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VOLUME 54 | SUPPLEMENT
JULY 2015

The Sublet Versus In-house DEBATE

THE FACTORS TO CONSIDER WHEN MAKING THE DECISION TO EITHER KEEP DIAGNOSTIC WORK IN-HOUSE OR SUBLET THE WORK

FIGHTING STAFFING STUGGLES

MSOS — BOTH INDIVIDUALLY AND JOINTLY — ARE FINDING WAYS TO GET THE TALENT THE INDUSTRY NEEDS

EDUCATION ACROSS LOCATIONS

SEVEN LESSONS TO GUIDE YOUR MSO TRAINING MODEL

UBM

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DIRECTOR, MSO RELATIONS

CAUGHT IN A WHIRLWIND

Industry consolidation and continued change demand the wisdom to know what you can and can't control.

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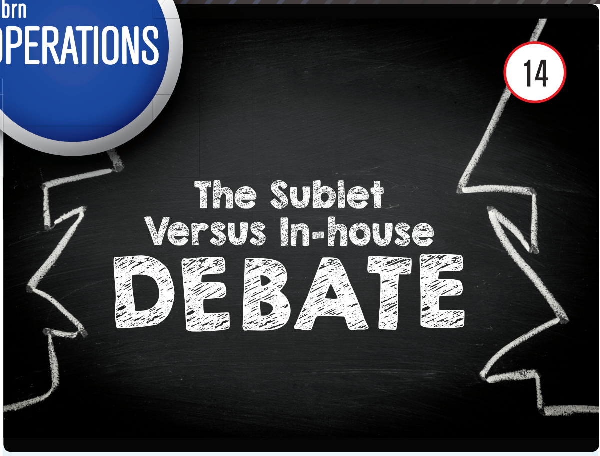

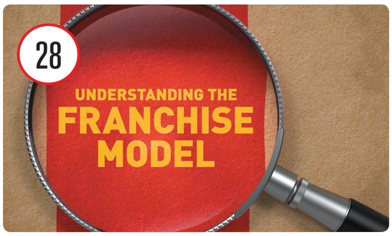

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MSO OWNERS and management, insurer representatives and association leaders sit down with *ABRN* to discuss the collision repair market, challenges facing the MSOs, preparing for vehicle technologies and more. Read their insights on what's to come.

TRENDING 6

TOP MSOS SELLING OUT TO BIG 4

The composition of the collision repair industry's top MSOs is quickly transforming as the Big 4 continue on their path of acquisition, with more geographic MSO purchases bringing regional penetration to the consolidators, says FOCUS Investment Bankers.

TRENDING 6

KEENAN AUTO BODY ACQUIRED BY ABRA

Twelve Keenan Auto Body, Inc. locations have been acquired by Big 4 consolidator ABRA Auto Body & Glass. This marks a sizable expansion for ABRA into the Philadelphia, Delaware and Maryland markets as it continues its growth plan across the United States.

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5 AREAS BEYOND REPAIRS TO DRIVE GROWTH, PROFITS

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VIDEO SPOTLIGHT

THE VALUE of a motorsports sponsorship for the collision repair business

Adam Chafe, vice president of marketing with Sherwin-Williams Automotive Finishes, talks about the power that a motorsports sponsorship can have in helping to grow and promote your brand, leading to more money for you at the end of the day.

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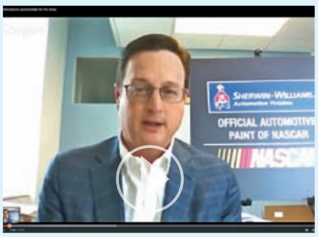

BLOG SPOTLIGHT

OPPONENTS HAVE effectively killed a piece of Texas legislation that would have made it more difficult for property owners to sue insurance companies that unfairly denied or delayed claims.

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SIX HEROES who have sacrificed and given themselves in service were honored in Dallas and Austin, Texas as each received a refurbished vehicle from Caliber Collision through NABC's Recycled Rides program.

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Service King Collision Repair Centers continues to expand into the Chicago metro area with the acquisition of the Loro Auto Works location in Oak Park, Ill.
»» ABRN.COM/LORO

1COLLISION NETWORK ADDS INDIANA LOCATION
The MSO adds M&S Custom Auto Body in Schererville, Ind. to its franchise network.
»» ABRN.COM/MSCUSTOM

H&V COLLISION ACQUIRES COLLISION EXPERTS
The upstate New York MSO has acquired Collision Experts' two locations, bringing the company's total count to seven locations.
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INDUSTRY INSIGHT

Top MSOs selling out to the Big 4

BY **DAVID ROBERTS** | CONTRIBUTING EDITOR

The composition of the industry's top MSOs is quickly transforming as more and more are acquired by the Big 4 consolidators, according to research conducted by FOCUS Investment Bankers, a leading investment bank to the industry. At the beginning of 2014, there were 40 large MSOs with total estimated revenues of about $1.5 billion. The Big 4 consolidators acquired more than $800 million in total revenues during the year. Almost $700 million came from these top 40 MSOs.

The most obvious characteristic of the large MSO transactions in 2014 is the platform potential of each one – excepting Sterling. A platform acquisition is more than just a lot of shops on a map. The most valuable MSO platforms have serious penetration with multiple shops in a particular region. They have capable, adaptable management teams that created and are expected to continue to operate these MSOs post acquisition. In almost every transaction in 2014, the acquirers gained a market leader, deeply engaged with DRP programs as well as the locations to offer insurance-friendly solutions across a wider region than almost any competitor.

The Sterling acquisition was the exception. Its 62 locations were scattered across 15 states without deep penetration in any specific region. However, in addition to a core of well-aligned managers with common practices and culture, many of the locations provided key leaders, market knowledge and presence in regions where Service King plans to expand.

Of the top 40 MSOs at the beginning of 2014, 14 were acquired during the year (not including the private

>> CONTINUES ON PAGE 8

Photo: ABRA

BREAKING NEWS

ACQUISITIONS

KEENAN AUTO BODY ACQUIRED BY ABRA

Twelve Keenan Auto Body, Inc. locations have been acquired by ABRA Auto Body & Glass.

The acquisition was announced by FOCUS Investment Banking, a national middle market investment banking firm providing merger, acquisition, divestiture and corporate finance services. FOCUS represented Keenan Auto Body in the transaction.

Keenan, a leading multi-shop operator in the Mid-Atlantic region, has been a well regarded leader and innovator in shop management practices and environmental best practices. For more than two decades, Keenan's has steadily expanded its locations in the Philadelphia market and recently opened its 12th location.

ABRA Auto Body & Glass, headquartered in Brooklyn Park, Minn., is

>> CONTINUES ON PAGE 8


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>> CONTINUED FROM PAGE 6

KEENAN AUTO BODY ACQUIRED BY ABRA

one of the nation's largest providers of vehicle repair services specializing in collision repair, paintless dent removal, and auto glass repair and replacement. With more than 260 shops nationwide, ABRA's sizable expansion into the Philadelphia, Pennsylvania, Delaware and Maryland markets is part of its aggressive growth plan.

Keenan's President and Chief Operating Officer, Mike LeVasseur, commented. "This is a tremendous opportunity, and I am excited to continue to grow the deep relationships we've developed in the community. Our business partners and customers have been instrumental in our success, and we look forward to continuing to serve them with ABRA," he said.

David Roberts, group leader of the Automotive Services practice at FOCUS and managing director, added, "We are proud to have helped Keenan's find an excellent partner and create great value for its shareholders. We have no doubt that Mike LeVasseur will continue to exercise his industry leadership to the benefit of his new partners."

Rick Thomas, FOCUS Managing Director, notes, "With the acquisition of such a dominant and reputable multi-shop operator, ABRA is positioned for substantial success and considerable growth throughout the region. FOCUS is pleased to have been able to help two successful businesses come together to serve the community better."

>> CONTINUED FROM PAGE 6

TOP MSOS SELLING OUT TO THE BIG 4

equity investments in ABRA and Service King). These included top MSOs such as Wilburn's, Joe Hudson's, Kirmac and Car West, to name but a few of the platform MSOs acquired during the year. By far the largest of these acquisitions was Sterling (acquired by Service King).

Among the Big 4, Service King was the most aggressive acquirer in terms of both total volume of revenue, total shops and total number of transactions among large MSOs. FOCUS estimates their five transactions included more than $325 million in revenue. A distant second was Gerber with three transactions totaling 48 shops and estimated revenue of $130 million, followed by ABRA with three acquisitions with an estimated $125 million in revenue and 49 shops and then Caliber with two large acquisitions totaling 25 shops with estimated revenues of under $100 million.

Each of the Big 4 also continued to acquire smaller MSOs, single shops and open brownfield and greenfield shops. Total U.S. acquisitions and new shop openings for the Big 4 during 2014 totaled in excess of 314 shops, as estimated by Focus. The Big 4 ended the year with a combined total of more than 930 shops, an increase of more than 50 percent over their 2013 year-end total of 614 shops.

For the remaining large MSOs, FOCUS expects selling opportunities to continue to be robust and for competition among acquirers to be fierce. Expect more and more sellers to engage in an auction process where multiple bidders compete for the fewer remaining large MSOs.

For those large MSOs that decide to continue their own growth, they will find themselves competing for acquisitions with the Big 4 as well as with other large MSOs. And for every acquirer, the focus will continue to be on targets that exhibit these key criteria including:

- Total revenue and number of production locations
- Reconstructed EBITDA as a % of total revenue
- Geographic market size and attractiveness
- Market share of target MSO
- Strength of management team
- Capacity for additional growth in target MSO's shops

INDUSTRY EVENTS

NACE RELEASES MSO SYMPOSIUM AGENDA

NACE has released the schedule for this year's MSO Symposium. The content will cover business growth, M&A, private equity, insurance and industry trends and other management-focused topics.

The MSO Symposium has been a popular event since its premier in 2011, drawing attendance from the largest multi-shop operators in the collision repair industry. This business event will now cater to a broader group of high-growth and dynamic executives, allowing it to be more inclusive of some of the best operators in the collision repair industry. This year's symposium features a chair and advisory board to increase industry input and direction relative to the content.

Michael LeVasseur, advisory board chair and *ABRN* contributor, will moderate with co-producers Dan Risley, Darrell Amberson and Russell Thrall. The symposium is July 23.

Here is the 2015 Schedule at a Glance:

12 - 1 p.m.:	Private Welcome and Strolling Lunch
1 - 1:30 p.m.:	MSO Update & State of the Industry Address MODERATOR: Dan Risley
1:30 - 2:15 p.m.:	Claims Management Models MODERATOR: Russell Thrall
2:15 - 3 p.m.:	Insurer Panel MODERATOR: Mike LeVasseur
3 - 3:15 p.m.:	Break
3:15 - 4 p.m.:	Shortage of Qualified Employees, Developing Talent and Retention MODERATOR: Tony Molla
4 - 5 p.m.:	The ABC's of Financing MODERATOR: Dave Roberts
5 - 5:30 p.m.:	NPS & CSI MODERATOR: Mike LeVasseur
5:30 - 7 p.m.:	Private Reception

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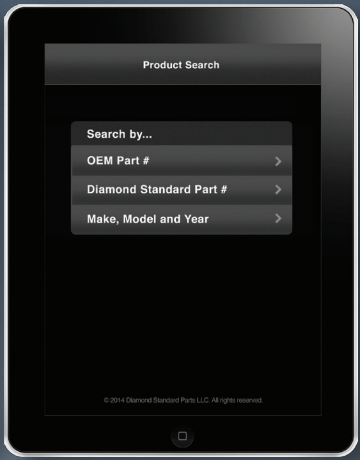

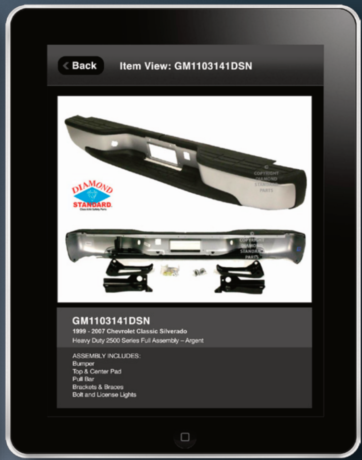

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A/M: CAPA	Supplier 2	E0116B/C	0	5	2.5	0.0
A/M	Supplier 3	GM1002830	0	1	2.5	0.0
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A/M	Supplier 1	E0116B	0	10+	2.5	0.0
A/M: NSF, AQRP	Supplier 4	GM1002830N	1	1	2.5	0.0
A/M: DS, AQRP, CAPA	Supplier 4	**GM1002830DSC**	1	1	2.5	0.0
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Caught in a whirlwind

Industry consolidation demands shop owner wisdom to know what you can control

I've been increasingly taken aback by the significant wave of consolidation that seems to be overtaking our industry.

It seems like every week a trade publication announces at least one acquisition. As of the end of 2014, the Big 4 (ABRA, Boyd, Caliber and Service King) total number of shops exceeded 1,000.

Within recent months, we've seen acquisitions of high profile, large MSOs such as Craftsmen Auto Body, Pohanka Collision, Collex Collision and Keenan Auto Body. While most in the industry have predicted continued consolidator growth, many didn't see the acquisition of some of these MSOs coming. There are rumors of some very high prices being paid. The acceleration of the movement is staggering. In years past, other significant industry trends and changes occurred over a period of months and years. This one is measurable on a weekly basis.

> **"WHILE THE INFLUENCE OF THE CONSOLIDATORS IS INCREASING, AT THE SAME TIME THEIR BUSINESS MODELS ARE VERY DRP RELIANT, THUS MAKING THEM DEPENDENT UPON INSURERS."**

While it's admittedly unsettling to many of us in many ways, I'm reminded of the words of the Serenity Prayer, "Give me the serenity to accept the things I cannot change; courage to change the things I can; and wisdom to know the difference."

To me, wisdom in this case means understanding that this whirlwind of change is something based on economic trends and opportunities that no one can change, even if we wished to. Frankly, it's hard to blame any shop operator for selling their business, especially when the opportunity may never be better. It's their chance to reap the benefits of their investment, hard work and risk taking.

To me wisdom is gaining understanding of current trends and ultimately looking for opportunities.

One can look at other industry consolidation waves for comparison purposes. Examples are all around us, including grocery stores, banking, drug stores, media companies, building material centers, food processors and distributors, department stores, gas stations, auto parts stores, and even auto manufacturers when you look back far enough.

As in other industries, will any consolidators merge or acquire one another?

I am wondering what this trend will do when it comes to power and influence in our industry. While the influence of the consolidators is increasing, at the same time their business models are very DRP reliant, thus making them dependent upon insurers. Will a time come when consolidators use their size and influence to take a more firm position in negotiating with insurers on pricing or other aspects of their relationship? Will insurers become concerned over being reliant on too few repair businesses?

At this same time, original equipment manufacturers (OEMs) are gaining influence on our industry through shop certification programs and our increasing reliance on OEM-specific repair methodology information. How will consolidators react? Will insurers accept the increased OEM influence or push back? How about the capital investors? Can they receive adequate returns? If not, how will they react?

How about the large groups like CARSTAR and Fix Auto? Will they continue to be a viable alternative? At the same time there are other networks appearing.

For those of us repairers who are not yet part of the consolidators, what is our best path forward? Grow through acquisition on our own? Seek a niche market model? Compete through superior customer service? Focus on manufacturer-specific work based on OE certifications and dealer relationships? Sell to a consolidator?

While there are countless questions about our industry's future, there are a few things we can be sure of:

1. We are in a whirlwind of change, and it is accelerating like never before.
2. Change brings challenges and opportunities.
3. There will be losers and winners.
4. For those of us who study the industry, there has never been a time with more to watch and analyze!

Tell Me What YOU THINK

If there's a topic you'd like me to address, I'd love to hear from you.

Darell Amberson

Darrell Amberson is president of operations with LaMettry's Collision and an ASA chairman.


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Making adjustments

How to deal with sales that then get adjusted to a lesser amount

At a recent 20 Group meeting in which I'm involved, a heated discussion took place over how to account for a sale that hadn't been fully approved for the final amount.

We've all been there: We call an adjuster to come back out to approve a supplement and they give the dreaded, "Just do what needs to be done and send it to me, and I will approve it." So you write the sheet for "what needs to be done," print the final bill for $1,100 and send the satisfied customer on their way – only to get the final approved paperwork back from the adjuster with 45 fewer dollars due to "estimating system differences."

So how do you account for the $45? Was that a sale or not? Legally, a sale is an agreement where one party (the seller) transfers something to another party (the buyer) for an agreed price. Consent of the parties is also required and is generally evidenced in writing. But what is the agreed price? Did it include the $45?

> "SALES ADJUSTMENTS GET MADE AT THE TIME THE SALE IS RECORDED, WHEREAS THE BAD DEBT WRITE OFF GETS RECORDED WELL AFTER THE SALE OCCURRED."

ABC Body Shop would have delivered the job, closed the repair order and booked the sale as $1,100. When the payment from the insurance company comes in for $1,055, ABC will discount the sale and write-off the $45. That way ABC can track the amounts being written off.

123 Body Shop will hold the repair order open and close it only when the final estimate comes back for $1,055.

What is the difference between the two ways of handling this? The net result is the same if there is no sales tax involved. But if there is sales tax included in that $45 difference, ABC would have likely remitted the sales tax but not collected it, resulting in a loss to the company. The argument could be made, however, that the agreed-upon sale was $1,055 meaning that the $45 difference could be recorded as a credit memo reducing both the sale and the related sales tax, again recording a net sale of $1,055 with no loss due to sales tax.

So what is the proper way to handle other types of sales adjustments? When the shop owner tells his estimator to give his friend $100 off the repair, a discount should be recorded as a sales adjustment, which appears as a negative revenue account. Redeemed coupons generally get recorded the same way.

What about those small balance write-offs? If you decide not to collect those small differences at the time of the sale, they can be written off also as sales adjustments. In the event you have recorded a sale but have been unsuccessful at collecting the balance, the write-off should be recorded as a "bad debt expense." The difference is that sales adjustments get made at the time the sale is recorded, whereas the bad debt write-off gets recorded well after the sale occurred.

Some shops estimate the amount of bad debt they expect to write-off in a year using an "allowance for uncollectible accounts" contra asset account that reduces the value of "accounts receivable" on the balance sheet. While this is appropriate for GAAP-based financials, the IRS generally does not recognize such allowance accounts and allows deductions for actual write-offs only.

Another common mistake I see is shops recording a sale and writing it off for internal repair orders and warranty repairs for which no payment will be made. If no one agreed to pay for these repairs then there is no sale. Again the shop may mistakenly remit sales tax on the "sale" when no sales tax was collected.

Two last items of note: First, for cash basis taxpayers, write-offs are a non-issue because a sale is only a sale when the payment is received, not when the vehicle is delivered.

And second, dates are important. Write-offs should generally be recorded in the month you are doing the write-off; no back dating to a prior period.

The bottom line is that a "sale" should only be recorded for a legitimate sale. If you have questions about recording sales and sales adjustments in your state, check with your CPA.

Tell Me What YOU THINK

If there's a topic you'd like me to address, I'd love to hear from you.

KKlabunde

Kirstin Klabunde, CPA, is a consultant with Collision Advice.

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MINDING YOUR BUSINESS

The Sublet Versus In-house DEBATE

IS IT BETTER TO KEEP SCAN TESTING, DIAGNOSTICS, SENSOR RESETS AND RECALIBRATIONS IN HOUSE, OR SHOULD YOU SUBLET THE WORK?

BY **DARRELL AMBERSON** | DIRECTOR OF MSO RELATIONS

IN THE LAST installment of the *ABRN* MSO Supplement in April, I kicked off the conversation about how shops can handle electronic and diagnostic repairs that often accompany a collision repair.

In the article (*Electronic and diagnostic repair decisions*, April 2015), I reviewed the complexities of these repairs and the extensive knowledge needed to correctly and safely complete them. I also reviewed the difference between resetting and recalibrating sensors. But here I want to talk further about the options. Because our industry does not have a uniform solution in terms of sublet verses in-house approaches to addressing the resets and recalibrations, I reached out to repairers to get their perspective.

Bob Pearson of Pearson Auto Body in Shakopee, Min., said while a consolidator may be able to support an investment in this area, the need for subletting to either a dealer or specialist will remain because of the constant technology evolution of today's vehicles.

"I liken it to going to the doctor for an operation. I want the guy who does these 8 hours a day, and only this. He is the specialist," Pearson says. "While there is room for some of the larger shops to invest $5,000 in a scanner that can do quite a few resets and recalibrations, it takes much more than this to do all models. The dealers are forced, some probably more reluctant than others, by the manufacturer to invest in this expensive equipment as part of their franchise agreement. Because the dealer has this expertise, it should give them some leverage in the marketing of their in-house collision shop," he said.

"There is so much liability engrained in this specialty, I don't see the wisdom of doing this in house. The dealers can afford this equipment as they can charge three times what the collision shops can."

Dan Stander of Fix Auto Highlands Ranch in Colorado, also ASA Collision Division Director, states, "For our loca-

tion, we have a basic scan tool (under $300) that will read basic codes and get us in many systems. It does allow us to solve many issues upfront. But it will not get us information on all cars and all problems. Our next option is using a mobile wholesale mechanic specific to our area; this company specializes in supporting mechanical collision repairs at our body shop. They have scan tools that reach many makes and models; however, they are light on the European models. Our next option is using several local mechanical shops within a couple blocks of our location. One specializes in European cars; another is more specific to American models. A final option is the local dealerships."

Keep it in house

Dave Brown, former shop operator now with BASF Automotive Refinish Solutions said, "They should be completed in house as a part of the total service offered. In our efforts to provide both vehicle owners and insurance partners a high level of service, it is imperative to include as many operations as possible.

The issue is not completing diagnostic scanning and resets in house, but developing understanding with our insurance partners that we are completing the same work a dealer or specialty shop is, often at a greatly reduced charge. I like the idea of a competitive flat charge for all resets and diagnostics, similar to a set up or measurement charge."

Regarding in-house costs, Stephen Furman, a shop operator, states, "In recent years the market has exploded with devices that center around accessing data by a vehicle's on-board diagnostic (OBD). I said access, not repair, reprogram, diagnose, flash or calibrate. To perform these latter functions is where the costs come in. For a shop to repair a majority of issues, they need multi-line scan tools to work on all vehicles, diagnostic capabilities, bi-directional communication, so you can read and transmit information back into the vehicle. Specialists in this area say it is common to have multiple OBD scanners that also have annual subscriptions above the price of the machines themselves to work on all the vehicles one may encounter performing these types of repairs."

John Sweigart of True Collision Centers, with locations in Pennsylvania and Delaware, thinks in terms of shop flow and profitability. "We look to reduce costs by improving speed. Anything that slows the rate of finished work adds inventory. Inventory adds cost. The more inventory we keep, the larger the building, the greater the work in process (WIP) expense, the more administrative work and so on. The less visible expense is the cost associated with weaker customer satisfaction due to longer service times. Longer process times in a service industry equals less satisfied customers, which equals less customers eventually."

"In-house diagnostic, up front, is a good example of a simple strategic improvement in throughput. Any idea like this will create improvements in cost, speed and quality," he says.

Sweigart's approach to the issue is one that not only helps in terms of cost, speed and quality, but takes the shop

closer to the goal of completely predictable repairs. In other words, if we as repairers can completely identify all aspects and costs necessary to repair a vehicle, and if we have a very proficient process of scheduling and repairing cars in a controlled fast flowing environment, we can more accurately predict the time of completion and final cost. That offers advantages and efficiencies for the shop, insurer and customer as John describes.

Equipment and other costs

A great deal of the debate comes down to costs, including equipment, labor and training. Because technology is advancing so quickly, as business operators we most likely don't understand the extent of the needs. Whether we sublet the vehicle or repair it in house, we have the same responsibility. Either we or our sublet vendor must have the equipment and knowledge to perform the necessary repairs.

To gain some insight regarding what it takes, I reached out to Rick Zirby, owner of Dick and Rick's Auto Upholstery, an independent mobile business. They still perform upholstery repairs, but some years ago added a technology arm of the business. They are a well known and respected vendor on the Minneapolis/St. Paul market.

"Running a successful shop is always a balance between investment, cycle times and the best use of employee time," Zirby says. "There are many companies that can provide you with a scan tool....Just like the aftermarket scan tools, the factory tool requires you to pay for a subscription to keep the tool current and in some cases usable for the purpose it was intended. When a scan tool is not updated on a regular basis it becomes outdated and useless no matter the original cost of the hardware."

"In order to be successful, education is necessary to fully understand the process of how the tools function/works with the vehicle," he said. "Don't assume a General Motors tool will work the same as the BMW tool. The formats are completely different. And then there are the costs of buying the computer, maintaining it and having the correct or most current interface. With technology moving so fast forward, it follows that equipment has been changing just as fast. The interface needed to communicate to the computer and then to car has been changing every 3-4 years. And at $4,000 or more per interface, this gets expensive.Because one of the biggest concerns in this industry is safety for the driver and passengers, it is even more important that all procedures and rules get followed, which may also require the use of a scan tool. This is one area that should not be short cut or compromised. Some quick examples may be occupant sensors for the airbag system or Adaptive Cruise Control. Both require not only the use of a scan tool, but in many cases target boards or a sophisticated calibration procedure. This is a business decision — do you want to maintain the ongoing tool investment and fine tune your employee's time where they can be most productive?"

Conclusion

There is sound logic in both perspectives — sublet vs in house. Because of the lack of return on investment on some unique equipment necessary for small numbers of models we encounter, as well as constantly emerging technologies, virtually all collision repairers will have to sublet at least an occasional reset or recalibration or diagnosis to a known expert. The question remains, how many of the rest do we wish to address in house? We can all agree there is efficiency in scanning for fault codes early in the process, preferably as part of the blueprint. It can be helpful in identifying the extent of damage and repairs required.

Then it boils down to whether or not we are willing to invest the money, time and effort to become proficient to handle some or many of these situations. Or do we leave it to known experts? Are we willing to pay the price for the gains in cycle time, cost control, profitability and in-house expertise? Can we obtain the level of expertise in our own business model to have confidence in our ability to accurately and completely address the manufacturer repair standards? If so, can we use it as a differentiator from our competition? At this point it appears we each have to answer these questions based on the needs and abilities of our businesses. Perhaps a more universal approach will emerge. The key, however, is that we are completely addressing the electronic repair requirements for each and every vehicle based on factory standards.

DARRELL AMBERSON
DIRECTOR, MSO RELATIONS

Darrell Amberson is the president of operations for LaMettry's Collision and an ASA board member. Formerly president of Lehman's Garage, Darrell has more than 40 years of collision industry experience. He is the Director of MSO Relations for ABRN.

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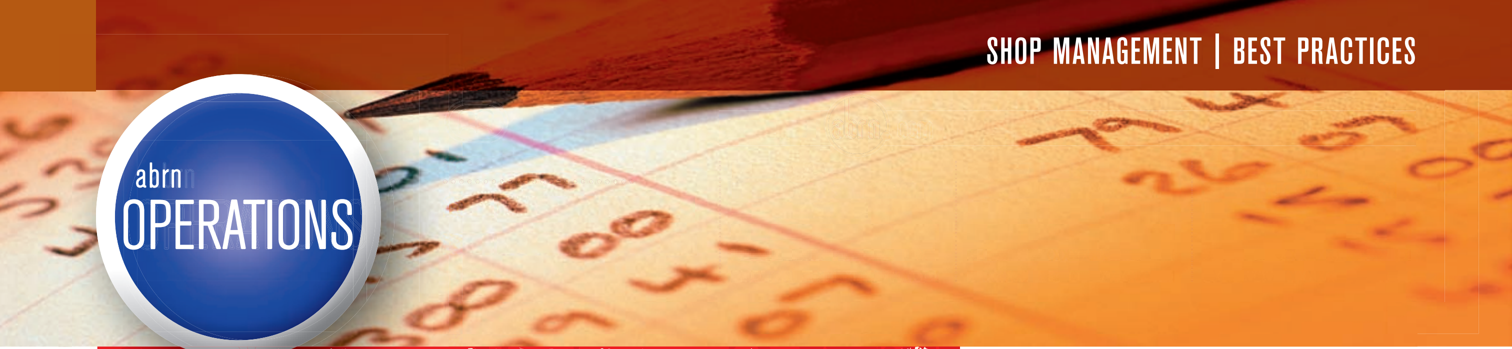

MINDING YOUR BUSINESS

FIGHTING STAFFING STRUGGLES

MSOS – BOTH INDIVIDUALLY AND JOINTLY – ARE FINDING WAYS TO GET THE TALENT THE INDUSTRY NEEDS

BY **JOHN YOSWICK** | CONTRIBUTING EDITOR

FOR MSOS IN particular, the time has come to tackle the serious challenge of the shortage of qualified technicians and employees, says Erick Bickett.

"Over the years I've seen a lot of false starts, many attempts to solve the problem, Bickett, the CEO of Fix Auto USA, said during a recent Collision Repair Executive Webcast. "There's been lots of great intention, lots of capital being raised to back efforts to solve the problem. But we are at crisis levels now. It's actually restricting our opportunity to grow."

Here's what Bickett and other MSOs say they are doing both to find talent for their own shops, but also to work together as an industry to solve the "human resources crisis."

Look outside the industry

Many of the shop owners participating in a recent Collision Industry Conference panel discussion about entry-level technicians suggested that shops need to start looking for the employees they need outside the collision repair industry.

"The last person that we hired is a young man who came to our door at a time when we needed a tech," Jeanne Silver, owner of Butterfield Bodyworks CARSTAR in Mundelein, Ill., said. "He'd had no classes. He knows about cars somewhat, mechanically. But the thing that impressed me was his work ethic. He's 24 years old and said he needed to take care of his family, his mother and his younger brother who he wants to keep off the streets. The other thing that impressed me was he said he still wants to have an opportunity to go to school. At which point I said, 'Hallelujah'."

Silver said she's matched her new hire up with a metal technician, but he's also spent some time learning in the paint shop as well.

"He's spectacular," she said.

Looking outside the industry for new hires doesn't stop with technicians, Silver said. The last time her shop needed an estimator, she ended up hiring someone who had worked at Best Buy, who knew a little bit about cars but a lot about people management.

"He's an absolutely fabulous employee," Silver said. "He's had to learn estimating from the beginning. But he has unbelievable management and people skills. It has been a wonderful experience for us to take two people who didn't have any training but who


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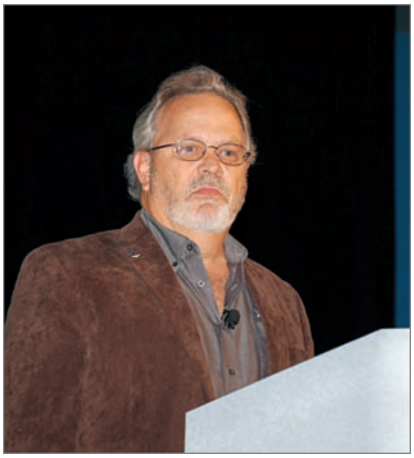
were open to learning and put them in those positions."

Bob Keith, co-owner of four CARSTAR franchises in Nebraska, said looking outside the industry for help works well, but it requires some homework.



Bob Keith

"First, look carefully at the roles you need to fill at your shop," Keith recommended. "Define them. Have a good job description. What are the key skills that you need for that role? Then look for those outside the industry who have that skillset."

Industry trainer Toby Chess said he too sees shops "looking outside the box" for new employees. He said one California MSO that he works with is experimenting with hiring two entry-level employees, both with no collision repair training or experience, at the same time. One is considered an "at-risk youth" and the other is a military veteran now out of the service. Chess said he thinks the leadership and discipline exemplified by the veteran will help shape the training of the "at-risk" youth as the two learn and work together.

USING INDUSTRY EVENTS AS A TRAINING AND MOTIVATION TOOL

Have an employee you're looking to inspire and motivate? Consider taking them or sending them to one of the industry's conferences or events.

Speaking at the Collision Industry Conference (CIC) earlier this year, Aaron Schulenburg said he was an estimator at a shop when his boss said he should attend a CIC meeting.

"It was things like that that helped me as a young employee in a shop realize this is a potential career versus just a job," said Schulenburg, now the executive director of the Society of Collision Repair Specialists. "Getting outside of the four walls of the shop is a great way to develop that desire for learning because they see the potential that they have and feel they are part of something bigger than just a job."

CIC Chairman and California MSO owner Randy Stabler agreed, based on his experience sending one of his company's customer service representatives to the Women's Industry Network conference.

"I wasn't sure about the value of it, but because she went to that event, she became so motivated," Stabler said. "She's now a store manager for us. I don't think that that ever would have occurred if not for the WIN conference. It made her think of herself as able to accomplish more with her life. She was so inspired by the women who were there and the success stories and camaraderie. I can tell you that today she is the most successful store manager in our network. She outperforms everybody. I'm not sure I even would have seen that spark in her unless she went to the WIN conference."

Randy Stabler

Industry effort needed

Bickett, who owns nine Fix Auto shops of his own, has a similar success story, having last year hired an employee who had been working as the manager of a retail pet store. Bickett said he put the new hire on a two-year training program within one of his shops to become a repair planner.

"He's already way ahead of where we thought he'd be," Bickett said.

But while Bickett agrees that finding unique ways to attract talent will be a competitive advantage for his company or any MSO, he also sees a need for MSOs and others in the industry to work together on the issue.

Erick Bickett

"Otherwise, quite frankly, any one collision repair operator who is good at growing people will end up being cannibalized by the rest who aren't good at it," Bickett said.

Bickett believes that while recruiting outside the industry can help, collision repair training programs at schools will still be the key to producing the number of new entrants into the industry that shops will need. That number is not insignificant. The U.S. Department of Labor projects that the total number of "automotive body and related repairers" employed in the U.S. will grow 20 percent from 2012 levels to more than 174,000 technicians by 2022. That would mean 20,400 more technicians working than are currently in the trade.

Jeff Peevy, president of the Automotive Management Institute, agrees that MSOs shouldn't ignore collision repair training programs as sources for entry-level technicians. He said I-CAR has reshaped the curriculum it offers these schools based on the industry's feedback. Too often in the past, he said, these schools were trying to introduce students to too much, resulting in training that was "a mile wide but only an inch deep."

"The student is exposed to a lot of stuff, but doesn't have a level of confidence to go out and do any particular task without a lot of supervision," Peevy said. "So the education edition addresses that, narrowing the focus to non-structural repair and refinish, and at some point the student chooses which of those roles they will specialize in."

Peevy said the curriculum is in use in about 320 of the country's 1,100 collision repair school programs.

Finding a new approach at the schools

One of those schools is a newly-opened program in North Carolina that Clark Plucinski believes will become a model for how MSOs and other public and private organizations can work together to produce hundreds of shop-ready employees every year.

Plucinski, a former MSO owner and the executive director of the Collision Repair Education Foundation, said the new two-year program at Fayetteville Technical Community College in Fayetteville, N.C., is largely focused on offering job training to personnel leaving the military. There are a number of military bases in the area, and the benefits they receive can cover not only the $5,000 cost for the two-year program, but also housing during that time, and post-graduation relocation to jobs in other areas.

Clark Plucinski

Shops and suppliers have played a key role in getting the new facility equipped and in designing a program that will produce the type of entry-level workers that shops need. MSOs are among those working with one another on the project, Plucinski said, because they know no one company alone will be able to hire the dozens of entry-level workers the school hopes to graduate every year, starting next year. Graduates come out with I-CAR welding and other certifications.

"It's our first stab at a model that we believe will be the bellwether for the rest of the industry," Plucinski said.

Fixing the structure of the shops

Fix Auto's Bickett said he believes other schools will step up like Fayetteville to produce the entry-level employees the industry needs, but said it is up to MSOs and other shops to restructure their businesses to have a place for those graduates to begin their careers.

"To me, the problem isn't the schools, it's the shops," Bickett said. "If there's a demand there, the schools will respond."

Bickett said throughout his career he has been involved in a variety of ways supporting collision repair training programs in schools. But he said he has more recently realized that, like a lot of other collision repair organizations, the way his shops' production was structured prevented him from having a place for more than a few of the entry-level workers those schools were producing.

Too often in shops today, Bickett said for example, technicians paid on commission don't want to take the time to teach. Technicians are generally expected to handle all aspects of a repair, leaving little opportunity for those with only entry-level skills. Entry-level workers aren't given a defined career path and aren't being "sold" on the opportunities the industry offers. And shops that do grow their own employees often find themselves in an expensive bidding war when those people are later being lured away by other shops desperate for talent.

That's why he's now working to help Fix Auto shops – and the industry as a whole –develop and implement production models to change that in order to be able to bring in more rookie talent.

"Our focus is on restructuring the collision shop so shops have a place where they can bring the apprentice in, and where that apprentice can be adding some value almost immediately, and that the apprentice has the opportunity to grow within the organization," Bickett said.

That could mean developing a "light-duty lane" within the shop, Bickett said, focusing on the 75 percent of jobs under $1,500 in which much of the work can be done not by journeymen technicians but by the B-level or even C-level techs just starting their career.

Bickett said he sees this new model as the key to the industry as a whole solving the technician shortage.

"If you look across the country, you'll find people who have very successfully approached this problem and have some very cool things going on in terms of growing qualified employees," he said. "But they're an island here and an island there. It needs to become more widespread throughout the industry. This is a such a big problem, but we all want to be on the same page, because together we can have an impact."

RETAIN EMPLOYEES BY OFFERING MORE PERKS

Some of the staffing struggles MSOs face can be mitigated through better retention of current employees. A company called AnyPerk says it is helping businesses offer more of the type of benefits often thought reserved for Silicon Valley high-tech companies.

AnyPerk (www.anyperk.com) essentially allows you to offer employees hundreds of special deals and discounts on movie passes, sporting events, restaurants, gym membership, theme parks, home services, travel and more – all for $10 per employee per month. You can add your own pre-negotiated perks to the system or delete those that aren't of interest to your employees, and get reports on what deals your employees are using. You can even use the system to reward employee achievements or milestones with credits they can use toward the gift of their choice through the system.

JOHN YOSWICK
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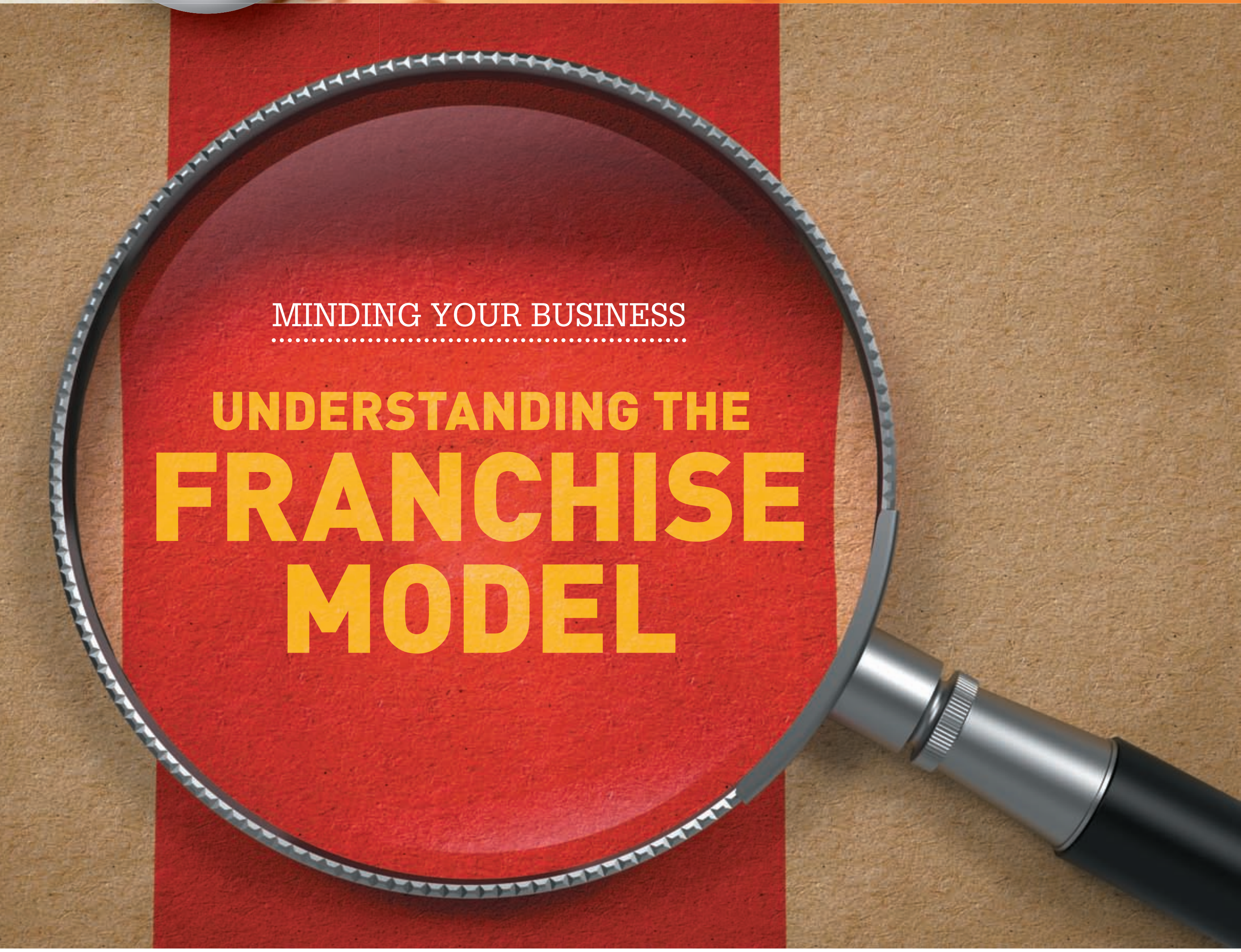

MINDING YOUR BUSINESS

UNDERSTANDING THE FRANCHISE MODEL

THIS GROWTH ALTERNATIVE GOES ON A DIFFERENT PATH THAN THAT OF THE BIG 4 CONSOLIDATORS

BY **BRAD MEWES** | CONTRIBUTING EDITOR

SOME OF THE most iconic and prolific businesses on the globe are franchises. Think McDonalds, Starbucks, H&R Block, Snap-on Tools, etc. Although the term franchise is thrown around quite a bit, there is often confusion about the franchise model, and the collision industry is no exception. Many may wonder how the franchise model works from an economic and financial standpoint and if the franchise model is a viable option given the industry's rapid change.

The franchise model has been around many years and continues to gain traction in the collision repair industry. Major franchise operators in the collision repair industry include CARSTAR and Fix Auto. CARSTAR — with more than 400 stores and $700 million-plus in sales last year — is the largest pure play collision repair franchise network (excluding MAACO). Fix Auto is

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a close second with 318 stores across the U.S., Canada, the U.K., France and Turkey. Smaller up and coming franchises include Carsmetics of Florida and California and 1Collision in the Midwest. There are also groups like MAACO which traditionally focused on fleet, refinishing and cosmetic repairs, that are now entering the collision marketplace.

The franchise model is very different from the approach of the Big 4 consolidators — The Boyd Group, Caliber Collision, ABRA and Service King — that predominately buy and sometimes build locations. In general, franchisors do not actually own or operate individual locations, instead relying on franchisees to run the day to day. For many individual collision repair businesses, the franchise model is increasingly an alternative to grow a business. Rather than standing pat or attempting to compete one on one with other large players in the market, the franchise model allows independent owners to retain ownership of their business while also taking advantage of the scale and experience of a much larger organization.

I recently sat down with both David Byers, CEO of CARSTAR and Paul Gange, President and COO of Fix Auto USA. Both gentlemen were very generous with their time, explaining in detail the costs and benefits of the franchise model. They spoke at length about industry consolidation, the opportunities available to collision repair business owners and the role of private equity in the collision industry.


David Byers

Prior to taking charge of CARSTAR in 2011, Byers held executive positions at Sirva, The Mutual Fund Store and H&R Block. Before Gange joined Fix Auto USA, he held executive-level positions with Audatex and Solera. Needless to say, both understand business and finance at the highest levels.

What is a franchise?

A franchise is essentially an agreement between two parties, where one party agrees to confer the right to proprietary knowledge, processes, trademarks, brand, etc. in order to allow the other party to sell a product or provide a service in exchange for a fee. There are two parties to every franchise agreement — the franchisee and franchisor. The franchisee is the one selling the product or service (i.e. the operator), whereas the franchisor is the company behind the scenes that owns the brand.

Another way to think about it is the McDonald's commercials you see on TV are the franchisor and the drive-through is the franchisee. Franchisors own the intellectual property and brand assets of a business, whereas franchisees tend to own the physical infrastructure like buildings and equipment. Or, as a marketing professor once said to me, "You can SEE the franchiSEE." A bit corny, but you will probably never forget now.

How does it work financially?

Joining a franchise requires a significant investment, both up front and ongoing. The premise of entering into a franchise agreement is that a smaller business pays for access to the brand and operational expertise (intellectual property) developed by a larger institution. In order to even sign a franchise agreement, the franchisee must pay an up-front fee to the franchisor. This gives the franchisee rights to license the franchisor's assets, and also ensures that the franchisee has skin in the game, minimizing the franchisor's risk of not being compensated for access to proprietary processes and procedures. Both Fix and CARSTAR charge an up-front franchise fee, and fees start at a minimum of $10,000. Both organizations are not shy about this as they are looking for owners who are deeply involved in their business. Gange says Fix seeks out "very successful, very competitive, driven, engaged, passionate collision repair shop owners who want to stay in the business and compete."

Byers echoed that statement "We have very specific guidelines for what stores could become CARSTAR stores in our network. We clearly are working at larger stores that are a bit more sophisticated."

In addition to the upfront franchise fee, most agreements include an ongoing franchise fee. Fees often are structured essentially as royalty agreements where the franchisee pays either a fixed monthly fee or a percentage of sales directly to the franchisor. Other agreements require the franchisee to purchase certain items (i.e. paint and/or allied products) directly from the franchisor, contribute to marketing budgets or commit to facility upgrades and capital improvements. Every agreement is unique so it is important to read the fine print.

In CARSTAR's case, they do not require direct purchases and have one of the lowest ongoing fees in the entire franchise world at 1.5 percent of revenues, according to Byers.

While the fees are low on a relative basis, a franchise fee is a significant financial commitment. Because the fee is a percentage of sales, not profits, the franchisor gets paid first, regardless of the profitability of the franchisee's business. This is often an overlooked and under appreciated aspect of entering into a franchise agreement. Even if a business is losing money, the franchisor still gets paid.

However, in return for those fees there are often a lot of perks to belonging to a franchise group. CARSTAR delivered $6.5 million in rebates to its members in 2014, or about 1 percent of sales, according to a recent press release. Many franchisors tout their buying power. Because the franchisor is able to negotiate on behalf of the entire network, they can drive discounts and rebates for their members.

"In most cases CARSTAR is the largest purchaser of major parts, or paint or products within the industry. So we are negotiating national discount levels that would not be available to an individual operator," says Byers.


Paul Gange

Gange continued, "We absolutely have a robust buying program and we continue to enhance that. It is fun for me when we run those calculations and see the types of savings that we provide to our franchisees. But I honestly don't think that is the end-all, and I choose not to promote our business based on that."

Another benefit of belonging to a franchise is brand awareness that being part of a larger organization brings. Both organizations have an insurance relations team that builds brand awareness with key insurance carriers at a national level.

"We maintain large MSO agreements that we negotiate at the national level," says Gange. "I'm very involved with that."

He went further. "And then we have a marketing fund that everyone pays into. The minimum payment is 0.75 percent of sales with a cap of $950 per month. But the owners by market can vote that up. And in every one of our markets they have because it is a share of resources. One hundred percent of those dollars are spent in advertising."

"We even do sports advertising with the Portland Timbers and the San Diego Padres. Every dollar in goes back out on behalf of the franchisees. But the beauty, of course, is my $1 from my franchise is combined with many others that have much more buying power."

Byers added, "We meet with almost all the big national carriers on a regular basis. We make recommendations about which stores should be added based on the performance criteria of that individual carrier. We measure the stores that come in to our network across a whole host of measures. On the DRPs, the first year they join us, they have an average of two DRPs, and by the fourth year, 11."

Additionally, many franchisors offer operational insight in the form of education and training to assist owners in running more efficient and profitable businesses. CARSTAR takes operational performance seriously.

"What I think is most beneficial for CARSTAR is we have some of the very highest KPIs of any of the MSOs. I think our customer satisfaction scores are the very best of any of the MSOs, period," says Byers. In order to drive high performance, franchisees attend national meetings and have access to proprietary best practices, training platforms, SOPs, as well as KPI reporting.

Fix also takes operational performance very seriously. "We're very concerned about consistent performance. We are very transparent. But to be honest, the wood behind the arrow is really our fixed claim solutions group. We have built a model that delivers on efficiency, that reduces the cost associated with settling a claim. That doesn't mean that we are a lower-cost provider in terms of severity. What it means is that we are more efficient in how we work with carriers."

Other considerations

Both CARSTAR and Fix have very specific guidelines for what stores can become part of the network. There are revenue guidelines as well as operational resources that both evaluate prior to acceptance into the network. Both organizations want to ensure that individual stores are set up for success and have the resources to achieve that success.

Byers states, "We are working with stores that are looking for help across the wide range of elements in the industry."

Gange agreed, stating that "Most of the shops that join Fix have just come up with a record year. These folks recognize that there is new market segments that have been created in the industry, and they want to re-position for success for the longterm."

It is important to keep in mind that a franchise agreement is a legally binding document. In signing a franchise agreement, you are bound to run your company according to the rules and provisions contained within that agreement. A franchisor will do everything possible to improve the operations of their franchisees, but according to Byers, "You're only as good as your weakest link. There is no doubt that we will remove stores if a store is not performing. And we have done that."

Ultimately the franchisor has the legal authority to remove an underperforming member for the benefit of the other franchisees or levy other penalties as warranted. Signing up for a franchise is not as simple as paying a company for the right to slap their brand name on your store.

Gange continues, "I tell people very candidly, 'You trade off some of your individual liberty to gain the benefit of being a part of a group'. Joining a franchise is a very strategic decision and Fix makes sense to those kinds of operators who are thinking strategically and thinking longterm. The thing about Fix is we very rarely talk to people who need us today. And frankly, most of the folks that come in to Fix believe it to be the best decision they've ever made."

A franchise is also not a fix-all solution. Both Fix and CARSTAR take KPI management and operations seriously, as do most franchises. Although a franchisee will have the support of a big brand name, it does not mean the business owner can sit back and relax. The structure and control of a franchise may mean as a business owner you are working harder than you ever have previously. But franchisors counter that the business owner will have more support and be making more money than ever before. "We bring on stores in our network that have the financial and operational resources available [to] implement our plans, our programs, and they're going to be set up for success," Byers said.

Franchise agreements are a great way to focus on improving operations, but tend not to offer as much support in financial management. Both franchises have some tools to help manage your P&L and compare performance across peers. However, actively managing your income statement, cash flow, working capital, CAPEX investments and arranging financing is still up to the individual business owner. While both groups will assist with site selection, managing inorganic growth through acquisitions or brownfields predominately falls upon the franchisee. Cultivating resources that assist individual business owners in developing financial core competencies, as well as operational excellence, is a significant opportunity for franchisors in the industry.

Read the fine print of the agreement. While a franchise can offer a great opportunity to partner with a well-known brand, the franchisor is under no obligation to guarantee any increase in revenues or profitability. While they provide the tools, marketing and support to improve your business, ultimately it is up to the business owner to drive change. And growth will require the development of core competencies not only in operations, but also in marketing, finance, acquisitions and integrations.

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MSOs also need to look at internal management programs. When managers are hired from outside the business, Keenan Auto Body has them shadow another manager for months to learn the company's procedures and systems.

SEVEN LESSONS TO GUIDE MSO TRAINING

BY **TIM SRAMCIK** | CONTRIBUTING EDITOR

GROWING A repair business into an MSO brings plenty of benefits — more revenue, greater market share and increased resources that translate into greater reinvestment for additional growth. Moreover, the bump in profits and earning potential help maintain a vibrant workforce capable of attracting new employees.

With these benefits come some pretty significant challenges. Growing businesses require larger infrastructures with more management to oversee operations, planning, organization and personnel. Notably, all these areas tie into training, which itself will need to grow. Juggling increasing training needs across multiple sites is no picnic, but it's a talent shops need to master if they intend to transform into successful MSOs.

Fortunately, many shops have successfully handled the transition of training at multiple locations, including several of *ABRN*'s Top Shops Contest winners. As repairers ponder building their businesses, they might want to consider some of the lessons these shops have gleaned.

Lesson 1: Form a flexible team

Unless a standalone shop is large — for example, with more than 15 employees and several managers — it's a good bet that business gets by with a single point person (usually the manager or a foreman) who tracks and schedules training. Obviously, as sites get added to a repair business so does the number of employees who track training, along with the structure of the "training management team."

Photo: Keenan Auto Body

Andy Dingman, general manager of Dingman's Collision Centers in Omaha, Neb., explains he has one employee in charge of developing training schedules for his four-location business (that person also has other duties). Dingman collaborates with this employee to help set goals and directions, a regular part of his management duties since the shop is "always training."

Greg Hagan, body shop director of D-Patrick Body and Glass, utilizes a similar setup at his four-site business in Evansville, Ind., with different levels of management. Hagan essentially serves as the point person and works with the location manager at each shop. He takes the lead on organizing I-CAR training since he's also an I-CAR instructor.

Location managers provide much of the direction on OEM training and certification since their shops are connected to D-Patrick's new auto sales locations. Each shop has different OEM requirements. The manager of the shop attached to the D-Patrick dealership specializing in European vehicles must handle the strict demands for certifications in BMW, Mercedes-Benz, Porsche and Audi repair.

The business utilizes one more employee who handles training outside of I-CAR and manufacturers.

Although recently acquired by ABRA Auto Body, Keenan Auto Body, whose 12 shops sit outside of Philadelphia, maintains a similar setup using multiple oversight employees. These employees manage training areas that fall under their respective departments. For example, I-CAR training is mandatory as Keenan seeks to maintain its I-CAR gold class certification. The I-CAR "education champion" who oversees this training (while touching base with each site's location manager) fittingly handles company compliance for Keenan.

Photo: Dingman's Collision Centers

Dingman's Collision Centers doesn't employ a set training budget, giving them flexibility to deal with changing training costs.

OEM training, meanwhile, is managed by the company's marketing director. Keenan President and COO Mike LeVasseur explains, "As part of our marketing programs, we promote our certifications from manufacturers like BMW and Mercedes."

LeVasseur also lends a hand in integrating employees into Keenan's training efforts since he personally handles all new employee orientation.

Lesson 2: Set more frequent goals and schedule accordingly

The more locations and employees a business has, the greater the need to plan early for training. This means going well beyond setting an annual training schedule and turning instead to a quarterly training review and, in some cases, a monthly plan.

"If you schedule yearly, you fall behind," says Hagan. "Our needs are always changing. In our case, being a dealer organization, we constantly have to look at other issues such as ongoing certification." Hagan notes that he checks the business's progress in maintaining I-CAR Gold certification quarterly and strictly adheres to an I-CAR personnel development program.

Dingman utilizes I-CAR the same way. To help ensure he provides uniform training across sites during the same time frame, he tries to fill training schedules during the same periods. He notes, " We look at what's available and try to fill a class with as many of our people as possible."

Since uniform scheduling can be difficult for MSOs, Shawn Moody, founder of Portland, Maine-based Moody's Collision Centers recommends training in months when business is traditionally slow. Not only does this practice help to smoothly integrate work and training schedules at his nine-location business, he says it also gives employees more time to focus on what they've learned.

Lesson 3: Employ a flexible budget

Shops typically set an annual training budget just as they budget for every other part of their business. Since, as Hagan noted, training needs constantly change, MSOs need greater budget flexibility to address these changes.


Photo: D-Patrick Body and Glass

Managing training at an MSO requires oversight from multiple employees. At D-Patrick Body and Glass, Body Shop Director Greg Hagan handles I-CAR training, location managers take the lead on OEM classes, and a third employee manages training from vendors and other sources.

Dingman says this was particularly true for his business last year as nearly18 employees worked to recertify through I-CAR under the changing price structure and the shop gained Ford F-150 aluminum certification.

LeVasseur notes his business sets a "hard" training budget for each location but can move funds from one site to another if one shop has available money that another shop needs.

Lesson 4: Give everyone a voice

In an effort to install uniform training throughout a large organization, MSOs run the risk of depersonalizing training opportunities. That can be a big mistake since shops benefit when employees seek out learning opportunities on their own to bring valuable new skills back to a business.

Hagan says his business encourages workers to identify training they want, as does Dingman who notes, "If somebody has interest in learning something, we'll figure out how to accommodate it."

Moody says his business has even sent employees to college to earn full degrees if they express interest. This can be expensive, but Moody maintains that training is an investment that does bring dividends both in the form of economic rewards and the bond between employee and business.

Lesson 5: Organize your non-I-CAR training

Handling training delivered by manufacturers, vendors, jobbers and online sources can be challenging for MSOs

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Dan-Am Co.® • One Sata Drive • Spring Valley, MN 55975 800-533-8016 *Savings may vary since they need to consider how to relay all this information to multiple locations. They also need to decide which sources to use since MSOs, because of their size and market impact, frequently receive offers from training providers to use their services.

LeVasseur's business utilizes a program where new training is thoroughly reviewed and tested before being rolled out company wide. LeVasseur explains that vendors must first contact Keenan's corporate office with a training proposal (vendors are not permitted in individual shops). From there, the proposal is examined and, if accepted, field tested at one or two shops. If the results are positive, the training is then presented to the leads of all the departments that would be using it who then can take it to each location.

LeVasseur notes that Keenan's holds a painter's summit three to four times each year where its paint vendor provides training to all the company's lead painters. Attendees also shares ideas on best practices and cost savings and discuss related issues, such as ways to raise KPI scores.

Lesson 6: Create a management program

Shops of any size wanting management training have plenty of options — everything from formal college business programs and management training institutes to coursework from industry vendors. Expanding organizations also need to look at instituting their own internal programs to ensure uniform oversight across sites that reflects the business's values.

Hagan attends management classes and, since he's already an experienced instructor, trains his instructors on anything of value from the course when he returns. From there, he and his management team work on finding ways to put new principles into place.

Keenan hires 90 percent of its managers from within, so they're already aware of the business's procedures. Outside hires spend several months following a manager and learning directly from that person.

Additionally, as part of these programs, managers can be encouraged to gain or maintain technical training or certifications. LeVasseur notes that even though it's been some time since he's worked on a vehicle, he still possesses an ASE master certification.

Lesson 7: Put training at the core of growth

Not all training needs to be management-based or focused on distributing technical or procedure information. MSOs can benefit from learning aimed at building and strengthening their business cultures, critical pieces in the formula for successfully expanding a business to other locations.

Moody and his staff identified this need early in their business's history when they began to consider opening a second site. Specifically, they were looking for a way to improve communications and build leadership to ensure information and values could be passed on to another location.

Moody settled on a three-month evening program offered by a local community college, which the shop paid for through a state training grant. The entire workforce attended, including Moody, not only because he wanted the training, but also to demonstrate his commitment to it.

The grant that covered the cost of the program carried three requirements:

1. The training had to offer employees an increased opportunity for promotion.

2. Participants were guaranteed a pay increase within 12-18 months based on increased skill level.

3. The training couldn't be industry specific and must be portable.

The first two requirements offered additional motivation to employees who initially balked at giving up their evenings to attend classes. The third may have caused other repairers to balk at the opportunity because it wasn't tied to collision repair.

Moody calls it one of the program's benefits. "If you do things the traditional way, you're going to get traditional results," he says. "It pays to get out of your comfort zone."

At a time when such training wasn't popular in the industry, Moody and his employees were learning to create personality profiles, conduct an information exchange meeting and both give and receive feedback.

Moody raves about the results. "It formed the core of our growth," he says. More than that, employees found the lessons so valuable, they carried them over to their personal lives. Moody says, "They talk about how it made them better parents and spouses."

Photo: Moody's Collision Centers

A non-traditional training course focused on improving communication and leadership has helped Moody's Collision Centers transform into an employee-owned business with nine locations.

The training remains a continuing requirement for all new Moody employees. Some shop veterans volunteer to retake the curriculum, and the shop annually plans for it, regardless of whether a grant is available.

To date, Moody's has used the program to become an employee-owned enterprise that stretches over nine locations.

Paying it forward

Training is never inexpensive. Even when it's provided free of charge, employees are still on the clock and work efficiency is affected to some extent. As a repair business grows, training expenses rise at a comparable rate. Once a shop expands to more than two sites, those numbers can begin to look prohibitive.

Yet, shops cannot afford not to train or to begin looking at training as just another expense. The key is getting the most out of the training you do invest in through careful management, planning and learning from the experiences of others facing the same challenges.


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MSO PROFILE

A snapshot of one of the industry's leading MSOs

H&V COLLISION CENTER / TROY, NY

Vision for growth

Family-owned H&V Collision Center is slowly expanding its reach across upstate New York

BY **BRIAN ALBRIGHT** | CONTRIBUTING EDITOR

In February this year, upstate New York-based H&V Collision Center significantly expanded its operations with the acquisition of two Collision Experts locations. It was the largest acquisition to date by the family-owned company.

That growth is only going to accelerate, according to company Vice President Vartan Jerian, Jr. H&V plans to continue expanding through a combination of new stores and acquisitions, and by 2020 Jerian thinks they could grow to more than 35 locations.

Vartan Jerian, Sr., founded H&V in 1973 as a two-man operation in a 1,500-square-foot building in Troy. Jerian's sons Vartan Jr., James and John joined the company in the 1990s. The company has since added locations in Queensbury, Colonie, Saratoga and Kingston. With the addition of the Collision Experts shops in Clifton Park and Schenectady, the company now has seven locations in upstate New York and more than 200 employees.

"Our vision to grow the business was basically to expand our footprint in the marketplace and gain more market share," Jerian says. "We want to be a leader in the market, both statewide and nationally, if we can grow to that point."

Lean operations spur growth

That growth has been fueled by the company's dedication to service, which has returned a customer satisfaction rating of 98 percent and helped establish solid relationships with the major insurers.

H&V offers on-site rental car services, has its own fleet of loaner vehicles and offers a free lifetime warranty. The company has also stayed on top of technology trends in the industry and is preparing for more aluminum work. "We have aluminum pulling equipment at four facilities, along with welding capabilities," Jerian says. "We are also working on our audit for the Ford F-150 program. We want to stay current, and we do a lot of training, whether that's I-CAR or through independent consultants."

According to Jerian, the shops have standardized equipment. H&V uses Spies Hecker waterborne paint and Saico zero-emission downdraft spray booths. Most of the shops are also equipped with Hunter alignment machines and Car-O-Liner frame machines, measuring systems and resistance welders.

"With the exception of the two new shops, we use the same equipment at each location," Jerian says. "We also have standard processes."

In fact, the company's growth was spurred in part by the adoption of lean operating practices in the early 2000s. The company already knew the value of standard and reliable processes, which it was able to port over easily to its new facilities once the expansion started. "We got involved in lean and the theory of constraints, and that helped us form a new vision to build more standardized processes and procedures in the facility, from blueprinting and doing more accurate repair plans and estimating," Jerian says. "We established a quality control process throughout."

Communication across the company is also important, and H&V maintains a structure that allows upper management to stay in close contact with the staff at the shops. Jerian and his team have regular meetings with the shop managers, for example.

AT A GLANCE

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Headquarters

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No. of locations

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No. of states reached

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Years in business

200
No. of employees

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Well managed growth

The company has traditionally grown through building new shops or refurbishing other buildings. The Kingston shop, for example, was set up after converting an existing structure. Collision Experts was the first major acquisition, but there could be more to come.

"We look at the market and the competition," Jerian says. "In Kingston, there wasn't anybody there that fit the profile of a shop we'd want to buy, so we converted a building."

With Collision Experts, Jerian says the owners were ready to either grow their own business or get out of the market entirely. "They built a good and reputable company," Jerian says. "We talked to them about our plans, and they decided it would be better to work with us rather than compete with us, and we struck a deal that was good for everybody."

In fact, owner Maryann Bowman originally had no intention to sell and planned to hold on to the business until her son was old enough to take over. But it was Bowman's son, Ben Bowman, who convinced her that the time was right to sell. As part of the arrangement, the younger Bowman has joined H&V and will be mentored by Jerian in the business.

For the Collision Experts' conversion, the company has kept things business as usual for the two shops, because the staff at the new Kingston location are still being trained. "Once that's completed, I'll work on site at one of the Collision Experts locations, and we'll get them up to speed on our processes," Jerian says. "We've learned that you can't execute everything at once. We have to explain why we do things the way we do, and show them that it works. It's hard to get new technicians and good employees, so we don't want to lose a anyone in the transition by coming on too heavy handed."

H&V has a fairly centralized management structure, although that is evolving and expanding as the company grows. Currently, H&V has a manager at each location. Larger shops also have a production manager and some assistant managers, as well as parts managers and assistants. There is a central accounting department with five employees that handles accounting for all locations, and a central human resources department.

There are also assistant vice presidents, a controller, and a regional operations manager who handles training and operations for all locations.

The company also has a full-time IT department. All of the shops use CCC One for the shop management platform.

Leveraging economies of scale

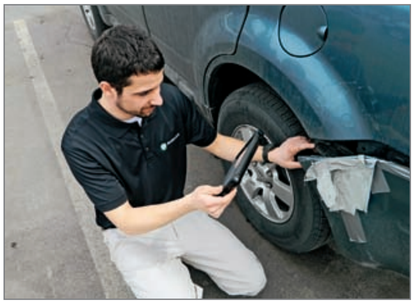
Jerian says that the biggest benefit of operating multiple locations has been leveraging the company's scale. For example, H&V has established relationships with its vendors at the corporate level to help get better rates on materials.

Expanding has also improved the company's relationships with insurers. "We can better service their customers in more markets," Jerian says. "They are helping to foster some of our growth, as well. We know where they need more penetration. We're looking at demographics in the market, the number of other repairers there and what our insurance partners need in those regions. We make our expansion decisions based on those factors, so that closer relationship with the insurers plays a role."

In addition to the financial benefits, scaling out operations helped expand market share in the communities H&V serves, and provided access to a larger knowledge pool via the employees at the new locations. "We're also increasing the technician pool within the company," Jerian says. "We've learned a lot through the recent acquisitions. The folks we bring have a lot of good processes and procedures that we can add to what we're already doing."

Incorporating those new employees has also been one of the primary challenges of the expansion.

"As far as acquisitions go, nobody likes change," Jerian says. "That's the number one challenge I've found as we're going through this process. We want to make this as easy as possible. Also, finding good leadership to assist with the growth has been hard. We want people at the top that have the passion and drive to want to grow with us. That's a huge thing, and we have some of that now, but we're looking for more help. We're looking for more management and upper management people that have that drive."



Growth will continue

As Jerian continues to evaluate opportunities to expand, he says the biggest challenge the collision repair market faces right now is the increase in total losses.

"The number of total losses we're seeing has increased significantly, and not just because we've acquired more shops," Jerian says. "It's going up per shop in relation to total sales. We're seeing a huge spike every hear. That costs money."

Training is another challenge. "We have to keep our people up to speed," Jerian says. "Our paint manager has become our in-house technician support person and that has been a huge asset for the shops. He is training new painters, which is a huge help."

H&V is also evolving its corporate structure. The company is adding a central review process to help with estimate compliance. "If we mss something up front in the estimate, then the rest of the job becomes a nightmare," Jerian says. "

The company is also for more help at the top. "We need to add more excellent leaders," Jerian says. "We're busy with our daily duties, and managing an acquisition becomes a real challenge when resources are limited, so I'll need more help with that moving forward."

The need for those additional management resources will likely come sooner than later. According to Jerian, the company is already eyeing its next acquisition. Another new H&V location could be in the fold within the next 12 months.

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