(Vincent): “What challenges do you think the other big MSOs will face as they digest all these acquisitions?”

Organization growth through mergers and acquisitions will always pose numerous challenges, and I suggest also opportunities for the MSOs, as they digest all of their growing and sometimes, almost simultaneous acquisitions. The biggest and broadest challenge is the ability to constructively transform or integrate their acquisitions in an efficient, expeditious and successful manner so that the acquired MSO platform reflects the broader acquiring MSO business and network as quickly as possible. This includes a broad range of areas not the least of which involves the integration of different technology platforms, frequently changing out paint systems, implementing new and different operating models, brand identity transition, leadership and all other personnel assessment while establishing and ingraining the acquiring company’s culture.

The opportunity outcome will be realized when the acquiring MSO has successfully constructively transformed all the moving parts in the shortest timeframe so that combined new organization represents the desired and expanded value proposition, can sustain it, so that incremental and financially accretive outcomes are realized.

The question is how an MSO or its customer base knows if they are continually challenged or successful and that the integration has gone smoothly within a designated expected time frame. The success story may also be viewed differently by the MSO as compared to the insurer or some other involved strategic partner. My experience indicates that a fully successful integration usually takes 6 to 12 months and covers a broad spectrum of goals and objectives including, but not limited to: designated operational and financial benchmarks that show improvement within that 6 to 12 month operating period an initial startup tracking period which usually begins at the time of acquisition or the first full month of operations after the acquisition.

While operational and financial goals and objectives are paramount as part of any success and overcoming challenges, probably the most important challenge all MSOs face is having a stable and growing pipeline of people who can be trained, developed and retained not only during the 6-12 months of constructive transformation, but throughout the growth of the company.

(Jeff) – “How have MSOs impacted the training and education world?”

(Greg) – “How has consolidation transformed the Estimatics/Management System Technology?”

(George) – “What is the impact of MSO consolidation within the insurance world?”

(Vincent) – “What do you see happening with consolidation in the future that differs from what has occurred, i.e., when do you see a Gerber buying an ABRA or vice versa?”

So, as we know, this second phase of consolidation has been playing out and evolving within the collision repair marketplace since around 2010. Not only are there Greenfield and Brownfields being developed by the consolidators, but large MSO platforms are being acquired at price and valuation levels that have continued to increase especially since the end of 2013 through today.

I see an accelerated amount of consolidation since the end of the 4th quarter of 2013 through four recent consolidator MSO platform acquisitions. During 2012 and 2013 the industry saw about $370.0M each year of revenue transferred from smaller MSOs to the larger consolidators. Since the beginning of 2014 the industry has seen almost $500.0M transferred to the four top independent MSOs (ABRA, Service King, Caliber, and Boyd/Gerber). At this rate, we could see between $750 M to $1.0 B in revenue change hands this year. Regarding the second part of the question, I see a strategic acquisition between two of the four consolidator MSOs happening within the next 6 to 15 months.

(Vincent) – “As consolidation occurs, what are your top 3 most important elements necessary to integrate new stores into an MSO model?”

In the short term…….

1. Experienced leadership that can blend and weave in the new culture to the acquired organization including an operational excellence mind set along with its process that people can buy into and follow.

2. People to assist and provide new and recurring training to the personnel throughout the constructive transformation period.

3. Retaining trained and qualified personnel who are interested in developing themselves along with a pipeline of new people to expand the business and replace the underperformers. As I said earlier, finding, training, developing and sustaining the human assets (people) is one of the most critical risks and opportunities within the collision repair industry today.

In the longer term……. it includes the efficient, expeditious and successful constructive transformation or integration of all of the functional areas I mentioned earlier such as technology, operations, sales and marketing, human resources and corporate culture

(Rick) – “What is CARSTAR’s approach to the integration of our new franchisees?”

(George) – “As the MSO add new stores to their network, how is State Farm adding them to their DRPs – is it automatic or are there pre-requisites to getting on the program?”

(George) – “Store Performance is at the heart of participation in all programs. What are the top 3 areas of performance for State Farm?”

(Greg) – “From the data you collect and distribute in the Mitchell Trend Reports what are the three areas that need the most improvement?”

(Rick) – “From a CARSTAR Perspective, what message would you send to the Franchisees about the 3Cs and validation/correction of the data?”

(George) – “In the subject of parts procurement, how are other MSOs reacting to Parts Trader?”

(Greg) – “How is this affecting your database within estimatics and the future of vendor databases?”

(Vincent) – “How do you think this has impacted the CR Industry and is there an alternative or better solution out there?”

Of all the areas impacting vehicle repair, parts in general is still one of the most challenging areas for a number of reasons. Depending on how one identifies collision repair parts providers in the US, there are easily over 10 disparate part procurement providers. These parts providers include a wide range of players including information providers, independent multi-line distributors, OEM and third party software parts integrators impacting parts procurement which includes everything from sourcing, listing, supplying, purchasing, managing and monitoring quality, performance and service.

In light of this, State Farm made a decision to require the use of a software integrator, Parts Trader, to help streamline the procurement process which includes all of the items I just mentioned, as well as consolidating the process while managing quality, price and satisfaction. There have been a number of bumps in the road with the initial rollout of Parts Trader 12 months ago. However, these rollout items continue to be resolved, refined or upgraded to the point that many users are now advocating the benefits they have seen evolve to date from Parts Trader.

Some associate Parts Trader to open market models similar to Amazon and E-bay. The exception with Parts Trader to these models comes from State Farm’s requirement that Parts Trader is not optional for buying parts if you participate in State Farm’s Select Service Program.

I believe there is no clear choice today as to an alternative or better solution that satisfies all suppliers and repairers in the supply chain and marketplace. However, as these numerous disparate solutions evolve, including Parts Trader, the emerging winners will surface and other parts solutions will disappear or become less relevant in the industry. I believe the market will tell us who the future winners will be.

(Rick) – “CARSTAR is the only MSO who has someone performing Aluminum Certification for OEs today, what are the top 3 points that everyone should know about Aluminum Certification?

(Jeff) – “What is I-CAR doing to support this initiative and remain at the fore front of Aluminum repair training?”

(George) – “How do you see Aluminum repairs impacting your world at State Farm?”

(George) – “Stores are experiencing increased administrative pressures from insurers as they are being required to “self-manage” the claims process more and more each day. What additional future claims management processes should stores prepare for?”

(Rick) – “What process is CARSTAR working on to assist stores to efficiently manage these changes?”

(Greg) – “What future tools will the IT world make available to allow stores to utilize technology to work smarter/not harder?”

(Jeff) – “In order to handle the increased administrative and production workloads, how can we attract and educate potential applicants into the Collision Repair Industry?”

(Vincent) – “What do you see other MSOs doing to attract employees?”

As I mentioned earlier, this is one of the most, if not the most critical area for all size MSOs and smaller independent repairers. Just to give you an example, one fast growing consolidator, based on drug and citizenship background checks as part of an acquisition, lost an entire 6-person paint department recently. This kind of situation just aggravates the overall issue of sourcing, retaining and growing capable and reliable personnel.

One change that I’ve seen over the last 24 months is an increase by MSOs in "poaching employees from competitors. Previously, the “no poaching” employees has both been an unspoken understanding among competitors in the marketplace or was an outright gentleman’s agreement between them. Today, poaching employees is a more common practice and frequently is driven by the promise of better working conditions including improved pay and benefits, performance based incentives, along with training and development and organizational upward mobility.

Today there here is a unique initiative underway that has the support of a number of the MSOs as well as other leadership companies and organizations like PPG, Enterprise, Nationwide Insurance, 3M, I-Car, CREF, The Collision Repair Executive foundation, the US Military out Fort Bragg, NC, and North Carolina State, just to name a few. This initiative, which has been under development for a long time, focuses on military personnel being trained in a state of the art facility as part of a two year program that develops new potential employees for the industry. This training will not necessarily focus on the traditional aspects of collision repair, but will educate and train technicians for the types of collision repairs reflected in the technology and materials used in our future evolving complex vehicles.

(Rick) – “What best practices have you seen stores do to get employees but ultimately retain them?”

(Greg) – “With various generations present in the industry, how to we bridge the gap in the world of technology between our traditionalists and boomers compared to our Gen-Y and Millennial?”

(Rick) – “Culture can be an interesting thing within a store with so many generations, what you are thoughts on bridging the understanding of personalities leading to increased communication?”

(Vincent) – “Many of the stores have a 2nd generation employee or family member, what suggestions do you have for our current owners for succession planning?”

First of all, DO IT! Any business with generational employees should always have a succession plan as part of its broader business and strategic plans. It’s important to identify if the “second gerners” are not only capable of running a business but also deeply interested in continuing the business and value proposition that the founders have established.

Once the capabilities of the “second geners” and their desire to continue operating and owning the business have been established, then a succession plan involving the transition of leadership, management and operating responsibilities and succession ownership should be established and implemented with an agreed time line. Having said this, succession planning does not always follow a straight line and there should be contingency options for the “second geners” that provide for other operating and ownership models, as well as the potential sale of the co

(All SMEs) – “For our entire panel, if you had to pick one thing that our audience should focus on within the next 90 days, what would it be?”

Vincent

Well my one answer involves three parts.

First, think exponentially and not linearly. Transformational or disruptive technology coupled with increasing amounts of investment capital will continue to accelerate change within our industries. No longer can we view our world as a straight line of actions and reactions but more as a series of complex influences that exponentially accelerate the implications of you expected outcomes and those unexpected consequences.

Second, update your business and strategic plans to reflect the changing dynamics of the evolving collision repair, P & C insurance and all other segments in the auto physical damage ecosystem.

Third, don’t go it alone! If you want to grow and thrive in today’s consolidating, contracting and converging marketplace then team up for your future success, no matter how you define it, by collaborating and working closely with your strategic alliances and partners so you have a shared commitment to change your organization and influence your operating environment for your and their mutual benefit.

Melissa) – “Now we will open the floor to the audience for questions/comments……..”