

Repair Standards Entity Quantitative Research

Draft Report

Prepared by the
Repair Standards Advisory Committee
December 21, 2011

Repair Standards Entity Research – Draft Report

Forward

The Repair Standards Study included a lengthy survey to gather and document the views of a broad cross-section of the collision repair/auto claims community on the subject of repair standards. The consultant has submitted an initial draft report to the Committees responsible. It is not yet in final form.

To keep the CIC fully informed, the questions and the actual answers from the industry, in their entirety, and without any interpretation, editorial comment or conclusions, are now available in the following draft report.

All interested parties are urged to examine these answers, and be prepared to offer their own conclusions and comment, in writing to the Committee or in the form of brief statements and constructive discussion during the Committee's report at the CIC Meeting on Friday morning January 13, 2012 in Palm Springs, CA.

In order to provide adequate time for everyone to make a comment, the Committee would like to request that lengthy commentary be e-mailed to the Committee in advance so that it can be circulated, or duly noted, without infringing on microphone time for others to comment more briefly.

Please email comments to Mike Quinn (mikeq@911collision.com) and Russell Thrall III (rthrall@collisionweek.com)

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Project Background

In July 2010, the Collision Industry Conference (CIC) Repair Standards Committee proposed the creation of a new, non-profit organization, the United States Collision Repair Standards Institute (USCRSI) to manage the creation, maintenance and implementation of ANSI-approved repair standards for the automotive collision industry in the United States.

The proposal was the culmination of over four years work by the CIC Repair Standards Committee to analyze the value of standards, examples of standards development and implementation in other countries, and the drafting of actual technical standards.

In November 2010, an open meeting was held to discuss the CIC Repair Standards Committee's proposal to determine a path forward for the effort to assure its success. During that meeting a Repair Standards Advisory Committee was formed that will be chaired by Russell Thrall III, the immediate past chairman of the CIC in conjunction with Michael Quinn, the current CIC chairman.

As the former Collision Industry Conference Repair Standards Committee and the current Repair Standards Advisory Committee are comprised entirely of volunteers, the decision was made to engage an independent contractor to prepare a business case statement for the USCRSI during 2011.

In May 2011, the Committee engaged Condon Consulting, LLC to conduct research to better understand the broader industry's opinions regarding repair standards.

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Methodology

To accomplish our stated objective the Repair Standards Executive Committee (EC) and Condon Consulting, LLC (CC) debated the methodology to be used and decided an interview format would provide the necessary quantitative and qualitative data to develop an industry point of view on the repair standards entity issue. This approach had been successfully used in a prior industry study titled *Finding Common Ground: A Claims Perspective*. That study used a combination of on-site and telephone interviews to gain insight into how insurers viewed the inter-industry and industry issues. Results of the study were presented in multiple formats including Executive Summaries, long form PowerPoint presentations and meetings with small groups of repairers, suppliers and other industry segments. Due to the industry's familiarity with this prior report the decision was made to use it as a model for the research into the Repair Standards entity.

From the beginning it was recognized that the view of the repairer was essential to the ultimate success of the project. Accordingly, it was agreed that repairers should make up at least half of the planned interviews, with other segments being represented in proportion to their perceived role in a repair standards entity (if any). Other basic requirements were the guarantee of anonymity to the participants/companies and neutrality of the interviewer and interview process to the views expressed by participants. This latter requirement produced some spirited discussion within the Executive Committee, concluding with the realization that all were in violent agreement on the need for an unbiased assessment of the issue.

Critical to the neutrality issue was an interview format that allowed the participant to express their views without being "boxed-in" by prepared questions. For this reason the interview was structured into two distinct parts: one section gathered quantitative data via structured questions common to all interviews, while the second half solicited the participants point of view via an almost "stream of consciousness" conversation with the interviewer taking notes of their perspective.

The development of the common questions was problematic as there was no time or budget for "testing" the questions on a small sample to flush out potential biases, inconsistencies, clarity of question or other anomalies. As such, the first few interviews were used to vet the questions as they were conducted with industry leaders that were quite attentive to any bias, lack of clarity or other defects in the questions - including their order.

It should be noted that the questions were not supplied to the participant prior to the interview. It was the opinion of the EC and CC that distribution would not add value to the process and could actually undermine our efforts at soliciting unbiased, heartfelt and immediate responses. There was some industry "unease" over this position, perhaps driven by the lack of sufficient communication on the interview's objective, format and scope. For the record, the questions were structured for simple yes/no answers as well as rating the importance of an issue on a 1-4 scale.

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The interviews common questions, without the actual verbiage, focused on the following issues:

1. Importance of an albeit undefined Repair Standards entity to their business
2. How large a role CIC should play in development
3. Their willingness to support such an effort
4. What the scope of such an effort should be
5. The value of Certification
6. The value of Verification
7. The value of a 3rd parties' involvement in Verification
8. How large is the Standards gap
9. How important is it to fill the gap
10. The likelihood of our success

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Findings

The Interviews

As with any research, the selection of participants was considered critical to develop a breadth and depth of information that would accurately represent the views of the industry. CC was supplied the names of numerous individuals and companies that were felt to have a perspective on the issue, and many of them participated. CC supplemented these potential participants with additional individuals and companies based on CC's work within the industry over the past five years. These additions were generally an effort to balance the mix of participants relative to size and type of collision repair business, geographic dispersion, diversity and CIC membership (or not).

In addition, there was a bias towards ensuring industry thought leaders and key influencers participated, although there was a parallel effort to ensure the study was not solely populated with what I will call the "usual suspects" – no disrespect intended. In some situations, typically on-site interviews, multiple participants from a company were involved. For data gathering purposes these interviews were counted as one and the consensus of the group determined the final answer to the interview questions.

In developing the industry segments to be interviewed it was necessary to create segments and sub-segments to properly represent one or more of the variety of collision repair businesses within the overall industry. The major segments represented in the data are:

Repairers – those in the business of collision repair

Repairer Networks / Associations – those that support or represent collision repairers

Insurers

Suppliers – includes parts, paint and materials businesses

OE Manufacturers

Research / Training / Certification businesses and organizations were combined for simplicity of reporting

Sub-segments were created as follows:

National MSO's – Multi-state, large collision repair businesses

Regional MSO's – Smaller, multi-store businesses that have a significant footprint in a regional market

Independents – One or more "family" owned businesses without a large footprint

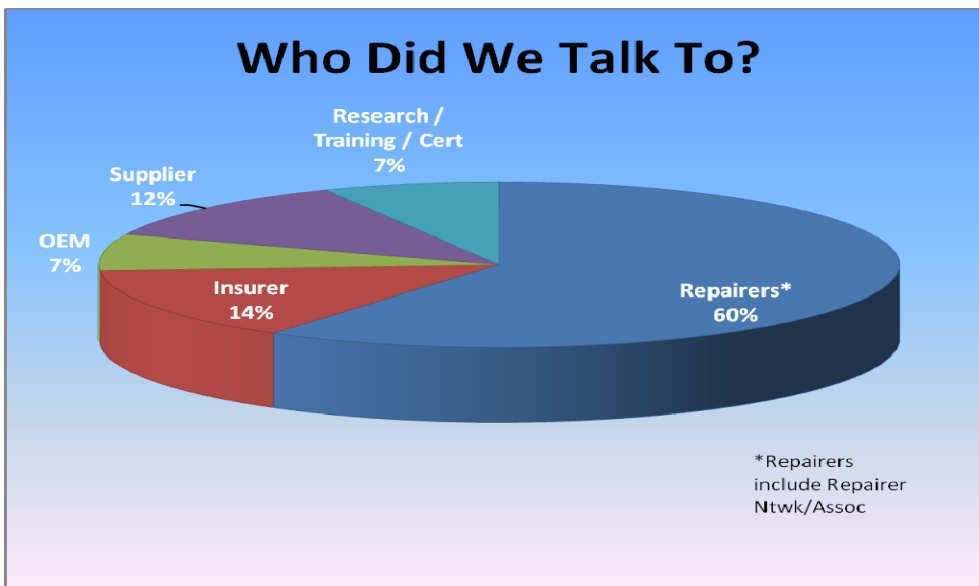
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Dealers – OE based collision repair businesses

Certified Facilities – businesses that had achieved OE certification, typically from the luxury manufacturers

(Data is not necessarily broken out by each and every sub-segment. Their creation was more an attempt ensure their representation in the research)

A total of 42 U. S.-based interviews were conducted over the course of a two month period. The first graphic indicates the percentage breakdown by segment; the second indicates an overall repairer percentage (60%) that includes Network and Association participants.



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Breaking out the interviews by segment:

18 repairers participated. These repairers represented over \$900M in revenue, 316 stores and over 750 employees.

6 Repair Networks and Associations participated, claiming representation of over 10,000 shop owners. 1 additional interview was conducted with representatives from multiple State and Local Collision Repair Trade Associations. Their feedback and points of view are represented in the qualitative results only as the con call format was problematic relative to asking the common questions of such a large group.

6 Insurers participated, representing a combined market share of over 37%. These six insurers had a combined Auto Physical damage spend of approximately \$14.6B, or about 42% of total industry revenue.

3 major Original Equipment Manufactureres participated. While we would have liked at least one or two more, they were mainstream OEM's with significant market share.

5 Suppliers participated, representing some of the largest part, paint and material suppliers in the US.

3 interviews were conducted with individuals representing organizations in the Training, Research and Testing/Certification segment.

Regarding the make up and credentials of those interviewed, the study did capture some data that can be used to characterize their profile within the collision repair inter-industry.

Among the highlights:

The average number of CIC meetings attended per year was 2.9

80% were aware of CIC's efforts to research the viability of a Repair Stabndards entity

Most rated their knowledge of Repair Standards and Repair Standards Entities such as those in the UK as High

Most rated their technical knowledge of Standards between Medium and High

8 repairers were Certified Facilities, typically achieving multiple luxury brand certifications

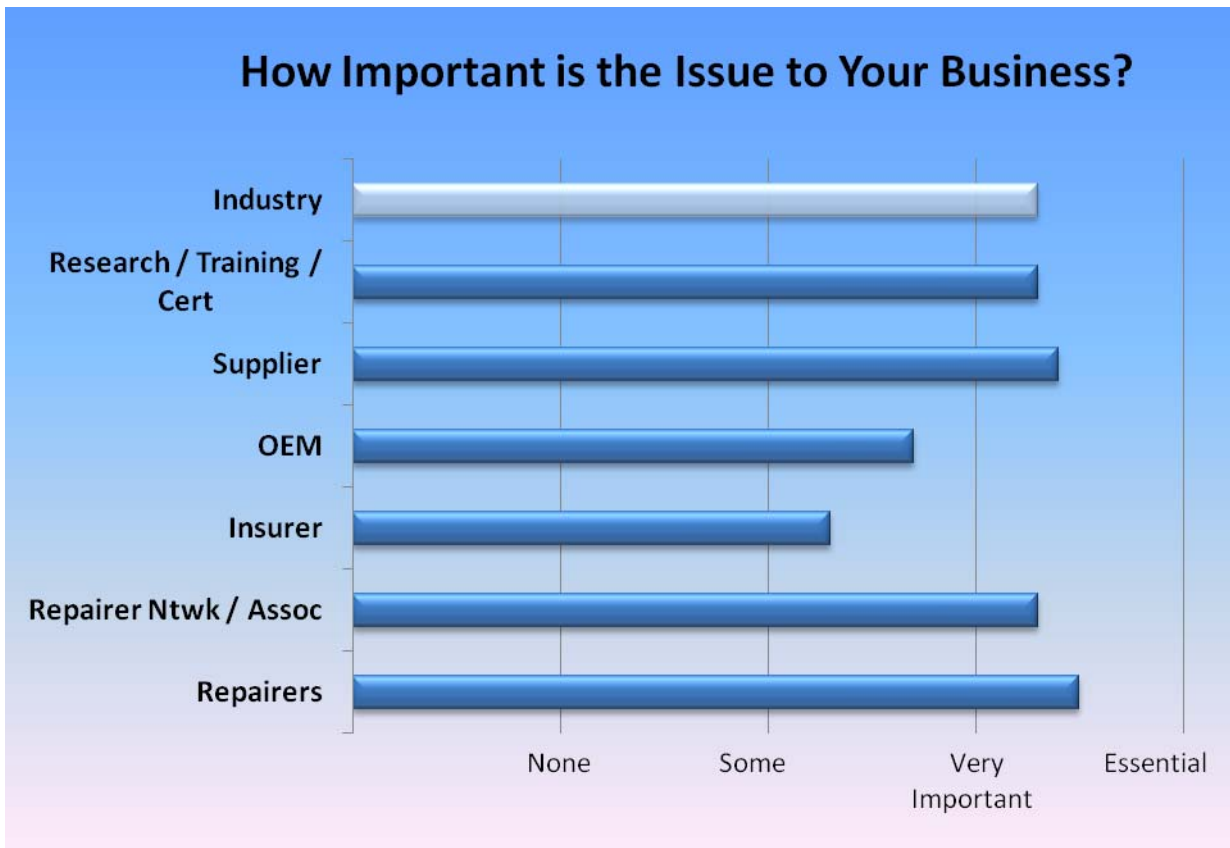
Additionally, and respecting the anonymity of those that participated, many individuals were current or past Officers/Directors of various industry organizations, Presidents / Vice-Presidents / Directors of large companies, highly respected and successful businessmen and women, and/or were reknowned for their long-term contributions to the industry. That said, there is no

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doubt some with similar credentials were not included in the initial research. Hopefully they can be included in future research or simply become engaged in the next phase of this effort.

Importance of the Repair Standards Entity Issue

The first question asked of the participants was to rate the importance of the issue to their business on a one to four scale, with one being no importance and four being essential to their business. The following were the results by segment:

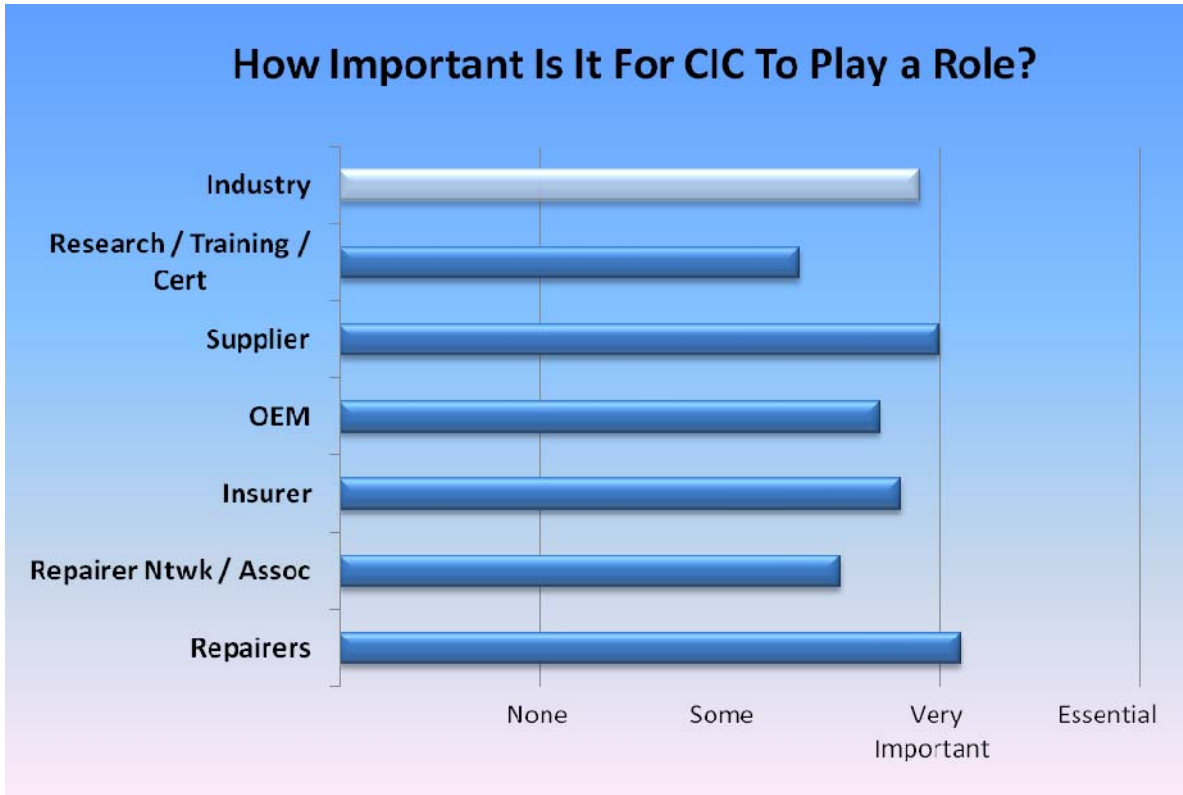


While many segments rated the issue as very important, Insurers and the OEM's were less enamored. Comments surrounding the ratings included references to:

- I don't think we have defined the true problem yet* Insurer
- What is the mission & scope?* Insurer
- We don't see a compelling value proposition* OEM
- Where are the consumer advocates in this effort?* OEM
- Our industry is at a crossroads due to this issue* Repairer
- Technicians are the issue, not standards*..... Supplier

The Importance of CIC’s Role in Developing a Repair Standards Entity

In an attempt to gauge the industry’s support for CIC leading and supporting the effort, participants were asked to rate the importance of CIC’s role going forward.

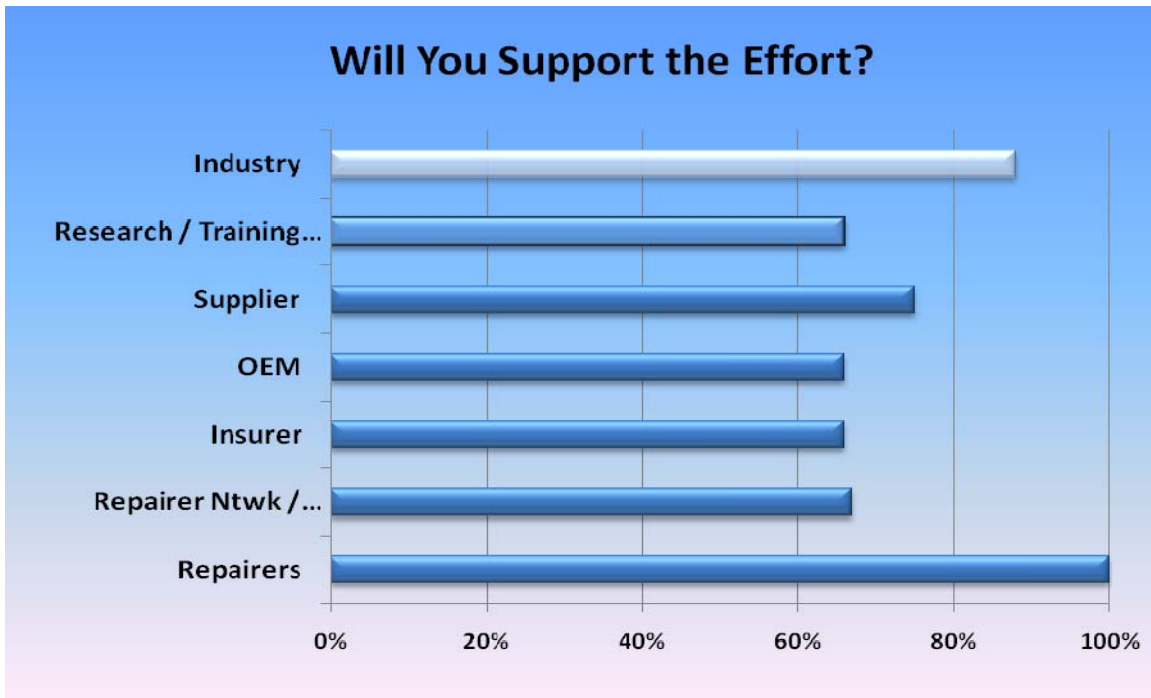


While Repairers and Suppliers believe CIC has a very important role, other segments are less enthusiastic. Comments on this question included:

- CIC is the wrong forum for this effort*.....OEM
- CIC’s reputation is a big problem* Research / Training
- CIC is not neutral*Supplier
- CIC has to nurture this baby until it can walk*Insurer
- CIC is our only viable option to move this forward*Supplier
- Who’s involved in this effort? Who is funding?*Repair Network/Association
- I-CAR should be driving this, not CIC*Insurer

Willingness to Support the Effort

Perhaps one of the most important questions, participants were asked if they were willing to support the effort – yes or no. The graphic represents the percentage of “Yes” answers by segment.



In many cases the participants immediately asked “ What are you asking me to support?” This was an understandable response given the relatively undefined scope and mission of the project. In these cases we eventually reached agreement that their response would reflect their level of support for the project *at this point in time*.

While repairers were unanimous in their support, all other segments had reservations about the effort. Interestingly, Repair Network / Associations were not aligned with Repairers on their willingness to support. In addition to the aforementioned comments about the lack of a compelling value proposition, the following points of view were noted:

Our way or no goOEM

What are Standards are going to do for the shop owner?RN / Assoc

Repairers must drive this effort, it's their standards.....Insurer

We shouldn't be involved, our role is to indemnify, not dictate repairs.....Insurer

Insurers cannot be in a position to influence how vehicle is repaired... RN /Assoc

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Timing is not right for Insurers to support Standards Repairer

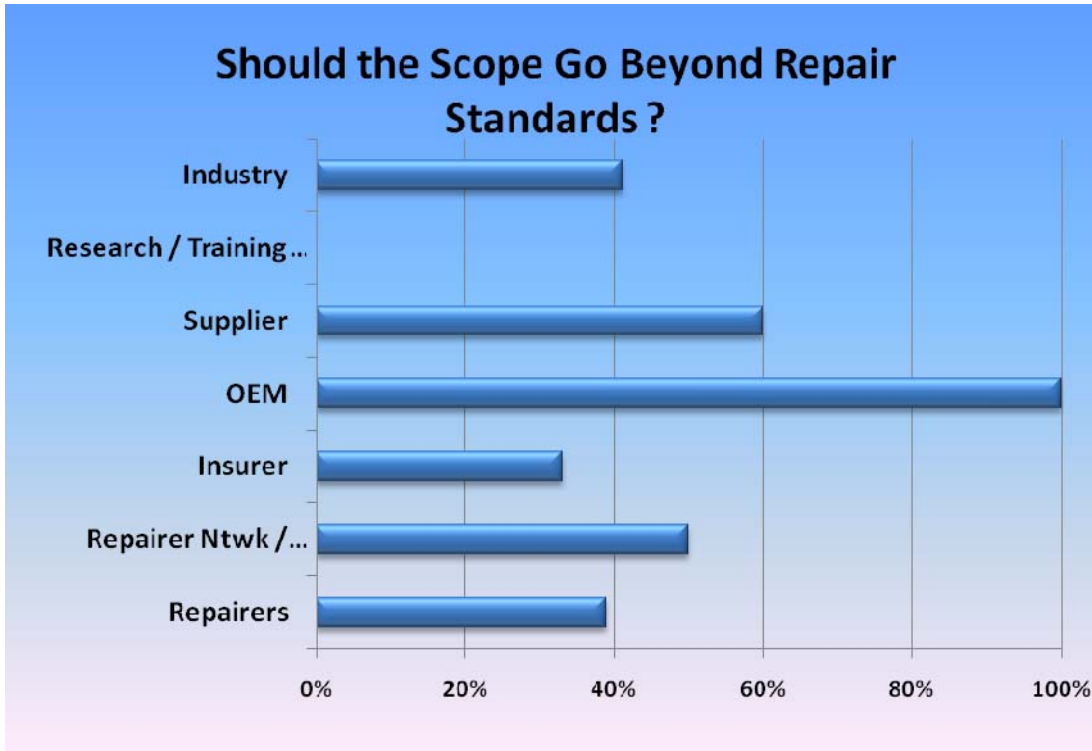
Insurers are not likely to participate, undermining the effortResearch/Training

If there was support for the issue, a follow up question was asked regarding what form that support might take relative to Governance, Funding or Resources. Few supporters other than Repairers offered funding support.

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Should the Scope of the Effort Go Beyond Repair Standards

One of the more contentious questions in the interview, participants were asked if the effort should be confined to Repair Standards only or be expanded to include administrative, process, facility or quality assurance standards. The graphic represents the percentage of “Yes” answers by segment.



The Research/Training/Certification segment result is not an error – they were unanimous in their opinion that any Repair Standards entity should not expand it’s scope beyond repair standards. Support from the other segments was mixed, and comments about competency, complexity and focus were numerous, including:

Lets stay within our core competencyRepairer

We need a step-by-step “manual” for the entire claim/repair processOEM

Don’t homogonize shops with standardized claim/repair processes, we need creativityInsurer

Insurers will always decide their own claim processes.....Insurer

Way too complex to extend beyond repair standardsSupplier

Too large a scopeResearch/Training/Certification

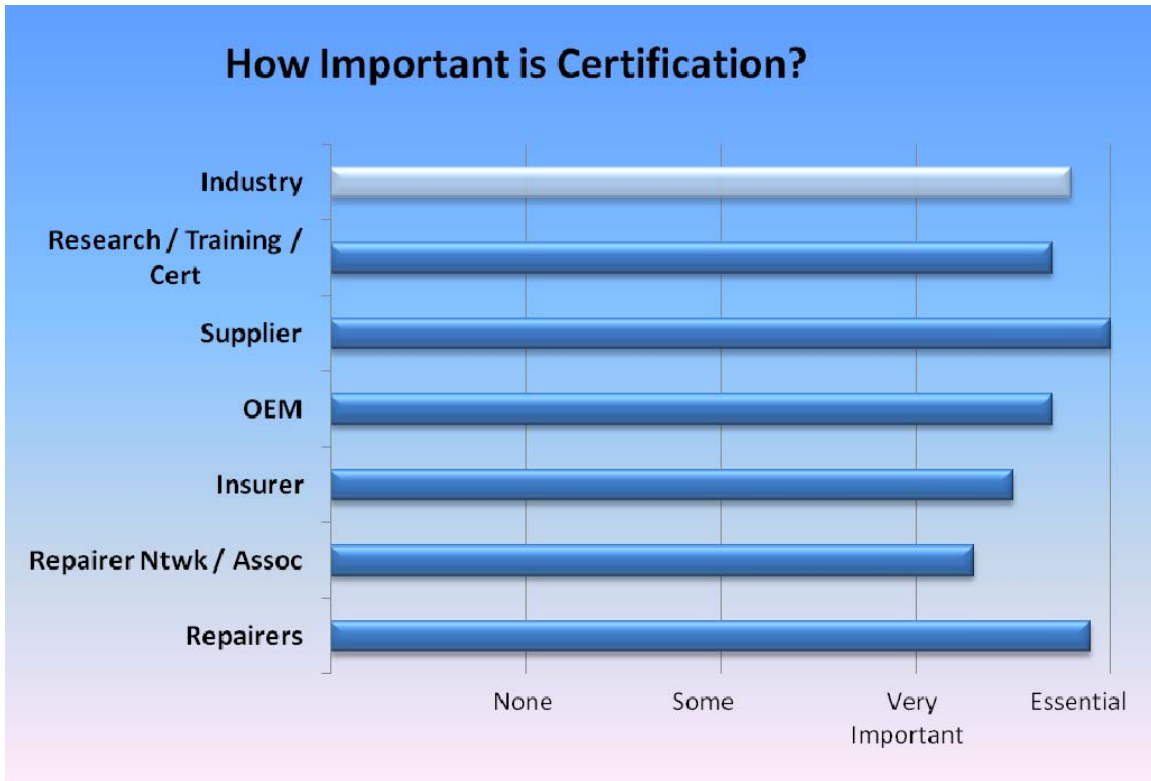
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Stick to repair standards, let technology drive other processes.....Repairer

The time is right for claim/repair DRP process standardization.....RN /A Assoc

How Important is Certification?

This question attempted to gauge the importance of some sort of certification process to the Standards issue.

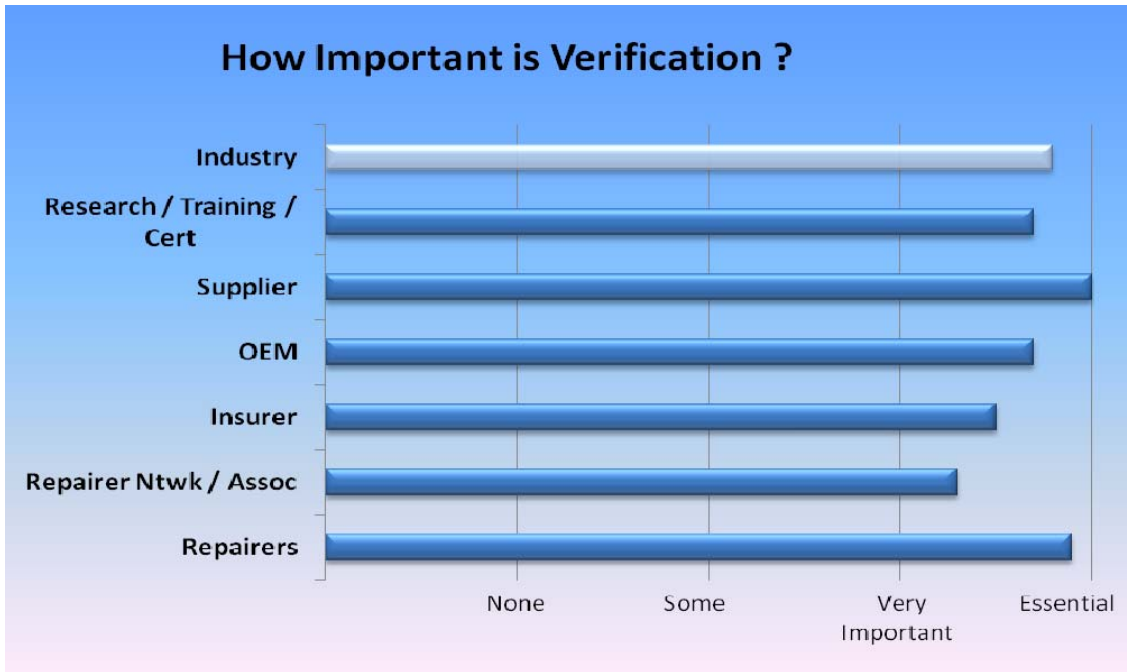


There was wide spread agreement that if a Repair Standards entity were established there must be some type of “certification” that a repairer could achieve and market. Five of six Insurers stated they would consider certification as important for membership in their DRP network. Some of the comments on certification:

- Certification is important from a consumer standpoint*Insurer
- We can self-certify, just like other industries*Repairer Network/Assoc
- We need to get rid of the cheaters* Repairer
- We need to create a level playing field*Repairer
- Certification would be a badge of honor* Repairer
- Let’s identify and reward quality repairers*Repairer Network/Assoc
- Standards have no value without certification*Repairer
- Self-certification is worthless*Supplier

How Important is Verification?

This question followed up on the prior by asking the importance of verifying a certified business was maintaining Standards on an on-going basis. Again, there was widespread agreement between segments that verification was an integral part of the certification process.



Comments regarding verification included:

We must have verification, a rule set is not enoughRepair Network/Assoc

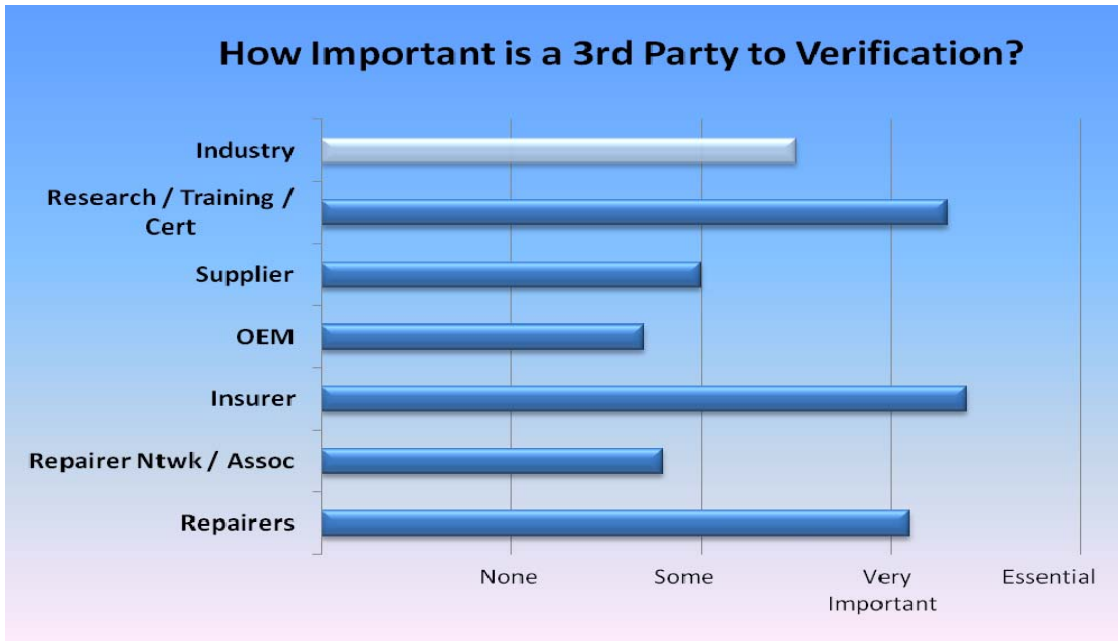
Verification is criticalOEM

The verification process must have total independenceInsurer

If you are going to set standards then you have to police standards.Insurer

How Important is the Involvement of a 3rd Party in the Verification Process?

This question attempted to gauge the desire and need for a 3rd Party to conduct Verifications.



Results were mixed to this question, with the OEM and Repairer Network/ Assoc segments not seeing much importance, while the rest felt strongly there is a need for 3rd party involvement. Comments included:

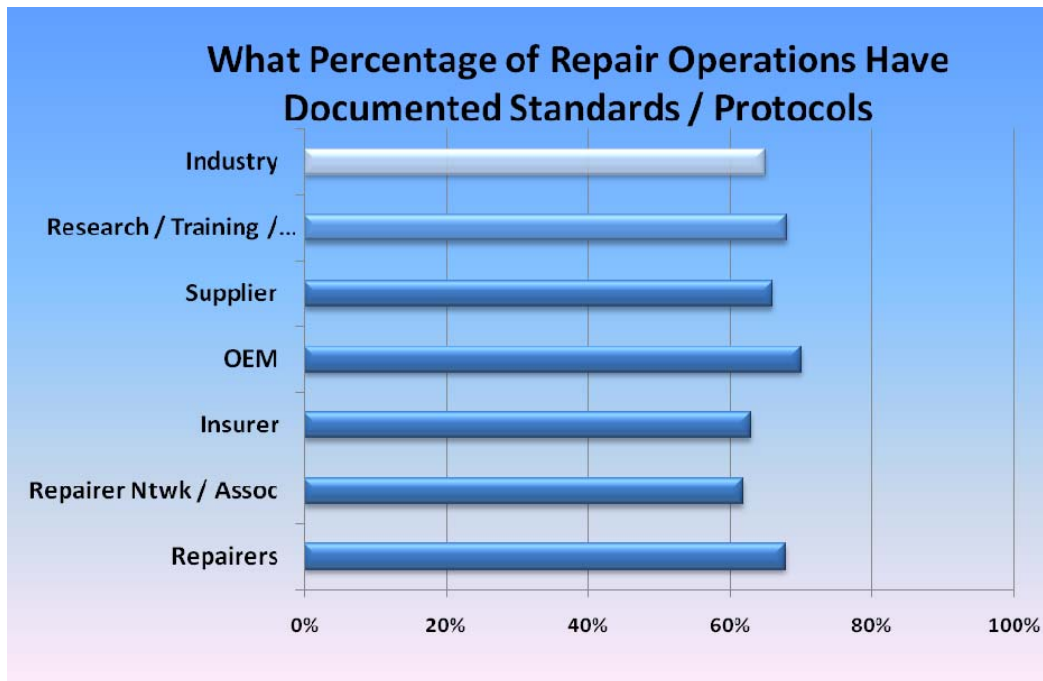
We don't want a 3rd party involvedRepairer Network / Assoc

3rd party involvement in verification is a distractionSupplier

We need to guarantee independence through a 3rd partyInsurer

What is the Gap in Existing Repair Standards / Protocols?

This question attempted to quantify the perceived gap in existing documentation to all repair operation documentations. We referred to this lack of documentation as the “gap” in existing procedures/protocols. There is no doubt this is as much a SWAG as a definitive answer, but the results indicate a like-mind on the issue:



There is agreement on the gap issue, perceived or real. Comments relative to the gap included:

OEM's are the problem with the lack of infoResearch / Training / Cert

Push OEM's that do not have acceptable procedures in place, there are many of them.....OEM

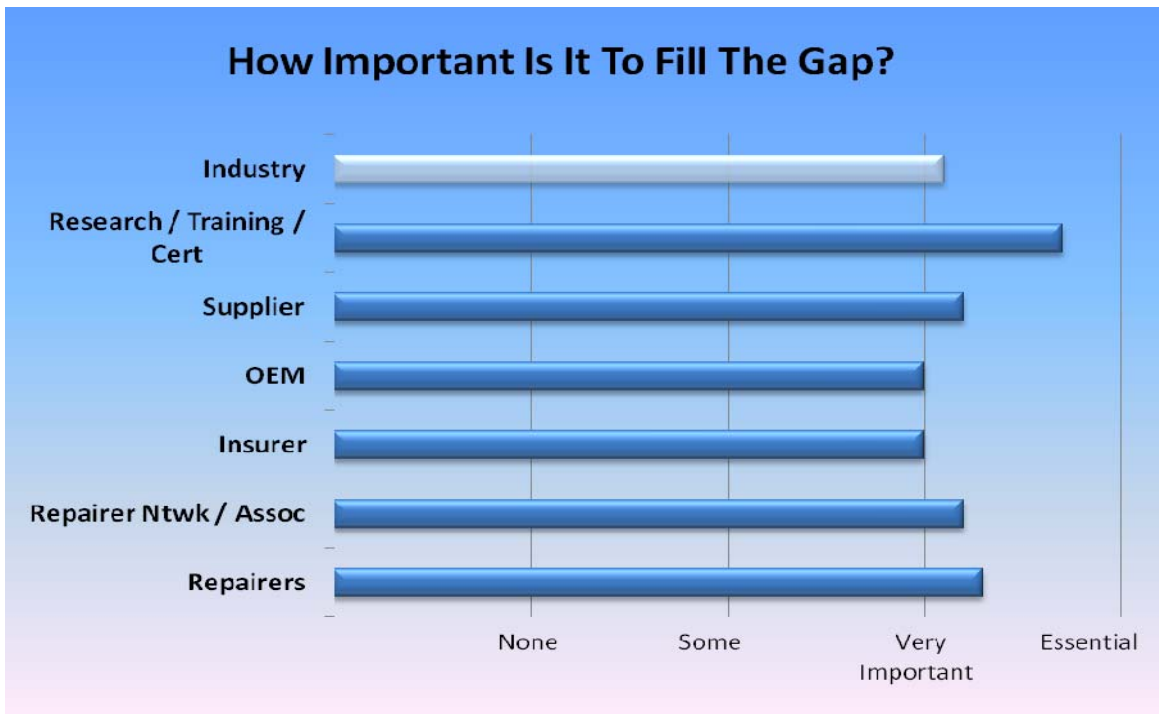
Repairers have a profound lack of awareness of existing procedures.....OEM

Access to procedures is an issue, and the estimating and other technology companies could improve their products in this area.....Repairer

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How Important is it to Fill this Perceived Gap in Documentation?

A follow up to the prior question, participants were asked how important they felt it was to “close the gap” in documented procedures.



There was general agreement between segments that closing the gap was very important.

Comments in this area included:

OE's are the problem due to lack of information and conflicting information.....Research / Training / Certification

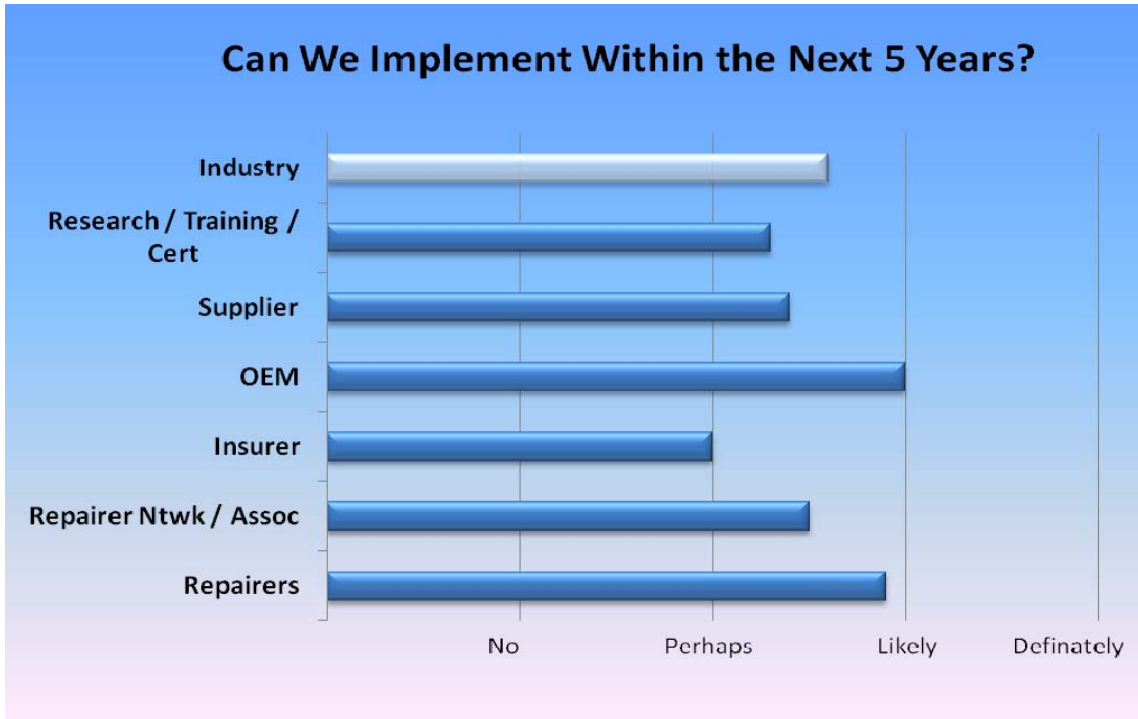
Gap is primarily Manufacturer / Model drivenRepairer

There is too much industry drama on the gap issueOEM

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What is the Likelihood of Success Within the Next Five Years?

The final common question asked the participants their opinion on how likely the Repair Standards entity initiative, regardless of final form and function, could be organized and implemented over the next five years. Responses were on a 1 (None) thru 4 (Highly Likely) basis and averaged to get the final result by segment and overall industry.



Results indicate a consensus of “perhaps” (2), with the more optimistic segments approaching “likely” (3). All but one of the 7 “definitely” (4) responses came from repairers. Comments on the likelihood of success were many and included some frank assessments of the challenges, barriers and success criteria needed:

Need coalition of existing entities to drive the effortSupplier

OEM’s need to be more flexibleSupplier

Disagreement on philosophical grounds will stop this effort – there must be compromise.....Research / Training / Cert

OE’s cannot compromise on standardsOEM

Must have a compelling value propositionOEM

This is a repair issue, Repairers must drive this effortInsurer

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LIABILITY is the issue that will need to be confronted & clearly understood ...
..... Insurer

Success in this effort will be all about individual leadership Repairer

When I saw the scope of this effort it gave me the “willies” Repairer

Insurer push back will be a barrier Repairer

Insurer / Repairer friction will likely derail the effort..... Repair Network / Assoc