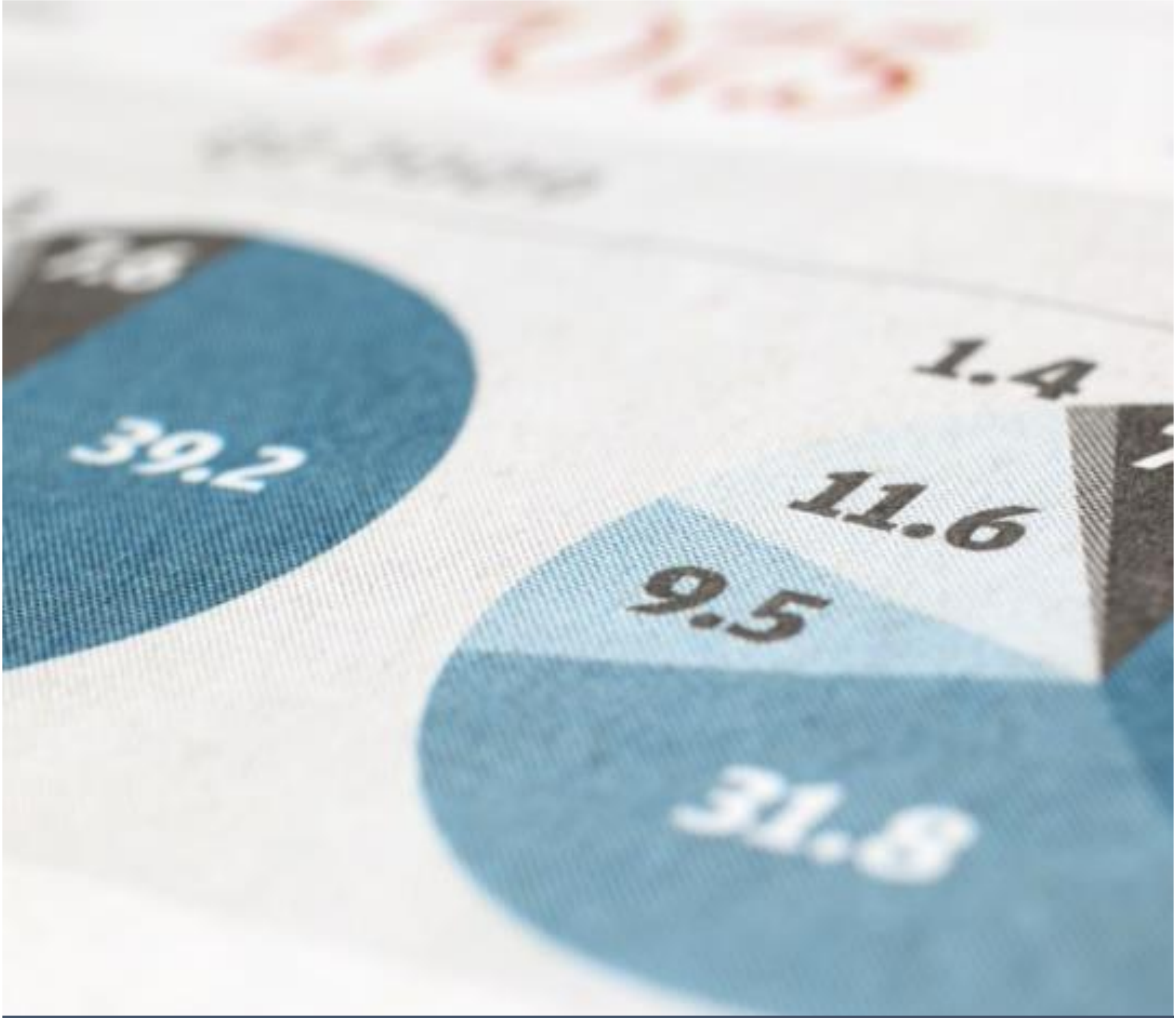


Co-Ventures

Managing accident repair costs and suppliers in the modern age

HALO ACCIDENT REPAIRS

Managing Accident Repair Costs and Suppliers in the Modern Age

Summary

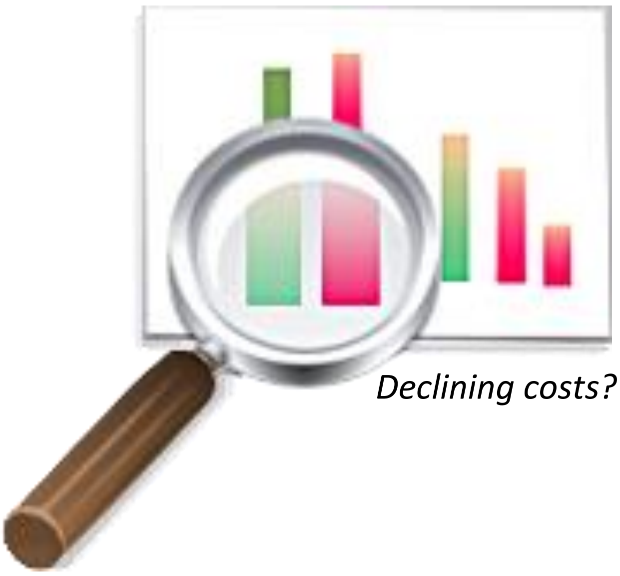
In this paper we argue that the age of 'straight line' supply chain management has failed to secure the cost control, customer service and competitive advantages that insurers are rightly seeking from their suppliers. Instead, a new age of co-venture thinking between insurer and supplier brings new opportunities for mutual gain across a broader spectrum of claims related needs

Background

With motor insurance premiums declining, and continuing uncertainty over the impact of recent legislative reforms, there is more pressure than ever to control claims costs, manage customers effectively, and gain competitive advantage over commercial rivals.

A traditional method of securing cost savings in the motor claims world is to squeeze suppliers ever more tightly and to demand ever more efficient methods of working. Over the decades these methods have undoubtedly met with some success and insurers have indeed reaped the benefit of below inflation increases in costs

By some calculations the current accident repair labour rate is at least 30% below what would have been the case had rate increases kept pace with wage inflation over the last 20 years. However, it has to be said that these gains have accrued to the insurance community as a whole with little in the way of competitive advantage being secured as all insurers have, broadly speaking, adopted the same policies and practices.



Declining costs?

'Squeezing the balloon'

This collective approach of insurers to their accident repair suppliers has also led to some element of cost displacement. In other words, accident repairers have sought to recover lost repair income from other sources. There is no doubt, for example, that a large proportion of the credit hire and credit repair markets have in the past been fuelled by commission hungry bodyshops seeking new sources of income to compensate for losses in labour rate and the increases in parts discounts being demanded.

Equally, bodyshops have been quick to spot the massive potential of the personal injury market where, until recently, commission payments of £600-£800 per case have dwarfed any profit that could be earned from accident repairs.

A single personal injury referral required the equivalent of 15 accident repairs to generate the same pre-tax profit. It is little wonder that bodyshops have exploited these new avenues of profit as their labour margins have been squeezed.

The old cliché of ‘squeeze a balloon at one end and it simply expands somewhere else’ can certainly be applied to the agile entrepreneurs of the accident repair industry who have fought to survive in a sector where only 3,500 bodyshops have lasted the course from some 15,000 practitioners that are estimated to have been in business 25 years ago.

Nevertheless, the accident repair industry of today is far more efficient in its working practices, more able to cope with the increasing service demands of their customers (both corporate and individual), and more capable of producing the quality of output that is required by their paymasters. It is only 25 years or so since a trade association of the time introduced national quality standards for all of their members and the industry has certainly come a long way since then.

So, whilst the jury is still out on the overall net cost effect of the purchasing strategies adopted by the insurance community, there has been a clear and sustainable improvement in quality and customer service that all would surely welcome.

Few opportunities ahead

However, a cursory examination of the published accounts of both national and local repair businesses suggest that net margins are perilously close to being unsustainable. Nationwide Accident Repairs (the largest independent chain of bodyshops) reported a profit ratio of less than 3% and this is despite the undoubted bargaining power that a company of this size and stature could exert in the parts and paint purchasing markets.

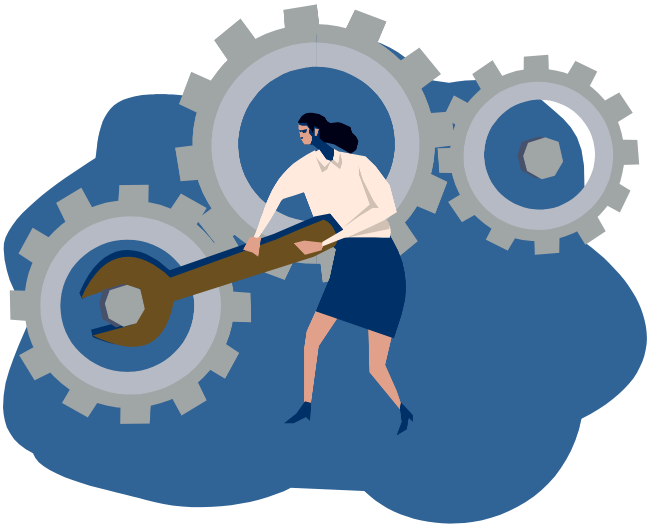
Other chains such as JCC have reported even lower margins and even if a local independent bodyshops enjoys slightly better margins they are unable to secure the volumes of business necessary to generate sufficient profits for investment. Moreover, with a few notable exceptions, the insurance community is not renowned for rapid settlement of debts and cash flow often remains tight for these smaller businesses which once again eats into their willingness and ability to invest for the future.

The law of diminishing returns seems to be operating in the accident repair industry and continuing efforts to squeeze the price of goods and services being purchased seems likely to reap few real rewards for insurers. Equally obvious is that, as we have already stated, a collective approach by the whole insurance community brings no specific benefit to individual members of that community and therefore no competitive advantage. After a while, one purchasing department and tender document begins to look pretty much like any other.

Therefore, with insurers having assiduously picked the ‘low hanging fruit’ during the last two decades it is becoming increasingly clear that they must seek alternative solutions in addition to, of course, remaining ever vigilant in their day-to-day purchasing processes

A failure of innovation

At various times in the past insurers have understandably and rightly sought new solutions in their desire to reduce settlement and expenses in the repair market. Most notably Direct Line and Churchill chose to establish ‘in house’ bodyshops. RSA and Aviva have followed a similar route and there have been a variety of experiments with new pricing models, centralised purchasing of parts and paint, commission rebates and other mechanisms.



However, the fact that almost all of these initiatives have stalled and either been abandoned, severely curtailed or simply left to quietly wither and die would suggest that few, if any, of these initiatives have reaped the desired rewards. Management theorists are quick to point out that successful *innovation* is all about *implementation* and in this respect successive generations of insurance claims strategists have too often failed to deliver the goods.

The reasons for this trend are many and varied but in some cases will undoubtedly be due to institutional rigidity – the inability of a large, process driven and top heavy managerial organisation to ape the entrepreneurial, fast moving and agility of relatively small, independent, accident repair suppliers

How then to marry the leverage of a relatively colossal institution with the different but equally valid abilities of the independent supplier?

Farewell to the supply chain

At the root of many of the problems in relationships and the failure of innovation between insurers and their network of repairers is the very concept of a supply chain.

Even the words ‘supply chain’ conjures images of a straight line linkage of different elements of activity which – eventually – culminate in the delivery of a desired product or service to which the recipient is supposed to add yet further value until a conclusion is reached

Nothing could be further from the truth in the insurer/repairer continuum. The supposed straight line relationship of repair supplier and insurer client is considerably more complex, inter-related and multidimensional. Failure to understand and build the necessary business models to exploit the true nature of the relationship lead inevitably to sub-optimisation of the outcomes

The co-venture approach

Supply Chain Thinking	Required Element	Co-Venture Thinking
Commoditised tender	*Cost Management*	Joint planning and cost centre elimination
Service Level Agreement	*Customer Management*	Integrating FNOL, service supply & cycle times
Audit process	*Compliance*	Joint consideration of mutual roles in FCA and legislative compliance
None	*Competitive Advantage*	Alternative business models
National standards focused on input and process	*Quality of product/service*	Macro management focussed on output
Focus on the supplier	*Counter- fraud*	Joint focus on the customer

Co-venture thinking offers the real opportunity for all parties to mutually explore better ways of working. Abandoning the 'top down' approach so beloved by insurers and seeing the relationship in its true light offers the potential to unleash the entrepreneurial skills of the independent supplier to the benefit of both parties

Of course, finding the right partners is not an easy task and it may even be necessary to encourage new entrants to the repair industry. Procurement departments may shudder at the thought of relatively open-ended and less prescriptive tenders. Nevertheless, the size of the potential prize warrants the effort

Co-venturing does not imply financial investment by the insurer – although that may be appropriate in some circumstances – but is instead a holistic system-based method of determining the very best working practices that meet the desired mutual objectives

It is a recognition that the insurer/supplier relationship resembles interlocking gears of leverage, connection and delivery that mesh together in ways that are multi-dimensional and offer myriad joint opportunities for improvement

Above all, co-venturing recognises and addresses the disappointments of the past and offers genuine hope for the future of those progressive insurers and suppliers prepared to fundamentally change the way in which they interact

Halo is a supplier of bespoke accident repair and associated services to the insurance and outsourced claims management communities. In addition to repairing damaged vehicles we design new business models of service delivery, claims cost management, counter-fraud and regulatory compliance. Our ultimate objective is to provide a competitive advantage to our clients in a mutually rewarding relationship. For further information please contact us as follows

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