodically give them status reports, and proactively inform them about unexpected delays.
- Offer financing or other payment options for customers paying out of pocket (which some customers do to avoid filing a claim and paying the resulting higher insurance premiums).
- Update website content; replace testimonials and articles frequently to ensure that site visitors find fresh and relevant material (to keep them "engaged").
- For mobile painting operations, develop promotional material that emphasizes the specialized nature of the services offered, describes the support that mobile painters receive from franchisor or network, and highlights the quality results.

Sources: BodyShop Business, December 2007, January 2008; J.D. Power & Associates, "2007 Insurance Claims Study."

Industry Resources

Automobile Aftermarket Industry Association (AAIA), www.aftermarket.org
Automotive Service Association (publishes Auto, Inc.), www.asashop.org
Society of Collision Repair Specialists, www.scrs.com