

# Industry Unity Finale: What Have We Learned?

As our Industry Unity series comes to a close, we look back at our examination of major industry issues and key in on what we've learned.

Part 4 of the 4-part Industry Unity series.

BY JASON STAHL

BACK IN JANUARY, *BODYSHOP BUSINESS*, AS THE LEADING TRADE PUBLICATION IN THE collision repair market, decided to step up and embark on a four-part "Industry Unity" series of articles to analyze the current state of the industry and, in the process, educate repairers and inspire them to take the necessary action to reclaim control over their businesses and their bottom lines.

For years, we had been hearing from repairers that business conditions were getting worse and worse, and most agreed that process seemed to accelerate over the past two years, with many remarking, "This is as bad as it's ever been." Some blamed market conditions, namely supply and demand. Others blamed insurance companies and/or themselves. Based on our discussions with industry leaders, the truth is that it's probably a combination of all those things and not any one.

The following is the summary of our findings from interviewing industry leaders, gauging the current state of insurer-repairer relations and examining the function of departments of insurance and what repairers are doing on the legislative front to "level the playing field" between them and insurers.

## The Leaders Speak

IN PART I, WE INTERVIEWED THE LEADERS OF THE MOST WELL-KNOWN NATIONAL industry trade associations: Dan Risley, executive director of the Society of Collision Repair Specialists (SCRS); Darrell Amberson, director of Collision Operations for the Automotive Service Association (ASA); Tony Lombardozzi, president of the Coalition of Collision Repair Experts (CCRE); and Nick Kostakis, past president of the Alliance of Automotive Service Providers (AASP). The goal was to get their opinions on why body shop owners today are struggling mightily to make ends meet and hopefully find points of agreement that could serve as launching pads for new initiatives that might help turn things around.

Reviewing everyone's comments, the statements that were unanimously agreed upon were:

- The customer is the vehicle owner.
- Insurance companies have too much control.
- The current direct-repair program (DRP) model isn't working.
- Repairers need to speak with one voice.
- Fragmentation hurts the industry.

It seems that shops are less and less inclined to consider insurers as their business partners. Shops are only willing to consider insurers partners if each party's share of risk and reward is equal, and the way things have been going lately, they *don't* believe things are equal. Perhaps Phil Mosley put it best in his article in the February issue of *BodyShop Business*, "The Unofficial Collision Repair Dictionary: Part II": "Partners share risk, reward, benefit, detriment, pain and victory. I don't see any of that in the insurance partner relationship."

If insurers are considered customers, it seems that most shops consider them "sec-



ondary” customers because the primary customers are the vehicle owners. SCRS’s Risley believes that mentality may be the key to fixing many of the industry’s problems.

“Who’s your customer? Once you’ve established who your true customer is (the vehicle owner), many of the industry’s ills will be resolved,” Risley said.

CCRE’s Lombardozi also believes knowing who the true customer is will bring about widespread change.

“Everyone needs to agree on who the customer is,” he said. “Who do we perform repairs for? Who do we service? In most states, it’s the consumer, the owner of the vehicle.”

Amberson of ASA agreed that the vehicle owner is the true customer, but he said insurers can’t be counted out of the customer equation. And Kostakis of AASP said part of the reason the industry is in a crisis is that “the consumer is no longer the customer.”

All seemed to agree, too, that the current model of DRPs isn’t working. Three of the four leaders interviewed, however, wouldn’t advocate a full-scale removal of DRPs as another solution to righting the ship. Instead, they advised that individual shops make their own decision on whether to participate in such programs, citing examples of some shops that have had tremendous success with the DRP business model.

“I would advocate dumping bad DRPs but not getting rid of the whole DRP concept,” Amberson said.

“I believe the growth of DRPs has hurt the collision repair industry more than any other single factor, but I don’t think that large-scale voluntary abstinence is a realistic solution, at least during current market conditions,” Kostakis said.

Lombardozi was the only one to take a hard-line stance and advocate abolishing all DRPs. “As long as they exist, shops will believe the insurance company is also the customer,” he said.

All four interviewees also agreed that insurance companies have too much control over the collision repair industry.

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“In many instances, you have an insurance company’s staff appraiser (who has never repaired a vehicle, some of whom are directly out of college) dictating how the car should be repaired or refusing to pay for required repair procedures, even though those operations will be performed by the collision repairer,” said Risley. “The insurance company needs to allow the collision repairer to make the decision as to the best way to properly repair the vehicle.”

Amberson said, “I do believe we’ve given too much control to insurance companies, but I think that’s also relevant to supply and demand... You can

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say we shouldn't accept some of the insurance companies' demands or offer the kind of price concessions we do. And that's true, we shouldn't, and when we do we're bringing problems upon ourselves. But if it weren't for the supply and demand situation, there would be no need for those things."

Lombardozi went so far to discuss how insurers have gained control over shop owners and what shop owners can do to regain that control.

"There are only two things insurance companies can use to control this industry: the information providers' information and the use of labor rates..." he said. "The way [to eliminate third-party interference] is to bill by dollars rather than hours and use the guidebooks as part number services only."

While it seemed that all interviewees agreed that fragmentation hurts the industry, not all believed that merging

all of the major trade associations would be a good thing.

Risley argued that, as three separate entities, SCRS, ASA and AASP have achieved a lot by working together. Also, it's his belief that the impact is far greater when three diverse groups that compete with one another support one cause.

"On a state level, we've seen a similar situation pay positive dividends," he said. "In Missouri, you have three state associations (which have different national affiliations) uniting where they've been able to find common ground. This unity has caused legislators in Missouri to not only take notice but take action."

Kostakis sided with Risley in his belief that the national trade associations should remain separate.

"...It's a scary thought to have any single trade association as the sole voice of the collision repair industry, just as it would be dangerous to have a pension fund relying on the performance of a single stock."

Amberson, on the other hand, while not very confident that all of the national associations could ever merge, believes that the result could be positive.

"...While that wouldn't solve all of our problems, it would help with many of them because you would have that much stronger of a bargaining position to get more change."

Lombardozi seemed to express a fundamental disagreement with SCRS's and ASA's philosophies and therefore opposed a merger.

"The word is getting out now that ASA and SCRS can't help this industry," he said. "The only one that can help that truly represents independent shops is CCRE. These other associations cannot be effective."

### Troubled Times

IN PART II, WE FOCUSED ON INSURER-repairer relations and how most agreed (repairers, anyway) that tensions were at an all-time high. It stands to reason that this indeed is the case with the scales being tipped so unevenly and repairers' profits being at all-time lows while insurers' profits are at an all-time high.

Repairers talked about the top five reasons why there is so much frustration in their relationship with insurers:

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Many repairers talked about the general lack of respect, particularly in regard to insurance partners that refused to negotiate and seemed to disregard the long-term relationships they had built up with shops.

"I appealed to [a long-time insurance partner] to end a parts discount and visit a labor rate adjustment and the message was, 'You're done, no negotiation,'" said Amberson, president of Lehman's Garage in Bloomington, Minn. "You would think the relationship we had with them over many years and the fact that we scored well on many of their programs would have meant something, but obviously it didn't."

An SCRS survey showed that repairers are less likely to refer to insurance companies as partners, preferring the term customer overall. Still, Risley found that label discouraging.

"Collision repairers need to reassess their business and thinking," he said. "Their customer is the vehicle owner, and is the person we should be serving."

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Unfortunately, many repairers have allowed insurers to position themselves as the customer, which has significantly changed how many repairers market their business as well as operate."

This reference to handing over control to insurers was cited as another cause of the strife in the insurer-repairer relationship. But many repairers blame themselves for this dilemma, and indus-

try consultant Lou DiLisio said they should.

"...Shops forgot how to market," he said. "They relied on DRP relationships and the influx of work from companies and because of that, some companies are now abusing the system. They're dictating above and beyond the repair guides or repair times allowed, and also dictating procedures, payment methodologies and payment amounts."

### Departments of Insurance

IN PART III, WE EXAMINED DEPARTMENTS of insurance (DOIs) and their role in helping body shops and their customers fight back against what they perceive as injustices committed by insurance companies. What we found is that repairers' frustration may stem from a misunderstanding of what DOIs' actual role is and who their mission statements actually state they serve: the consumer, or the buyer of insurance. We found that this fundamental understanding could explain why so many body shops file complaints but

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see no acceptable action taken, particularly if the complaint boils down to what the DOIs consider a "business dispute" between the body shop and insurer. Still, that didn't satisfy some in the collision repair community who suggested that the DOIs' responsibilities needed to be expanded.

"The response you invariably get if you're a repairer is, 'We don't regulate nor do we have jurisdiction to regulate any activities or relationships or contracts between insurance companies and collision repairers,'" said attorney and consumer advocate Erica Eversman. "[DOIs] just don't extend themselves sufficiently to understand that this is a function of claims handling, for which they do have jurisdiction."

Bob Lisson, deputy commissioner of the North Carolina DOI Consumer Services Division, summed up what DOIs are not rather frankly.

"We're not a courtroom, we're not a trier of fact, we don't have a judge or jury or truth serum or lie detectors," he said. "Some complaints leave us unable

to force resolution and leave us in the position of advising the complainant that he or she may want to pursue legal consultation. And that's entirely consistent with the parameters."

Repairers also took issue with DOI commissioners having insurance backgrounds, with DOI representatives arguing that this was necessary to understand the complex insurance industry, while repairers argued that individuals devoid of insurance work histories might better question and challenge certain insurance practices.


For all the frustration expressed, there was the positive, ongoing story of the Florida DOI taking Allstate to task over the rates it charges consumers, with repairers hopeful this scrutiny of one insurer might create a ripple and force examination of the entire insurance industry.

#### Unity: A Reality or a Dream?

OUR PRIMARY OBJECTIVE IN PUBLISHING this series of articles was to educate repairers, prompt them to ask questions

about how they run their businesses and what direction they should take in the future, and hopefully inspire them to take action.

Have we truly convinced repairers to unify and speak with one voice? We hope so. Even if we've fallen short, we're confident that the dire situation many shops face today will force their hand and prompt them to join other repairers and take the action steps necessary to reclaim the industry and save their businesses.

It's a pipe dream to think that every repairer will run his or her business exactly the same and agree on everything. We're only human after all. But as long as the vast majority see eye-to-eye on the major issues and get involved with other repairers to take actionable steps to address those issues, we're confident the pendulum will begin to swing the other way. 

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