

Media Information from Trend Tracker Limited

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For immediate release

Crash risk: New report assesses the outlook for the collision repair sector

Trend Tracker's new report - **The Future of the Car Body Repair Market in the UK 2010-2015** - shows how the recession has hit bodyshops, accelerating the gradual shrinkage of the crash repair market. The winter freeze came just in time to save some of the survivors from going out of business, but the medium term promises no relief for a hard-pressed sector.

Key points in brief

From 2007 to 2009:

- Privately-funded and insurance repairs are down 10% and 9% respectively
- After inflation, average body repair costs have fallen 5%
- The value of the UK collision repair market dropped by 11% in real terms
- 335 primary bodyshops closed – and over 2,000 in the past decade

Trend Tracker forecasts that by 2015 there will be:

- A 5% decline in repair volumes
- An 18% decline in primary bodyshop numbers to 3,155
- A 9% repair capacity shortfall

Trend Tracker's report advises:

- No further efficiencies are available to bodyshops
- No improvement to generally inadequate bodyshop margins is in sight
- Investors and suppliers should beware weak or non-existent returns, and scarce opportunities for consolidators
- The few who may invest in specialised repairs and/or makes of car may benefit from the failure of the weaker majority
- Further decline of the sector will ultimately disadvantage consumers and insurance companies, and erode the skills base needed to repair tomorrow's cars and assure their continued safety

Since the onset of the financial crisis in the banking system in 2007, which was followed by a 'credit crunch' in 2008 culminating in a severe recession, the number of car body repairs has fallen by 7%. The largest decline has been in the relatively profitable small repairs paid for directly by motorists and used car traders – down 10%, 2007/2009. The number of repairs on fleet and company cars has changed little since 2007, but insurance-funded car body repairs on private cars have fallen 9%.

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Compounding the problems of falling numbers of repairs, the average cost of car body repairs has risen by less than one per cent since 2007. In real terms, therefore, average repair cost has actually fallen by 5%, 2007/2009, when inflation is taken into account. More than anything this is as a result of the downward pressure on accident repair costs exerted by insurance companies, which pay for the vast majority of repairs in the market.

Combining declining numbers of repairs and real-terms falls in average repair cost, the UK car body repair market fell by 11% in real terms between 2007 and 2009.

Shutting up shop

In a market that is shrinking in real terms, bodyshop businesses are under considerable financial pressure. And clearly bodyshops are not immune from the more general fall-out of the recession and the credit crunch. It is therefore not surprising that 335 primary bodyshops have shut up shop, 2007/2009. Indeed in the last decade, over 2,000 primary bodyshops have fallen by the wayside.

Meanwhile, advances in car technology are posing problems for non-specialist, all-makes repairers who cannot afford to invest in new repair techniques and training, threatening further attrition of bodyshop numbers after the recession. Complex repairs also increase the rate of un-repairable total losses. Furthermore, insurers and used car dealers increasingly use SMART (Small to Medium Area Repair Techniques) practitioners rather than bodyshops for small repairs.

Basket case sector?

Falling numbers of bodyshops – even against a background of declining repair volumes – mean that repair capacity has decreased from a small surplus of 3% in 2006 to just 1% in 2009 – and that was wiped out by demand resulting from this winter's snow and ice. Further declines in the number of bodyshops will see capacity falling below demand, at least at times of seasonal peak demand.

Trend Tracker's forecast for the car body repair market is that the volume of repairs will fall by 5% from 2009 levels by 2015, thanks to a weak economic recovery, a sustained high total loss rate as a result of weak residual values and income-constrained consumers avoiding or deferring discretionary repair costs.

Trend Tracker forecasts that the number of primary bodyshops will decline by 18% between 2009 and 2015, to 3,155 outlets. The profitability of repairs will continue to be constrained by low-margin insurance contracts and a rising proportion of the least profitable large repairs. Repair capacity will fall to a 9% deficit by 2015 – compared to demand - which equates to a shortfall of nearly 0.5 million repairs. Quite possibly SMART repairers might be able to make up some of this shortfall.

These trends are well-established, and have been detailed in previous biennial editions of Trend Tracker's UK car body repair market studies – but there has been little or no strategic response from the players in this continuing war of attrition. Insurers, whose own average profitability has been hit by increasingly tough competition and declining returns from investments and underwriting losses, have been unprepared to help their approved repairers maintain capacity, preferring instead to wait for repairs and spend on variable costs (courtesy cars) in seasonal peaks.

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Suppliers to the UK body repair sector obtain higher prices than in some other European markets, whereas UK repair labour charges tend to be lower. Paint and materials has historically been the area of fastest growth in the UK body repair market, but it has seen reduced expenditure in three of the last four years. Bodyshops' margins on paint almost equal their margins on labour, so any reduction in paint margins would hit them hard.

Few bodyshops have moved to grow their business as consolidator groups, and the evidence is that size has been no guarantor of survival. Much potential revenue has been lost to SMART repairers, but their business model is better suited to trade used car refurbishment than most retail or insurance repairs.

Trend Tracker's latest analysis shows average gross repair margins for insurance jobs vary between 35.3% and 43.0% according to the make of vehicle being repaired. But with bodyshops still only achieving net profits of between 0% and 3%, the net per-repair figures don't generate sufficient revenue to justify investment, or, for many, withstand the stress of a weak economy. Bodyshops are in a highly seasonal business which depends on scarce skills, and cannot improve efficiency during the months of slack demand by adjusting temporary staff numbers.

Tipping point

One day, a tipping point will come in supply and demand, where the scarcity of UK body repair capacity triggers an improvement in bodyshops' ability to retrieve stronger margins, which are unlikely to be available from further efficiencies. But even with today's slimmed-down sector, there's no sign of that in sight.

Trend Tracker director Chris Oakham comments, "In the medium term, insurers should be concerned that they will find it increasingly difficult to satisfy their customers with rapid and convenient repairs, with so many bodyshops likely to cease trading when their owners retire – if not before, due to financial problems."

Oakham also cautions investors and lenders in the sector. "Investors in the car body repair sector should beware of generally weak or non-existent returns, and consider that not many consolidation opportunities remain in a sector offering few advantages for the small number of larger players in the market.

"For existing operators, one of the few opportunities available to improve market share and margins will be in becoming specialised – in particular makes, and in particular repair techniques. As others fail to invest, those that do may prosper from their rivals' weakness."

For the sector as a whole, Oakham expects further decline, to the ultimate disadvantage of consumers and insurance companies, and the gradual erosion of the skills base needed to repair tomorrow's cars to assure their continued safety.

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Trend Tracker's **The Future of the Car Body Repair Market in the UK 2010-2015** is available for sale as a download and hard copy via www.trendtracker.co.uk where further information on the report is also available.

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