mfbi

Motor Industry Reports

THE CAR BODY REPAIR MARKET IN PORTUGAL

2003

Published by:

Market Facts &
Business Information
Pippingford Park Manor
Nutley
East Sussex
TN22 3HW
Great Britain

Tel: 0044 1825 713035
Fax: 0044 1825 713037
Email: info@*mfbi*.org
Internet: www.*mfbi*.org

mfbi

Market Facts and Business Information are independent market analysts to the retail motor industry. *mfbi* publishes reports and provides ad hoc research services such as attitude and usage studies and depth interviews among consumers and senior executives in the motor industry. *mfbi,* which is a limited company, has been providing research services and producing reports on its own account and for other major research organisations since 1987.

The motor industry is moving into an era of closer relations between suppliers and customers and *mfbi's* aim is to help suppliers of products and services in the retail industry to understand and meet customer needs profitably. We aim to achieve this by publishing a regular series of reports on the motor industry and provide research services that meet the needs of our clients in terms of professionalism and value for money.

All research is carried out by *mfbi* in accordance with strict professional standards as defined by the Market Research Society's professional code of conduct which guarantees confidentiality to all research participants. The code of conduct was created in the spirit that all research is conducted honestly, objectively, without unwelcome intrusion and without harm to informants. The purpose of research is to collect and analyse information, and not directly to create sales nor to influence the opinions of anyone participating in it.

CONTENTS

THE CAR BODY REPAIR MARKET IN PORTUGAL

Introduction

This report on the car body repair market in Portugal is one of a series of reports on the car body repair market in North West Europe including France, Germany, Italy, France, Spain, Portugal and the United Kingdom. Each report in the series is a detailed analysis of current trends in the market for car body repairs occurring mainly as a result of accident damage. The report is aimed at providing a detailed analysis of the market for operators of bodyshops, insurance companies, motor dealers and manufacturers, and organisations supplying body repair outlets with products and services.

The report analyses all aspects of the car body repair market including market size and trends and the structure of body repair supply. In addition to analysing the main elements of the market, the report also provides a comprehensive analysis of the factors that influence demand in the market. These include population trends, demographic and car ownership trends and the motor insurance market.

Research Methodology

The research methodologies employed in the compilation of this report include desk research and extensive face to face depth interviews with senior managers in the car body repair industry including independent and franchised bodyshops, motor insurance companies, car manufacturers, paint manufacturers and distributors. Quotations from depth interviews are employed in the report to provide emphasis to and summarise particular points in the main findings. Where possible, quotations from trade research are used verbatim but in order to maintain the confidentiality of information provided by respondents, key words that would otherwise identify the individual or their organisation have been left out or substituted with general descriptions in brackets.

The research methodology also included a quantitative study carried out among a sample of 100 bodyshops throughout Portugal. Yellow pages for each region in Portugal formed the basis of a sampling frame for bodyshops as this would include all bodyshops in operation. From an alphabetical list of bodyshops in each region, a quota was decided upon to form the sample for interviews, with the size of the quota in each region proportionate to the region's size in relation to the rest of the country. From the alphabetical list, a bodyshop was selected at equal intervals to avoid any bias that could arise from an alphabetical listing. Interviews were then carried out selecting bodyshops at equal intervals from the list until the required number of interviews to fulfil the quota had been completed.

Definitions

The car body repair market is defined in this report as including expenditure on car body repairs by insurance companies under motor insurance policies, and expenditure by individuals and companies purchasing body repair privately. Expenditure therefore mainly comprises repairs to passenger cars carried out as a result of a collision or accident damage.

Abbreviations

ABS	Anti-lock Braking System
ACORD	Automotive Consortium on Recycling and Development
CDV	Car Derived Van
CEA	Comite Europeen des Assurances
CFM	Cubic Feet per Minute
COSHH	Control Of Substances Hazardous to Health
DAR	Dealer Area of Responsibility
DMS	Dealer Management Systems
ECU	Engine Control Unit
EDI	Electronic Data Interchange
EPA	Environmental Protection Act
ERM	Exchange Rate Mechanism
EU	European Union
FMV	Full Motion Video
GDP	Gross Domestic Product
H&S	Health and Safety
HVLP	High Volume Low Pressure
INSEE	Institut National de la Statistique et des Etudes Economiques
ISDN	Integrated Services Digital Network
MET	Mechanical, Electrical and Trim
MIRRC	Motor Insurance Repair Research Centre
OECD	Organisation for Economic Co-operation and Development
OEM	Original Equipment Manufacturer
PSI	Pounds per Square Inch
RPI	Retail Price Index
RVI	Remote Video Imaging
SVI	Still Video Imaging
ULR	Uninsured Loss Recovery
VAD	Value Added Data
VAS	Value Added Service
VAT	Value Added Tax
VOC	Volatile Organic Compound

THE CAR BODY REPAIR MARKET IN PORTUGAL

Market Background

Population and Car Ownership

Portugal is a relatively small country with a population of just 10.0 million people. A falling birth rate is resulting in slow population growth although to an extent this is being offset by an increase in immigration, particularly by economic migrants from the former Soviet bloc. Although the number of cars in use as a proportion of the population has grown steadily from 27.7% in 1996 to 35.1% in 2001, new car sales as a proportion of the population rose from 2.3% to 2.7% in 1999, before falling back to 2.5% in 2001.

Table 1 Population, car purchasing and ownership in Portugal, 1996-2001

	Population		New car sales as	Cars in use as
	000	Index	% of population	% of population
1996	9,927	100	2.3	27.7
1997	9,946	100	2.3	29.7
1998	9,979	101	2.7	31.6
1999	9,991	101	2.7	33.5
2000	10,008	101	2.6	34.4
2001	10,020	101	2.5	35.1

Source: Pemberton Associates/*mfbi*

Car Sales and Car Parc Size

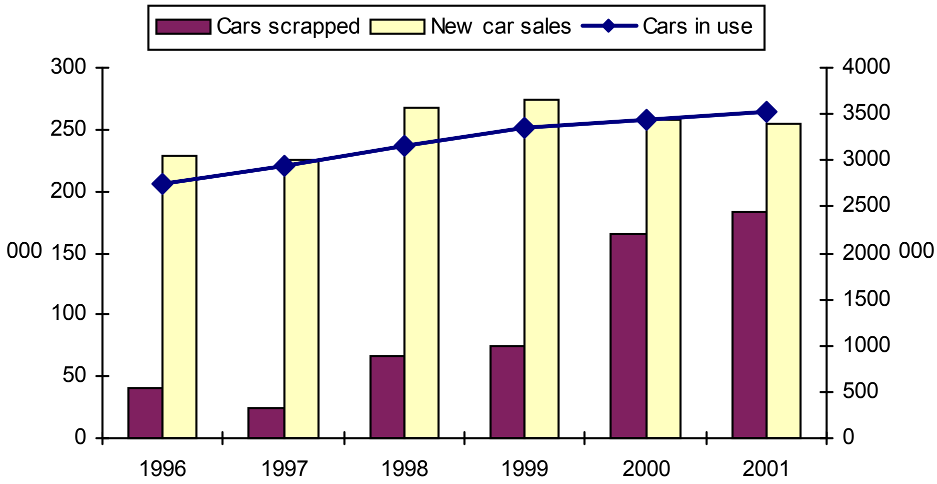
Portugal has the lowest average wages in the EU but also one of the lowest unemployment rates at around 4.5%. New car sales rose by 20% between 1996 and 1999 to reach 0.27 million units, but then fell back to 0.26 million units in 2001 resulting in an overall growth in new car sales of 11% between 1996 and 2001. The number of cars in use rose strongly by 28% between 1996 and 2001 to reach 3.52 million reflecting a significant increase in car ownership. The number of cars scrapped also rose dramatically by 358% between 1996 and 2001, indicating that older cars have been replaced by younger used and new cars. The average age of the car parc in Portugal is 7.95 years.

Table 2 New car registrations, scrappage and cars in use in Portugal, 1996-2001

	New car sales		Cars scrapped		Cars in use	
	000	Index	000	Index	000	Index
1996	229	100	40	100	2,749	100
1997	226	99	25	63	2,950	107
1998	267	117	67	168	3,150	115
1999	274	120	74	185	3,350	122
2000	258	113	165	413	3,443	125
2001	255	111	183	458	3,515	128

Source: Pemberton Associates/*mfbi*

Cars in use, new sales and scrappage, 1996-2001



Market Size and Trends

Motor Insurance Claims

An analysis of motor claims trends published by Associacao Potuguesa de Seguradores (APS), the Portuguese insurance association and by the CEA, shows that over the period between 1996 and 2001, claims expenditure grew by an estimated 62% but the number of accident claims increased by an estimated 107%. The number of accident claims began to accelerate in 1999 and overall, this resulted in the number of claims as a proportion of motor policies to increase from 10.2% in 1996 to an estimated 17.8% in 2001. The faster rate of growth in the number of claims compared with claims expenditure indicates that there has been a marked increase in the number of smaller value claims. Despite the recent significant increase in the number of accident claims, Portugal has a much lower level of claims than its neighbouring country Spain.

Table 3 Motor insurance accident claims trends, all vehicles, 1996-2001

	Motor claims				Number of policies	Claims as % of policies
	euros (m)	Index	No 000	Index	000	
1996	895	100	478	100	4,690	10.2
1997	929	104	500	105	4,890	10.2
1998	965	108	538	113	5,081	10.6
1999	1,036	116	617	129	5,250	11.8
2000 (est.)	1,227	137	780	163	5,400	14.4
2001 (est.)	1,453	162	990	207	5,550	17.8

Source: Associacao Potuguesa de Seguradores /CEA/*mfbi*

Total Market Size

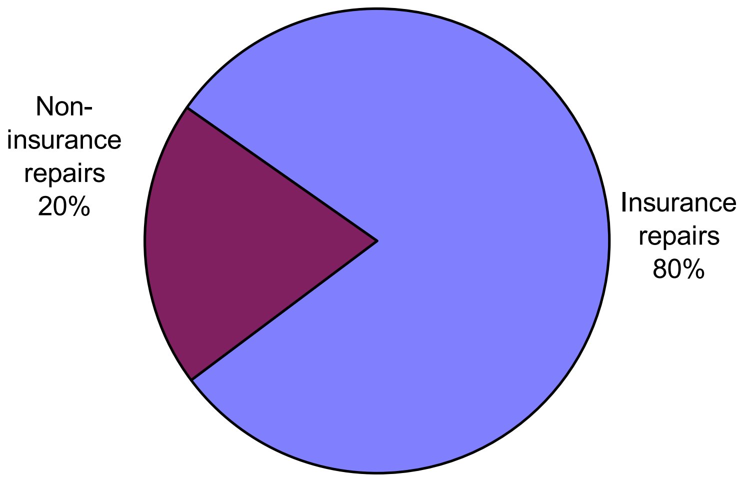
Based on data provided by trade respondents from the research and from claims data published by APS and the CEA, in 2001 there were 0.60 million insurance funded accident repairs to cars in Portugal and 0.15 million non-insurance funded repairs, resulting in a total market size of 0.75 million repairs in Portugal in 2001. Insurance funded repairs accounted for 80% of accident repairs in 2001 with non-insurance funded repairs accounting for 20%.

Table 4 Segmentation of accident repair market, 2001

	Number of repairs (m)	%
Insurance repairs	0.600	80
Non-insurance repairs	0.150	20
Total	0.750	100

Source: industry data

Segmentation of accident repair market, 2001



A market volume of 0.75 million repairs and an average repair cost of 811 euros gives a total market value for accident repairs in Portugal in 2001 of 0.61 billion euros. Replacement parts account for the largest proportion of repair costs at 50% with a value of 0.30 billion in 2001, with paint and materials accounting for the second largest proportion of repair costs at 31% with a value of 0.19 billion euros. Labour costs account for the smallest proportion of repair costs at just 19% with a value of 0.11 billion euros. Compared with other countries in the study, these repair cost proportions attribute a much higher proportion of repair costs to paint and materials and replacement parts, and a much lower proportion of repair costs to labour costs.

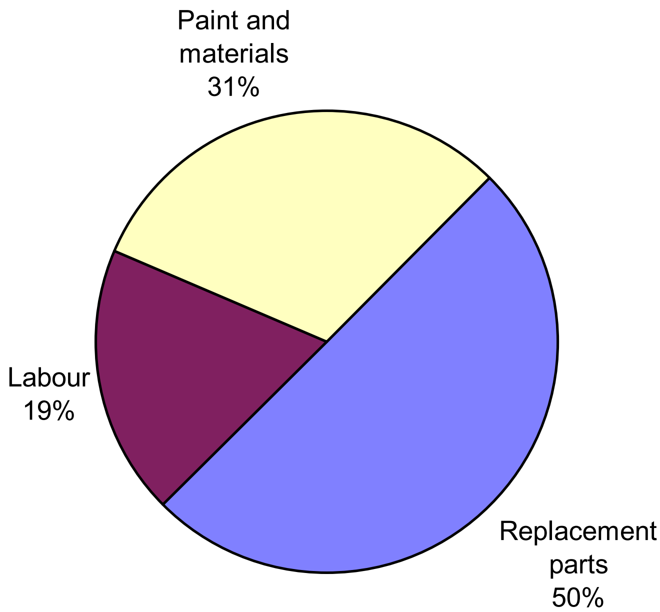
Table 5 Segmentation of repair costs, 2001

	Total market euros (bn)	%	Average repair cost euros	%
Replacement Parts	0.304	50	405	50
Labour	0.114	19	153	19
Paint and materials	0.190	31	253	31
Total	0.608	100	811	100

Source:*mfbi*

The repair cost data for the report is based on survey data obtained from bodyshops and relates to repair costs invoiced by bodyshops to all work providers including any excess but excluding VAT, which is currently levied at a rate of 17% in Portugal. The data from bodyshops therefore takes into account the invoiced costs of non-insurance funded repairs. A typical small repair costing 600 euros would consist replacing a damaged rear bumper and repairing any minor secondary damage to surrounding panels and paintwork. A new bumper would cost 275 euros with paintwork and materials costing 200 euros. The labour costs would therefore amount to 125 euros at a rate of 25 euros per hour. The low proportion of repair costs accounted for by labour in Portugal may be due to high OEM replacement parts costs and paint costs relative to labour. The methods of repair cost estimating that bodyshops use and the number of hours apportioned to a repair may also be a factor relating to labour repair costs.

Segmentation of repair costs, 2001



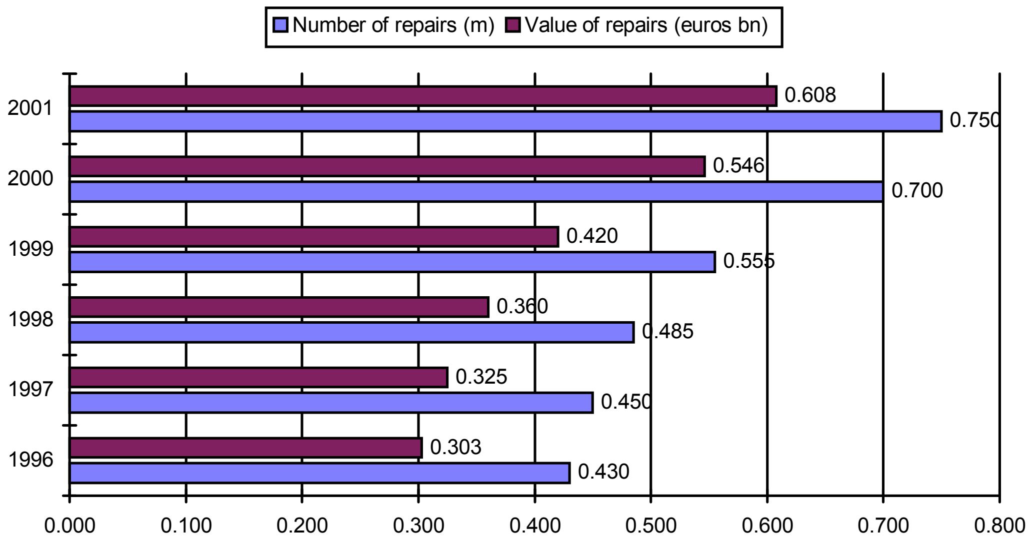
Between 1996 and 2001, the accident repair market in Portugal is estimated by *mfbi* to have grown both in volume and in value in terms of the number and value of repairs carried out. The number of repairs is estimated to have increased by 74% between 1996 and 2001, from 0.43 million repairs to 0.75 million, but the value of the repair market is estimated to have doubled from 0.30 billion euros to 0.61 billion euros. The much higher rate of growth in market value than market volume is due to a 15% increase in average repair costs over the period between 1996 and 2001 from 705 euros to 811 euros. The repair rate has increased from 15.6% of the car parc in 1996 to 21.3% in 2001 over a period when the car parc itself increased in size by 28%.

Table 6 Accident repair market in Portugal, by volume and value, 1996-2001

	Number of repairs		Value of repairs		Repairs as % of car parc	
	m	Index	euros(bn)	Index	Car parc (m)	Rate %
1996	0.430	100	0.303	100	2.75	15.6
1997	0.450	105	0.325	107	2.95	15.3
1998	0.485	113	0.360	119	3.15	15.4
1999	0.555	129	0.420	139	3.35	16.6
2000	0.700	163	0.546	180	3.44	20.3
2001	0.750	174	0.608	201	3.52	21.3

Source: *mfbi* estimates

Number and value of repairs, 1996-2001



Market Factors

Motor Insurance Market Trends

Portugal is one of Europe's smallest insurance markets with a total premium income of 8.05 billion euros in 2001, of which, motor insurance accounts for the second largest proportion of premium income at 21% after life insurance premium. Per capita expenditure on insurance is gradually approaching the European average and it is the life sector that is experiencing the most growth. Competition in the non-life sector of which motor insurance is the largest market, has constrained premium growth, although the motor market has experienced stronger growth in 2000 and 2001 due to more rigorous premium pricing. Although motor premiums increased between 1996 and 2001 by 27%, claims expenditure, which still remains below premium income, has grown at a much faster rate at 62% between 1996 and 2001 and is in danger of rising above premium income.

Table 7 Motor insurance premium income and claims expenditure, 1996-2001

	Premium income		Claims expenditure	
	euros (bn)	Index	euros (bn)	Index
1996	1.326	100	0.895	100
1997	1.315	99	0.929	104
1998	1.376	104	0.965	108
1999	1.478	111	1.036	116
2000	1.593	120	1.227	137
2001	1.680	127	1.453	162

Source: APS/CEA/*mfbi*

Market Competition

Out of a total of around 240 insurance companies authorised to operate in Portugal, only 38 are authorised to write motor business. In 2000, there was a reorganisation of the Portuguese insurance market. Seguros e Pensones GERE (SeP), the largest insurance holding company in Portugal, merged with Achmea under the holding company Eureko. Following the merger, SeP which also controls Imperio, Bonanca, Ocidental and BPA, became part of Eureko. Although the Portuguese insurance market is dominated by domestic insurance groups, there is a growing foreign presence in the market with a large number of branches and companies transacting insurance on a cross-border basis. There has not been a great deal of consolidation in the insurance market in Portugal, although Axa Portugal has expressed an interest in the insurance operations of Mundial Confianca and Italy’s Assicurazioni Generali expressed an interest in acquiring a 49% stake in Tranquilidade.

Imperio Bonanca is the largest non-life insurance company in Portugal in 2001 with an 18% market share, followed by Fidelidade, Mundial Confianca, Tranquilidade and Axa. These five companies accounted for a combined share of 59.8% of the Portuguese non-life insurance market in terms of direct gross premiums. Below these top five companies, the non-life market becomes very fragmented with a comparatively large number of insurers accounting individually for very small shares of the total non-life market.

Table 8 Top 30 non-life insurance companies in Portugal, 2001

	Non-life premiums euros m	Share of total non-life premium %
Imperio Bonanca	605.6	18.0
Fidelidade	412.5	12.3
Mundial Confianca	336.5	10.0
Tranquilidade	330.3	9.8
Axa	326.7	9.7
Allianz	232.7	6.9
Zurich	191.8	5.7
Ocidental	158.1	4.7
Europeia	109.9	3.3
Global	96.6	2.9
Lusitania	90.2	2.7
Acoreana	64.3	1.9
Real	54.0	1.6
Trabalho	53.9	1.6
Rural	53.4	1.6
Mapfre Seguros Gerais	43.5	1.3
Victoria	42.7	1.3
Esia	31.9	0.9
Espirito Santo	29.4	0.9
Cosec	27.9	0.8
Seguro Directo	18.5	0.5
Eursap	14.1	0.4
Via Directa	9.6	0.3
Gan	8.9	0.3
Mutuados Pescadores	6.8	0.2

Source: Instituto de Seguros de Portugal

Motor Insurance Distribution

The distribution of insurance products through banks known as bancassurance has grown rapidly in Portugal, and has become the most important method of selling life insurance in Portugal. The sale of non-life products through bank outlets has been far less successful and the traditional methods of distribution, principally through tied agents, still account for over 75% of non-life insurance sales.

Table 9 The insurance intermediary distribution structure in Portugal, 2000

	No of intermediaries
Insurance agents	13,118
Insurance canvassers	9,974
Insurance brokers	120

Source: ISP

Accident Management

For larger insurance companies in Portugal, accident and claims management is regarded as being a core internal function that they would not outsource to an external organisation. Larger insurance companies in Portugal are beginning to form their own networks of approved bodyshops, and in return for supplying a larger volume of repair work, are obtaining repair cost reductions from their approved repair networks. However, there are a relatively large number of small insurance companies operating in the motor insurance market in Portugal who account for a relatively low number of accident claims. These insurance companies are therefore too small to justify the operation of their own repair networks as they would be unable to supply sufficient repair volume to a network of bodyshops to obtain repair cost reductions.

> *"The presence of accident management companies is increasing but has little future. This is because the insurance companies like to control their own accident claims."*
>
> *Director of personal lines insurance, insurance company*

A fragmented insurance supply structure with a relatively large number of small insurance companies results in an opportunity for operators of managed repair networks to provide an outsourced accident management service to smaller insurance companies in Portugal. To a certain extent, accident management services are currently being provided or offered to operators of large vehicle fleets and insurance companies, by fleet management companies. The fleet management operations of the major vehicle rental and leasing companies in Portugal, operate networks of service and repair garages including bodyshops, which are marketed as managed repair networks fleet operators and insurance companies.

Environmental Legislation

In the 1990s, Portugal established a revised and modern environmental legislative framework largely in response to EU environmental directives, and in 1990 the Ministry of the Environment and Natural Resources and related regional bodies were created and placed in charge of environmental regulations. On March 11 1999, the European Union's Environment Ministers adopted the VOC Solvent Emission Directive 1999/13/EC which seeks to reduce VOC emissions from solvent-using installations by 67% by 2007 compared with 1990 levels. The Directive sets emission limit values expressed as maximum solvent concentrations in waste gases, and fugitive emission values expressed as a percentage of solvent input. The EU's Solvents Directive exempts auto-refinish shops from the legislation if they use less than 500 kg of solvent per annum.

The deadline by which national requirements must comply with the Directive for meeting overall reductions in VOC within each member state, differs for new and existing installations. New installations must comply fully with the directive with immediate effect, while existing installations which are defined as those in operation up to one year before the VOC directive comes into effect, must comply fully with the directive by 31 October 2007. The directive refers to target emissions and proof of meeting these targets is required in the form of documented solvent management plans. In Portugal, the new VOC emissions legislation has been adopted within Portugal's national environmental legislation.

A commissioned study into the reduction of VOC emissions from the vehicle refinishing sector was delivered to the European Commission in 2000. As a result of this study and following discussions with Member States and stakeholders within the industry, the Director General for Environment at the European Commission submitted a draft proposal in May 2002 for a repeal of Directive 1999/13/EC's requirements for the vehicle refinish sector (Article 10 - Repeal of vehicle-refinishing provisions on Directive 1999/13/EC). At the time of producing this study, the draft proposal was still in the process of further discussion. The implication is that the Directive could be amended in terms of its application to the vehicle refinish sector or replaced with a new Directive that applies specifically to the automotive refinish sector.

If the 500kg solvent usage threshold is retained, the majority of bodyshops in Portugal are likely to fall below the threshold and will therefore be exempted from the legislation. This would mean that the majority of bodyshops in Portugal could continue to use conventional 2-pack and high solid 2-pack paint products rather than switch to water based paint products.

Paint Systems

Of the 100 bodyshops interviewed in Portugal by *mfbi* for this study, almost half of the bodyshops surveyed at 47% used 2-pack high-solid paint products and 34% used water based paint products. Only 15% of bodyshops in the survey used conventional 2-pack polyurethane paint products. The usage of water based paint products by bodyshops in Portugal is therefore similar to the survey responses by bodyshops in France and Spain where water based paints were used by around 30% of bodyshops in the survey. As would be expected, the tables in the appendix show that the usage of water-borne paint products tends to be higher among larger bodyshops in Portugal, and 2-pack product usage is greater among smaller bodyshops. A total response of 102% indicates that a small minority of the respondent bodyshops in Portugal use more than one type of paint product.

Table 10 Types of paint products used, 2002

Base: 100 bodyshops	%
2-pack high-solid	47
Water-based	34
2-pack polyurethane	15
Other	6
Total	102

Source: *mfbi*

Paint Brands Used

The majority of bodyshops surveyed in Portugal at 79% used just one brand of paint with 21% of bodyshops surveyed using two or more brands. Of the paint brands used by bodyshops responding in the *mfbi* survey, Spies Hecker achieved the highest penetration being used by 21% of respondent bodyshops as their main brand of paint used. DuPont was used by the second largest proportion of bodyshops in the survey at 19% and Akzo Nobel/Sikkens was used by 12% of bodyshops as their main brand.

Table 11 Paint brands used by bodyshops in Portugal, 2002

Base: 100 bodyshops	%
Spies Hecker	21
DuPont	19
Akzo Nobel/Sikkens	12
RM	6
Ixell	6
PPG	5
Glasurit	4
ICI	3
Standox	2
Other	22
Total	100

Source: *mfbi*

Repair Estimating Methods

Repair estimates in Portugal are produced using either bodyshop opinion times based on the knowledge and experience of the bodyshop proprietor, owner or manager, or by using car manufacturers' repair times in conjunction with a computerised estimating system. However, computerised estimating systems are used by only a small proportion of bodyshops in Portugal and are more likely to be used by car dealer bodyshops and by larger independent bodyshops.

The Repair Estimation Process

When a vehicle is involved in an accident in Portugal, the motorist informs the insurance company and the car is either driven by the motorist or transported to a bodyshop. In Portugal, motorists are entirely free to select a bodyshop of their own choice to have repairs carried out, although insurance companies will try and recommend three or four bodyshops where the car should be taken. The bodyshop where the damaged car is taken will then compile the repair estimate using either its own opinion times, or less commonly a computerised estimating system. Car dealer bodyshops are more likely to produce repair estimates using car manufacturers' repair times, either in computerised form or in manual form. Independent bodyshops are more likely to compile repair estimates using their own opinion times.

Insurance companies will then send an assessor to the bodyshop who may be either an employee of the insurance company or an independent assessor, who will then assess the repair cost by compiling a repair estimate of his own, invariably using a computerised estimating system. The assessor may then either negotiate repair times and repair costs directly with the bodyshop, or he will send his repair estimate to the insurance company who will then negotiate any repair cost reductions directly with the bodyshop based on the assessor's estimate of repair costs. On the completion of repairs, the payment of repair costs are then made directly to the bodyshop by the insurance company with any excess collected by the bodyshop from the car owner. Only under third party liability where the car owner is liable for his or her own repair costs, will the bodyshop receive payment directly from the car owner.

> *"The role of the expert is very clear. When the car is in the repair shop, the expert will assess the damages, draw up a report including the budget (costs) and the insurance company will take its respective actions and communicate this to the expert."*
> *Director of personal lines insurance, insurance company*

> *"Today, experts are nothing more than an inspector of the damage itself, because we now have computer software that enables us to know the exact amount of the damages."*
> *Manager, major insurance group*

Estimating Systems

The survey of 100 bodyshops in Portugal carried out for this study shows that of the bodyshops responding in the survey, 70% did not use a computerised estimating system. The main system used by respondent bodyshops in the survey was the Audatex system which was used by 13% of all bodyshops in the survey and by 43% of bodyshops that used an estimating system.

Table 12 Estimating systems used by bodyshops in Portugal, 2002

Base: 100 bodyshops	%
No system used	70
Audatex	13
Dialogys	2
Car manufacturer system	4
Others	6
Don't know/no answer	5
Total	100

Source: *mfbi*

Replacement Parts

Car manufacturer OEM replacement parts account for 75% of parts used for accident repairs among the bodyshops surveyed by *mfbi* in Portugal, with non-OE pattern parts being used for only 25% of all parts replaced accident repairs. However, only 43% of the bodyshops responding in the survey used OEM parts exclusively, although none used non-OE pattern parts exclusively. The comparatively high use of OEM parts in accident repairs on average at 75%, reflects the high ratio of insurance funded repairs carried out in the car body repair market in Portugal at 80%, although the low proportion of bodyshops using OEM parts exclusively for all repairs is likely to reflect a high penetration of basic motor liability cover and a low penetration of own damage or comprehensive motor insurance cover in Portugal.

Table 13 Percentage of OEM and non-OE parts used by bodyshops for accident repairs in Portugal, 2002

Base: 100 bodyshops	Manufacturer OEM parts %	Non-OE pattern parts %
0%	-	43
1-10%	3	7
11-20%	1	4
21-30%	6	9
31-40%	1	-
41-50%	24	24
51-60%	-	1
61-70%	8	6
71-80%	5	1
81-90%	5	2
91-99%	2	1
100%	43	-
Average mean %	75	25

Source: *mfbi*

Almost without exception, insurance companies in Portugal specify that bodyshops use only OEM replacement parts in accident repairs. The policyholder is entitled to specify what type of parts are used to repair his or her car, but non-OE parts tend only to be used either where car owners are paying for repairs themselves such as under liability (third party) insurance policies, or where an older car is uneconomic to repair using OEM replacement parts and then non-OE parts are used to reduce the repair cost. This may include situations where the car is written off by the insurance company and the total loss settlement is paid to the policyholder. The policyholder may then buy the car from the insurance company and pay to have the car repaired independently using non-OE parts.

> *"The policyholder has freedom of decision. There are cases in which there may be an agreement to use non-original parts and even cases where it is not economically viable to repair the car."*
>
> *Director of personal lines insurance, insurance company*

The Body Repair Supply Structure

Number of Body Repair Outlets

There were 1,900 bodyshops operating in Portugal carrying out car body repairs in 2001, of which the largest proportion at 60% were independent standalone bodyshops. Car manufacturer dealer-operated bodyshops accounted for 40% of all bodyshops in Portugal in 2001 with 750 outlets. Approximately 40% of dealers within car manufacturers' networks include a bodyshop operation. However a proportion of these will also include independent bodyshops appointed by car manufacturers as manufacturer-approved bodyshops.

Table 14 Number of car body repair workshops in Portugal, 2001

	Number of outlets	%
Independent bodyshops	1,150	60
Car manufacturer dealer bodyshops	750	40
Total	1,900	100

Source: Industry estimates/*mfbi*

Bodyshop Regulation

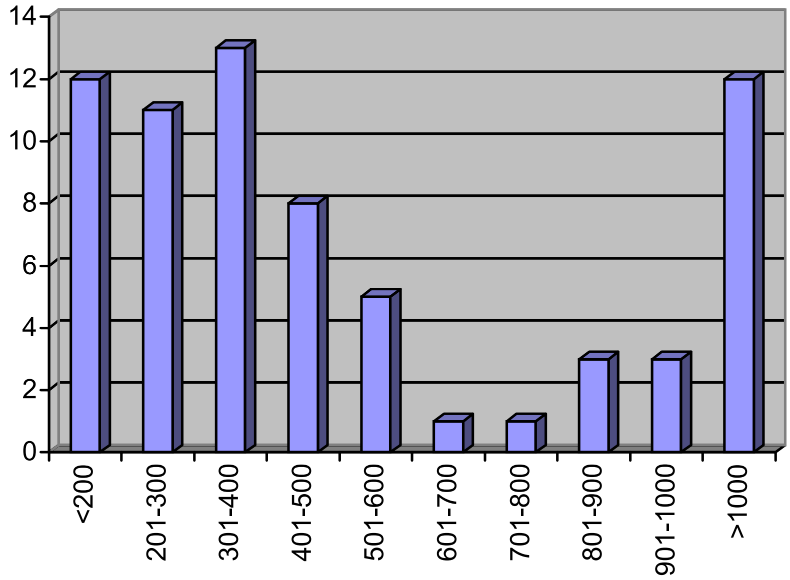
In Portugal, bodyshops are licensed to operate by a local authority. The licensing procedure however has recently been simplified. Whereas under the previous licensing system bodyshops were designated as an industrial activity, they have now been reclassified as a service activity. This means that it is now only necessary for a local authority to accept the premises where a bodyshop intends to operate. There are also additional regulations which bodyshops are required to comply with regarding electrical installations, discharge of waste residues and noise levels, although these also apply to other businesses and not bodyshops specifically.

Bodyshop Size

Floor Area

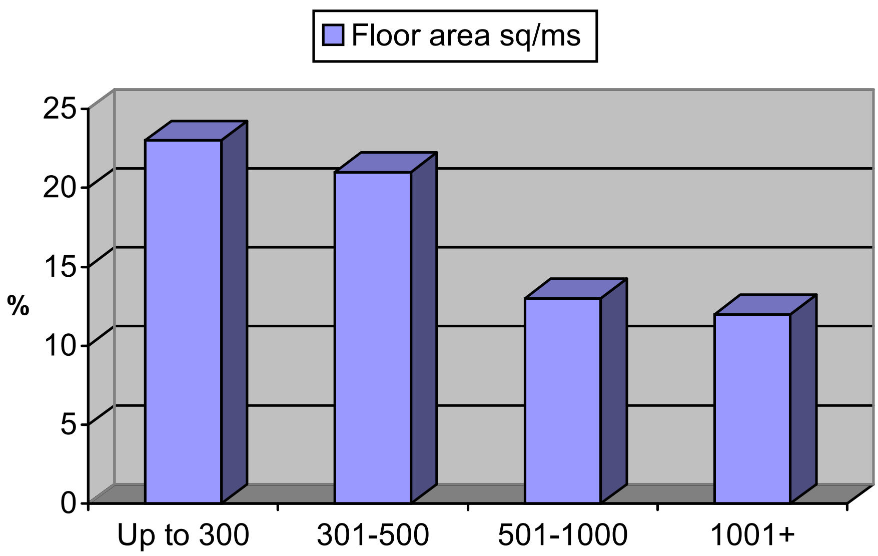
Although the survey of bodyshops in Portugal as in the other countries surveyed by *mfbi* is too small to provide an exact representation of the size distribution of all bodyshops in Portugal, the survey does provide a reasonable indication of the typical sizes of bodyshops found in Portugal. A typical bodyshop in Portugal according to the survey data is comparatively large compared with countries such as Spain, France and Italy with a floor area of 826m². The survey data indicates that on average, a bodyshop in Portugal employs 18 staff including 13 shop-floor productive staff. However, these averages are misleading due to a relatively high proportion of very large bodyshops with a workshop floor area of over 1,000m² in the survey at 12%. The sample also comprised a high proportion of very small bodyshops with a workshop floor area of up to 300m², which suggests that a high proportion of bodyshops in Portugal are either very large or comparatively small with a relatively low distribution of medium sized bodyshops.

Bodyshop sample profile by size distribution (floor area), 2002



The largest proportion of bodyshops in the survey at 23% were small bodyshops with a floor area of up to 300m², with a further 21% having a floor area of between 301m² and 500m². Bodyshops with a floor area of more than 500m² accounted for 25% of the survey sample. Although 31% of bodyshops in the survey for Portugal were unable to state the size of their bodyshop, those who were unable to answer the question regarding the floor area of their bodyshop tended to be the bodyshops with ten or more staff and repairing 21 or more cars per week. This implies that it was larger bodyshops with large workshop floor areas that were unable to specifically state the size of their bodyshop.

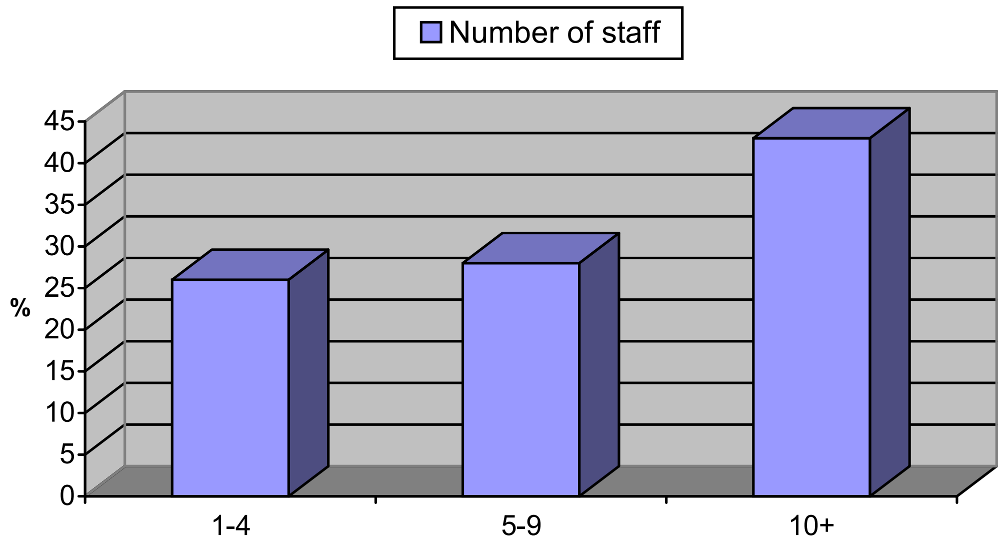
Bodyshop sample profile by floor area, Portugal 2002



Number of Staff

The largest proportion of respondent bodyshops in the survey sample at 43% in Portugal employed ten or more staff while a further 28% employed five to nine staff and 26% employed one to four staff. If the sample profile is representative of all bodyshops Portugal, this suggests that a high proportion of bodyshops in Portugal are relatively large in terms of the number of staff employed at an overall average of 18 staff per bodyshop. This again though is distorted by a relatively large proportion of bodyshops in the survey at 27% that employed 20 or more staff.

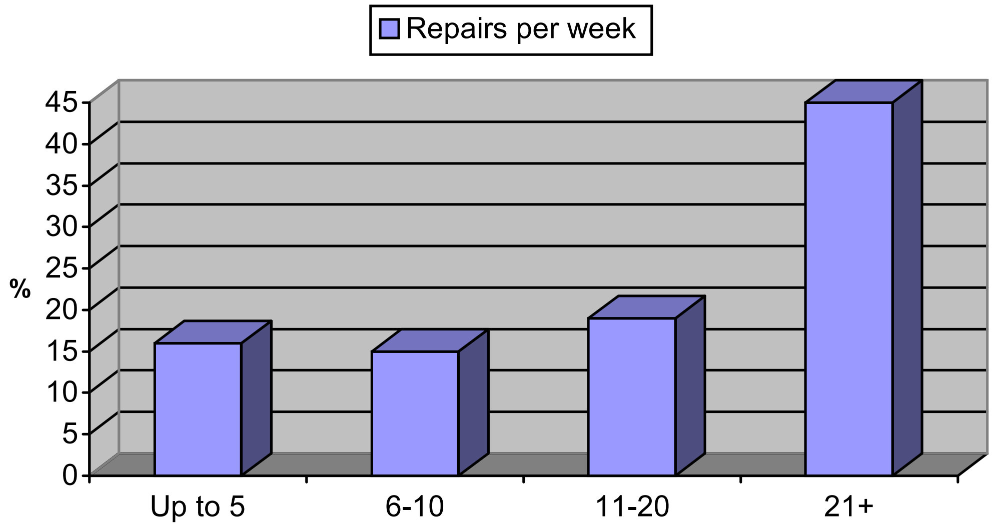
Bodyshop sample profile by number of staff, Portugal 2002



Repair Throughput

The relatively high proportion of very large bodyshops in the sample profile for Portugal is further confirmed by the average number of cars repaired per week by the sample of bodyshops. Almost half of all bodyshops in the survey at 45% repaired 21 or more cars a week compared with 19% that repaired between 11 to 20 cars, 15% that repaired six to ten cars and 16% that repaired up to five cars per week. This gave an overall average of 57 cars repaired per week for all bodyshops in the survey. This implies that despite a comparatively high proportion of small bodyshops, bodyshops in Portugal tend to be highly productive compared with bodyshops of a similar size in other countries. This may not necessarily mean that bodyshops in Portugal carry out a large number of small repair jobs resulting in a high throughput of repairs, as the average repair cost in Portugal is 811 euros. There are however, a high proportion of bodyshops in the survey at 38% that have an average repair cost of up to 400 euros and this represents the largest proportion of bodyshops in the survey. Consequently, the survey data indicates that there are a high proportion of relatively small repair jobs carried out by bodyshops in Portugal which would contribute to a higher throughput of repairs compared with other countries.

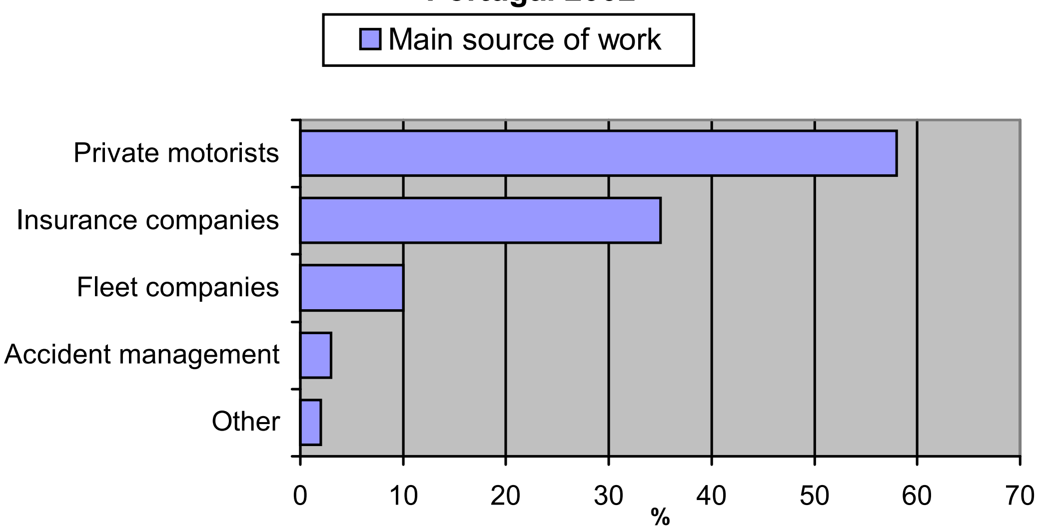
Bodyshop sample profile by number of repairs per week, Portugal 2002



Bodyshop Work Supply

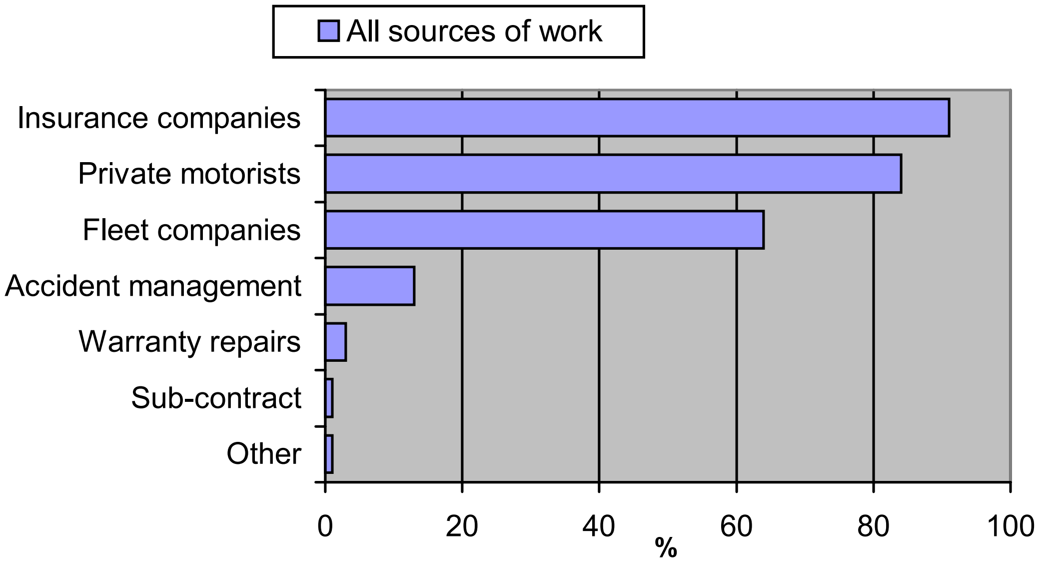
Private motorists paying for repairs themselves represented the main source of work for the majority of bodyshops surveyed by *mfbi* in Portugal at 58%, with insurance companies being the main source of work for just 35% of bodyshops responding in the survey. Fleet companies were the main source of work for 10% of bodyshops in the survey and 3% of bodyshops in the survey relied upon accident management companies for their main supply of work. None of the respondent bodyshops relied upon sub-contracted work as their main sources of repair work.

Bodyshop sample profile by main source of work, Portugal 2002



In terms of all types of work carried out by the bodyshops in the sample, the largest proportion of bodyshops at 91% carried out work for insurance companies while the second largest proportion at 84% carried out work for private motorists paying for their own repairs. This is a reflection of the proportion of repairs that are actually paid for by private motorists themselves including repairs that are funded by insurance companies under third party liability but paid for directly by private motorists, and also repairs which are financed entirely by private motorists. Nearly two-thirds of bodyshops in the survey carried out work for fleet companies while only 3% carried out warranty repair work for car manufacturers.

Bodyshop sample profile by all sources of work, Spain 2002



Body Repair Networks

Insurance Company Networks

There are not as yet extensive networks of insurance approved bodyshops in Portugal, although individual insurance companies are beginning to link the provision of work to selected bodyshops in return for repair cost reductions. The criteria under which insurance companies in Portugal are selecting bodyshops as preferred or approved repairers are the level of cost reductions that can be negotiated with individual bodyshops, and the service level they are able to provide to policyholders on the insurer's behalf. This means that many insurance companies tend to select independent bodyshops as their preferred or approved repairers.

> *"In relation to the quality-price ratio, I prefer the repair shop that offers me the best price. It always depends on the price and service quality, but with independent repair shops there is greater negotiating power."*
>
> *Director of personal lines insurance, insurance company*

Preferred Bodyshops

Insurance companies tend to prefer to appoint independent bodyshops rather than franchised dealer bodyshops as approved or preferred repairers, chiefly because independent bodyshops offer lower repair costs to insurance companies. Insurance companies regard independent bodyshops as being more flexible than franchised dealer bodyshops in terms of repair costs and the service levels they are prepared to offer to insurance companies in order to obtain work. Consequently, insurance companies can not only negotiate a reduction in repair costs with independent bodyshops, including discounts on labour rates, parts and paint, but they can also obtain higher service levels. Service levels are normally related to minimising repair lead-times and the quality of repairs provided by bodyshops.

> *"We prefer independent repair shops because the negotiation procedure is easier. Authorised concessionaires are very inflexible in terms of negotiation."*
>
> *Manager, major insurance group*

> *"Many insurance companies encourage customers to use other repair shops where the prices are lower. That means we have to be more competitive."*
>
> *Aftersales manager, franchised dealer*

This can mean however that there could be a conflict of interest between the needs of the insurance company and the wishes of some car owners. As the average age of cars in the car parc in Portugal falls due to a rising level of new and younger used car sales, a high and increasing proportion of car owners prefer to have their car repaired at a car manufacturer's franchised dealer. Insurance companies however, are generally unable to negotiate the same level of repair cost reductions and increase in service levels that they obtain from independent bodyshops. This is because a bodyshop manager within a dealership normally defers decisions regarding discounts and service levels to the dealer principal, or because a franchised dealer bodyshop is required to operate under criteria determined by the car manufacturer.

> *"There are a wide variety of different circumstances. The general trend is to repair in authorised concessionaires because the car owner always attempts to use the authorised concessionaire and exercises pressure for this to take place."*
>
> *Director of personal lines insurance, insurance company*

> *"The quality offered in our bodyshops is uniform due to implemented service standards and regular technical training."*
>
> *Technical service manager, volume car manufacturer*

Policyholders by law are completely free to choose the outlet and type of repairer at which to have their car repaired in Portugal. To try and influence a policyholder's decision as to where their car is repaired, an insurance company will suggest that the policyholder choose one from up to four bodyshops nominated by the insurer. The arguments put forward by insurance companies to encourage a policyholder to use a nominated bodyshop generally relate to the guarantees that the insurance company is able to provide in terms of the quality of repairs that will be provided and the speed of the repair service.

> *"Yes, the policyholder chooses the bodyshop, but the insurance company provides advice regarding the shop that provides a better service and faster repairs. When policyholders want a fast and quality service, they follow the suggestions of the insurance companies."*
>
> *Manager, major insurance group*

"The policyholder is free to choose, but we make suggestions. We are successful when we offer valid arguments and when it is in the best interest of the policyholder."

Director of personal lines insurance, insurance company

Managed Repair Networks

It is not known to what extent managed repair networks operated by the major paint manufacturers or by independent franchises are established in Portugal, but they are not thought to be significant. For example, DuPont's Five Star Programme of approved bodyshops operates in seven countries in western Europe, but does not operate in Portugal. Akzo Nobel Sikkens' Acoat Selected programme is also not promoted by the company as operating in Portugal. ANECRA, the National Association of Vehicle Sales and Repairs Companies in Portugal, operates a programme for standardising repair shops in Portugal to improve their overall production quality. Although 200 repair shops are covered by this programme, they are not marketed by the association as an approved repair network.

Fleet Managed Repair Networks

Of greater significance in Portugal is the operation of managed repair networks by the major fleet and daily rental companies that operate in Portugal. Companies such as Avis, GE Capital Fleet Services and ALD Automotive operate fleets of under 10,000 vehicles in Portugal which are either rented to or leased to companies in Portugal. Included or offered within the vehicle rental or leasing package is the management of a company's vehicle fleet in terms of managing the servicing and repairs to vehicles. As well as providing a fleet management service to companies which rent or lease vehicles from the major fleet operating companies, the major fleet and daily rental companies also provide a network of repair workshops and bodyshops as an outsourced management service to other fleet operators. These managed repair networks are therefore marketed to other fleet companies and insurance companies as managed repair networks.

Supply Structure Trends

Franchised Dealer Networks

The introduction of a new Block Exemption regulation on October 1st 2002 could have a significant impact not only on the size, structure and profitability of car manufacturer franchised dealer networks throughout Europe, but also on independent aftermarket suppliers. The new regulation makes it easier for independent aftermarket service and repair outlets to become members of a car manufacturer's authorised service and repair network and therefore compete directly with conventional franchised dealers in the service and repair market, including service and repair work within a car's warranty period. Before the introduction of the new Block Exemption regulation, franchised dealers were to a large extent protected from aftermarket competition from independent workshops due to a new car's warranty conditions.

Increased competition from independent service and repair workshops to franchised dealers in the aftermarket, could erode the profitability of franchised dealers in a key area, thereby reducing the future viability and size of manufacturer's dealer networks. In 2001, there was a total of 1,651 main dealer outlets and 574 sub-dealers operating in Portugal, giving a total of 2,225 full facility, sales only and service only dealer outlets in Portugal. This represents an 11% increase in the number of main dealers since 1997 and a 10% overall decrease in the number of sub-dealers since 1997.

Table 15 Trends in the number of franchised dealer outlets in Portugal, 1997-2001

	Main dealers		Sub dealers		All dealers	
	No	Index	No	Index	No	Index
1997	1,485	100	641	100	2,126	100
1998	1,534	103	591	92	2,125	100
1999	1,547	104	587	92	2,134	100
2000	1,772	119	600	94	2,372	112
2001	1,651	111	574	90	2,225	105

Source: European Car Distribution Handbook, HWB International

The number of full facility main dealers in Portugal excluding sales only and service only outlets, amounted to 1,382 outlets in 2001 and the number of full facility sub or secondary dealers amounted to 375 outlets in 2001. This brought the total number of full facility dealer outlets excluding sales only and service only outlets in Portugal in 2001 to 1,757. *mfbi*'s own independent study into the future of Block Exemption[1] forecasts that the number of full facility franchised dealer outlets in Portugal are likely to decline by only 3% by 2005 and by only a further 6% by 2010 to a total 1,600 outlets. This relatively shallow rate of expected decline is due to the fact that Portugal is a market with future growth potential for both new and used cars and for aftersales services.

Although vehicle sales per dealer outlet in Portugal are some of the highest in Europe at an average of 228, to be viable in a more competitive market under a new Block Exemption regulation, vehicle sales per dealer will need to rise to around 300 units. Portugal like Spain has significant growth potential as its GDP gradually rises towards the European average. Consequently, a potential increase in new and used car sales if Portugal grows at a rate above that of the rest of the European Union, will minimise the decline in the number of franchised dealer outlets in Portugal. Nevertheless, there is still expected to be a contraction in the size of dealer networks in Portugal, especially if dealers operate dealerships in rural areas outside the main urban centres, on a multi-franchise basis to maintain viability.

If the number of accident repairs continues to rise due to an increasing claims and repair rate, there is significant potential for franchised dealers in Portugal to increase the number of bodyshops operated within dealer networks. However, *mfbi*'s data indicates that there is a significant level of overcapacity in the accident repair market in Portugal and franchised dealer bodyshops are coming under increasing pressure from insurance companies to be more price competitive with independent bodyshops. The main focus of price competition by insurance companies is labour repair rates and replacement parts discounts which are the two principal profit centres for franchised dealer bodyshops. The opening of more franchised dealer bodyshops with the aim of securing a large market share from independent bodyshops, would inevitably result in a significant depletion of bodyshop profitability, both for independent and franchised dealer bodyshops.

[1] The Future of Block Exemption and Motor Vehicle Retailing, 2002 by *mfbi*

A more viable strategy for car manufacturers to pursue to secure a larger share of the accident repair market, particularly under the new Block Exemption regulation, would be to appoint a larger number of independent bodyshops as manufacturer approved repair outlets. These bodyshops would operate under the manufacturers' quality criteria including the purchasing, stocking and use of OEM replacement parts, and could be supplied with repair work from other franchised dealers as well as securing work in their own right directly from insurance companies.

Independent Bodyshops

As well as the potential for an increase in the number of franchised dealer bodyshops if the number of repairs continues to grow, there is also the potential for an increase in the number of independent bodyshops. This is especially so under the new Block Exemption regulation that presents the opportunity for independent bodyshops to operate as manufacturer approved repair outlets if they meet the car manufacturers' quality selection criteria. The potential growth in the number of independent bodyshops, whether operating as fully independent or manufacturer-approved outlets, will be constrained by the current and significant level of excess repair capacity in the market.

With repair demand expected to continue to rise as affluence and car ownership increases in Portugal, overcapacity in the supply structure is not as crucial in a rising market compared with other countries in Europe where repair demand is static or declining. In a falling market, a decline in repair demand adds to overcapacity, but in a rising market an increase in repair demand will gradually absorb excess repair capacity. Consequently, the number of independent bodyshops operating in Portugal should remain fairly stable into the future with a longer-term prospect of an increase in the number of bodyshops if repair demand continues to rise. As with Portugal's neighbour Spain, the formation of approved repair networks by insurance companies is in the early stages of development which means that bodyshops in Portugal have yet to experience the same pressure as bodyshops in other countries to provide significant discounts on hourly labour charge-out rates to insurance companies.

Bodyshop Profitability

Reduced Claims Costs

Competition in the motor insurance market in Portugal is expected to increase as new companies enter the market. Traditional distribution channels, particularly tied agents, are still prevalent as the principal means of selling non-life insurance in Portugal. This presents an opportunity for new entrants as well as established companies in the insurance market to introduce new selling and distribution concepts into the Portuguese non-life insurance market. The direct marketing of non-life including motor insurance products to consumers via the telephone, direct mail and over the Internet which is not yet widely established in the Portuguese market, represents an opportunity to restructure the distribution of insurance in Portugal. More sophisticated methods of underwriting and market segmentation combined with potentially lower distribution costs will enable new entrants and established companies to try and secure a larger share of the market with a strategy partially based on lower premiums.

> *"The main factor of increased competition is the introduction of certain new concepts such as teleinsurance, with aggressive pricing campaigns. Insurance companies are trying to impose recommended repair shops by signing protocols with certain repair shops and thus establishing greater negotiating power in order to rationalise costs."*
>
> *Director of personal lines insurance, insurance company*

Increased competition based on lower premiums will inevitably result in greater pressure upon insurance companies to reduce their costs of claims, including the cost of accident repairs incurred by bodyshops. If the insurance market in Portugal consolidates and becomes more price competitive, insurance companies will develop larger approved repair networks and bodyshops will come under greater pressure over the next few years to reduce the cost of accident repairs in return for being supplied with a higher quantity of repair work. Bodyshops will also be expected to provide higher levels of service to insurance companies and their policyholders as insurers compete either on a cost or a service platform.

Lower Labour Rates

Retail labour rates for car body repairs in Portugal are comparatively low compared with other countries at 19-25 euros per hour charged by independent bodyshops, and 25-30 euros per hour charged by franchised dealer bodyshops. Nevertheless, bodyshops are being asked for discounts on labour rates in return for supplying larger volumes of work and the typical discount being given to insurance companies is around 8% of the retail rate. The following is an example of the hourly labour rates charged by independent and franchised dealer bodyshops in Portugal as at July 2002.

Table 16 Independent and franchised dealer bodyshops

Type of work/provider	Hourly rate (ex-VAT)	Discount
Retail labour rate (independent bodyshop)	19-25 euros	nil
Retail labour rate (car dealer bodyshop)	25-30 euros	nil
Insurance company rate (car dealer bodyshop)	23-28 euros	8%
Sub-contract rate	n/a	n/a
Fleet company rate (car dealer bodyshop)	23-28 euros	8%

Source: *mfbi*

Repair Times

With only 30% of bodyshops in *mfbi*'s survey using a computerised estimating system, a high proportion of repair estimates are produced by bodyshops in Portugal using bodyshop opinion or experience times, rather than insurance industry or car manufacturer repair times. Bodyshops in Portugal are therefore not experiencing a significant reduction in labour repair times. An increasing accident and repair rate in Portugal also means that the gross number of hours charged for accident repairs by bodyshops in Portugal is potentially growing, although a high proportion of the repairs that are carried out tend to be small and labour accounts for a low proportion of total repair costs at 19% compared with 38% in Spain and 42% in France where hourly labour charge-out rates are similar to those charged by bodyshops in Portugal.

Operating Costs

Average wages in Portugal are some of the lowest in the European Union which is reflected in the labour rates charged by bodyshops for accident repairs. The increasing usage of water based paints and the requirement to invest in more efficient spraybooths to reduce the drying times associated with water based paints has increased the operating costs for bodyshops in Portugal. The introduction of the euro currency and the European Union's Working Time Directive has also resulted in an increase in operating costs for bodyshops.

In common with bodyshops in other European countries, bodyshops in Portugal are experiencing difficulties in recruiting skilled labour. This is primarily caused by a reluctance of young people to consider the auto repair trade as a career choice when compared with other career opportunities available. This is also exacerbated by a low level of unemployment in Portugal and higher expectations of career achievement among young people. Wage rates for bodyshop productive staff in Portugal are typically around 9,500 euros per annum with bodyshop managers typically earning around 14,000 euros per annum. These wages can be increased by the operation of bonuses by some bodyshops which tend to be paid in relation the achievement of productivity targets.

> *"There are problems in terms of recruiting but not maintaining. This is related to the level of education. If you ask a young person of 18 if they want to be a mechanic they will reply that they want to be a doctor."*
>
> *Aftersales manager, franchised dealer*

Courtesy Cars

The provision of courtesy cars to policyholders while their own car is being repaired varies according to the type of policy that the car owner has and who the car owner is insured by, but in the majority of cases, courtesy cars are generally provided by the insurance company rather than the bodyshop. To facilitate the provision of courtesy cars, insurance companies will have agreements with daily rental companies to provide cars to the insurer's policyholders. The delivery and collection of the courtesy car where this is provided is often also usually organised and carried out by the daily rental company. If the policyholder has a policy providing own-damage cover, the policyholder is often entitled to a courtesy car while his or her own car is being repaired. If the policyholder was not at fault in the accident that caused damage to the vehicle, the policyholder's insurance company will claim the cost of the courtesy car from the offending third party's insurance company.

> *"In the even of own damage, when the policyholder has an accident with his or her vehicle, she or he may or may not have a substitute vehicle in accordance with the (insurance) contract. If the fault lies with third parties and the person was not to blame, the injured party will request a substitute vehicle from the other insurance company. The cost is paid by the other insurance company. Repair shops do not have substitute vehicles. There are agreements with rent-a-car companies and in this case a reservation is made and the substitute vehicle is ordered."*
>
> *Director of personal lines insurance, insurance company*

Courtesy cars therefore not generally provided by bodyshops themselves although some will have arrangements with daily rental companies to provide customers with courtesy vehicles.

With the cost of courtesy cars met generally by insurance companies, and provided by daily rental companies under a contract, bodyshops in Portugal are not suffering from high operating costs from providing and managing a fleet of courtesy cars for insurance companies. This also means that bodyshops in Portugal are not experiencing an increase in the ratio of non-productive to productive staff within the bodyshop. This also means that non-productive overhead costs are not rising dramatically for bodyshops in Portugal.

> *"We only have three administrative staff members because what counts is having products that sell; labour and parts."*
>
> *Aftersales manager, franchised dealer*

> *"The trend is to fewer administrative staff, i.e. managed by a maximum of three persons. There is no administrative burden in terms of the repair shop because what counts is production staff."*
>
> *Sales director, franchised dealer*

Future and Conclusions

Motor Insurance Market

The Portuguese insurance market is small in comparison with other country markets in Europe but has experienced significant growth in recent years, particularly in the life insurance market. The motor insurance market is highly competitive although premium rate increases in 2000 and 2001 has improved the profitability in the motor insurance sector. The profitability of the motor insurance sector in Portugal is threatened however by a rapidly rising claims rate and a faster rate of growth in claims expenditure than in premium income. Rising affluence as Portugal's GDP gradually rises towards the European average should result in an increase in car ownership providing an element of potential growth in motor insurance penetration.

The Portuguese motor insurance market is polarised between a high market share accounted for by five insurance companies, and a fragmented structure characterised by a larger number of insurance companies with very small shares of the motor insurance market. Consequently, there is still potential for a consolidation in the number of insurance companies operating in the motor insurance market with a number of smaller companies merging together to form larger insurance groups or individual companies. The relatively small market shares of a large number of motor insurers will mean that they will be unable to operate significant bodyshop repair networks of their own to obtain the repair cost savings potentially available to the larger insurance groups and companies. This may create an opportunity for managed repair networks to provide an accident and repair management service to a comparatively large number of small insurance companies. This may enable smaller insurance companies to obtain similar levels of repair cost savings as the larger insurance companies which account for a high proportion of total motor insurance claims.

Repair Networks and Estimating Systems

A potentially smaller number of insurance companies operating larger networks of approved bodyshops in Portugal, would enable insurance companies to take greater control over the car body repair market, either directly through their control over a higher proportion of claims or indirectly through third-party provided managed repair networks. Although labour repair costs account for a relatively small proportion of total repair costs, insurance companies could obtain greater control over the number of hours charged for repairs by mandating the use of computerised estimating systems as a condition of bodyshop membership of insurer' approved repair networks. For bodyshops, this would result in greater insurer control over repair times and labour sales through a potential reduction in bodyshop opinion times within repair estimates.

If based on car manufacturers' repair times, computerised estimating systems would also result in a reduction of repair times as car manufacturers systematically reduce the times required to repair new and also existing models. Whether the adoption of computerised estimating systems would present an opportunity or threat to bodyshops in Portugal, would depend on the level of estimating efficiency by bodyshops in Portugal. If repair estimating efficiency is generally low in terms of bodyshops not currently maximising the potential number of labour hours available for a repair, then the introduction of computerised estimating may actually result in an increase in labour sales and higher labour profitability for bodyshops in Portugal, although this would potentially be offset by lower bodyshop labour rates.

The survey of bodyshops for this report has shown that the size of bodyshops in Portugal, if representative of the total bodyshop population, is polarised between a large proportion of small bodyshops and a smaller proportion of very large bodyshops. The high repair throughput of smaller bodyshops in Portugal is largely due to a large number of relatively small repairs as demonstrated by the fact that 38% of bodyshops have an average repair cost of just 204 euros compared with an overall average of 811 euros. It is likely that if the penetration of own damage cover increases in Portugal and if the proportion of repairs carried out by bodyshops directly for insurance companies grows, then average repair costs and the average size of repairs are also likely to rise.

To operate effectively as insurance approved bodyshops within formal insurance company repair networks, smaller bodyshops in Portugal will be required to process a higher volume of larger repairs. This may mean that smaller bodyshops will be required to increase investment in their facilities to increase productivity and repair throughput, so as to compete more effectively with larger higher capacity bodyshops as insurer approved bodyshops. The comparatively low proportion of medium sized bodyshops in Portugal as indicated by the bodyshop survey data, presents an opportunity for smaller bodyshops to invest and become larger medium sized operations. The downside to this for bodyshops is that this could lead to a rate of growth in overall bodyshop capacity that is potentially faster than the rate of growth in overall repair demand.

Repair Market Size

Over the period between 2002 and 2007, *mfbi* forecasts that the number of repairs carried out in the accident repair market in Portugal will grow by 35% and the value of the repair market will grow by 52%. Growth in market size both in terms of repair volume and value, is expected to occur as a result of a continuing trend for an increase in accident insurance claims and an increase in average repair costs. The number of repairs is therefore forecast to rise from 0.80 million in 2002 to 1.07 million in 2007, while market value is forecast to rise from 0.66 billion euros in 2002 to 1.00 billion in 2007. Average repair costs for the whole market including insurance repairs and non-insurance repairs, are forecast to increase by 13% from 830 euros in 2002 to 935 euros in 2007. These forecasts are based on an expected 25% increase in the size of the car parc from 3.68 million in 2002 to 4.62 million in 2007. A 35% increase in repair demand will result in the repair rate rising from 21.6% of the car parc in 2002 to 23.1% in 2007.

Table 17 Forecast size of accident repair market in Portugal, by volume and value, 2001-2007 (2002 = base year for forecasts)

	Number of repairs		Value of repairs		Average repair cost	
	m	Index	euros(bn)	Index	euros	Index
2001	0.750	94	0.608	92	811	98
2002	0.795	100	0.660	100	830	100
2003	0.845	106	0.718	109	850	102
2004	0.895	113	0.780	118	870	105
2005	0.950	119	0.850	129	895	108
2006	1.005	126	0.920	139	915	110
2007	1.070	135	1.000	152	935	113

Source: *mfbi* forecasts

Supply Structure

Based on a current number of 1,900 bodyshops, a forecast 35% increase in the number of repairs between 2002 and 2007 will result in a marked reduction in the level of excess repair capacity. Excess repair capacity is estimated by *mfbi* to have amounted to as much as 50% in 2001, but by 2007, a 35% increase in the number of repairs will result in excess capacity potentially falling to just 7%. In reality this is unlikely to occur as a sustained increase in repair demand is likely to result in either an increase in the number of bodyshops to satisfy the rising demand, or an increase in the capacity of existing bodyshops through higher investment.

mfbi therefore forecasts that the number of bodyshops in Portugal will initially fall as insurance companies direct a higher proportion of repairs to a smaller number of approved bodyshops, and these bodyshops in turn will increase their own capacity to accommodate higher demand from insurance companies. This will initially add to overcapacity in the repair market causing a reduction in the number of bodyshops in operation. As repair demand rises and at a faster rate than increases in bodyshop capacity, excess repair capacity in the total market will begin to fall and will encourage an increase in the number of bodyshops. Consequently, if repair demand continues to rise as forecast, *mfbi* expects the number of bodyshops will increase by 3% overall from 1,875 outlets in 2002, to 1,925 outlets in 2007. This will result in a reduction of excess repair capacity from more than 40% in 2002, to just over 25% in 2007.

Table 18 Forecast number of body repair shops in Portugal, 2001-2007

	Number of outlets	Index
2001	1,900	101
2002	1,875	100
2003	1,850	99
2004	1,850	99
2005	1,875	100
2006	1,900	101
2007	1,925	103

Source: *mfbi* forecasts

The forecasts are based on the assumption that if insurance companies are successful in developing networks of approved bodyshops and directing a higher proportion of repairs to their approved bodyshops, the approved bodyshops themselves will be encouraged to increase their repair capacity, both to accommodate the increase in demand, but also to offset demands from insurance companies for reduced labour rates and reduced margins on replacement parts, paint and materials. In other countries, the incentive offered by insurance companies to secure repair cost reductions from bodyshops has been to offer a higher volume of repairs in return for cost savings. The impact of the direction of a higher proportion of repairs to approved bodyshops by insurance companies in other countries, has generally been for bodyshop profitability to decline.

The mistake made by bodyshops in other countries when offered higher volumes of work is in believing that it is possible to maintain or even increase profitability from a higher throughput of repairs. *mfbi*'s studies in the UK have shown that higher profitability from increased volume throughput is difficult to achieve because in addition to increases in the supply of work, insurance companies have also demanded or have been offered by bodyshops, higher levels of service. Free services such as courtesy cars, and vehicle collection and delivery, inevitably result in a disproportionate rise in overhead costs. This increases the cost burden on the bodyshop which is compounded by a higher volume of repairs. As repair volume grows, bodyshop management is increasingly distracted by non-productive administration tasks with the result that bodyshop efficiency and unit repair profitability declines.

Block Exemption

Under the new Block Exemption regulations which came into force on October 1st 2002 with a one year transition period, franchised dealers potentially face a significant increase in competition in aftersales markets from independent outlets, who, if they meet the qualitative standards as set by the car manufacturers, could become members of a car manufacturer's authorised repair network operating under the manufacturer's brand. With franchised dealers dependent on the profitability from their aftersales operations to maintain their overall viability and future survival, an increase in aftersales competition could reduce their viability. If a large number of independent outlets that meet the manufacturers' requirements submit themselves to become members of manufacturers' repair networks, this will erode the profitability of existing franchised car dealers with the result that they will decline in number.

A significant proportion of independent bodyshops in Portugal already operate as manufacturer approved outlets to which franchised dealers without their own bodyshops direct repair work. These approved bodyshops could therefore potentially become official authorised members of a car manufacturer's repair network, but without representing a threat to a manufacturer's existing dealer network. Although the number of dealers in Portugal is expected to fall, partly as a result of the new Block Exemption regulation, the number of dealers is not expected to fall as much as in other countries due to a faster rate of growth in new and used car ownership in Portugal. A potentially growing market for accident repairs may therefore result in a larger number of bodyshops operated directly by franchised dealers and also a larger number of independent bodyshops operating as officially appointed manufacturer-approved bodyshops.

Replacement Parts

The other main area of the Block Exemption's significance to car body repair is the increase in competition to car manufacturers' OEM parts from aftermarket parts of equivalent quality. Franchised dealers are the only distribution channel for the supply of car manufacturers' branded OEM replacement parts, and a dealer's service workshop and bodyshop outlet are important users of car manufacturers' parts on their own account. The new Block Exemption regulation not only means that independent bodyshops can legitimately fit lower cost non-OE parts of equivalent OEM quality, but that franchised dealers too could also supply and fit non-OE parts of matching quality sourced from independent parts suppliers.

This potentially represents a major threat to the car manufacturers who are dependent on the profit contribution from the distribution and sale of their OEM parts for their own viability and survival. Not only does a continued decline in the number of franchised dealer outlets reduce the number of distribution points and usage outlets for the car manufacturer's OEM replacement parts, but the potential admission of independent outlets to a manufacturer's authorised repair network who may be more likely to use non-OE parts, further threatens the car manufacturers' penetration of the replacement parts market.

There is also the possibility that increased competition to car manufacturers' OEM replacement parts from non-OE parts of equivalent quality, will result in a reduction in OEM parts prices. The significance of this to both franchised dealer and independent bodyshops is that lower OEM parts prices will result in lower parts margins and reduced profitability for bodyshops. *mfbi* believes that a dramatic reduction in OEM parts prices due to a potentially more competitive market environment created by the new Block Exemption regulation, is unlikely to occur for the following reasons.

The bodyshop surveys carried out in each of the country-markets for this study have shown that non-OE parts achieve a claimed low level of usage by bodyshops in the car body repair market. Even though there may be a temptation for bodyshops to charge for the cost of fitting OEM parts while actually fitting non-OE, *mfbi* believes that with the exception of one or two countries, this practice is not as widespread as some may believe. The main reason other than fit and finish why bodyshops prefer to use OEM parts rather than non-OE, is that the higher margins available from OEM parts help to offset the falling profitability from labour sales as a result of reductions in the labour rate and reduced repair times. For these reasons, bodyshops will continue to fit OEM parts despite the potentially greater availability of high quality and lower cost non-OE parts.

Furthermore, car manufacturers will aggressively protect their market penetration and profitability of their OEM parts operations. This is demonstrated by the fact that since the previous amendment of the Block Exemption regulations in 1995, franchised dealers have been able to use alternative parts of matching quality. The fact that few dealers if any do so to any extent, demonstrates the influence that car manufacturers can bring to bear over their dealer networks, and will continue to do so under the new regulation. The principal means by which car manufacturers have ensured that dealers continue to supply and fit car manufacturer OEM replacement parts, are the additional bonuses and incentives paid by manufacturers to dealers for achieving parts sales targets. The incentive that car manufacturers will continue to employ to encourage independent bodyshops to continue to fit OEM parts will be the maintenance of the margins available on the parts to bodyshops. That is unless suppliers of independent parts of equivalent OEM quality are able to provide distributors and bodyshops with higher margins in terms of retained profits on parts, than those available on car manufacturer OEM parts.

Appendices

Appendix 1 - European Bodyshop Survey Questionnaire

Date of interview:

Name of bodyshop: Telephone:

Address and fax (if summary report is required):

Name of respondent: Position of respondent:

I am from MFBI, the international Consultants who conduct major studies in the car aftermarket across Europe. We are doing a study on bodyshops in……..*(country),* and I should very much like your opinions about trends in the market today.

The questions will only take a few (five?) minutes.

1.

2.

3. 1. Is your bodyshop an independent bodyshop, a franchised main dealer bodyshop or an agent for a car manufacturer or a main dealer? ❑ independent bodyshop
4. ❑ franchised main dealer bodyshop
5. ❑ manufacturer/main dealer agent bodyshop

2. How many staff does your bodyshop employ in total? ☐

   How many of these just work on the shop floor? ☐

   How many active painters/paint sprayers do you employ in the bodyshop? ☐

3. What size is your bodyshop in terms of the workshop floor area in square metres? ☐

4. Do you use a computerised estimating system for calculating the cost of accident repairs? ❑ Yes ❑ No

   What is the name(s) of the estimating system(s) you use ______________________________

5. Do you use a computerised bodyshop management system, by this I mean a system other than standard accounting software that produces job cards, parts orders, reports and invoices? ❑ Yes ❑ No

   What is the name of the management system you use ______________________________

1. 6. Which of the following that I am about to read out to you is your main source or provider of repair work?

❑ insurance companies
❑ private motorists paying for repairs themselves
❑ vehicle fleet operating companies
❑ accident management companies
❑ car manufacturer warranty repair
❑ sub-contracted trade work
❑ other

7. Who else from this same list also provides you with repair work?

Yes/No
❑ ❑ insurance companies
❑ ❑ private motorists paying for repairs themselves
❑ ❑ vehicle fleet operating companies
❑ ❑ accident management companies
❑ ❑ car manufacturer warranty repair
❑ ❑ sub-contracted trade work
❑ ❑ other

8. Approximately how many cars does your bodyshop repair each week when averaged over the year? [ ]

9. What is your average repair cost at present for a typical accident repair as invoiced to the customer excluding VAT, but including any excess paid by the insured? ________________

10. What percentage of repair costs are accounted for by
- all labour (including paint labour) [ ]
- replacement parts [ ]
- paint and materials [ ]

11. What percentage of the replacement parts you use in accident repairs are:
- car manufacturer OEM parts? [ ]
- non-OE/pattern parts? [ ]

12. What type(s) of paint products do you use currently

❑ 2-pack polyurethane
❑ 2-pack high solid polyurethane
❑ waterborne
❑ other

13. How many different brands of paint do you use? [ ]

14. What is the name of the main brand you use for basecoat and gloss finishes?

❑ Akzo Nobel/Sikkens
❑ DuPont
❑ Glasurit
❑ ICI
❑ Ixell
❑ PPG
❑ RM
❑ Standox
❑ Spies Hecker
❑ other________________________________

ORDER FORM

The Car Body Repair Market in North West Europe 2003

Please order copies of the reports you require by ticking the relevant boxes.

		UK pounds	Euros
☐	Car Body Repair Market Europe, Summary (6 countries)	£2,000	3,320
☐	Car Body Repair Market in Portugal	£1,000	1,660
☐	Car Body Repair Market in France	£1,000	1,660
☐	Car Body Repair Market in Germany	£1,000	1,660
☐	Car Body Repair Market in Italy	£1,000	1,660
☐	Car Body Repair Market in the Netherlands	£1,000	1,660
☐	Car Body Repair Market in Spain	£1,000	1,660
☐	Car Body Repair Market in the UK (to be published April 2003)	£1,000	1,660
☐	Complete Europe study (6 country reports plus Summary report)	£6,000	9,940
☐	Bodyshop Survey Data Tables Portugal	£800	1,325
☐	Bodyshop Survey Data Tables France	£800	1,325
☐	Bodyshop Survey Data Tables Germany	£800	1,325
☐	Bodyshop Survey Data Tables Italy	£800	1,325
☐	Bodyshop Survey Data Tables Netherlands	£800	1,325
☐	Bodyshop Survey Data Tables Spain	£800	1,325
☐	Bodyshop Survey Data Tables UK (to be published April 2003)	£800	1,325
☐	Bodyshop Survey Data Tables - Europe (6 country Summary tables)	£2,000	3,320

Name:____

Job Title:____

Company:____

Address:____

City:____

Country:____

Postal/Zip Code:____________________________________

Telephone No:____________________ Fax No:____________________

Email Address:__________________________

Please return by post or fax to:

MFBI, Pippingford Park Manor, Nutley, East Sussex
United Kingdom, TN22 3HW
Tel: +44 1825 713035 Fax: +44 1825 713037
Email: info@mfbi.org