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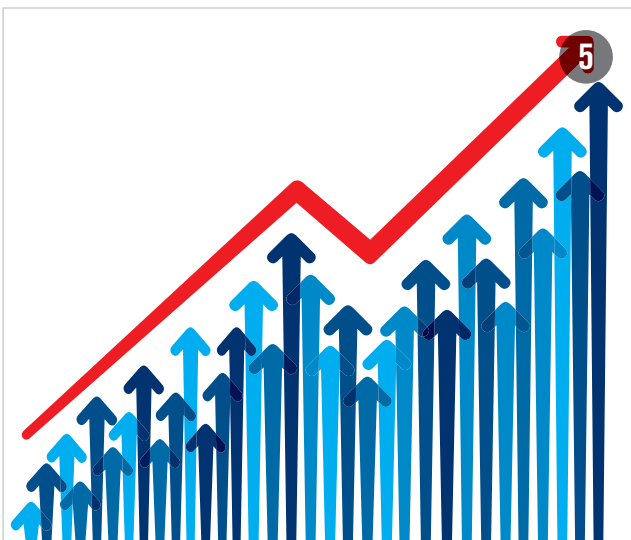
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Build your business in an evolving industry with new opportunities

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TO COME IN 2018



TAKING THE PULSE OF THE INDUSTRY

ABRN again sits down with key members of the collision industry — in particular the multi-shop operator segment — to get their input, experiences, thoughts and predictions on everything from growth patterns among competitors to industry challenges, opportunities and future predictions.

JOHN YOSWICK // Contributing Editor

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That's why you need this whitepaper. Drawing on a vast assortment of experiences, knowledge and background, Global Finishing Solutions outlines specific questions you need to ask yourself, management and your partners before you take on this addition, as well as best practices for painting in the new booth and properly maintaining the investment. This resource covers what you need to know, ask yourself and consider before jumping into this new revenue stream.

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BREAKING NEWS

INDUSTRY RECRUITMENT

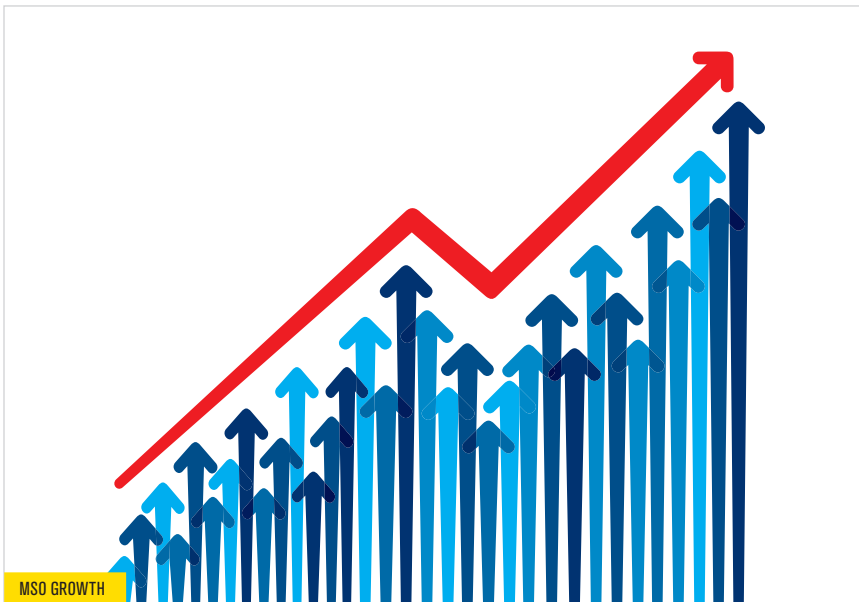
SERVICE KING WELCOMES 42 NEW APPRENTICES

 Service King Collision Repair Centers® accepted 42 new auto body repair techs to its Apprentice Development Program.

The 2018 class has apprentices from Texas, Washington, Pennsylvania, Nevada and Illinois.

The program provides techs a one-year training program under the guidance of an experienced and certified Apprentice Supervisor. In December, the program officially earned certification by the U.S. Department of Labor, paving the way for additional growth and opportunity for skilled workers to advance their careers in the collision repair field.


The immersive approach features a proprietary curriculum developed with insight from master auto body technicians, management and leading experts from across the industry.



MSD GROWTH

MAACO ANNOUNCES PLANS FOR U.S. EXPANSION IN 2018

ABRN WIRE REPORTS //

 Maaco has mapped out a course to expand its business model across America.

The nation's largest paint and collision repair franchise announced a growth strategy that stands to significantly increase the number of franchise licenses it plans to sign in 2018, increasing its total by more than 50 percent over what was an already impressive 2017 that resulted in 45 new licenses.

"We've invested heavily into our net-

work support over the last year, with a heavy emphasis on continuous improvement in our franchisees' bottom line. That's what is driving an immense amount of interest in the franchise opportunity and why we are bold about expectations for our franchising initiative," said Dennis Elliott, Vice President of Development and Franchising for Maaco. "In fact, intrigue is strong on two levels for our brand — individuals looking to build a business with strong ROI and growth potential and sophisticated investors looking

>> **MAACO CONTINUES ON PAGE 6**

TRENDING

CREF SEEKS SPONSORS FOR UNIFORM DONATION PROGRAM

The Collision Repair Education Foundation is facilitating a uniform donation program between collision repair businesses and high school and college collision programs.

ABRN.COM/CREFUNIFORM

HOW TO LURE A COMPANY LIKE FACEBOOK TO BUY YOU

A great business is bought, not sold. So if you look too eager to sell your business, you'll be negotiating on the back foot and look desperate — a recipe for a bad exit.

ABRN.COM/SELLOFB

CLASSIC COLLISION OPENS TWO NEW LOCATIONS

Classic Collision Inc. added two more locations in the north Georgia market — John's Creek and a second shop in Gainesville — bringing their total number of shops to 20.

ABRN.COM/CLASSIC20

CARUBBA COLLISION OPENS THREE NEW LOCATIONS

Carubba Collision has expanded into central New York State and the Capital District with a second location in Syracuse and two new locations in the Albany area.

ABRN.COM/CARUBBA3

CARSTAR ADDS 4-LOCATION MSO TO NETWORK

CARSTAR Auto Body Repair Experts has announced a new partnership with Legacy Autobody Group with four locations in Philadelphia and Eastern Pennsylvania.

ABRN.COM/LEGACY

>> MAACO CONTINUED FROM PAGE 5

to grow rapidly through the consolidation and acquisition of mom-and-pop shops.”

More than 30 percent of the brand’s growth in 2017 came from acquiring and re-branding independent paint and collision repair shops, versus just 10 percent the year prior. Updated to Maaco’s brand

standards, the converted locations often have the benefit of cash flow from the get go. With consolidation continuing to gain steam, Maaco anticipates an even larger percentage of new store growth coming from this non-traditional avenue.


Likewise, franchise momentum is building. With a proven model in place,

the franchise is set up to run with simple operations, high margins and impressive profitability — the average Certified Center generates \$199,000 take home income on an initial investment \$400,000 initial investment and average unit gross sales of \$1.3 million. On average, franchisees are earning 15 percent profit margins.

“Our business model has weathered every economic storm, coming out stronger and stronger and showing each and every time that it is truly resilient to every scenario. And, most importantly, the business is able to take advantage of the most beneficial of conditions,” added Elliott. “Same center revenues are growing consistently year over year and have been positive for nearly a decade.”

A significant aspect driving unit economics is the brand’s fleet services. Intended for both national and local fleets, Maaco supports franchisees with sales and marketing programs that directly target this segment. It has become the fastest-growing portion of sales system wide, with over \$110 million in 2017.

Maaco’s franchise offering includes opportunities for single and multi-unit investors. Targeted growth territories currently for franchise agreements include: Denver; Birmingham, Ala.; Cleveland; Bay Area; Las Vegas; Los Angeles; Louisville; Phoenix; Boston and Pittsburgh. These markets, as well as several others throughout the country, will play host to several openings in 2018, beginning in the first quarter of the year.

Given the attractiveness of the business model, Maaco’s corporate, in-house marketing team provides franchisees with a full suite of local marketing support programs so franchisees can focus on managing their teams, networking and on sales opportunities. The Maaco corporate field operations support team works closely with franchisees to help them become profitable as quickly and consistently as possible. Franchisees and their location managers are assigned an area Maaco coach who supports the location with ongoing assistance in operations and marketing. 



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Bring yourself back to basics in a world of change

Build your business in an evolving industry with new opportunities

This is new to me. I've been asked to write a column, starting with this issue, about what is important, impactful and what is happening in the world of MSOs. Let me think...there's the changing rate of consolidation, increased risk of litigation and thus increased importance of factory repair procedures thanks to new technologies and the John Eagle Collision case; scans, calibrations, changing nature of insurance relationships, changing nature of OEM relationships and shop certification, rising repair costs, changing repair procedures thanks to new substrates and construction complexity, increasing insurance premiums, technician shortages and thus rising cost of labor, autonomous vehicles, telematics, changing consumer outlook on transportation, increased accident frequency, predictions of decreased accident frequency, a growing economy, changing regulatory outlook, changing training needs, increasingly larger amounts of data to deal with, changing tax structure, changing claim handling and settlement procedures, increased concerns over security, decreased amount of personal privacy, changing needs of management and leadership, and more. Obviously, change is the common theme among all of these. And we won't run out of topics.

In the midst of all this change, I often have to remind myself to not lose sight of the basics. Hiring the best staff possible, a great work culture, exceptional customer service, ample communication, shop safety, efficient and consistent processes, financial stability, quality workmanship, leadership and training continue to be among those key basics that we build our businesses upon.

At the same time, all the changes around us cannot be ignored, but instead must be addressed. If we address them in order and by priority, it becomes less overwhelming. I believe our highest priority should be the safety and security of our customers closely followed by the protection of our businesses and our staff. As a result, the company I work for has been devoting a great deal of time and effort to making sure we fol-



IF WE ADDRESS CHANGE AND OUR CHALLENGES DIRECTLY, WE CAN MINIMIZE THE PAIN OF TRANSITION AND FIND OURSELVES IN A BETTER ENVIRONMENT.


low factory repair procedures, including making certain that the increasing number of high-tech and computerized vehicle systems are performing as intended. It has become apparent that pre- and post-repair scans are a critical component to accomplish that. In fact, we have concluded that it is better to scan every collision repair vehicle than to assume (guess) that there may not be a need in specific cases, even though we may not be paid for it. We've seen too many cases of high-tech issues in small jobs, even including some hail repair jobs, which can only be diagnosed with a scan tool. It's simply part of our changing world. While I find such repair process changes a bit unsettling and very challenging, it is also exciting to be part of this evolution. With change comes new opportunities.

How are you handling it all? Overwhelmed, or challenged, or motivated, or inspired, or some combination thereof? I truly believe that how we look at it as managers, leaders or owners will make the difference between throwing up our arms as we run away or reveling in the exciting new challenges and opportunities. It will also make the difference between success and something less.

A respected leader I work with likes to tell the story of the western Dakotas where both buffalo and cattle roam the landscape. When storms come from over the mountains in the west, cattle are inclined to run away to the east and as a result are exposed to the passing storm even longer. Buffalo run west into the storm and thus minimize their exposure to the passing storm. Similarly, if we address change and our challenges directly and promptly, we can minimize the pain of transition and find ourselves in a better environment quicker and with less discomfort. A positive attitude and discipline make all the difference. 📌

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TAX CHANGES COULD BENEFIT SHOP OWNERS



The changes in the new tax law could benefit body shops, but some impacts are still unclear

BRIAN ALBRIGHT // Contributing Editor

After months of sometimes raucous debate, the new tax bill passed the U.S. Congress last December. While it's unclear exactly how some of the major changes made in the tax code will ultimately affect the economy, there are some clear benefits to be had for many body shop owners.

However, those changes may also lead to additional confusion for small business owners down the road, as well as some tough decisions about exactly how to structure their businesses.

Accountants across the country are already being inundated with calls about how to proceed in 2018 — and any body

shop owner considering a change in the business structure to take advantage of perceived benefits should have a long talk with their financial advisor before proceeding.

Here are a few key changes that could potentially have the most impact on owners of independent body shops and MSOs.

Corporate tax cut

If you already operate as a C-corp, your top tax rate just got cut from 35 percent to 21 percent. However, C-corps are still subject to double taxation — both on corporate income and on any dividends distributed to shareholders.

Should you convert to a C-corp? That new 21 percent corporate rate looks ap-

pealing, but converting to a C-corp is not going to be beneficial for a lot of businesses. According to tax attorney Stuart Sorkin, though, shops and MSOs that are in growth mode — and plan to re-invest in the company rather than pay out dividends — may want to consider it.

“If you are buying equipment or buying other shops, you need to look more carefully at the concept,” Sorkin says. “If you are an S-corp and need to invest money in your company, the tax rate is 37 percent, so you are lending back at 63-cent dollars to the company. With the 21 percent corporate rate, you have 79-cent dollars. It's more tax efficient.”

For owners who plan to transfer the business to a family member through a stock sale or those selling to a third party,

the decision to remain an S-corp or C-corp could impact the tax bill on the sale.

“The choice of business entity is a more significant issue than it was previously,” Sorkin says. “If you run a C-corp like an S-corp and just strip out all the money, then converting to a C-corp provides no savings because of the double tax. If you are accumulating money in the company or paying for things in the company in after-tax dollars, then it might make sense.”

“Nobody should make a rash decision about converting to a C-corp,” says Kevin Kuhlman, senior director of federal government relations with the National Federation of Independent Businesses (NFIB). “If it looks like it will be beneficial, there are actually some provisions in the law that ease that transition. But there are also increased responsibilities for doing so, in addition to the double taxation.”

Small business tax cut

The new law also includes a 20 percent deduction on qualified businesses' income for pass-through businesses (S-corps, sole proprietorships and LLCs). There are some limitations on that deduction for individuals who are in service businesses (such as attorneys, accountants, etc.) who phase out the benefit based on income levels, but collision shop owners should qualify. That means 20 percent of the pass-through income to the owner is deducted from their taxable income.

For higher income businesses, the tax deduction is limited to no more than 50 percent of total employee W-2 wages.

The language of this particular provision is confusing, and it's not clear whether a shop owner would be better off taking a lower salary and larger distribution or vice versa. “A lot of the benefits are keyed to a percentage of salary,” Sorkin says. “I have older clients who want to take a salary equal to the Social Security maximum, but that may be contrary to a

point depending on how this 20 percent deduction works. It may make sense to take a smaller salary and larger distribution through the pass-through.”

Keep in mind, though, that the pass-through deduction sunsets after 2025.

Investment deductions increased

The section 179 upfront deduction for purchases of equipment has been doubled to \$1 million. Companies can also fully deduct large equipment and property purchases during each of the next five years instead of depreciating them. The types of property that can be expensed under section 179 have also been expanded (including HVAC systems, new roofs, security systems and some furniture).

“If you have to buy a framing machine and you can write that off over one year instead of taking depreciation, that helps you from a tax position,” Sorkin says. “Where you have to be careful is if you are using financing. If you are buying for cash, the write-off is great. If you are financing, the out-years could generate a potential problem because when you pay off the loan, the principle payments are not deductible, just the interest.”

In addition, bonus depreciation under section 168(k) of the tax code has been extended through 2027 (it was previously set to expire).

Interest, entertainment deductions are reduced

MSOs with more than \$25 million in revenue will lose the ability to fully deduct interest on loans, credit cards and other debt. The net interest deduction is capped at 30 percent of EBITA (earnings before interest, taxes and amortization) for four years.

In addition, companies can no longer write off the cost of business-related entertainment expenses. Miscellaneous deductions for employees have been eliminated, so it will make more sense

to have some of these expenses fully reimbursed by the company.

Changes to the kiddie tax, estate tax

Under the old rules, any unearned income (such as gifts or investment income) to children that exceeded \$2,100 would be taxed at the parents' marginal tax rate. The rate is now going to be calculated under the tax rates for estates and trusts.

Speaking of the estate tax, the tax thresholds have been effectively doubled to \$11 million for individuals and \$22 million for joint filers. And the bill significantly raised the alternative minimum tax (AMT) threshold to \$500,000 for individuals and \$1 million for joint filers.

“That's going to save a lot of compliance effort,” Kuhlman says. “Even if filers didn't hit that threshold in the past, they still had to calculate it.”

Net operating losses

The net operating loss deduction can no longer be carried backward two years (as was previously the case). Losses in 2018 or later can be used to offset up to 80 percent of business net income in any given year. They can also be carried forward indefinitely.

Simpler accounting options

For businesses with less than \$25 million in annual sales, the new law makes it possible to use the cash method of accounting to recognize revenue and expenses as cash arrives or is spent (versus using the accrual approach). The same applies for recognizing expenses and income from long-term contracts, and will also affect the way inventory is accounted for by those businesses.

Health insurance

The individual penalties for not purchasing health insurance will be zeroed out, but not until 2019. Owners who signed up for group insurance through the Small Business Health Options Pro-

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Genuine Parts

*Contact an Authorized Kia Dealer for details

gram (SHOP) must now purchase plans through a broker/agent or directly from the carrier instead of signing up using the healthcare.gov website.

There have been some other changes related to the Affordable Care Act (ACA) that were not part of the tax bill, but that will impact some business owners. The “Cadillac Tax” on high-cost employer-provided health insurance plans has been delayed another two years until 2020.

“A lot of shop owners might have high-cost insurance, so that tax could be an issue,” Kuhlman says.

Personal income taxes

While a lot of the changes can benefit business owners, there may be some downside when a shop owner files their personal income taxes. Deductions have been limited to \$10,000 for state, local and property taxes, and per-

sonal exemptions have been eliminated. Depending on their income level, some owners may find themselves in a higher individual tax bracket than last year — those with personal incomes above \$200,000 could see a rate hike from 33 percent to 35 percent.

While the standard deduction has been doubled to \$24,000, that may not be enough to make up for the loss of the personal exemption and some itemized deductions.

Don't make major changes yet

The IRS will spend the next several months writing regulations that will further define how these changes will play out, which may further limit the scope of some of the benefits.

“Owners will need to adjust withholding and have their employees adjust their withholding in the near future, but other

than that, businesses need to pay attention to any IRS guidance on a multitude of different issues,” Kuhlman says. “Consult with an accountant, and don't make any impulsive decisions.”

“They've written a thousand-page bill and most people don't know what's in it,” Sorkin says. “People are going to see things in the *Wall Street Journal*, and the IRS and Congress are going to try to change parts of the law to prevent any loopholes. No one has found the loopholes yet.”



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A NEW BREED OF TECHNICIAN

ACE techs are a must to handle the demands of today's industry

DARRELL AMBERSON //

Contributing Editor

Does it feel like our industry is going through a great awakening in embracing new vehicle technologies? There are Advanced Driver Assist Systems (ADAS), safety systems and controls performing functions we never dreamed of. Most trade publications and industry events contain content on vehicle scans, calibrations and autonomous cars. There are semi-autonomous cars on the road today and fully autonomous cars being tested. We see repair issues that would have been irrational in the past, such as heated steering wheels not functioning after simple door trim R&I procedures; sun roofs that don't function after mod-

est collisions; and electronic steering systems that don't function after headliner removal. The complexities of the modern vehicle are growing exponentially, and we are really experiencing it in our collision repair businesses.

More and more shops are performing at least some pre- and post-repair scans. Where I work, we perform both on all collision vehicles, including hail jobs. The headliner issue referred to above happened on a Ford F-150 hail job, enforcing the wisdom in performing the scans.

Performing scans and clearing diagnostic trouble codes (DTCs) only represent the tip of the iceberg when it comes to the technology tsunami we are experiencing. Calibrating right front seat sensors on many models has become commonplace in recent years. We are calibrating

many cameras in increasingly different locations on vehicles. We are calibrating radar units. We are programming more modules. Front-end alignments on some vehicles have become far more complex and expensive due to the many sensors that require static or dynamic calibrations. (I've seen sublet invoices exceeding \$800.) We are more thoroughly researching and adhering to factory repair procedures, especially since the well-publicized John Eagle Collision court case. Some of these procedures have new and unique procedures for wire repair and connector replacement.

As a result, a new breed of technician is emerging — an Automated and Computerized Electronic Systems technician, or ACE, who is working in a collision repair environment.

First, let's discuss what an ACE is not. An ACE is NOT the stereotypical high school low performer who was sent to automotive training because they couldn't succeed elsewhere. An ACE is NOT a typical body tech or painter, whose roles and attributes to restore auto body appearance and function are familiar to most of us in the industry. An ACE is NOT an independent service (mechanical) shop technician who performs typical service work — including diagnostics — that primarily revolve around vehicle maintenance and drivability issues. An ACE is NOT a typical dealership tech, including those who specialize in diagnostics. Scans for collision issues and calibrations of collision avoidance and other cameras and sensors are not among their typical tasks. Nor are deployed airbag systems.

An ACE typically has a higher-than-average IQ and an even higher EQ. (Emotional Intelligence Quotient, which is a measurement of self awareness, self management, social awareness and relationship management. EQ includes common sense. It is not just dependent upon the mental aptitude we are born with; it can be increased through learning.)

An ACE has a keen interest in new technologies and an appetite for learning. He or she may spend hours online studying, not because it's required, but instead because of fascination, or to gain understanding of a difficult issue and overcome it. This is the person who may take a scan tool home to "play with it" on their own vehicle. An ACE can often tell you about new technologies and vehicle features that are coming. They are not intimidated, but instead look forward to experiencing it firsthand.

ACEs can work with their hands. They understand and perform most types of mechanical repair, but gravitate to those involving technologies found in dashes, airbag systems, accident avoidance and other safety systems. They are more inclined to master those mechanical systems controlled by computer modules than other mechanics.

Every shop needs an ACE

Today's shops are finding their way on how they handle new technologies in collision repair. Shops may perform the work in-house, sublet to a dealership or an independent, or use some combination of these solutions. No matter which methodology is used, there is (or at least there should be) typically some form of our ACE performing the operation. As we continue to deal with the increasing amount of new technology service including scans, calibrations, programming and diagnostics, the need for an ACE will increase. Repairers will have to have at least one ACE at their disposal, in-house or through sublet.

It will make increasing sense that shops employ their own ACEs in the future to deal with increasing technology. The alternative may be subletting an increasingly large percentage of each collision repair.

Delegation of tasks

We live in a world of specialization. The collision repair industry is embracing it as well. Many shops have tear down and/or assembly people. Some have separate aluminum techs and work areas, or hard-hit and/or light-hit techs, and this may include separate processes or separate shop areas. "Fast tracks" would be one example. It can make sense for shop flow and provide a higher level of competence for specific work tasks. It allows a shop to place people in areas that best match their work performance capabilities and attributes.

Not only is talent a consideration in determining who in the shop shall perform what task, but cost can be as well. Many shops utilize the most advanced, and thus highest paid, techs for the most demanding of tasks, and use less expensive techs for simpler tasks. As we consider what tasks we want our ACE to perform, there is an additional consideration as well: safety. Consider the immense negative consequences of an airbag restraint system operating improperly or a malfunctioning accident

avoidance system. When dealing with these systems, labor cost considerations should be secondary to safety.

Therefore, it makes sense to have an ACE perform all of the obvious high-tech work, but also some that you may not have considered. One example would be the trim R&I as well as trim replacement when servicing deployed airbag systems. Assuming an ACE's labor is charged at a mechanical rate (more on this later), an insurer may argue that it is more cost effective to use a body tech to perform the trim work. As one considers the sequence of component repair or replacement, I would argue that there needs to be an end to what the body tech does and a start to where an ACE takes over the job. I suggest having an ACE perform the airbag restraint system trim work because it is so tied into the system function. Factory repair procedures deal with trim work in the airbag section. There are often specific trim requirements. Here are a few common examples taken from the procedures:

2015 Ford Explorer — "If a side seat airbag deployment took place, install a new seat backrest foam pad, backrest cover, deployment chute and side airbag module and nuts. Replace the seat backrest frame if necessary.

New driver safety belt systems (including retractors, buckles, anchors and height adjusters) must be installed if the vehicle is involved in a collision that results in deployment of the driver safety belt pretensioners.

Any time the Safety Canopy or side air curtain has deployed, a new headliner and new roof pillar upper trim panels with attaching hardware must be installed."

2015 Honda CR-V — "After a collision where a side curtain airbag has deployed, replace the items for the side(s) that deployed:

- Front pillar trim
- Center pillar upper trim
- Quarter pillar trim
- Front grab handle

- Rear grab handle
- All related trim clips
- Sunvisor”

2016 Chevrolet Malibu/Malibu Limited — “After a collision involving side airbag deployment, perform additional inspections on the following components:

- Mounting points or mounting hardware for the side impact sensors, and driver/passenger side seat airbags on the side of impact — Inspect for any damage and repair or replace each component as needed.

- Mounting points, mounting hardware, headliner and trim pieces for the left/right roof rail airbag on the side of impact — Inspect for any damage and repair or replace each component as needed.

- Mounting points or mounting hardware for the Inflatable Restraint Sensing and Diagnostic Module and seat belt anchor and/or retractor pretensioners — Inspect for any damage and repair or replace each component as needed.

- The seat cushion frame
- The seat recliner and cover, if equipped

- The seat adjuster
- The seat back frame
- Door trim assembly

- Impacted seat cushion side covers and switches

- The rear side bolster, attachments, brackets and wiring

- The rear seat back frame, cushion and cover

- The rear seat cushion frame, cushion and cover”

As you can see from these examples, there are many parts that are normally considered part of the vehicle’s trim that require special attention, often replacement. While a body tech may be able to replace some of the trim after reviewing the factory repair information, they would typically not be able to do so without the expertise of an ACE. These airbag restraint systems have become incredibly complex, and there is specific engineering and logic in this trim work that is

not typical to repair processes in the past. As you can see from the examples, the information for replacing the trim components is located with the airbag system factory repair procedures, not necessarily in the body panel replacement information. There is good reason that it is so, as the trim and its fasteners are designed to accommodate airbag deployment while maintaining occupant safety. (Think in terms of being a vehicle occupant when a side or front airbag explodes into deployment with incredible force, potentially sending trim and fasteners your way. I think you’ll agree to the importance of having it occur as designed.) Note that there is specific information on replacing certain fasteners. There are some component inspection requirements. These steps are best suited for someone with the expertise of an ACE. It makes the most sense for safety and efficiency reasons that an ACE handles all the steps in these specific procedures. As we learned from the John Eagle Collision case, sacrificing quality for cost may not be cost effective at all.

A new labor category and rate

I pose to the information providers (of automated estimating systems) that there be a new labor category created to accommodate the work performed by an ACE. I think all of us as repairers and insurers who use these estimating systems should ask for it to provide better clarity of who is, or more importantly who SHOULD be, performing these operations. An ACE is a highly skilled technician who is currently of high demand, and that demand is increasing. I am aware of ACEs who are compensated at a similar level to highly skilled and specialized dealership diagnosticians. An ACE needs a lot of very expensive equipment, as well as frequent and extensive training. In other words, it is expensive to employ an ACE, and the labor rate should be reflective. I suspect that a labor rate similar to retail mechanical rates in your area would make sense in

many cases, yet that could vary by market, shop and prevailing compensation rates in any given area. Typically, mechanical operations and trim operations do not offer the opportunity to exceed 100 percent labor proficiency as do body panel repair and replacement operations and thus should not have similar “artificially lower” labor rates.

In recent years, it has been discussed that there is an irony that hair dressers and barbers are required to be licensed in most areas, yet the people who are straightening and welding the key structures of vehicles are not. I suspect the threat of injury or death is minimal from hair maintenance, yet it is a very real concern for structural integrity in vehicles traveling at highway speeds carrying passengers. Similarly, there is great risk of injury or death from malfunctioning new technology systems such as ADAS or airbag restraint systems. The skill level of techs who successfully and consistently service these systems should be acknowledged. One could argue that they should be certified at some point.

In my frequent experiences interacting with insurers, if I could hear concerns over safety expressed even half as often as I hear concerns over price considerations, our industry and the motoring public would be far better for it. (Even if they brought up safety concerns 10 percent of the time, it would be an improvement.) Yet, I know our industry is evolving thanks to new technologies and cases like John Eagle Collision. I believe recognizing the new and different requirements of talent and expertise that is required to effectively perform repair on these new systems is a necessity. 📧



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Transition management

Processes, people help drive rapid expansion growth for Texas MSO

BRIAN ALBRIGHT // Contributing Editor

 Making the transition from a one- or two-shop collision repair business to a full-fledged multi-shop operator (MSO) is rarely easy. There are financial challenges, personnel challenges and competitive threats from larger, more experienced consolidators and MSOs.

But one of the biggest challenges is for the owner and managers to shift from a hands-on approach in the business — being directly involved in every customer interaction, insurance dispute, hiring/firing decision and even directing repairs — to delegating those responsibilities in order to focus on growing the whole company.

That was an obstacle that ProCare Collision founder Clay Fallis wrestled with as he attempted to expand beyond his two-shop footprint. Founded in 1999, ProCare is now a rapidly growing regional MSO. But a decade ago, ProCare's ability to make that transition was in doubt.

That's because Fallis was still managing his burgeoning MSO like a single-store business — the owner was intimately involved in every aspect of each store's daily operations. It was exhausting for Fallis and ultimately made it more challenging to successfully expand.

By the time ProCare opened its third shop, the business was struggling.

Enter Vince Brock, an executive with little experience in the collision industry but with the insight and capital that helped turn ProCare around. Brock, who formerly operated a successful commercial painting business, bought a controlling interest in the company and convinced Fallis that he needed to hand day-to-day operations over to his shop managers so that he could focus on growth.

"For single-location businesses, the owner is a big draw as to why people do business there, or why the business itself works," Brock says. "Once you add locations, it has to be about the process, not the owner."

In 2008, Fallis and Brock launched an ambitious plan to add eight more locations in five years. Fallis became the director of acquisitions, and he and Brock began outlining a way to standardize processes across the existing shops, identify potential new sites and acquisitions, and establish better relationships with vendors and insurance companies. Brock became CEO.

"There was a big culture change involved in moving away



PROCARE COLLISION

San Antonio, Texas // www.procarecollision.com

Clay Fallis
Founder

Texas
Market served

16
No. of shops

Axalta
Paint supplier

19
Years in business

\$50 million
Annual gross revenue

275
No. of employees

from the idea of fighting with the insurance companies," Brock says. "We had to overcome that adversarial relationships and become a partner with the insurers. At the end of the day, it's in the mutual best interest of everybody involved to do a correct repair at the correct value. If you spend all your time fighting about it, you can't get anything done."

Brock and Fallis worked together to nail down vendor and insurance relationships and outline the repair process the company would follow with every single vehicle. "From the outside looking in, not much changed that first year," Brock says. "Inside, everything changed. We figured out what process everything should follow and we tried to replicate that."

Shop managers were given more autonomy so that Fallis could focus his energies on expansion. "We really wanted to empower the managers to make as many daily decisions as they can," Brock says. "We formalized the toolbox they had to make those decisions."

Staff members also had to get away from what Brock says was a company catch-phrase: "I'll call Clay."

"We set up a manager's share folder on their computers so they could find the forms they need to hire and terminate employees or do reviews, for example," Brock says. "They didn't have to call Clay to do any of those things. Some managers liked that because they now have more authority, and some didn't like it because it was just easier to call Clay when there was an issue."

For employees who have been with ProCare since before the expansion, there are still some challenges in accepting a more corporate-based management structure. "We can't shoot from the hip anymore," Brock says. "In some ways, things move slower than they did in a smaller organization, so the challenge is in being compliant while also being nimble and responsive."

Doubling the business

From there, the company needed capital to grow. "We really had to look for opportunities," Brock says. "When you don't have funding or capital, you find the opportunities that present themselves that you can afford."

Brock kicked in his own money, and ProCare worked with paint supplier Axalta to help further expand. ProCare opened two more shops on their own, followed by the company's first big acquisition: purchasing another successful Texas MSO, Austin-based Ellis & Salazar in 2014 using some bank-based financing and a prebate structure from Axalta.

The company doubled in size while expanding into a second metropolitan market. That move was largely made possible because the original partners in Ellis & Salazar had attempted to sell to a consolidator, but the deal fell through.

"Some of the principals were staying and they didn't really want to work for a larger consolidator, so we found some traction and retained as much of what Ellis & Salazar had built as we could,"

Brock says. The Austin branch of the company kept its original name and branding.

Ellis & Salazar owner Joe Lewright became chief operating officer of the ProCare organization. The company has also added a chief financial officer and other executives to help manage the business.

From there, ProCare shifted its attention to Houston, acquiring the four-shop Fogle Collision Center organization (this time using private equity funding). Again, Fogle kept its name as part of the transition.

"That helps with retention," Brock says. "If you change the banner, then employees who have been getting up and going to work for that company for years may start to question why they are still working there. If you keep the name and the look of the shop, it feels like they are still at home."

In addition to the Fogle acquisition, the company bought two other shops and built two brownfield locations almost simultaneously.

ProCare doubled its size with each new investment. "I wouldn't recommend following our footsteps in terms of 100 percent growth at every turn, but you can't really time your opportunities," Brock says.

Within five years, ProCare opened or acquired 12 shops, surpassing Brock and Fallis' original goals. The company now has a full executive team, as well as three regional managers and a director of operations.

Staff development focus

An important part of the MSO's growth has been made possible by Brock and Fallis' focus on staff development. ProCare began investing in employee training and hosting in-house training and leadership training so that managers could take on more responsibilities and other employees could be groomed for future leadership positions.

Communication has also been critical. Fallis sends shop managers a copy of the company's daily scoreboard reports so that everyone has a view of where the



company and each shop stands relative to closing ratios, cycle times and other important KPIs. ProCare formed its own 20 group, so the managers can meet once per quarter to compare notes. "You can write this stuff down all day long, but it helps to have a real world discussion about the challenges you run into when implementing these best practices and SOPs," Brock says. "It's more valuable if you have a guy in the room who has overcome similar challenges in the same environment you are in."

The company has also launched a ProCare customer call center and an internship program for collision repair students, and recently helped launch a new training center that is open to its own employees as well as technicians across the region (see sidebar, page 18).

The ProCare shops all have different layouts and different size restrictions, so ensuring process consistency is an ongoing challenge. "We really have to spend a lot of time on how we can adapt our processes to flow in those environments," Brock says. "How do we recreate this model with a certain number of employees and at varying sales levels? Some of the shops are doing one-third or half the revenue of others based on where they are and the DRPs they have in place."

Regional managers are able to help with that process by coaching store managers and sharing best practices among the group. "Everything is always

TRAINING CENTER BENEFITS ENTIRE INDUSTRY

Like just about every other shop and MSO in the country, ProCare Collision has struggled to recruit and hire new technicians. In 2017, the company took the initiative to launch a new training facility and program called ProCollision Training that would not only benefit ProCare, but that would also serve as a talent pipeline to other Texas body shops.

Brock says the company turned to Paul Gage, a training guru who had established the CollisionU program at Fayetteville Technical Community College in Fayetteville, N.C., to launch the idea. ProCare approached him about setting up training facilities in Texas for its employees, but Gage suggested something bigger — a program that would benefit the industry at large.

That was right in line with what Brock and Fallis wanted to do. “They had the same vision,” Gage says. “Vince said that if we can make the industry better and raise the bar for technicians and shops everywhere, that will help ProCare be successful.”

ProCollision Training launched in 2017, and now offers classroom instruction and hands-on training. The classes are open to anyone in the industry who wants to learn. While ProCare launched the company, classes and training will be handled on neutral territory and Gage has policies in place to ensure that technicians won't be poached by competitors.

“Industry response has been fantastic,” Gage says. “We also have a big focus on staff development. We have a human resource crisis,

and if you just go out and hire without stabilizing your existing workforce, you run the risk of losing that existing workforce. We build development and training programs that match the career path they want for themselves.”

Gage supports the I-CAR curriculum and also offers additional instruction opportunities to complement both I-CAR and OEM-specific programs.

ProCare has also launched its own retention and development program that works in concert with ProCollision. “We ask them what they want to get out of their relationship with ProCare,” Brock says. “Where do you want to be in five years, and how can we help you get there? It really changes the relationship with the employees.”

ProCollision will move into a larger building in the near future, and Gage has begun hiring more staff. “We have some financial backing now, so we're looking at buying some equipment,” Gage says. “We have some really unique things we are bringing to market to take away the roadblocks for people coming to training. We are putting in a daycare, and we are offering training in both Spanish and Vietnamese as well.”

“We didn't want to build something that was just ours,” Brock says. “If you are just focused internally, you can get outdated very quickly. We wanted to open this up to everybody, so the training stays up to date and our employees have an opportunity to grow because this isn't just focused on our own internal processes.”

changing,” Brock says. “We try to find the important fundamentals, bring those to the table, and then other things can change around those. We focus on getting customer service right and having a standard check-in procedure.”

The company is working to rationalize its company-wide DRP relationships in 2018. “We have three brands, and we initially thought that the insurance companies would see us as one company and understand how that works in terms of our value to customers. But they aren't as clued in as we expected, so we're going back and explaining this to them.”

ProCare also restructured its websites to better reflect the integration of the three brands.

“With our scale, we also have something more to bring to the table,” Brock says. “We have a call center and an estimate review center, and we can offer improved DRP compliance. We are going back and reintroducing ourselves to the carriers. We want to be that regional MSO with the scale and resources that the big consolidators provide, but on a more localized level.”

ProCare plans to continue its expansion in 2018, although Brock couldn't share any details. He said the company will also be focused on continuous improvement in order to keep up with the national consolidators in the market.

“The more we learn, the more respect I have for the big guys, because it's difficult to be nimble as you increase in size. The competition is fierce. We get better every single day at what we do, because our competition is good at what they do. That drives value to the customer.”



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