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For immediate release

Falling insurance accident repair costs brings mixed blessing to car manufacturers

A detailed research study of the accident repair market in the UK shows that the average cost of insurance repairs to motor vehicles fell last year by 8% last year, from £1,420 in 2003 to £1,310* in 2005. The research found that this has been due to the reduction in the cost of parts used in accident repairs which in 2003 amounted to £702 for an average insurance repair but which fell by 16% to £592 in 2005. Parts costs now account for 45.2% of the cost of insurance accident damage repairs compared with 49.4% in 2003. This has occurred largely as vehicle manufacturers have reduced the cost of the most commonly fitted parts used in accident repairs as a result of the 2002 Block Exemption Regulation which introduced more competition for the car manufacturers' original equipment (OE) replacement parts.

Lower repair costs combined with a falling claims rate is good news for car owners and consumers generally as it will allow insurance companies to reduce the cost of insurance premiums. For the motor industry though, lower repair costs are a mixed blessing. For the car manufacturers, falling repair costs result in lower insurance group ratings and lower insurance premiums for the customers that buy their cars, but replacement parts are also one the largest areas of profitability for car manufacturers so falling parts prices and falling repair volumes mean that the profit contribution from parts will also potentially decline.

Although repair costs averaged £1,310 in 2005, there is a 66% difference in average repair costs between the different vehicle makes ranging from £1,786 for Jaguar to £1,073 for Proton. Excluding the luxury and specialist vehicle makes such as Ferrari, Aston Martin, Rolls Royce and Bentley, the vehicle makes with repair costs that far exceed the overall average of £1,310 are Jaguar (£1,786), Lexus (£1,771), Jeep (£1,695), BMW (£1,679), Mitsubishi (£1,655), Mercedes-Benz (£1,646) and Land Rover (£1,637) are the vehicle makes which have the highest average insurance repair costs. The principal reason for these brands' high repair costs is the higher cost of replacement parts which, with the exception of Mercedes-Benz where labour accounts for a high proportion of repair costs, parts account for over 50% of these makes average repair costs.

For bodyshops, the brands which have the highest parts repair costs are not necessarily the most profitable to repair. This is because bodyshops tend to achieve their highest margin on the labour component of repair costs. Analysis in Trend Tracker's '*mfi: The Car Body Repair Market in the UK 2006*' shows that bodyshops in general achieve a 60% gross margin (gross profit as a % of sales) on labour sales; a 50% gross margin on paint and materials sales and only a 20% gross margin on replacement parts sales. It is therefore the vehicle makes with the highest labour repair costs and not replacement parts costs that provide bodyshops with the greatest profitability.

Bodyshop gross margins	
Labour	60%
Replacement parts	20%
Paint and materials	50%
Source: Trend Tracker/ <i>mfi</i>	

So it is the vehicle makes with the highest labour repair costs that are generally the most profitable for bodyshops to repair. The vehicle makes with the highest average labour repair costs are Lexus (£674), Mercedes-Benz (£647), Jaguar (£633), BMW (£614) and Subaru (£596). The vehicle makes with the lowest average labour repair costs are smart

(£340), Suzuki (£447), Honda (£484), Daewoo/Chevrolet (£485) and Saab (£493). Overall though, taking account of the different gross margins obtained from labour, replacement parts, paint and materials, the vehicle makes that provide bodyshops with the highest gross profits per repair are Lexus (£689), Jaguar (£661), Mercedes-Benz (£650), BMW (£643), Jeep (£622), Subaru (£614), Mitsubishi (£606) and Land Rover (£601).

Despite reasonably high levels of gross profitability on insurance repairs for bodyshops, the majority of bodyshops are struggling to survive on levels of net profitability amounting to 2% or less of sales turnover. This is due to high operating costs which consume 94% of a bodyshop's gross profitability. Looking forward to the future of car body repair where the number of bodyshops have already declined by 31% over the last decade to 4,560 outlets due to falling levels of net profitability, Trend Tracker's *'mfb: The Car Body Repair Market in the UK'* report says that to be more profitable, bodyshops need to specialise either in certain categories of repair or on specific vehicle makes where repair gross profits are higher.

Insurance average repair costs and bodyshop repair gross profits by vehicle make, 2005		
Vehicle make	Average repair cost £	Repair gross profit £
Lexus	1,771	689
Jaguar	1,786	661
Mercedes-Benz	1,646	650
BMW	1,679	643
Jeep	1,695	622
Subaru	1,583	614
Mitsubishi	1,655	606
Land Rover	1,637	601
Mini	1,429	562
Toyota	1,387	560
Audi	1,390	557
Saab	1,484	548
Citroën	1,275	539
Renault	1,315	539
Alfa Romeo	1,272	538
Source: Trend Tracker		

- Based on an analysis of 147,700 insurance authorised bodyshop repair estimates in 2005.

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Details of the contents of this MFBI report, *The Car Body Repair Market in the UK*, priced at £795, can be downloaded from www.trendtracker.co.uk, or obtained via email to: info@trendtracker.co.uk or by calling Charles Oakham on +44 (0)870 421 4350.

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About Trend Tracker Limited

Trend Tracker conducts qualitative and quantitative research for a wide range of automotive clients, besides publishing Trend Tracker and MBFI brand studies on the vehicle, motor finance, aftersales, body repair and other automotive segments. The company also assists clients in implementing performance improvement through training and development programmes.