Manitoba Collision Repair Industry Study

Final Report

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PREPARED FOR: **Manitoba Public Insurance**
Automotive Trades Association of Manitoba
Manitoba Motor Dealers Association

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1.0 EXECUTIVE SUMMARY

The Automotive Trades Association (ATA), Manitoba Motor Dealers Association (MMDA) and Manitoba Public Insurance Corporation (MPI) partnered in an industry analysis to more fully understand the impact of recent industry trends, regulatory changes, and labour market pressures on the profitability of the industry, and to identify realistic and practical solutions to these issues to the benefit of all parties. The overarching goal of the project is to ensure that Manitoba has in the short term and in the long term, a profitable, healthy collision repair industry.

The specific objective of the study is to accurately reflect the current and future health of the collision repair industry in Manitoba, identify the current and future issues that are impacting or may impact this 'health' and determine recommendations that will ensure the industry remains viable in meeting the needs of MPI, the collision repair industry and shared customers. The methods of collecting the information, opinion and data required to meet the objectives of this study included a comprehensive survey of all Manitoba accredited autobody and autobody frame shops, stakeholder interviews, literature and internet research and other jurisdiction research.

1.1 GENERAL OVERVIEW OF THE INDUSTRY IN CANADA

In Canada, the overall Automotive Repair and Maintenance industry, the broader industry of which collision repair is only part, generates annual revenues of approximately $11.9 billion. Manitoba revenue represents approximately 4% of the total, consistent with the proportion of the country's population resident in Manitoba.

Statistics Canada reports that Autobody shop financial performance in Canada generally improved in 2007 compared to 2005. Sales in this industry increased at 2 to 3 times the rate of inflation over this period. Shops over $500,000 in revenue showed significantly better performance than those with revenue under $500,000. Net profit is marginal (0.7%) for shops with revenue under $500,000.

Comparative financial data is not available by province for Autobody. Statistics Canada data for the broader Automotive Repair and Maintenance industry indicate operating profit margins in Manitoba in 2007 were below the national average, and significantly below the average of this industry in the other western provinces. Compared to national performance in all non-financial industries, the Automotive Repair and Maintenance industry in Manitoba has on average performed comparably, but did not show the general upward trend of all non-financial industries from 2005 to 2007.

Statistics Canada's Business Register indicates there are 345 autobody businesses in Manitoba, less than the 370 vendors receiving payments from MPI in 2008/2009. MPI indicates that some vendors performing autobody work do a very small amount of this activity and may identify their overall business in another category. The total number of shops captured by the Business Register declined by 8% from 2006 - 2008, with an even greater reduction (-12%) of establishments in relation to the provincial population; a similar rate to that experienced in B.C. and Saskatchewan. MPI indicates that the total number of accredited and non-accredited vendors registered with MPI was relatively stable from 2006 to 2008 with a slight trend toward a reduction in non-accredited businesses.

In Manitoba, claims volume has remained relatively steady during a period of increase in registered vehicles. A steady, though not dramatic increase in the proportion of total losses as a percentage of total claims reduces the volume of repair activity. This does not yet appear to be reducing business, however, as the trend in Manitoba, as in B.C. and Saskatchewan, has been a steady increase in both the number and average value of claim payments.

Claim payments for automotive repairs increased by 9% in Manitoba from 2006 to 2008 compared to 17% and 10% in Saskatchewan and British Columbia respectively. The average payment per claim excluding total losses, has increased in Manitoba by approximately 9%, compared to 5% in B.C., with no change in Saskatchewan.

On average, parts make up approximately 45% of the average repair cost. Parts prices were overall lower in 2008 compared to 2003, reflecting a drop in Original Equipment Manufacturer and recycled parts prices. Nationally paint and materials have increased as a percentage of overall estimate value from 9.7% in 2007 to 10.7% in 2009. New and more stringent environmental regulations are requiring autobody shops to convert to water-borne paint.

The profitability of autobody shops is impacted by volume. The volume of work per shop in Canada tends to be lower than reported in the United States. Compared to B.C., Manitoba has more jobs per shop, but lower average annual payments. There are approximately seven percent more shops per capita in Manitoba than in B.C., which may be a reflection of the distribution of population in rural areas. Saskatchewan, which has similar population characteristics to Manitoba, has a significantly higher number of shops for the population than either B.C. or Manitoba. Average payments per shop have been trending upward in Manitoba since 2004, assisted by both increased payments and a declining number of shops overall.

A number of business factors make it more difficult for smaller shops, including competition for labour, labour productivity and distribution of overhead, keeping up with rapid changes in technology and associated training requirements.

The most significant impact of the economy on the collision repair industry has been the lower unemployment rate across western Canada, resulting in high competition for labour. While inflation has averaged approximately 2%, the industrial average wage in Manitoba increased by approximately 3.5% annually from 2005 to 2007, before jumping by 7% in 2008. Other cost drivers, including utilities and workers compensation rates, have been either at or below the rate of inflation.

The availability of skilled labour has been a significant concern in the Automotive Repair and Service industry at least since 2005 at a national level, with a persistent and pervasive shortfall expected to continue for several more years. Barriers to employment in this industry have been identified as including (in descending order) the initial expense of buying tools, low salaries, lack of skills, negative public perception of skilled trades, and industry working conditions.

New technologies continue to drive the need for training. The rate of change is described as exponential versus the steadier pace of new technology in the past. New technologies impacting the collision repair industry include hybrid technologies, the use of lithium-ion batteries, onboard computers and electronics for wireless and satellite-based telecommunications, vehicle obstacle detection systems and a number of new business innovation technologies. In addition, the growing use of aluminum and other non-traditional materials requires specially trained technicians, a separate bay and special tools.

1.2 Other Jurisdictions

Manitoba, Saskatchewan and British Columbia are the only public insurance models in Canada. Concerns regarding industry profitability are shared by all provinces. Door rates in B.C. and Saskatchewan are similar at $66 and $67 per hour respectively, approximately 12-13% above Manitoba.

Both Saskatchewan and B.C. have implemented more on-line and electronic services. In Saskatchewan this includes on-line claim registration for customers and an on-line payment system for body shops. The Express Repair program in B.C. enables certain repairs to be estimated by participating autobody shops. ICBC provides these shops with access to business systems and software to enable this process, and monitors activity through a risk-based auditing program. ICBC has also implemented a Key Performance Indicator system, and provides higher rates to those shops that maintain performance above a specified threshold.

1.3 Collision Repair Industry in Manitoba

Information was gathered directly from accredited autobody/autobody frame businesses in Manitoba to determine current performance and issues impacting the industry. One hundred and twenty-seven (127) businesses participated in the survey; 83 businesses provided detailed financial data. Accredited shops that received less than $500,000 in payments from MPI are under-represented in the survey results. Winnipeg businesses and businesses with over $1 million in revenue were over-represented. Southeast and southwest regions were somewhat under-represented (by 4-7%).

The majority (58%) of responding businesses are independently owned and operated. Eighty-nine percent (89%) hold both glass and autobody accreditation. MPI payments represent an increasing proportion of revenue as shop

size increases: an average of 69% for the 30 shops that indicated revenue of under $500,000; 89-90% for the 55 shops that indicated revenue over $1,000,000.

Human Resources

Responding businesses represent 891 full time employees, including 120 apprentices of the total 174 registered body repairer and body repairer-paint apprentices. Eighty percent (80%) of shops reported less than 10 employees working in the collision repair area; 39% less than 5. The relatively small number of employees impacts a shop's ability to release employees for training without impacting operations.

Respondents to the survey indicated that major human resource challenges include an insufficient pool of skilled labour, high turnover, and challenges maintaining the required skills to keep up with technology.

The average wage for journeyperson body repairers ranged from $50,749 to $62,002 or approximately 30% above the industrial average wage; journeyperson equivalent body repairers are paid approximately 13% less on average than their certified counterparts. Journeyperson painters are reported to receive higher annual pay ranging from $59,521 to $68,905. Apprentice earnings (all levels) ranged from $27,748 to $31,032, or 85% to 95% of the equivalent of established fourth year minimum wages. Approximately half of responding businesses offer some form of variable pay, most commonly flat rate or other production bonuses. Eighty percent (80%) of responding businesses provide some form of benefits to their employees; 31% offer some form of pension plan.

Turnover rates for journeyperson body repairer are very high at 27%. Combined with the length of time required to fill a vacancy, this indicates a significant challenge to business continuity and growth. Turnover among apprentice body repairers is also high at 23%, with an even longer replacement period of over 9 months. Turnover among general shop floor staff and customer service representatives/estimators was also high, however the replacement periods were significantly shorter.

One quarter of survey respondents indicated training investments of less than $1,500 in the last 24 months; half invested between $1,500 and $5,000. While some training may be provided at no cost by suppliers, this level of investment is low compared to general best practice, and significant given the need for knowledge to keep up with the pace of technological change. Respondents expressed concern that formalized training (apprenticeship, pre-employment) is not keeping up with modern processes, and new workers/apprentices are entering the workforce without the necessary skills. The current rate of apprentice completions is not sufficient to meet projected requirements for journeyperson body repairers. Based on an assumed 75% completion rate, a 60% increase in the number of apprentices entering the program per year over the next five years is needed.

Operations

Major business processes that cause interaction between MPI and collision repair businesses, or that are impacted by MPI policy include the estimate and supplemental estimate process, parts procurement and account reconciliation. Shops spend between 34 hours per week for small shops and 77 hours per week for larger shops on activities related to these processes. Respondents expressed frustration particularly with the requirements and process related to re-cycled parts, indicating that they extend the total time for a repair and increase costs incurred by the shop. Concerns were also expressed regarding delays and inconsistencies in estimating. Opportunities were identified to improve efficiency through the use of electronic communication and to improve customer satisfaction through improved communication.

Financial Performance

Total revenue for all businesses reporting detailed financial information was $125.5 million. Assuming an overall average of 85% of this revenue was from MPI, this represents just under 65% of total MPI payments in 2008. The number of businesses reporting detailed financial information in the under $500,000 revenue category is too small to extrapolate findings from the survey to the overall population of shops in this category.

Wages, parts and materials costs varied with size. The average cost of sales for businesses between $500,000 and $2 million was 62%, compared to 58% for businesses over $2 million. Material costs were stable at approximately

9% of revenue. With normalized wages, average gross margin was 36% in 2008. An apparent improvement since 2006 was not statistically significant. By region, margins were most favourable in Winnipeg.

In the General Expense category, facility costs, management wages and courtesy cars represent the highest individual costs. Courtesy car costs represent on average 2.4% of revenue, and increase with shop size. Utility costs averaged approximately 1.8% of revenue and remained constant over the period surveyed. Other overhead costs as a percentage of revenue also vary by size, from an average of 11% for the smallest businesses to 4.5% of shops over $2 million in revenue.

Average earnings before interest, taxes and amortization (EBITA) varied significantly by revenue category, from an average loss in 2008 of over 5% for businesses under $500,000 to an average profit of 14% for shops with revenue over $2 million. Businesses responding to the survey with revenue under $500,000 experienced losses each year ranging from 3 to 6%. Again, these results are for illustration only and cannot be reliably assumed to represent all shops of similar size because of the small number of responding shops in this revenue category. Statistics Canada financial performance indicators identify an average net profit of less than one percent for this revenue category across Canada. Earnings at this level are insufficient to support reinvestment. Only shops with revenue over $2 million are capable of servicing the debt to fully finance new shop construction.

The issues most frequently identified by survey respondents as impacting profitability included use of aftermarket and recycled parts, low door rates, increasing costs, skill shortages, supplemental estimate processes and low estimates.

Succession

Because a large percentage of the industry in Manitoba is made up of independent, owner managed businesses, ownership succession is extremely important. Owners of 16% of 99 responding businesses expected to retire within five years; 34% within 10 years. Owners of businesses under $1 million in revenue were more likely to be in this group.

Forty-one (41%) of those planning to exit indicated intentions to sell their business on the market to an unrelated buyer; 25% intend to sell their business to an employee or employee group. The limited ability of businesses with under $1 million in revenue to support investment will present a significant challenge to this group, and may result in a sale of assets versus sale of the business as a going concern.

Employers' concerns related to succession included poor returns on investment making it difficult to attract buyers, fewer people entering and remaining in the trade limiting the number of capable persons able to take over the business, and complex dealings with MPI discouraging employees to take on ownership responsibilities.

1.4 Summary Conclusions

A number of conclusions were drawn from the study, as follows:

1. **The proportion of shops with revenue under $500,000 is too high for a healthy industry.**

   Shops with under $500,000 in payments represent 60% of accredited shops in Manitoba. Even if MPI payments represent only 70% of revenue (as indicated by respondents in this category), approximately half of the accredited shops would be in the under $500,000 revenue category. While some business owners or buyers may still choose to conduct business at this level, particularly in rural areas, it is not a healthy industry structure for the majority of businesses to be in this revenue range.

2. **There are significant recruitment and retention issues in the industry.**

   A nation-wide skill shortage in this industry is also evident in Manitoba. Proactive efforts to address the identified barriers, including competitive wages, financial assistance for investments in tools, improving public perception of the trade and improving working conditions will be required.

3. **Operating costs have not significantly increased over the period reviewed in this study.**

   Survey data indicates that gross profits have either been maintained or improved in the past three years, and that general overhead expenses have not increased as a percentage of revenue. National data indicates improvements in performance from 2005 to 2007. General operating costs, therefore, are not driving a need for increased rates beyond the rate of inflation.

4. **Insurance-related business processes are driving operating costs and extending repair times.**

   Supplemental estimating and parts procurement processes require manual documentation and significant administrative handling, extending the cycle time and driving unrecoverable costs to collision repair businesses. There are opportunities to improve relationships with the industry, reduce costs, improve customer service and the overall image of the collision repair industry by addressing these processes.

5. **Courtesy cars cost the industry an average of 1.3 to 3% of revenue.**

   The cost of providing courtesy cars to customers is, for the most part, an unrecoverable expense that is felt to be expected by customers and necessary to compete for collision repair business. MPI processes that increase the average time for a repair drive up the cost of courtesy cars for the business.

6. **Door rates in Manitoba lag the industry.**

   Door rates in Manitoba are currently approximately 12% below those offered in Saskatchewan and British Columbia. This is approximately twice the cost of living differential between Winnipeg and Saskatoon.

7. **The current training investment is low, and may be insufficient to ensure necessary knowledge and skills for new technologies.**

   The rate of technological change is described as "exponential" and the associated knowledge gaps are expected to be medium to high. This combination indicates a need for ongoing training that can be expected to exceed the current level of investment, currently at approximately 0.2% of revenue or 0.8% of wages.

8. **Operating profits are insufficient to support significant capital investment for categories below $2 million in revenue.**

   Businesses with revenue of less than $500,000 have limited to no ability to invest in equipment or technology. While shops with between $500,000 and $2,000,000 in revenue have some capacity to invest, the average in these categories would not be sufficient to finance construction of a new shop.

9. **Owners seeking to exit the industry may not find buyers.**

   Owners of businesses under $1 million in revenue were more likely to be in the group seeking to retire in the next 10 years. The limited ability of businesses with under $1 million in revenue to support investment and high competition for skilled labour will present a significant challenge to this group.

1.5 RECOMMENDATIONS

MNP identified the following recommendations based on the findings and analysis from the study. Detail regarding rationale and estimated impact is included in Section 9 of the report.

1. **Building upon the working relationship between MPI, the ATA and MMDA, develop key performance indicators, and to the extent available from MPI data, develop performance benchmarks and provide individual performance data to participating collision repair businesses as management information to enable decisions to increase their profitability and service to mutual clients**.

   Manitoba specific information about the indicators that impact or reflect profitability, productivity and client satisfaction could assist small to medium size organizations in this industry to increase their sustainability, ensure continued access to collision repair services in rural communities, and improve the overall image of the industry.

2. **Enhance recruitment and retention in the collision repair industry in Manitoba. This includes improving the competitiveness of wages as well as creating better working environments.**

   Information from a variety of sources, including the MCRIS survey, indicates that the industry is experiencing significant challenges in attracting and retaining the qualified staff needed to provide the level of service required in this industry. Barriers to employment in this industry have been identified as including the initial expense of buying tools, low salaries, lack of skills, negative public perception of skilled trades, and industry working conditions. The industry needs to increase the number of apprentices by 60% compared to recent average completion rates to meet the replacement and modest growth needs of the industry. Other trades-reliant industries are also concerned with a shortage of skilled labour. Competing effectively for new apprentices will require competitive wages.

3. **Increase the door rate paid to Manitoba accredited collision repair businesses to enable increased wages, training, profitability and overall competitiveness of the industry in Manitoba.**

   Competitive wages are important to attract necessary technicians to ensure business continuity. Ongoing investments in training are important to the overall health of the industry and investments are currently less than optimal. Profit margins are already insufficient to support much investment in businesses under $1 million in revenue. While a significant increase would be required to enable new shop construction for businesses between $500,000 and $1,000,000, a smaller increase would enable shops over $1 million to service the debt to finance a new development, and would also provide shops in the $500,000 to $1 million range improved capability to either expand/consolidate existing shops or invest in new equipment. Reasonable parity to Saskatchewan as both a neighbouring jurisdiction and one of similar population and characteristics will reduce migration of businesses and labour to this neighbouring province.

4. **Conduct a review of the estimates process to increase consistency, efficiency and reduce the non-revenue generating time and overall vehicle repair time required by the individual repair shops.**

   Respondents to the MCRIS survey indicated that an average of 24 hours per week is spent in the estimating process. Respondents to the survey and interview participants indicated that the supplemental estimates process causes delays and that the process is not necessarily consistent in its application. This causes frustration on the part of the body shop as well as the customer. Stream-lining this activity will improve shop profitability independent of the labour rate.

5. **Require a condition report and/or digital photo demonstrating part condition to accompany responses to broadcast requests for parts by the Recyclers Office.**

   MPI requires use of re-cycled parts where available. Receiving recycled parts in poor condition causes increased time from accident to repair and increased costs to the business from production inefficiencies and extended use of courtesy cars.

6. **Resolve the courtesy car issue.**

   Providing a courtesy car to customers is a common practice in the industry and has become a cost of doing business. Survey respondents have indicated that this expense is 1.3 to 3% of revenue, depending upon the size of the organization. MPI processes that increase the average time for a repair also drive up the cost of courtesy cars for the business. Options to address this issue include no longer exempting this activity from the giveaway provision to encourage customers to purchase loss of use coverage, or building the cost of courtesy vehicles into approved rates and increase the door rate accordingly.

7. **Consider the feasibility and viability of providing differential rates based on performance of the accredited collision repair shop.**

   Providing incentives for higher quality service is an effective way of enhancing the reputation and attractiveness of the collision repair industry in Manitoba.

2.0 INTRODUCTION AND BACKGROUND

Established in 1971, the Manitoba Public Insurance Corporation (MPI) is a non-profit crown corporation that provides universal mandatory basic automobile insurance coverage as well as a number of optional automobile insurance products, for all drivers and for private and commercial vehicles.

MPI's vision is to be '*…a leader in automobile insurance and driver services, providing Manitobans with guaranteed access to superior products, coverage and value'.* MPI is dependent upon a profitable, healthy collision repair industry to fulfill its mandate.

The Automotive Trades Association of Manitoba (ATA) represents the independent automotive industry in Manitoba. The ATA lists 144 members, including autobody, glass, mechanical repair, trucking, and related service companies (e.g., car rental) and suppliers to the industry. Approximately 100 ATA members perform autobody repair services. A number of these are also Manitoba Motor Dealers Association members.

The Manitoba Motor Dealers Association (MMDA) is the association in Manitoba for franchised automobile dealerships that sell new cars and trucks. MMDA deals with provincial issues that affect the well-being of franchised automobile and truck dealers. Approximately 55 MMDA members perform autobody repair services.

In Manitoba, MPI is the monopoly provider of auto insurance. MPI accredits businesses to perform repairs and will refer customers to a list of MPI accredited repair shops. A copy of the Autobody-Autobody Frame Accreditation Application and Accreditation Agreement is attached as Appendix A. In addition to a number of general good business practice requirements, including compliance with applicable regulations and repair standards and liability insurance, MPI Accreditation requires:

- A minimum warranty on body and paint repairs of one year from the date of repair.
- Specific tools and equipment to perform safe, quality repairs.
- I-CAR Gold Class Certification for the facility and I-CAR Welding Certificate for every technician performing structural welding[1].
- At least one (1) qualified collision repair journeyperson or equivalent.
- Use of recycled or after-market parts if vehicle is over 1 year old or has over 20,000 kilometres.

In the 2008-2009 fiscal year, MPI accepted 176,737 physical damage claims, with a total value of $388,092,220. Of these, MPI made 139,466 payments to 370 collision repair facilities, totaling $227,699,304. This study focuses on accredited autobody and autobody frame businesses. In 2008/09 MPI made payments of $222,709,654 to 297 accredited autobody and autobody frame vendors (excluding glass only claims). Payments are based on a rate per estimated hour of labour ("Door Rate") established on an annual basis through negotiation between MPI, the ATA and MMDA.

To more fully understand the impact of recent industry trends, regulatory changes, and labour market pressures on the profitability of the industry, the ATA, MMDA and MPI have partnered in an industry analysis. The purpose of this analysis is to identify current and future issues having an impact on the health of the collision repair industry in Manitoba and to address these issues with realistic and practical solutions to the benefit of all parties.

[1] As of December 31, 2009. New hires are exempt for 12 months.

3.0 OBJECTIVES AND SCOPE OF THE STUDY

The overarching goal of this project is to ensure that Manitoba has in the short term and in the long term a profitable, healthy collision repair industry. The specific objective of this project is to accurately reflect the current and future 'health' of the collision repair industry in Manitoba, identify the current and future issues that are impacting or may impact this 'health' and determine recommendations that will ensure the industry remains viable in meeting the needs of MPI, the collision repair industry, and shared customers.

Sub objectives include:

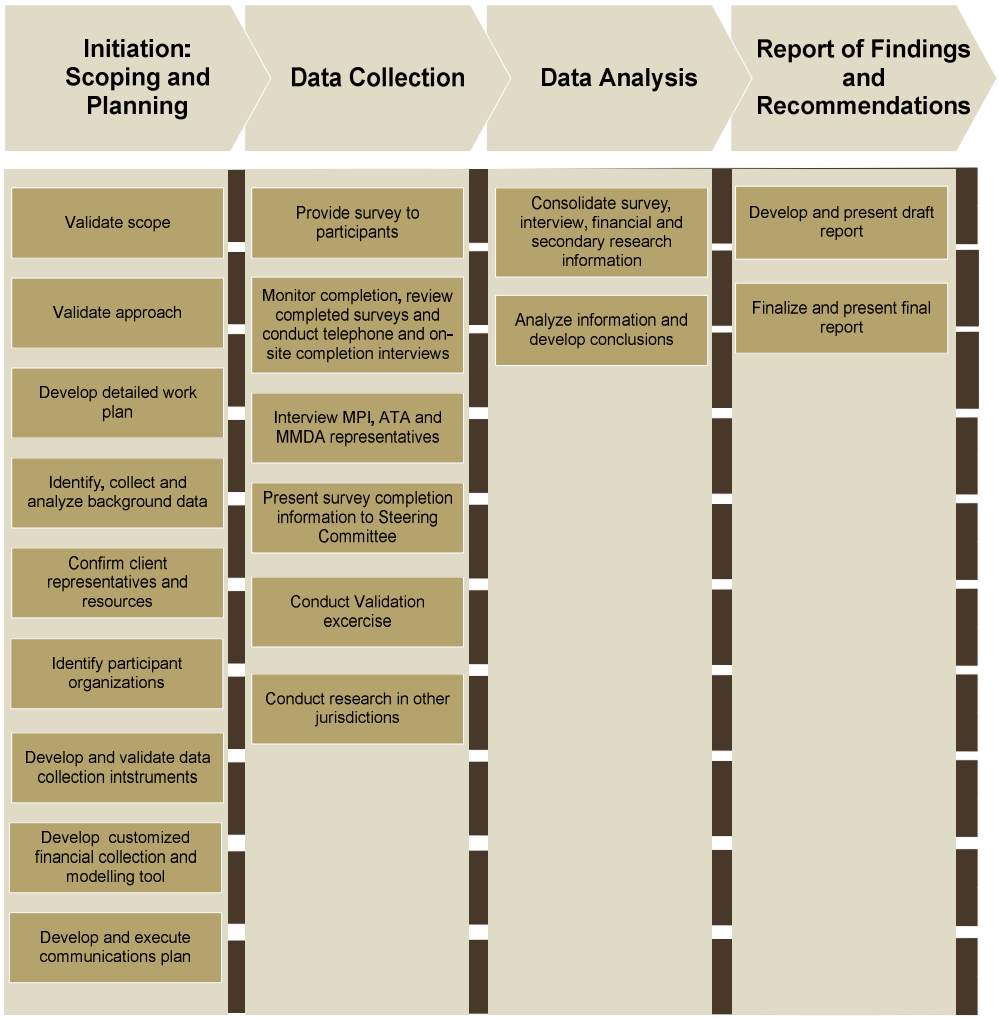
- To develop an accurate profile of the industry in Manitoba;
- To define and present the historical financial performance of, at a minimum, a representative sample of the industry;
- To identify the external business, environmental, process, technology, human resource and business model factors that are impacting or will impact the industry in the future and accurately describe what these impacts are;
- To identify the projected future financial performance of the industry in a number of different scenarios;
- To determine the repairer financial profile needed to maintain long-term competitive position; and
- To identify the major challenges affecting the industry and practical, realistic solutions to address these challenges.

The scope of this study included:

- Primary and secondary research to gather data regarding the industry:
    - Survey of accredited autobody and autobody frame shops;
    - Stakeholder interviews;
    - Secondary research; and
    - Other jurisdiction research.
- Development of a customized financial modeling tool ;
- Help desk support to encourage/assist survey respondents;
- Validation through review, follow up where responses are outside the expected range, review of voluntarily submitted financial statements, and comparison with industry benchmarks;
- Validation session with project participants; and
- A comprehensive report of findings and recommendations.

4.0 METHODOLOGY AND PROCESS

Meyers Norris Penny conducted the study of the Collision Repair Industry from June to December, 2009. The following provides an overview of the approach for this engagement.



4.1 STAKEHOLDER CONSULTATION

A Steering Committee with representation from the MMDA, ATA and MPI reviewed and approved the project approach, all data collection instruments, and the draft and final reports. The key stakeholder groups identified by the Steering Committee to be consulted during this study included:

- Accredited autobody/autobody frame businesses in Manitoba;
- Manitoba Motor Dealers Association;
- Automotive Trades Association; and
- Collision Repair industry suppliers.

Information, feedback, data and opinion was collected through site visits, surveys and interviews. A complete listing of consultation activities is included in Appendix B.

4.1.1 Data Collection Tools

MNP developed a survey instrument to collect information from collision repair businesses. The population for this Manitoba Collision Repair Industry Study (MCRIS) survey included all accredited autobody/autobody frame businesses in Manitoba. Businesses holding commercial or glass-only accreditations, or conducting autobody repair services without accreditation, were not surveyed. The survey was submitted to the Steering Committee for approval and was pilot-tested by two collision repair businesses for functionality prior to release. The survey was posted on-line and invitations to participate were emailed to each organization with a link to the survey and a unique identifier/login code. Respondents were then able to log in to the survey and enter their information directly on-line, or print the survey and submit responses by mail or fax.

A dedicated email address and toll-free phone line were established to provide information and support to survey respondents. All accredited collision repair businesses (298) were sent a series of communication messages (Appendix B), by email or fax between July 2009 and October 2009 to encourage their participation in the survey. Follow-up calls were made to those businesses who had not yet submitted a response to the survey to confirm their awareness of the survey and to offer assistance in its completion.

MCRIS survey respondent information and results are presented in Section 7. Survey responses are reported only at a group level to maintain the confidentiality of individual shop financial information. Only information containing the results of five (5) or more respondents is included in the analysis. The survey instrument is included in Appendix C.

4.2 Other Jurisdictional and Secondary Research

Manitoba, Saskatchewan and British Columbia are the only provinces in Canada with a public insurance system. MNP conducted interviews with Saskatchewan General Insurance and the Insurance Corporation of B.C. to gather information about their models, practices, provincial trends and issues related to collision repair.

MNP also obtained and reviewed customized reports from Statistics Canada, white papers, periodicals, reports and data published by industry associations and manufacturers, and background information supplied by MPI, including accreditation agreements, collision repair industry statistics and prior studies.

A complete listing of research sources is included in Appendix D.

5.0 Overview of the Collision Repair Industry

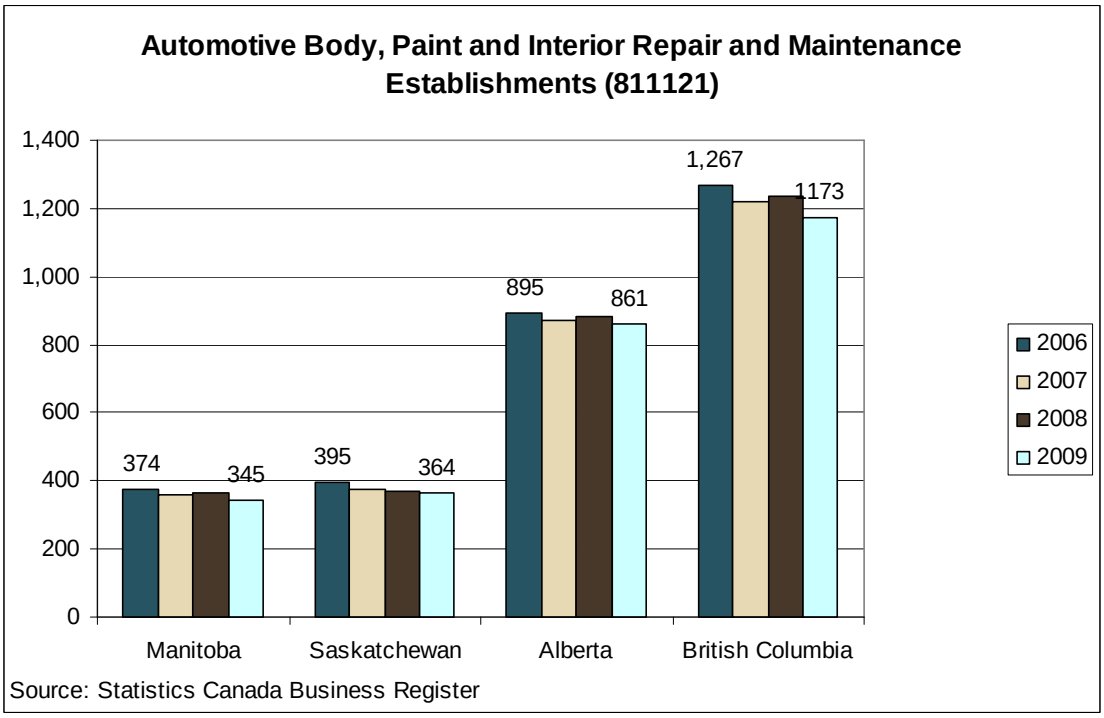
The following section provides an overview of the collision repair industry in Canada, Western Canada and Manitoba to provide contextual information for the analysis of the data collected directly from establishments in Manitoba.

5.1 Industry Size and Composition

The collision repair industry is represented most directly by NAICS Code 811121 - Automotive Body, Paint and Interior Repair and Maintenance[2].

In 2009, Statistics Canada reports 345 Automotive Body, Paint and Interior Repair and Maintenance establishments in Manitoba as shown in Figure 1 below. All western provinces show a decline in establishment numbers since 2006, ranging from approximately 4% in Alberta to just under 8% in Manitoba, Saskatchewan and B.C. Based on this data, relative to population, there were 31 shops per 100,000 people in B.C. in 2006; 41 in Saskatchewan and 33 in Manitoba[3]. The decline in establishment numbers combined with an increase in population has impacted this ratio. There were 27 shops per 100,000 people in B.C. in 2008; 36 in Saskatchewan and 29 in Manitoba.

Figure 1: Automotive Body, Paint and Interior Repair and Maintenance Establishments

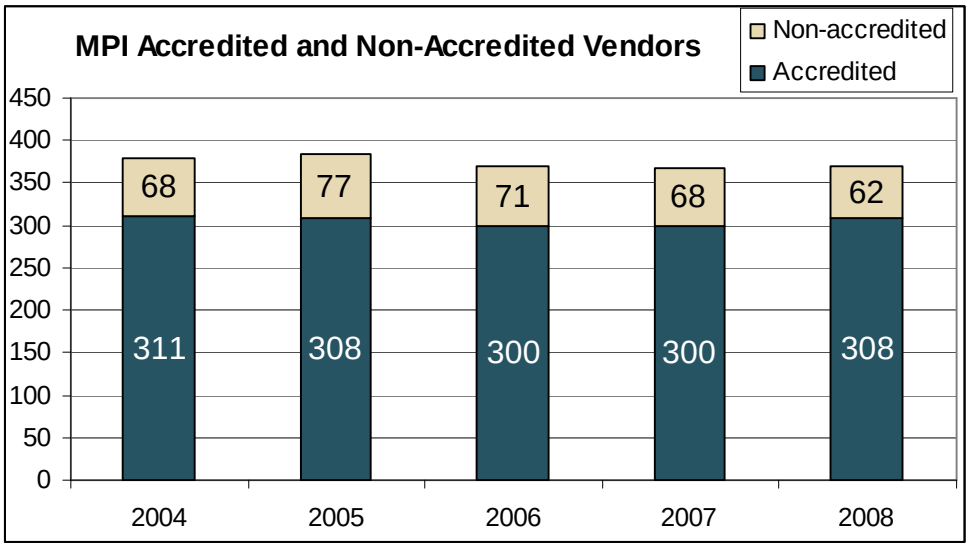


[2] NAICS 811121 Automotive Body, Paint, and Interior Repair and Maintenance: This Canadian industry comprises establishments primarily engaged in repairing, customizing and painting motor vehicle bodies, and repairing and customizing motor vehicle interiors.

[3] Based on Statistics Canada 2006 Census population data, and current population per CANSIM Table 051-0001, updated November 27, 2009.

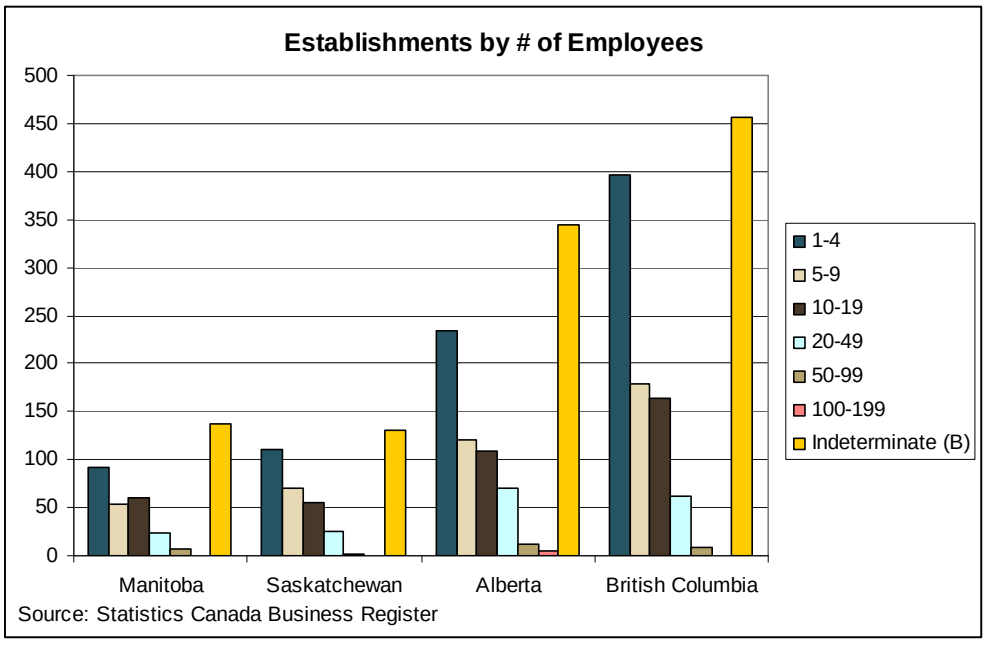
The number of establishments in Manitoba shown as represented by the Business Register (345) is less than the 370 vendors (accredited and non-accredited) receiving payments from MPI in 2008/09. MPI indicates that some of the vendors performing autobody work do a very small amount of this activity and may identify their overall business in another category (e.g., agriculture). The combined number of accredited and non-accredited vendors registered with MPI was relatively stable from 2006 to 2008, with a slight trend toward a reduction in non-accredited businesses. See Figure 2 below.

Figure 2: MPI Accredited and Non-Accredited Vendors



In 2006 43% of Automotive Body, Paint and Interior Repair and Maintenance businesses in western Canada employed less than 10 employees; 39% in Manitoba. While this is congruent with the survey findings in Manitoba, the reliability of this measure is compromised by the high proportion of businesses in the "indeterminate" category. See Figure 3 below.

Figure 3: Automotive Body, Paint and Interior Repair and Maintenance Establishments by Number of Employees



Automotive Body, Paint and Interior Repair and Maintenance is part of the larger Automotive Repair and Maintenance Industry (NAICS 8111[4]) grouping and in Manitoba, represents approximately 29% of establishments in the larger Automotive Repair and Maintenance category. The total number of Automotive Repair and Maintenance businesses across Western Canada decreased by 4% from 2003 to 2006. In Manitoba the number of establishments in this broader industry category has remained stable (-0.2% overall).

5.2 Financial Performance – Statistics Canada

Financial data available from Statistics Canada for the Automotive Body, Paint and Interior Repair and Maintenance is limited to a national summary, highlights of which are shown below[5]. Body shop financial performance generally improved in 2007 compared to 2005, with shops over $500,000 in revenue showing significantly better performance than those with revenue under $500,000. Net profit is marginal (0.7%) for shops with revenue under $500,000. Sales in this industry increased at 2 to 3 times the rate of inflation. The full report is attached as Appendix E.

Figure 4: Financial Ratios for Automotive Body, Paint and Interior Repair and Maintenance (NAICS 811121)

Automotive Body, Paint and Interior Repair and Maintenance	Year	Average	Firms $500,000 to < $5,000,000	Firms $30,000 to < $500,0000
Operating Profit Margin	2007	2.9	4.4	1.2
	2006	3.1	4.2	2.0
	2005	1.9	3.1	0.9
Net Profit Margin	2007	2.2	3.4	0.7
	2006	1.6	2.8	0.6
	2005	1.0	2.1	--
Return on Net Operating Assets	2007	11.0	19.0	4.0
	2006	11.0	17.5	5.9
	2005	7.0	13.1	3.2
Return on Equity	2007	21.0	24.5	15.7
	2006	17.6	20.3	13.2
	2005	14.4	16.7	12.0
Sales, Year over Year Change (Average, all categories)	2006-2007	7.3%		
	2005-2006	5.4%		
	2004-2005	3.4%		

As data for the most relevant category is limited, the following is offered for context on the industry as a whole.

In Canada, the overall Automotive Repair and Maintenance industry generates annual revenues of approximately $11.9 billion[6]. Manitoba revenue represents approximately 4% of the total, consistent with the proportion of the country's population resident in Manitoba. Operating revenue, wages and operating expenses have all remained

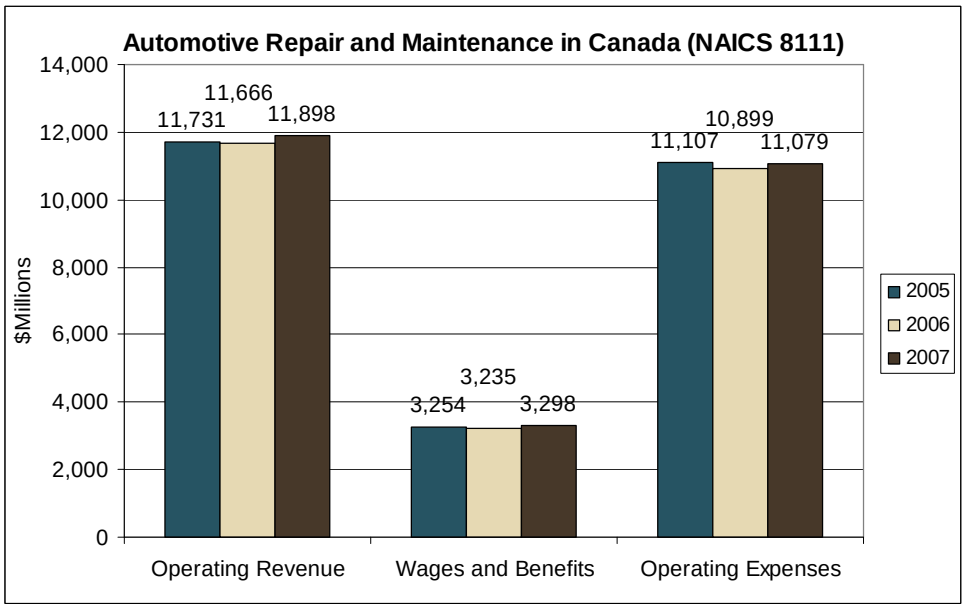
[4] NAICS 8111: This industry group comprises establishments primarily engaged in repairing and maintaining motor vehicles, such as cars, trucks, vans and commercial trailers.

[5] Financial Performance Indicators for Canadian Business, Small Firms – Canada, Statistics Canada

[6] Statistics Canada, 2007 establishment data, NAICS code 8111 – Automotive Repair and Maintenance

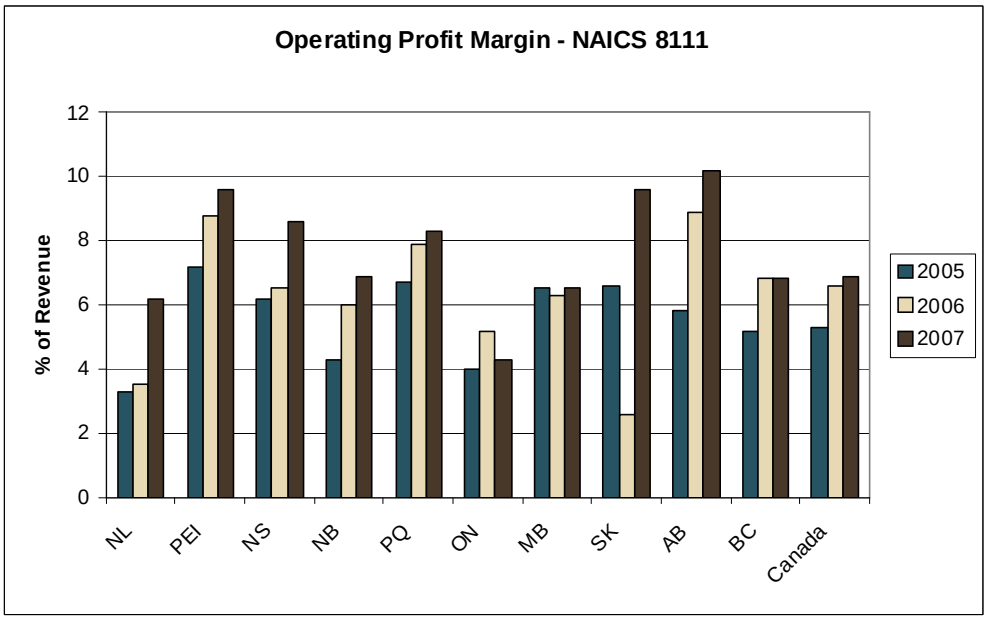
fairly flat for the industry as a whole. Wages represent 28% of revenue, with operating expenses totaling 93% of revenue. See Figure 5 below.

Figure 5: Automotive Repair and Maintenance Financial Performance – Statistics Canada



Statistics Canada reports an operating profit margin of 6.5% for Manitoba Automotive Repair and Maintenance businesses, compared to 6.9% for Canada as a whole. Operating profit margins for this larger industry grouping are stronger than for the sub-category for autobody as identified above. Manitoba reported the lowest operating profit among the other western provinces, which averaged 8.9%. This is influenced upward by higher profits in Saskatchewan (9.6%) and Alberta (10.2%). See Figure 6 below.

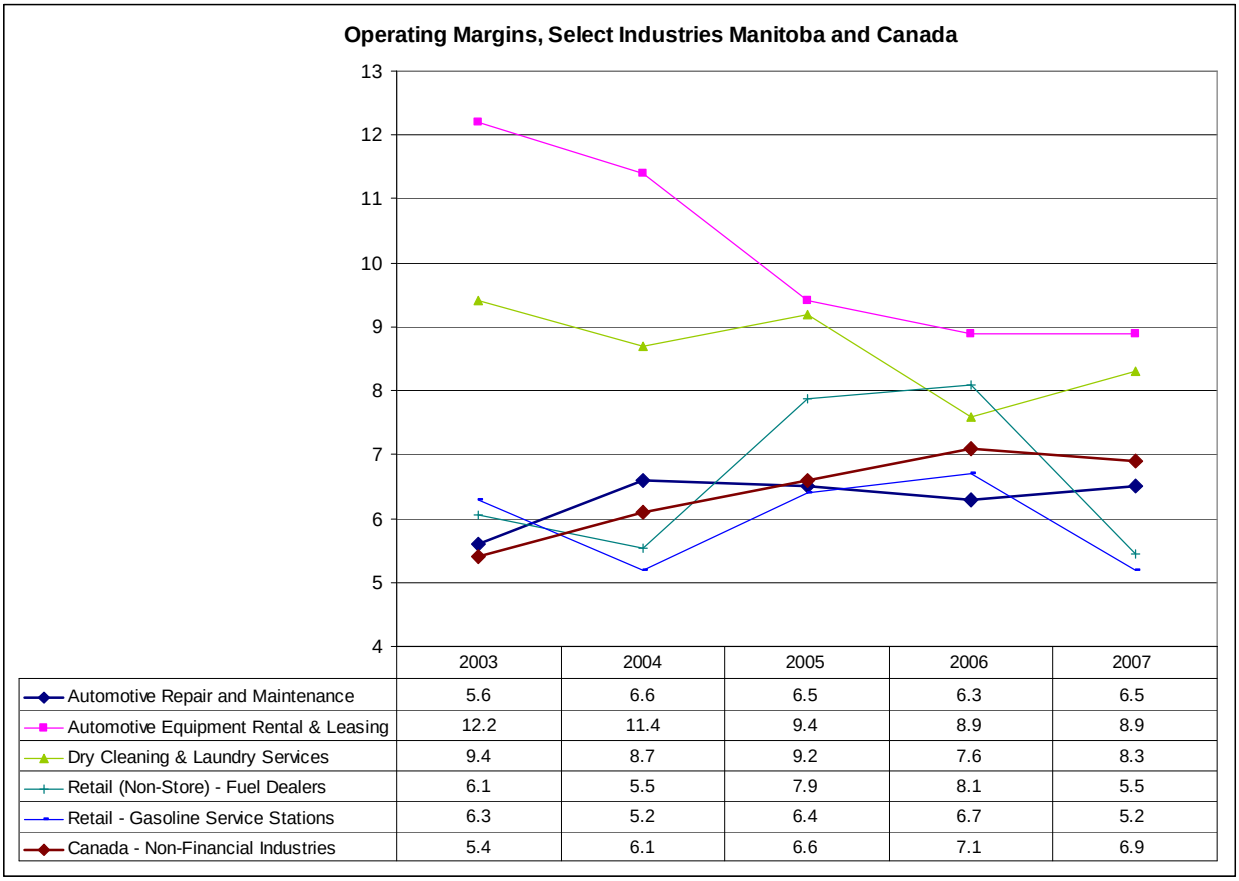
Figure 6: Profit Margins by Province – Statistics Canada



Comparative performance across a select set of industries in Manitoba indicates that the Automotive Repair and Maintenance industry in Manitoba is more stable, and on average performed better than gasoline service stations

and below fuel dealers. Equipment rental and leasing show more attractive returns than Automotive Repair and Maintenance. Compared to national performance in all non-financial industries, Automotive Repair and Maintenance in Manitoba has on average performed comparably, but has not shown the general upward trend of all non-financial industries. See Figure 7 below.

Figure 7: Comparative Operating Margins[7]



	2003	2004	2005	2006	2007
Automotive Repair and Maintenance	5.6	6.6	6.5	6.3	6.5
Automotive Equipment Rental & Leasing	12.2	11.4	9.4	8.9	8.9
Dry Cleaning & Laundry Services	9.4	8.7	9.2	7.6	8.3
Retail (Non-Store) - Fuel Dealers	6.1	5.5	7.9	8.1	5.5
Retail - Gasoline Service Stations	6.3	5.2	6.4	6.7	5.2
Canada - Non-Financial Industries	5.4	6.1	6.6	7.1	6.9

5.3 Industry and Business Environment

The following provides information regarding the industry and general business environment that impacts the collision repair industry.

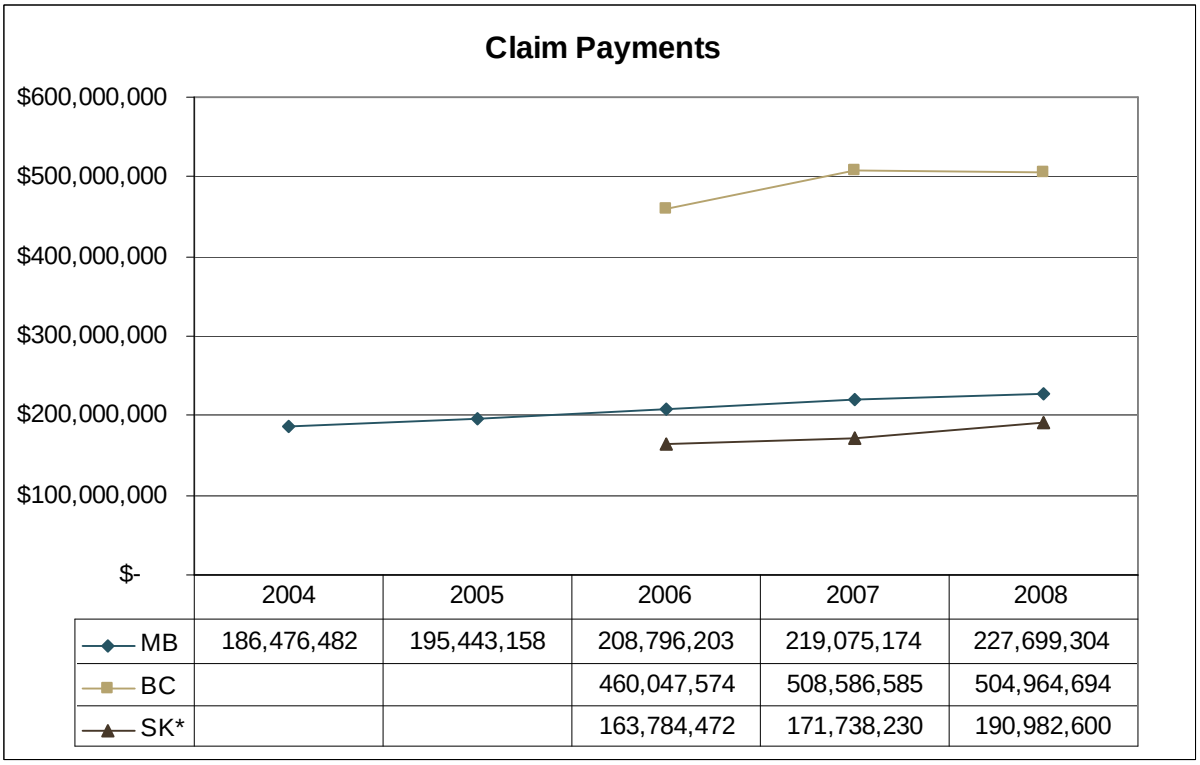
5.3.1 Claims Activity

Claim payments for automotive repairs in all provinces have trended up from 2006 – 2008[8]. In Manitoba, this is the continuation of a trend since 2004. Manitoba and B.C. increases from 2006 to 2008 are comparable at 9% and 10% respectively over the three year period. Claim payments in Saskatchewan[9] increased by 17%.

[7] Source: Statistics Canada Summary tables, CANSIM Tables 2009121511034920348, 2009121511182921629, 2009121511344022883, 2009121511384723312

[8] Claim payments represent the dollars paid by the insurer for automotive repairs, not including total losses or bodily injury, and net of any deductibles paid directly by the customer.

Figure 8: Claim Payments

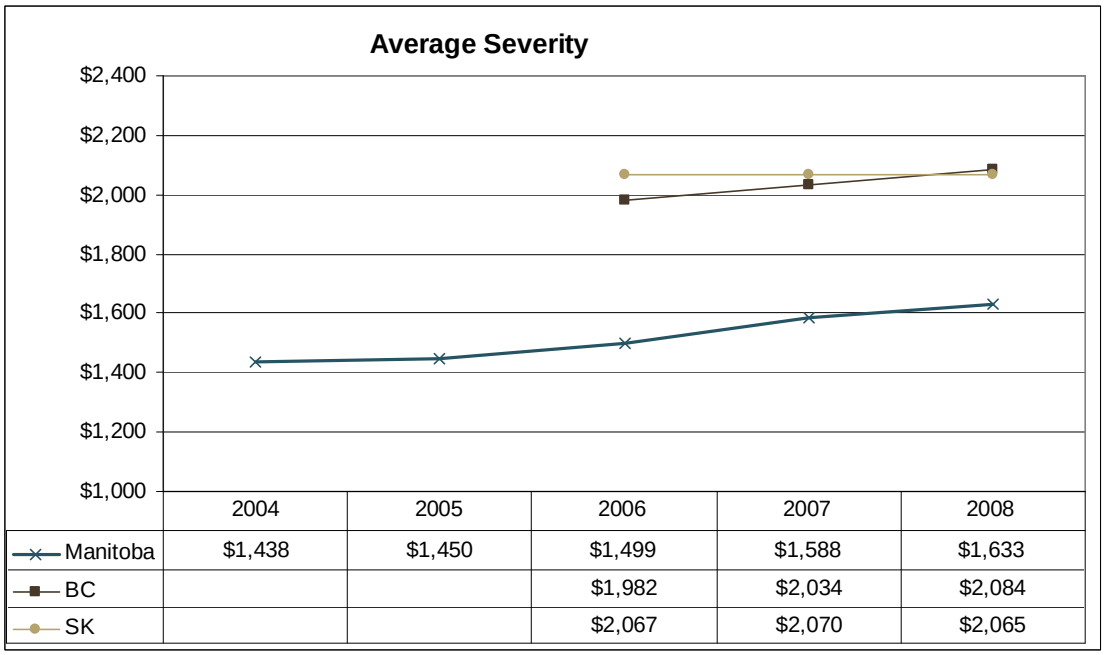


	2004	2005	2006	2007	2008
MB	186,476,482	195,443,158	208,796,203	219,075,174	227,699,304
BC			460,047,574	508,586,585	504,964,694
SK*			163,784,472	171,738,230	190,982,600

Average severity, or the average payment per claim excluding total losses, has increased in Manitoba by 8.9%, compared to 5.2% in B.C., with essentially no change in Saskatchewan. Average severity is influenced by the "door rate", or rate per hour of labour, which varies by province.

[9] Source: MPI, ICBC and SGI. Saskatchewan payments calculated based on data provided by SGI; excludes glass repair shop, dealers without autobody shop and non-autobody shop repairs.

Figure 9: Average Payment per Claim (Severity) excluding total losses.



	2004	2005	2006	2007	2008
Manitoba	$1,438	$1,450	$1,499	$1,588	$1,633
BC			$1,982	$2,034	$2,084
SK			$2,067	$2,070	$2,065

According to Body Shop Business, the average number of jobs performed each week in the U.S. is 12.1 for 2009. This is down slightly from 14 per week reported in both 2003 and 2007[10]. The reduction has been attributed to high fuel prices and the economic downturn. This volume is considerably lower in all public insurance markets in western Canada; ranging from 7.2 jobs generated by MPI per week (31.4 per month) in 2008 to 4 in Saskatchewan (16.5 per month)[11]. See Figure 10 below. Given the importance of volume to profitability, this has direct impact on the health of the industry.

Figure 10: Payments per Shop - Manitoba, B.C., Saskatchewan

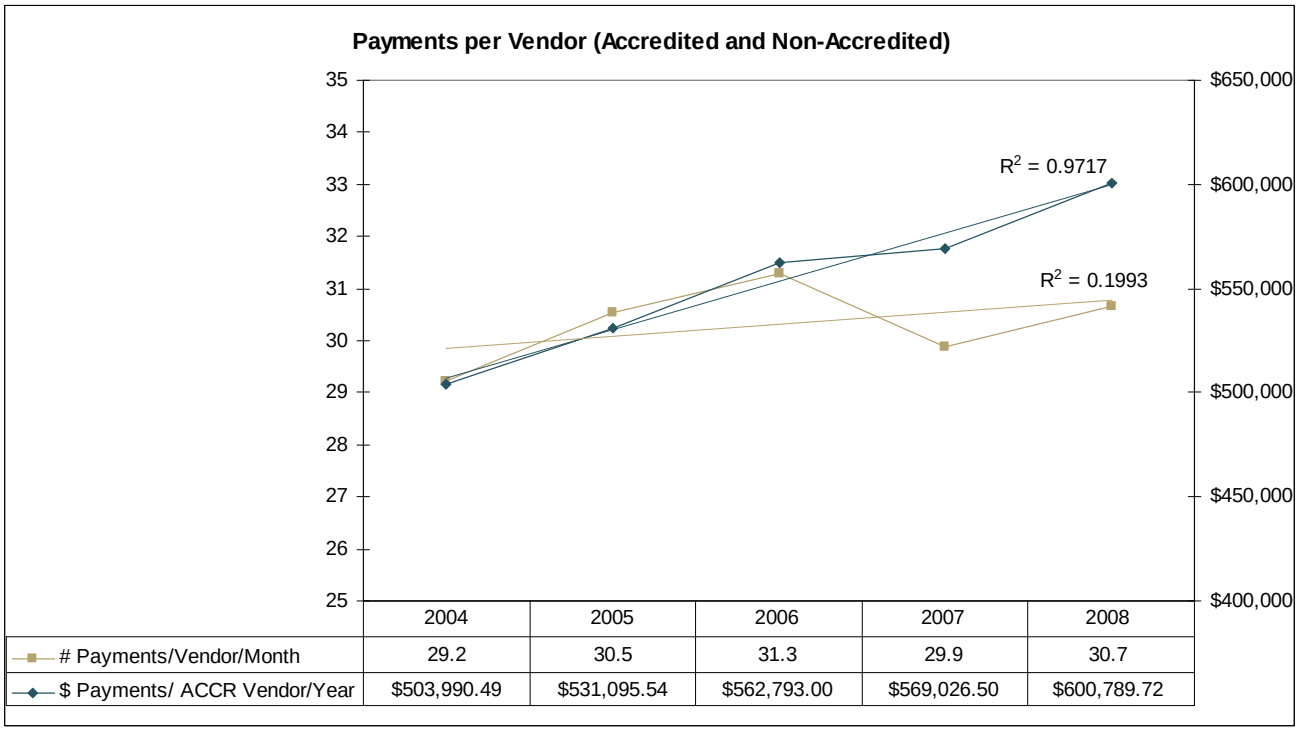
Province	Payments (#)	Payments ($)	Autobody Repair Businesses	Average # Payments Per Shop Per Month	Average $ Payments Per Shop per year
Manitoba	139,466	$227,699,304	370	31.4	$615,404
B.C.	242,274	$504,964,694	771	26.2	$654,948
Saskatchewan	92,486	$190,982,600	468	16.5	$408,082

The number of payments per month per vendor has trended modestly upward in Manitoba, with a more significant upward trend in the average dollar amount of payments per year to accredited vendors.

[10] Body Shop Business, 2009 Industry Profile

[11] Calculated based on the number of payments. Information on number of payments not received from Saskatchewan

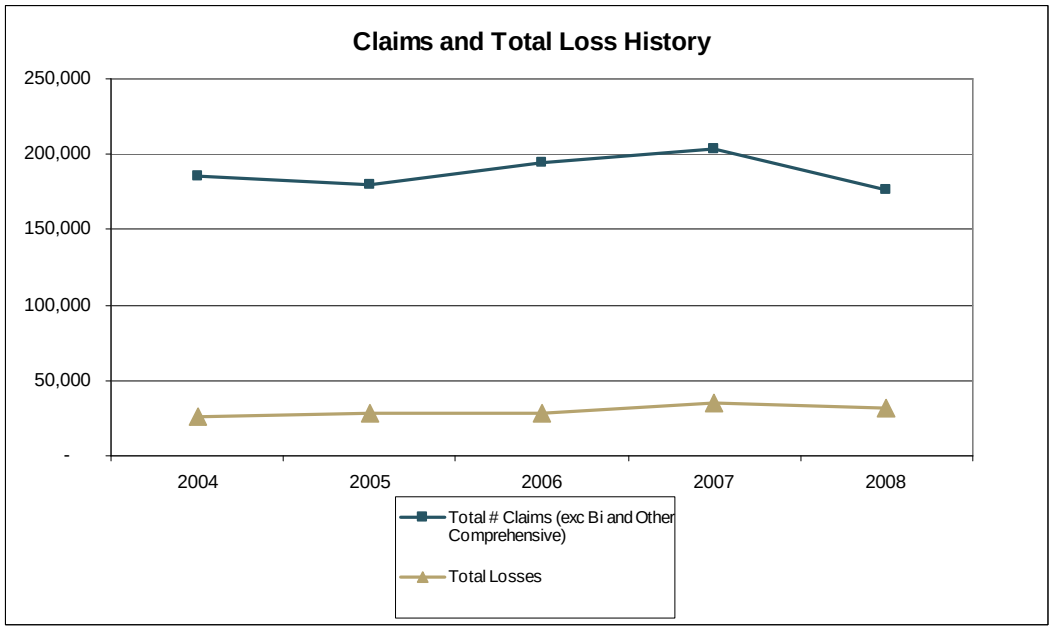
Figure 11: Payments per Accredited Vendor, Manitoba



	2004	2005	2006	2007	2008
# Payments/Vendor/Month	29.2	30.5	31.3	29.9	30.7
$ Payments/ ACCR Vendor/Year	$503,990.49	$531,095.54	$562,793.00	$569,026.50	$600,789.72

The total number of claims in Manitoba rose from 2004 to 2007 by approximately 10%, before decreasing in 2008 to 4.5% below 2004 levels. Base claims activity is driven by the volume of vehicles on the road, and then influenced by variations in weather (storms, hail) from year to year.

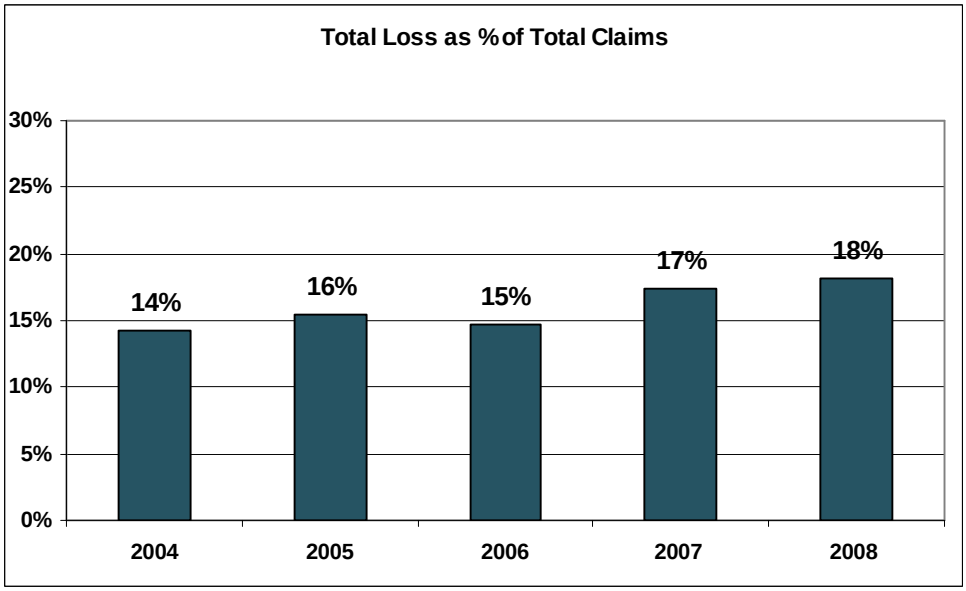
Figure 12: Claims and Total Losses in Manitoba 2004-2008



The proportion of total losses to total claims has increased from 14% in 2004 to 18% in 2008. This proportion is impacted by the value of the vehicles and the cost of repairs, driven in part by the door rate. With claims activity

essentially flat, and total losses as a percentage of claims increasing, the steady increase in payments is thus driven by severity, not claims volume.

Figure 13: Total Losses as a Percent of Total Claims



5.3.2 Economic Environment

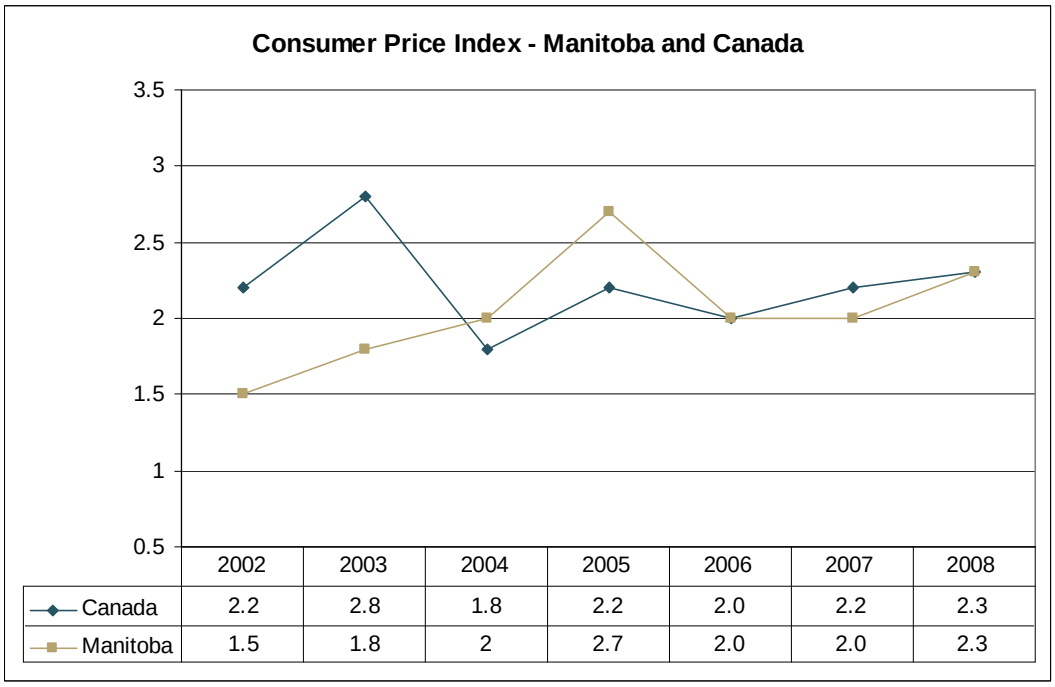
As with most industries, collision repair businesses are impacted by the economy in which they operate. According to the Manitoba Government, Manitoba continues to enjoy the second lowest cost of living in Canada[12]. In Winnipeg, a 'two-earner family of 4 earning $60,000', would have a cost of living of $28,583.00, while the same family in Saskatoon would expect to pay approximately $30,569 or 6.9% higher. The difference is even greater when compared to Vancouver, where the same family would expect to pay $49,942 or 75% higher.

Consumer spending on services is an indicator of auto repair shop sales (including autobody). Inflation, as reflected in the Consumer Price Index, trended upward from 2002 to 2008, however averaged a lower overall rate of increase in Manitoba at 2.04% compared to 2.2% nationally[13]. See Figure 14 below.

[12] The Manitoba Advantage - Budget 2009, Government of Manitoba

[13] Source: Manitoba Bureau of Statistics, August 2009, www.gov.mb.ca/ctt/invest/busfact/economy/inflation.html

Figure 14: CPI Manitoba and Canada



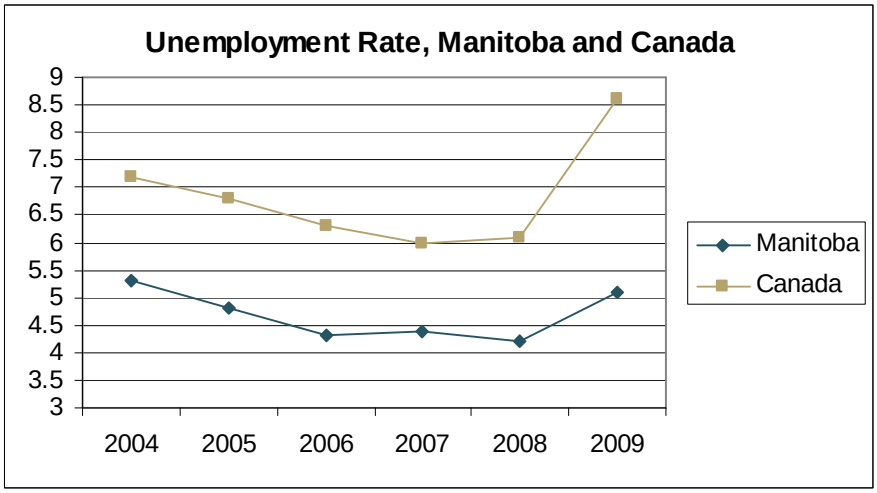
	2002	2003	2004	2005	2006	2007	2008
Canada	2.2	2.8	1.8	2.2	2.0	2.2	2.3
Manitoba	1.5	1.8	2	2.7	2.0	2.0	2.3

The major drivers in the general Canadian economy in the period of 2006 to 2008 included the increase in the Canadian dollar fueled by the rise in oil prices. Utility rates, including natural gas and electricity, represent approximately 2% of revenue for collision repair businesses responding to the MCRIS survey. While the price of oil fluctuated dramatically over the period of 2006 to 2008, the non-residential Primary Gas Billed Rate declined from a high of $0.35 in January 2006 to a low of $0.27 in January 2007, before returning to $0.33 by September 2008. Electricity costs for non-residential general service (small) did increase over the period from 2006 to 2008, ranging from 4% increase in basic service to 11.7% increase in cost for kwH over 19,500 kwH[14]. Essentially flat or declining gas cost combined with an approximate average 4% increase in power costs nets to approximately the rate of inflation. Winnipeg water and sewer rates increased more dramatically, by 25-39% (depending on volume) from 2006 to 2008, but represent a small proportion of overall expenses. Charts displaying this data are included in Appendix F.

The increased oil prices drove increased production and an associated demand for labour in Alberta and created generally tight labour market conditions across the country. This put pressure on wage rates, particularly in trades-related positions. While the Collision Repair Industry is not directly affected by the exchange rate, it is affected by labour market conditions. The financial crisis of 2008 reduced general economic activity and resulted in a significant adjustment in labour market pressures. Between October 2008 and October 2009, total employment (all sectors) in Canada declined by 400,000 or 2.3%, while the unemployment rate rose from 6.3% to 8.6%[15]. Manitoba's economy has been more stable. Unemployment in Manitoba was 4.2%, in 2008 following a four year trend of increasingly tighter labour market conditions. While this has moderated to 5.1% as of October 2009[16], the unemployment rate remains low when compared nationally, as shown in Figure 15 below.

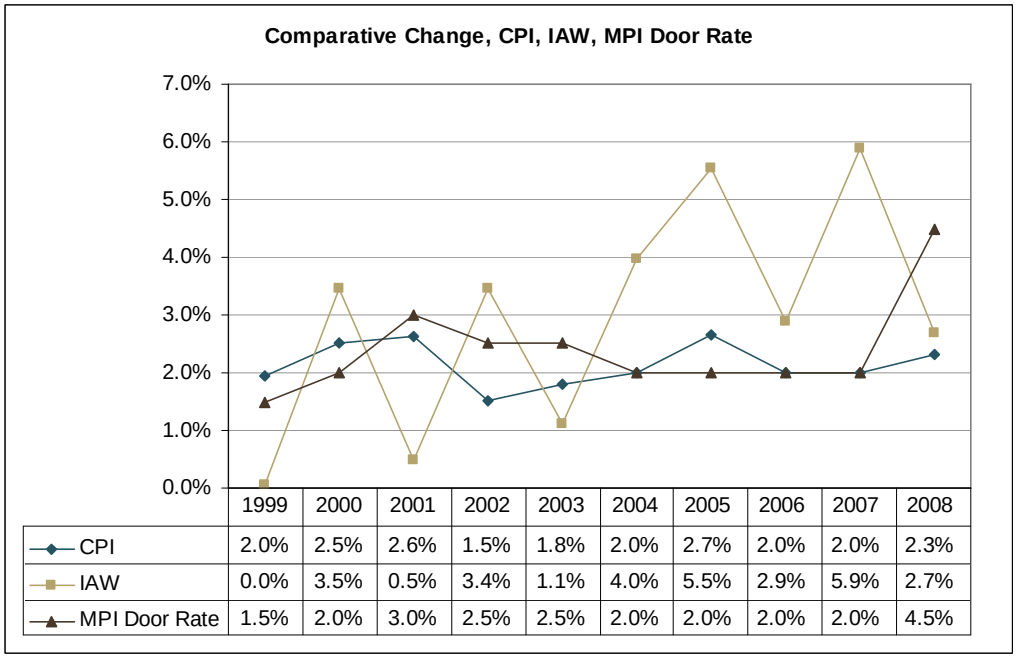
[14] Manitoba Hydro
[15] Study: Canada's Employment Downturn, October 2008 to October 2009, Statistics Canada; Canadian Economic Observer.
[16] Economic Statistics, Manitoba Finance.

Figure 15: Unemployment Rate, Manitoba and Canada



Labour market pressures were also evident in increases in the industrial average wage in Manitoba, which increased from an annual average of $31,456 in 2002 to $39,037 in 2008. MPI Door Rates have been adjusted annually, normally using the Manitoba Consumer Price Index as the guideline, although by a larger percentage in 2008. The overall increase in the CPI from 2002 to 2008 was 13%, the MPI Door Rate increased by a total of 19.5% over this period. The increase in the industrial average wage was 24.1% from 2002 to 2008.

Figure 16: Comparative Change, CPI, IAW, MPI Door Rate[17]

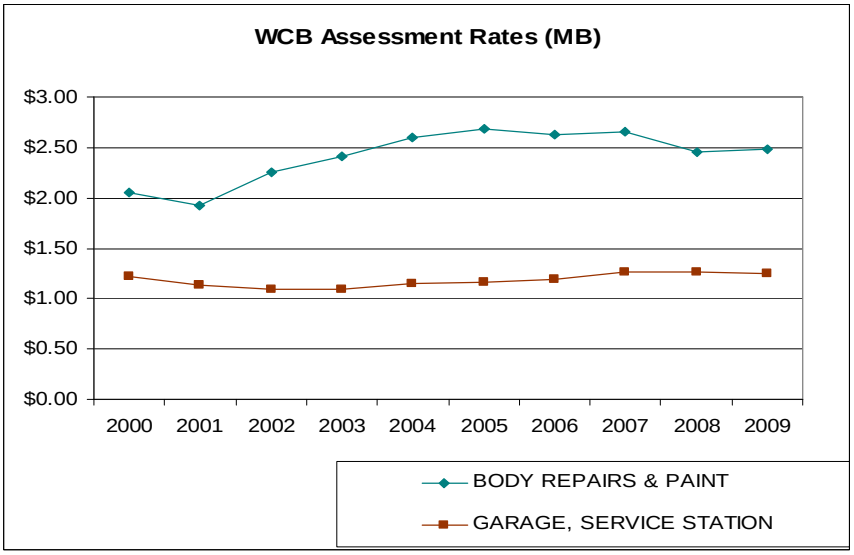


	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
CPI	2.0%	2.5%	2.6%	1.5%	1.8%	2.0%	2.7%	2.0%	2.0%	2.3%
IAW	0.0%	3.5%	0.5%	3.4%	1.1%	4.0%	5.5%	2.9%	5.9%	2.7%
MPI Door Rate	1.5%	2.0%	3.0%	2.5%	2.5%	2.0%	2.0%	2.0%	2.0%	4.5%

[17] IAW Source: Employment, Earnings and Hours, Statistics Canada Catalogue 72-002-X, Industrial Aggregate excluding unclassified businesses, Sectors 11-91N (2005 - 2008 data from September 2009; 2002 - 2004 data from December 2006); CPI Source http://www.gov.mb.ca/ctt/invest/busfacts/economy/inflation.html; Door Rate from MPI.

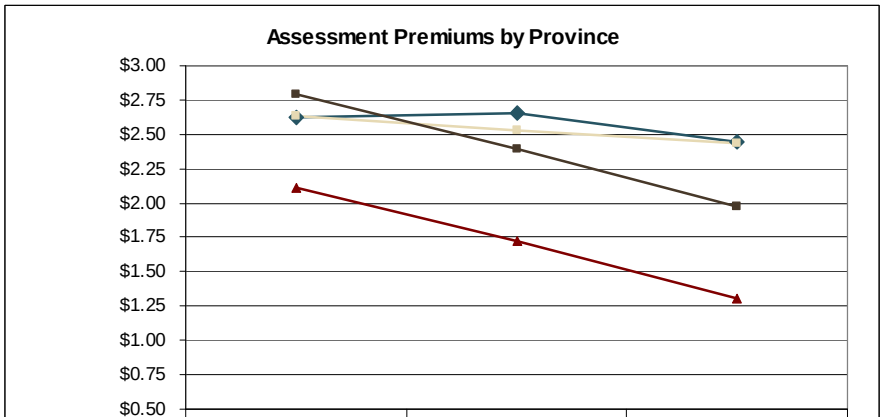
Workers compensation premiums average approximately 2.5% of payroll for autobody businesses in Manitoba, and have been relatively steady since approximately 2004. WCB assessment rates for Body Repairs and Paint businesses are significantly higher than for garages and service stations. The latter businesses also receive higher 'door rates' for mechanical repairs.

Figure 17: WCB Assessment Rates - Manitoba



Manitoba has a higher assessment rate for the autobody industry than B.C. and Alberta. It is comparable to Saskatchewan, although the category is broader in Saskatchewan[18].

Figure 18: WCB Assessment Rates by Province



	2006	2007	2008
Manitoba	$2.62	$2.65	$2.45
Saskatchewan	$2.63	$2.53	$2.43
Alberta*	$2.11	$1.72	$1.31
BC	$2.79	$2.39	$1.97

[18] Source: WCBs of Manitoba, Saskatchewan, Alberta, B.C. Manitoba, Alberta and B.C. have reasonably similar descriptions for the rate code (Body Repairs and Paint, Automobile Body Repairs, and Autobody shop). The Saskatchewan rate code includes automotive service shops and towing.

5.4 Trends Impacting the Collision Repair Industry

5.4.1 Fewer, Larger Operations

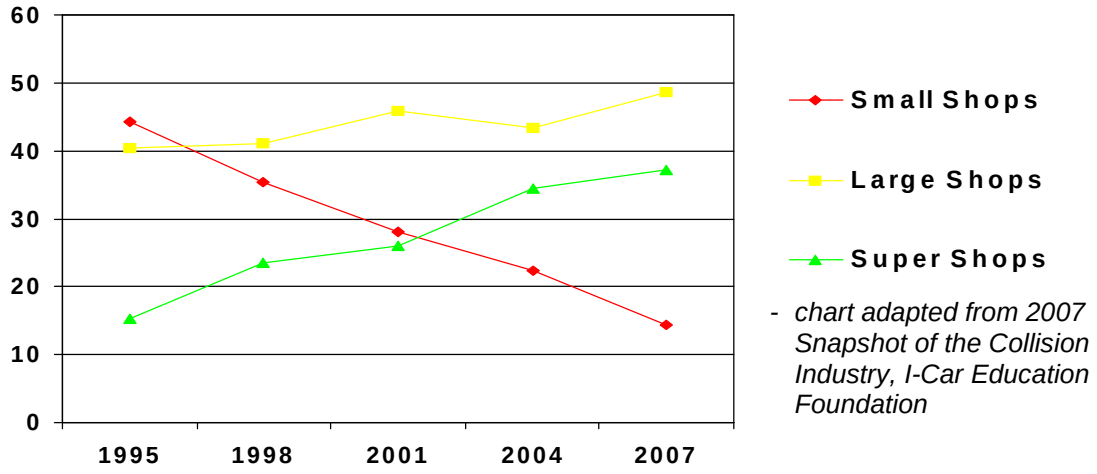
The declining number of collision repair shops in Western Canada is consistent with the United States experience. U.S. data also indicates an increase in the average shop size, shown both in the chart below and in Figure 20. While comparative data on number by size is not available for Western Canada, industry participants note a general trend toward an increase in larger collision repair shops, and a declining number of small shops.

Figure 19: Body Shop Business 2009 Industry Profile

Body Shop Business 2009 Industry Profile	1995	1998	2001	2004	2007
# of Businesses	53,505	52,719	52,610	48,730	46,910
Years in Business	17.3	20.7	21.6	25.7	27.5
Average Sq. Feet	5,761	6,537	8,269	9,008	10,034
Average # of Employees	6.1	7.2	7.7	7.9	8.4
More than 6 Technicians	20.4%	25.3%	29.7%	32.2%	32.6%

Figure 20 below indicates a significant trend toward a reduction in small shops (revenue below $300,000 annually) and an increase in "super shops" (over $1 million in annual revenue) in the U.S.[19].

Figure 20: % of U.S. Collision Repair Shops by Size



- *chart adapted from 2007 Snapshot of the Collision Industry, I-Car Education Foundation*

5.4.2 Long Term - Fewer Crashes

Higher gas prices and a weaker economy have affected driving habits in the U.S. Growth for total vehicle registration and annual average mileage per vehicle slowed significantly between 2001 and 2006. After decades of growth, total traffic volume decreased between 2007 and 2008[20]. This may be a short term impact of the economy, however over

[19] 2007 Snapshot of the Collision Industry, I-CAR Education Foundation.

[20] First Research Industry Profile, Automotive Repair Shops, Update 7/6/2009; Mitchell Industry Trends Report, Q3, 2009.

the long term, increased vehicle safety is also expected to have a significant influence on crash activity. The increase in adoption and technological development of crash avoidance systems is expected to continue[21].

While trends in the U.S. are often indicators for Canada as well, traffic volumes have not yet decreased on Manitoba Highways. Annual average daily traffic has increased steadily on Highway 75 from Winnipeg, the main artery to the U.S. since 2002[22]. Volumes have been relatively steady or showing gradual increase at stations east and west of Winnipeg in the last few years. The number of registered vehicles in Manitoba increased by approximately 5% from 2007 to 2009[23].

5.4.3 REGULATORY

Because collision repair shops handle motor oil, gas, antifreeze, lubricants, paints and solvents, companies must adhere to hazardous material and environmental regulations. New Environment Canada regulations limit concentrations of Volatile Organic Compounds (VOC)[24]. Under this regulation, paints with VOC concentrations exceeding the limits cannot be manufactured in, imported to, or sold in Canada. As a result, autobody shops will need to convert to water-borne paint to source an ongoing supply of material. Capital investments to help meet the requirements of water-based paint application are eligible for financing through the Small Business Financing Directorate of industry Canada[25]. The program enables loans of up to $350,000 for equipment or capital improvements (e.g. a spray booth).

5.4.4 TECHNOLOGY AND INNOVATION

The CARS 2008-2009 review reports on research into technological innovations that shop owners and technicians will have to deal with over the next three to five years. The research identified 95 distinct technical innovations, including hybrid technologies, utilizing lithium-ion batteries as well as many that apply to internal combustion engines, electronics and telematics (onboard computers and electronics for wireless and satellite-based telecommunications)[26]. Vehicle obstacle detection systems are also expected to increase with announcements from Toyota and Hyundai to add these systems to some of its models in 2009[27]. The driver is warned about potential side and front collisions and when a crash is imminent, automatic braking, seat belt retraction and air bag deployments are initiated. Road infrastructure-based traffic management is another innovation, but is expected to be years away. The rate of change is described as “exponential” versus the more steady pace of new technology in the past. CARS estimates that about 40% of new technologies are likely to be fairly widely adopted, and the associated knowledge gaps will be medium to high.

A number of new business innovation technologies are also expected to be introduced or to gain increased adoption in the next three to five years. These include electronic access to service manuals, service pre-booking, electronic tracking of work orders, inventory and deliveries, higher quality vehicles requiring less service, software for customer relationship management, production scheduling, inventory management and online interactions, and radio

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[21] Ibid, VP Operations, ICBC.

[22] Traffic on Manitoba Highways 2006, Manitoba Infrastructure and transportation

[23] MPI

[24] Volatile Organic Compound (VOC) Concentration Limits for Automotive Refinishing Products Regulations, http://canadagazette.gc.ca/rp-pr/p2/2009/2009-07-08/html/sor-dors197-eng.html

[25] Small Business Financing Now Available for Spraybooths and Other Equipment, May 26, 2009. http://www.natacanada.ca/affairs.html

[26] 2008-2009 Review, Canadian Automotive Repair and Service Council.

[27] Mitchell Industry Trends Report, Q2, 2009

frequency communication used to trigger work orders in advance of a vehicle entering a service bay, accelerating and reducing the costs of the order preparation process[28].

The growing use of aluminum and other non-traditional materials in autobodies has created new challenges for repair shops. The number of trained shop technicians lags the increasing use of lightweight materials, such as magnesium and carbon fiber. Aluminum repairs require specially trained technicians, a separate bay and special tools[29].

A 2005 CARS report identified challenges in ensuring technical training remains current given the acceleration in technological complexity in this sector [30]. Over three quarters of employees indicated they did not have the time or resources to attend training courses outside of working hours, and employers indicated they could not afford to send employees on training courses during normal business hours. Autobody shops tended to lag the overall industry in participation in training courses (62.5% vs 74.4% overall). Participation is also lower in smaller shops and rural locations. This situation can be expected to be exacerbated given the 2008-09 Review which confirmed the pace of change has continued to accelerate.

With direct access to manufacturer technical information, car dealers are often in a better competitive position than independent body shops related to technological change, and generally benefit from ongoing client relationships resulting from sales and service interactions. A recent voluntary national agreement with Canada's automotive OEMs on behalf of Canada's service and repair industry, was negotiated by the National Automotive Trades Association to provide access to service and repair information. The Canadian Automotive Service Information Standard (CASIS) will allow automotive repair facilities in Canada to access auto manufacturers' service and repair information. Additionally, it will provide access to tooling and training information to local repair facilities across the country. CASIS ensures that all automakers will have the information made available no later than May 2010. The agreement is intended to address concerns of local repair facilities and customers given the increasingly complex nature of motor vehicles and rapidly changing vehicle technology[31].

5.4.5 Parts and Materials Trends

On average, parts make up approximately 45% of the average value per repairable vehicle appraisal. Research conducted by Mitchell International comparing a composite price market basket of crash parts from the top selling models indicated a lower price index in 2008 compared to 2003. By part type, aftermarket and remanufactured indexed parts prices increased, while new Original Equipment Manufacturer (OEM) and recycled/used parts decrease significantly in the price index[32]. The relationship between new and used parts trends is affected by a standard practice of pricing used replacement parts at a percentage of new OEM. Mitchell offers the explanation of price increases being accepted by U.S. aftermarket part sellers as well as increased markups on the parts domestically, compared to downward adjustments by OEM's.

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[28] Ibid.

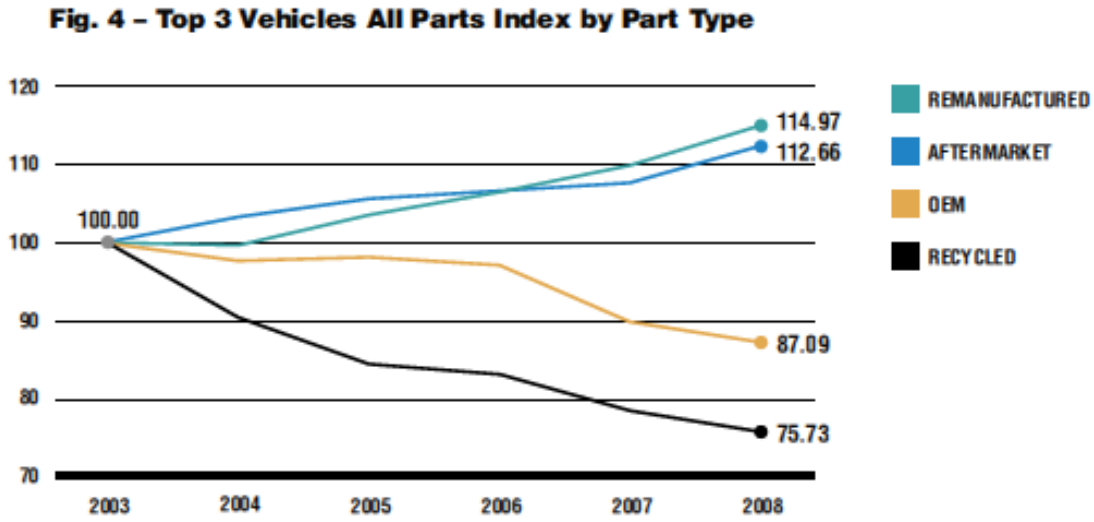
[29] First Research Industry Profile: Automotive Repair Shops, Quarterly update 7/06/09

[30] The Road Ahead: Human Resource and Training Challenges in the Motive Power Repair and Service Sector; CARS Council.

[31] Automakers and Repair Shops Enhance Consumer Choice for Service and Repair, Press Release by the Association of International Automobile Manufacturers of Canada, Canadian Vehicle Manufacturers' Association and National Automotive trades Association, September 29, 2009.

[32] Mitchell Industry Trends Report, Q2, 2009.

Figure 21: Mitchell Parts Index 2003-2008

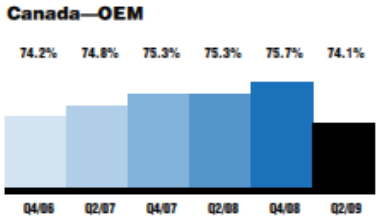


Unlike the U.S. where OEM parts use continues to decline, the overall trend in Canada now reflects a stabilized level of OEM parts use, an increasing volume of aftermarket and remanufactured parts and declining Like Kind Quality (recycled) parts use. See Figure 22 below, drawn from the Canadian Supplement to the Mitchell Industry Trends Report, Q2, 2009.

Figure 22: Parts Use Trends (Canada)

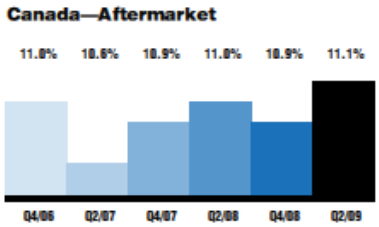
Original Equipment Manufacturer (OEM) Parts Use in Dollars

In Q2-2009, Canadian OEM parts use decreased slightly compared to Q2-2008 and has fallen to rates similar to mid-last year. As with U.S. parts supplies, Canadian dealers appear to be reducing collision parts inventory.



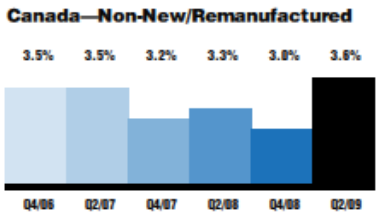
Aftermarket Parts Use in Dollars

Aftermarket parts use in Canada rose slightly in Q2-2009, once again topping 11%.



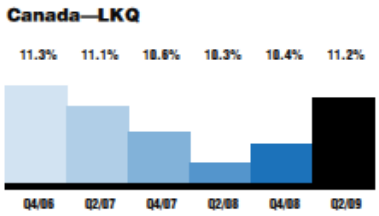
Remanufactured Parts Use in Dollars

Remanufactured parts use in Canada was 3.6% for Q2-2009, compared to 3.3% in Q2-2008.



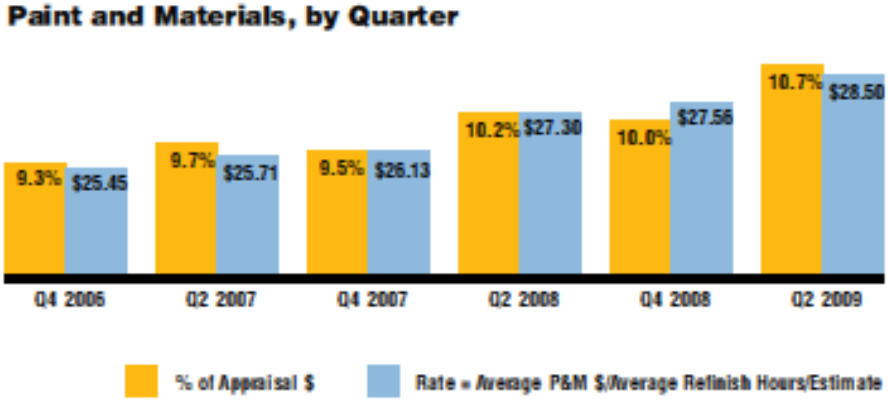
Like Kind and Quality Parts Use in Dollars

LKQ parts use in Canada appears to be on the increase once again as OEM parts use dwindles and the overall age of vehicle on the road increases—making for more opportunity to use LKQ parts.



Paint and materials made up 10.7% of average appraisal value, continuing the trend upward since 2007. Q1 2009 rates are up from $26.48 per refinish hour in Q1 2008 to $27.97 per refinish hour (5.6%)[33].

Figure 23: Paint and Material Costs



[33] Mitchell Industry Trends Report, Q2, 2009.

COLLISION INDUSTRY OVERVIEW – SUMMARY

In Canada, the overall Automotive Repair and Maintenance industry, the broader industry of which collision repair is only part, generates annual revenues of approximately $11.9 billion. Manitoba revenue represents approximately 4% of the total, consistent with the proportion of the country's population resident in Manitoba.

Statistics Canada reports that Autobody shop financial performance in Canada generally improved in 2007 compared to 2005. Sales in this industry increased at 2 to 3 times the rate of inflation over this period. Shops over $500,000 in revenue showed significantly better performance than those with revenue under $500,000. Net profit is marginal (0.7%) for shops with revenue under $500,000.

Comparative financial data is not available by province for Autobody. Statistics Canada data for the broader Automotive Repair and Maintenance industry indicate operating profit margins in Manitoba in 2007 were below the national average, and significantly below the average of this industry in the other western provinces. Compared to national performance in all non-financial industries, the Automotive Repair and Maintenance industry in Manitoba has on average performed comparably, but did not show the general upward trend of all non-financial industries from 2005 to 2007.

Statistics Canada's Business Register indicates there are 345 autobody businesses in Manitoba, less than the 370 vendors receiving payments from MPI in 2008/2009. MPI indicates that some vendors performing autobody work do a very small amount of this activity and may identify their overall business in another category. The total number of shops captured by the Business Register declined by 8% from 2006 - 2008, with an even greater reduction (-12%) of establishments in relation to the provincial population; a similar rate to that experienced in B.C. and Saskatchewan. MPI indicates that the total number of accredited and non-accredited vendors registered with MPI was relatively stable from 2006 to 2008 with a slight trend toward a reduction in non-accredited businesses.

In Manitoba, claims volume has remained relatively steady during a period of increase in registered vehicles. A steady, though not dramatic increase in the proportion of total losses as a percentage of total claims reduces the volume of repair activity. This does not yet appear to be reducing business, however, as the trend in Manitoba, as in B.C. and Saskatchewan, has been a steady increase in both the number and average value of claim payments.

Claim payments for automotive repairs increased by 9% in Manitoba from 2006 to 2008 compared to 17% and 10% in Saskatchewan and British Columbia respectively. The average payment per claim excluding total losses, has increased in Manitoba by approximately 9%, compared to 5% in B.C., with no change in Saskatchewan.

On average, parts make up approximately 45% of the average repair cost. Parts prices were overall lower in 2008 compared to 2003, reflecting a drop in Original Equipment Manufacturer and recycled parts prices. Nationally paint and materials have increased as a percentage of overall estimate value from 9.7% in 2007 to 10.7% in 2009. New and more stringent environmental regulations are requiring autobody shops to convert to water-borne paint.

The profitability of autobody shops is impacted by volume. The volume of work per shop in Canada tends to be lower than reported in the United States. Compared to B.C., Manitoba has more jobs per shop, but lower average annual payments. There are approximately seven percent more shops per capita in Manitoba than in B.C., which may be a reflection of the distribution of population in rural areas. Saskatchewan, which has similar population characteristics to Manitoba, has a significantly higher number of shops for the population than either B.C. or Manitoba. Average payments per shop have been trending upward in Manitoba since 2004, assisted by both increased payments and a declining number of shops overall.

A number of business factors make it more difficult for smaller shops, including competition for labour, labour productivity and distribution of overhead, keeping up with rapid changes in technology and associated training requirements.

The most significant impact of the economy on the collision repair industry has been the lower unemployment rate across western Canada, resulting in high competition for labour. While inflation has averaged approximately 2%, the industrial average wage in Manitoba increased by approximately 3.5% annually from 2005 to 2007, before jumping

by 7% in 2008. Other cost drivers, including utilities and workers compensation rates, have been either at or below the rate of inflation.

The availability of skilled labour has been a significant concern in the Automotive Repair and Service industry at least since 2005 at a national level, with a persistent and pervasive shortfall expected to continue for several more years. Barriers to employment in this industry have been identified as including (in descending order) the initial expense of buying tools, low salaries, lack of skills, negative public perception of skilled trades, and industry working conditions.

New technologies continue to drive the need for training. The rate of change is described as exponential versus the steadier pace of new technology in the past. New technologies impacting the collision repair industry include hybrid technologies, the use of lithium-ion batteries, onboard computers and electronics for wireless and satellite-based telecommunications, vehicle obstacle detection systems and a number of new business innovation technologies. In addition, the growing use of aluminum and other non-traditional materials requires specially trained technicians, a separate bay and special tools.

6.0 HUMAN RESOURCES IN THE COLLISION REPAIR INDUSTRY

The collision repair industry, like most industries today, is dependent upon a consistent supply of skilled employees. Recruitment and retention of qualified, committed employees is critical to the success and ongoing sustainability of these businesses. The structures, systems and human resource practices within the industry must ensure people want to enter into the industry, invest in continuous training and development and stay as part of a recognized career path. The following section provides information about the human resources in the collision repair industry.

6.1 OCCUPATIONS IN THE COLLISION REPAIR INDUSTRY

The Canadian Automotive Repair and Service (CARS) Council lists essential skills profiles for the following positions:

- General Manager/Business Operator (NOC 621)
- Collision Repair Manager (NOC 621[34])
- Parts Sales Consultants (NOC 6421)
- Automotive Painters (NOC 7322)
- Collision Repair Advisor/Estimator (NOC 7322)
- Motor Vehicle Body Repairers - Metal and Paint (NOC 7322)

Three trades – Motor Vehicle Body Repairer, Motor Vehicle Body Painter and Partsperson are designated trades in Manitoba for which Red Seal Certification is available, enabling recognition of qualifications across Canada. The following provides an overview of the identified positions:

General Managers - Business Operators (NOC 0621) plan, organize, direct, control and evaluate the operations of dealership or automotive repair and maintenance shops/garages. They supervise a team of managers and automotive staff such as technicians, installers, service advisors, parts sales consultants, body painters or repairers. They are responsible for monitoring activities for the organization, budgets, projections, financial reports, and managers and staff members' performance. General Managers – Business Operators can work in a variety of settings, and the organization they manage might differ in terms of size, number of employees, number of departments within the organization, or type of organization (e.g., dealership, small or medium automotive repair or collision shops).

One of their main responsibilities is human resource management and overall management of the performance of the organization. Sometimes General Managers - Business Operators' tasks and responsibilities might overlap with the ones performed by Collision Repair Managers, while in another context the tasks and responsibilities might be more at the executive level.

Collision Repair Managers (NOC 0621) plan, organize, direct, control and evaluate the operations of automotive repair and maintenance shops/garages or dealership's collision repair departments. They supervise a team of collision repair technicians, collision repair paint technicians or other staff in the collision repair department or organization and are responsible for managing work load, inventory, and client service.

[34] The National Occupational Classification (NOC) is the nationally accepted standardized language reference on occupations in Canada. It organizes over 30,000 job titles into 520 occupational group descriptions using a four-digit code classified according to skill type and level. The NOC is updated in partnership with Statistics Canada according to 5 year Census cycles. It is based on extensive occupational research and consultations conducted across the country, reflecting the evolution of the Canadian labour market.

Collision Repair Managers can work in a variety of settings and the organization they work for might differ in terms of size, number of employees, number of departments within the organization, or type of organization (e.g., dealership, small or medium collision repair shops). One of their main responsibilities is managing the load and the resources for the collision repair department or shop. In some contexts, Collision Repair Managers' tasks and responsibilities might overlap the ones performed by Parts Managers or General Managers (in small shops)[35].

Collision Repair Advisors/Estimators (NOC7322**)** are responsible for providing quotes and estimates for repairs to be performed on vehicles (automotive collision repairs). They are employed by automobile dealerships, automobile collision repair facilities, automobile appraisal centers, or insurance providers. Collision Repair Advisors/Estimators can work in a variety of settings and the organization they work for might differ in terms of size, number of employees, number of departments within the organization, or type of organization (e.g., dealership, small or medium collision repair facilities). In some context, Collision Repair Advisors/Estimators' tasks and responsibilities might overlap the ones performed by Parts Sales Consultants*,* Service Advisors*, or* Collision Repair Managers*.* The examples provided in this profile represent tasks and responsibilities required from Collision Repair Advisors/Estimators taking into consideration this variation in workplace settings.

Motor Vehicle Body Repairer (NOC 7322) is a designated trade with a four year apprenticeship. A motor vehicle body repairer restores the structural integrity of a damaged vehicle during the repair process. When a car, truck or bus has been damaged or involved in a collision, the damage can range from a dented fender or broken headlights to bent frames, cracked windshields and scraped paint. As a result, a motor vehicle body repairer performs a wide range of work disciplines under the general areas of metal work and painting.

Motor Vehicle Body Repairers must also be concerned with the additional responsibilities of repairing safety devices such as air bags, collapsible components and seat belts, increased use of composite materials, anti-locking braking systems (ABS) plus more advanced primers, paints and paint finishes.

Manitoba's Motor Vehicle Body Repairer Regulation states that apprentices when not attending technical school shall receive no less than the provincial minimum wage plus 15 per cent during level one, 35 per cent during level two, 55 per cent during level three, and 75 per cent during level four.

Motor Vehicle Body Repairers are employed by auto body shops, automobile and truck dealerships, custom shops and sometimes by trucking companies and bus lines. Experienced journeypersons may advance to supervisory positions, start their own businesses or become automobile damage appraisers for insurance companies. With additional training, they can transfer their skills to related occupations such as Sheet Metal Worker or Motor Vehicle Mechanic. Most work on a flat rate system while others are paid a bi-weekly salary[36].

MPI Accreditation Criteria[37] requires an accredited shop to employ full-time, during normal business hours, at least one (1) qualified collision repair journeyperson or the equivalent; the equivalent being at least six (6) years experience in all phases of collision repair. As of December 31, 2009, every technician performing structural welding must have obtained a valid I-CAR Welding Certificate (new hires excluded for 12 months).

Motor Vehicle Body Painter (NOC 7322) is a designated trade with a two year apprenticeship of two levels. A motor vehicle body painter is a person who sands, spot fills, primes, finishes and paints motor vehicles. When painting is required because of a collision, a painter becomes part of the vehicle repair process after bodywork is completed. Not only is repainting following an accident or after rust or wear damage important to the appearance and value of a motor vehicle, but for safety as well. Passenger safety in a unibody vehicle is dependent on rust-free components.

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[35] CARS Essential Skills Profiles, http://www.carsyouth.ca/content.cfm?c_id=35

[36] Duties and pay rates as described at http://www.gov.mb.ca/tce/apprent/trades/motorvehiclebodyrepairer.html

[37] MPI/Automotive Trades Association of Manitoba Inc./Manitoba Motor Dealers Association 2008 Accreditation Application

Painters are involved throughout the collision repair process, often starting with application of anti-corrosion compounds while the vehicle is still mounted on frame repair equipment. They must know how to apply refinishing products in the correct sequence, ensuring chemical compatibility, adhesion and durability. As well, these skilled workers must have a high skill level in both product chemistry and colour matching to prepare the complex colour formulas created by automobile manufacturers.

Manitoba's Motor Vehicle Body Repairer-Painter Regulation states that apprentices when not attending technical school are paid no less than the provincial minimum wage plus 15 per cent during level one and 50 per cent during level two[38].

Most individuals employed in this occupation work primarily for autobody shops or vehicle dealerships. In small shops the duties of an automotive painter overlap with body repairers. In larger shops, the job may be separated into painter, vehicle preparation person and detail person. In general, painters work alone, even in a shop where many are employed.

Partsperson (NOC 6421) - Partspersons are responsible for customer services and store inventory. They order parts and provide recommendations in relation to the different parts' manufacturers[39]. They take delivery of and stock parts, follow up on back orders, and manage parts inventory. The partsperson will cost out and reconcile work orders, coordinates returns and credits, and act as liaison with managers and foreman. They usually have no direct involvement in the repair process other than by association. Partspersons are exempt from ICar points requirements. In Manitoba, Partsperson is a recently designated trade[40].

Manitoba's Partsperson Trade Regulation states that when an apprentice is not taking technical training, an employer must pay the apprentice at least the provincial minimum wage plus 10 per cent during level one, 25 per cent during level two, and 50 per cent during level three.

Other shop floor staff (e.g. preparation, detailers etc.) usually fall under the title of general labourer. The individual is not qualified to do repair or paint specific work, however, is tasked with preparing jobs, detailing after the work is done by a qualified technician or maintenance of the shop floor, among other tasks. An individual can use their time in this position to work towards becoming an apprentice and gain the full credentials to qualify as a journeyperson.

Office Support Personnel: Perform clerical, accounting, secretarial and/or administrative duties, including answering phones, scheduling repairs, typing correspondence, preparing reports, data entry, billing, filing, etc.

6.2 Labour Force Characteristics

Detailed employment information for the Automotive Body, Paint and Interior Repair and Maintenance category is not available. The following information is for the broader industry.

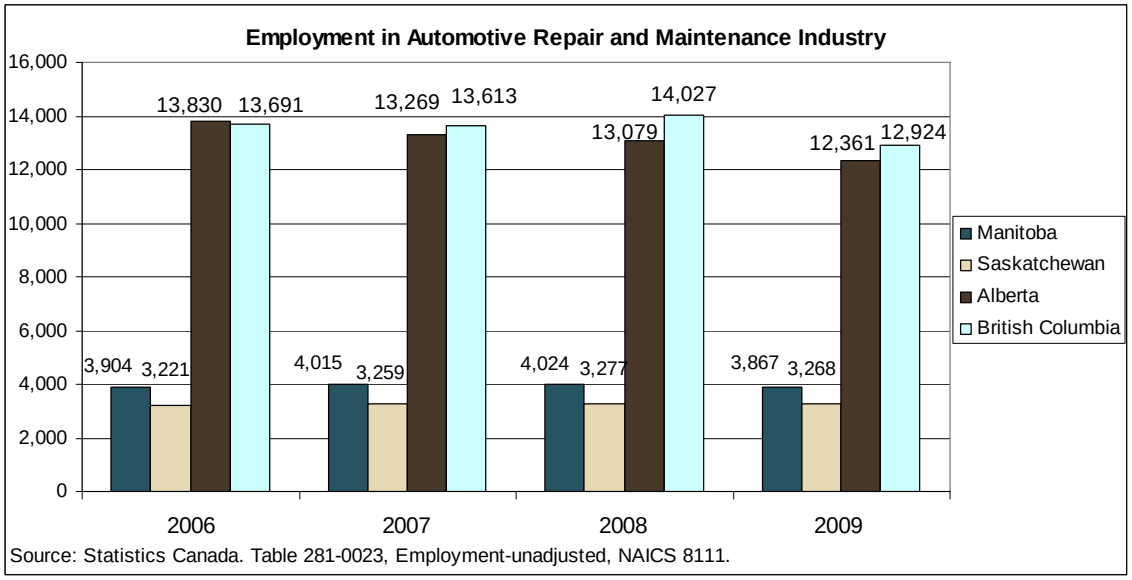
Approximately 32,400 people were employed in the Automotive Repair and Maintenance Industry in western Canada in 2009. Manitoba represents approximately 12% of this workforce. Employment levels in Manitoba and Saskatchewan have remained relatively steady. Employment levels in Alberta are 11% below 2006, demonstrating a pattern of steady decline. Employment in B.C. increased between 2006 and 2008, before declining by 8% in 2009. See Figure 24 below.

[38] Duties and pay rates as described at http://www.gov.mb.ca/tce/apprent/trades/motorvehiclebodypainter.html

[39] CARS Essential Skills Profiles

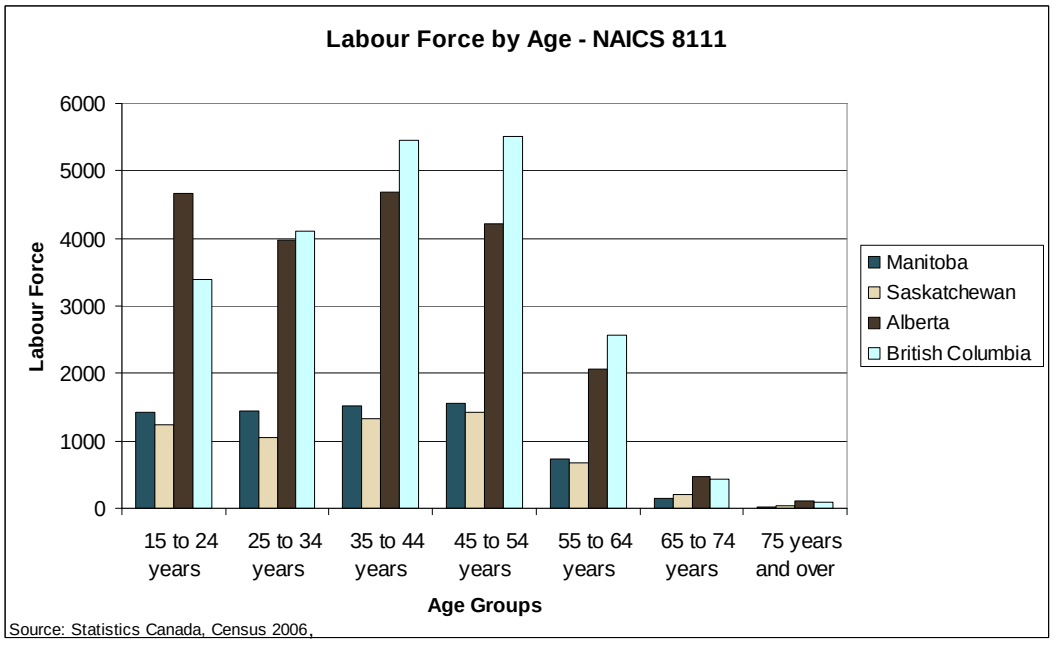
[40] Duties and pay rates as described at http://www.gov.mb.ca/tce/apprent/trades/partsperson.html

Figure 24: Employment in Automotive Repair and Maintenance Industry - Western Canada



As of June 2006, two thirds of the workers in the western Canadian Automotive Repair and Maintenance Industry were between 25 and 54 years of age. Eleven percent were 55 years or older, and can be expected to leave the labour force in the next 10 years; 13%, or approximately 500 in Manitoba. This compares to 16% across all occupations in Manitoba. In the U.S., the average age of a technician was 38.7 in 2007, up from 35.5 in 1995[41].

Figure 25: Automotive Repair and Maintenance Labour Force by Age



[41] Snapshot of the Collision Industry, 2007, I-CAR Education Foundation

Based on a survey in 2005, CARS estimated that the automotive repair and service sector would experience annual shortages of between 4,290 and 7,380 workers (all categories) from 2005 to 2009, and annual shortages of between 4,450 and 8,050 from 2010 to 2014[42]. Fifty four percent of employers surveyed in Autobody/Collision Repair indicated the lack of qualified staff was affecting the profitability of their organization. This was more problematic in Quebec and Western Canada.

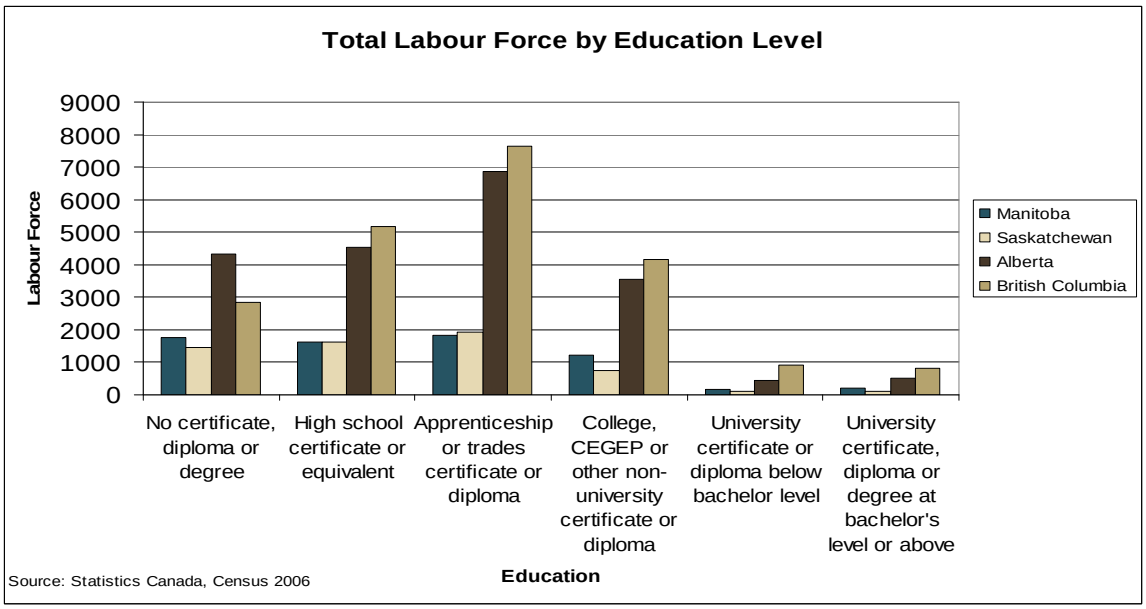
In a 2006-07 survey by the Canadian Automotive Repair and Service Council, barriers to employment in this industry included:

- Initial expense of buying tools (63%);
- Low salaries (57%);
- Lack of skills (43%);
- Negative public perception of skilled trades (24%); and
- Industry working conditions (23%)[43].

The U.S. industry has also indicated a need to retain good technicians. Sixty-two per cent (62%) of facilities had an average of two or three technicians leaving in 2006[44]. In 2007, approximately 21,500 collision technicians (11%) left the trade versus 9% in 2004. While 42% of employers indicated that they would not require any additions in the upcoming year, employment of automotive body repairers is expected to grow 12% from 2006-2016, as compared to 10% for all occupations. Demand for qualified body repairers will increase as the number of vehicles on the road continues to grow.

Thirty four percent of the labour force in western Canada are apprentices or trade certified; 27% in Manitoba. Post secondary education in Manitoba is lower than for western Canada overall as demonstrated in the following figure:

Figure 26: Automotive Repair and Maintenance Labour Force by Education



[42] CARS Industry Profile 2005
[43] Labour Market Information – 2006/07 Executive Summary, Canadian Automotive Repair and Service Council.
[44] Snapshot of the Collision Industry, 2007, I-CAR Education Foundation

According to Statistics Canada census data, there is one management position for every 7.2 technical persons in Western Canada; 6.8 in Manitoba. This can reasonably be expected to be in part a function of size – larger businesses in larger markets can leverage their management resources further.

Immigrants represent 18% of the labour force in Western Canada; 14% in Manitoba. The CARS 2005 survey indicated that compared to national averages, women, Aboriginal peoples, visible minorities and immigrants are under-represented in the motive power repair and service sector[45]. This varies by jurisdiction. In B.C. 38% of the workforce were immigrants in 2006; 16-17% in Alberta and Manitoba, 5% in Saskatchewan.

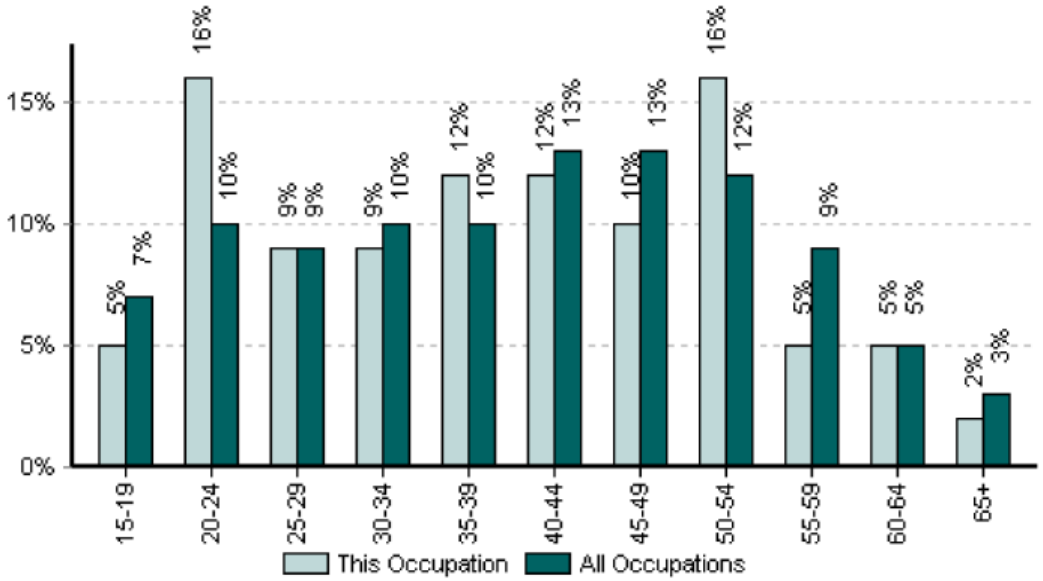
Eighty-one percent of the work force is full time in Western Canada; 84% in Manitoba. Eighty-seven percent are paid workers while thirteen percent are self-employed

6.2.1 TECHNICIANS IN MANITOBA

The collision repair industry is dependent upon technicians, skilled in the use of current technologies and applications and in the repair of a variety of makes and models of vehicles. According to Manitoba Job Futures, employment of Motor Vehicle Body Repairers in Manitoba is estimated at 1,445[46]. This compares to employment of 5,920 Automotive Service Technicians, Truck Mechanics and Mechanical Repairers.

Twenty-eight percent of individuals in this occupation are 50 years of age or older, similar to the 29% in the labour force overall. Mechanics are slightly younger overall, with 23% 50 years of age or older.

Figure 27: Motor Vehicle Body Repairers - Manitoba, by Age



Fifty-three percent of the individuals in this occupation work in Winnipeg, a slightly lower percentage than the workforce overall. Participation in this occupation is higher in the southern rural regions than the labour force overall.

[45] The Road Ahead, October 2005, CARS Council.

[46] Labour pool information is drawn from Manitoba Job Futures: Motor Vehicle Body Repairers (NOC 7322). Source for data is 2006 Census.

Ninety-eight percent of individuals working in this occupation are male, compared to 53% in all occupations. Eight percent of individuals employed in this field self-identify as aboriginal, compared to 10% in all occupations. By contrast, 12% of individuals working in this field self-identify as visible minority versus 10% in all occupations[47].

6.3 COMPENSATION

In 2005, the Canadian Automotive Repair and Service (CARS) Council conducted a survey to evaluate training and human resource issues in the industry. The survey included 1,778 employers, 792 employees and 36 educational/training institutions. The CARS survey indicated that the average weekly earnings of workers in the motive power repair and service sector is below the national average salary for all occupations, and below sectors with "competing" trades, including construction, manufacturing and utilities. Respondents to this survey believed that the wage differential was a significant factor influencing retention in the industry.

> "*The lower levels of compensation were seen as the primary reason for the voluntary separation rate of just under 10% for employees in the sector. For example, of those employees who indicated that they would likely leave the sector within the next ten years, more than three quarters (87%) indicated that better wages/benefits would encourage them to remain in the sector. Eighty-seven percent of those surveyed indicated that better wages/benefits would encourage them to remain in the sector.*
>
> - The Road Ahead: Human Resource and Training Challenges in the Motive Power Repair and Service Sector. Summary Report. October 2005.

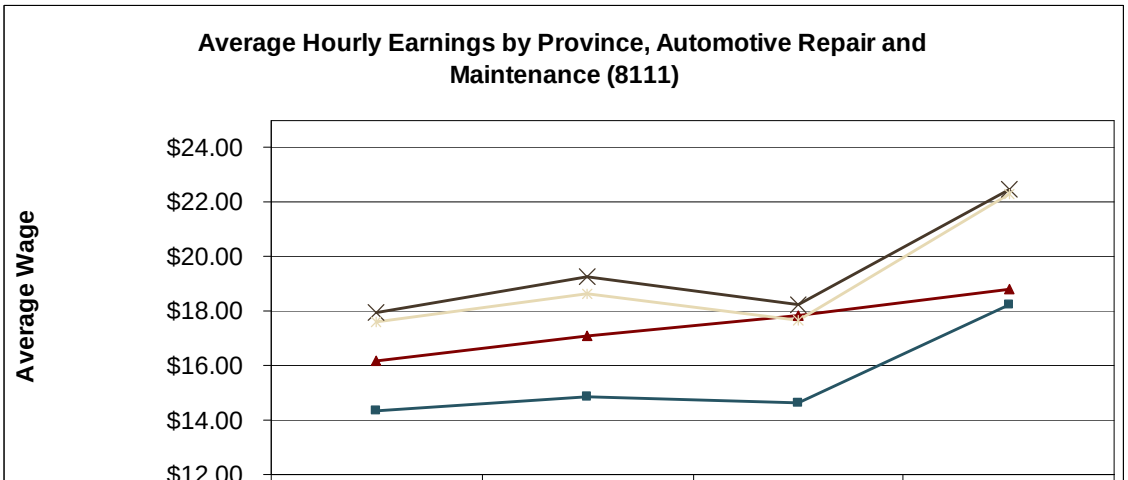
Industry earnings in the U.S. also tend to be lower than the national industrial average wage, and have also been linked to higher turnover, particularly among entry level workers[48].

In Manitoba, average hourly wages in the Automotive Repair and Service Sector are 17% below the average wages for the industry in Saskatchewan, Alberta and British Columbia. When this figure is compared to the -14% difference in wages for all occupations between Manitoba and the other Western provinces it reveals an above average differential in wages in the Manitoba automotive repair and maintenance industry[49].

Earnings for the Automotive Service and Repair Industry (broader category) have increased in Manitoba by 27% since 2006, from $14.33 to $18.23 (including overtime), reflecting a significant increase in 2009 after trailing other provinces significantly in 2006-2008[50]. This rate of increase is similar to Alberta and B.C., although wages in these provinces are 22% higher in 2009. Average earnings in Saskatchewan have increased by 16% over the same time period and are approximately 3% above Manitoba. See Figure 28 below.

[47] Manitoba Job Futures: Motor Vehicle Body Repairers
[48] First Research Industry Profile, Automotive Repair Shops, Quartlery Update 7/6/2009
[49] Statistics Canada
[50] Ibid.

Figure 28: Average Hourly Earnings by Province, Automotive Repair and Maintenance



	2006	2007	2008	2009
Manitoba	$14.33	$14.88	$14.66	$18.23
Saskatchewan	$16.20	$17.07	$17.86	$18.84
Alberta	$17.93	$19.28	$18.26	$22.47
British Columbia	$17.59	$18.65	$17.68	$22.31

Source: Statistics Canada. Table 281-0029, Average hourly earnings, including overtime

6.3.1 Minimum Wage Rates for Apprenticeable Trades

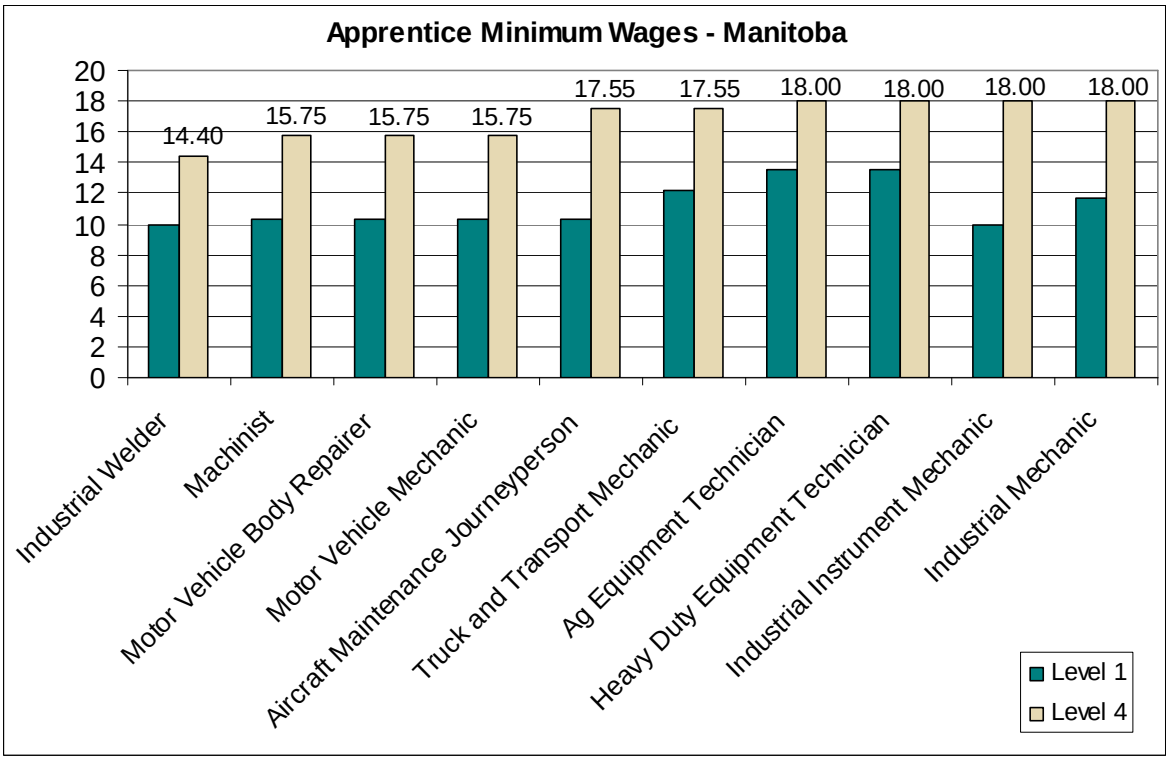
Based on the current provincial minimum wage, the following are the prescribed minimum apprentice wage rates for positions within the collision repair study.

Figure 29: Minimum Apprentice Wage Rates - Manitoba

Motor Vehicle Body Repairer	One	115%	$10.35
	Two	135%	$12.15
	Three	155%	$13.95
	Four	175%	$15.75
Motor Vehicle Body Repairer *(Painter)*	One	115%	$10.35
	Two	150%	$13.50
Motor Vehicle Mechanic	One	115%	$10.35
	Two	135%	$12.15
	Three	155%	$13.95
	Four	175%	$15.75
Partsperson	One	110%	$9.90
	Two	125%	$11.25
	Three	150%	$13.50

Based on prescribed minimum wages for apprentices, Motor Vehicle Body Repairer has the third lowest wage of mechanical trades with 4 year apprenticeships[51]. See Figure 30 below. Please note, actual wages may exceed the minimums.

Figure 30: Comparative Apprentice Minimum Wages - Manitoba



6.3.2 CURRENT WAGES AND BENEFITS

According to Manitoba Job Futures, Motor Vehicle Body Repairers (NOC 7322, includes painters), have starting earnings of $21,800, average earnings of $35,000 and a high of $45,800. The high end of earnings is reported to be slightly higher for mechanics at $48,500. This high end as reported by Manitoba Job Futures is significantly lower than the earnings for journeypersons reported in the MCRIS survey – see Section 74.

The Saskatchewan Auto Dealers Association (SADA) conducted a membership study in December 2008, which indicated an average journeyperson body shop technician flat rate ranging from $21.69 to $27.00, compared to a tighter range for journeyperson auto technicians of $25.50 to $26.74. Other pay ranges reported in the survey are shown in Figure 31 below.

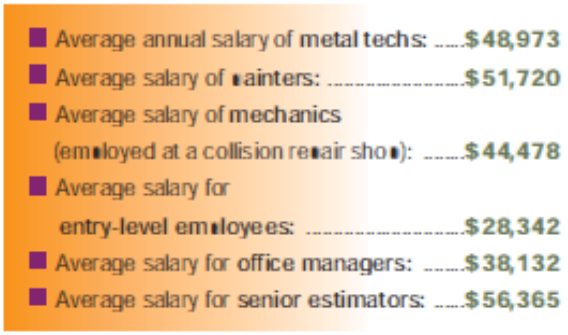
[51] Apprenticeship Manitoba

Figure 31: SADA Membership Survey - Compensation

SADA Membership Survey Based on December 31, 2008 data; 25 respondents	Annual Wages
Body Shop Manager	$56,160 – $100,000
Prep person	$35,000 – $49,150
Billing clerk	$31,887 – $36,000
Bodyman	$47,750 – $95,000
Painter	$61,190 – $100,000
Clean up	$18,800 – $25,000
Apprentice technician	$28,400 – $30,000

United States salaries appear to be below or at the low end of the range for technicians and painters as reported in Saskatchewan, with a similar entry level. U.S. compensation by position is shown in Figure 32 below.

Figure 32: Average Annual Pay (U.S.)[52]



6.3.3 Compensation Structure

Body shops commonly pay technicians on a flat rate, or an established amount per labour hour of the estimate. The prevalence of the practice varies by report -- the 2009 BSB Personnel Profile[53] reported 25% of businesses pay technicians based on a flat rate and a further 15% pay based on a percentage of labour; a 2007 I-CAR report indicated 54% of technicians were paid based on a flat rate[54]. The I-CAR report also indicated that collision repair businesses had not, on average, increased technician benefits in the last three years. Generally, body shops with higher volumes can attract technicians with the increased potential for higher pay based on the technician's own productivity. Body shops with lower volumes may not have enough jobs to enable a technician to fully recognize the benefit – i.e., if the job can be completed in less time, but there is not another job to do, the technician will not be able to earn more by completing the first job faster.

6.4 Training and Certification

A condition of MPI accreditation is to have at least one journeyperson or journeyperson equivalent motor vehicle body repairer. Facilities are also required to maintain I-CAR Gold Class status, which requires 5 points training requirement for most positions, excluding parts and administration.

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[52] Body Shop Business 2009 Industry Profile; Personnel Profile
[53] Body Shop Business 2009 Industry Profile; Personnel Profile
[54] Source: Snapshop of the Collision Industry 2007, I-CAR Education Foundation & Allstate

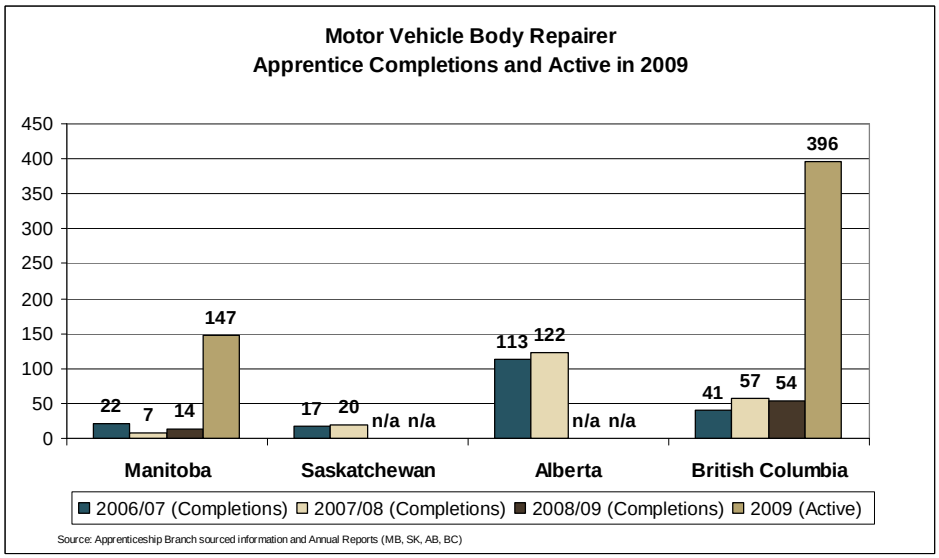
The CARS Council also provides training and has identified essential skills profiles for body shop technicians and management. CARS has recently adapted all of its training to an on-line format "CARS On Demand", and reports resulting increases in course participation and the number of exams written.

6.4.1 APPRENTICESHIP PROGRAMS

Motor Vehicle Body Repairer is a designated trade with a four year apprenticeship of four levels. Red Seal Certificate of Qualification as a journeyperson in this trade (based on a score of 70% or more on an interprovincial exam) is recognized throughout Canada. Practical and technical training is a minimum of 1,800 hours per level. About 80 per cent of the time is spent learning practical on-the-job skills under the supervision of a certified journeyperson and 20 per cent consists of learning the theoretical and technical aspects of the trade through in-school training. A minimum of Grade 9 is required; a Grade 12 or equivalent high school academic standing is strongly recommended including a course in Mathematics. Individuals 19 years or older that do not hold a high school diploma may also qualify as a Mature Student.

From 2006 to 2008, 43 individuals completed their apprenticeship and gained journeyperson status in Manitoba. There are currently 147 active apprentices in Manitoba.

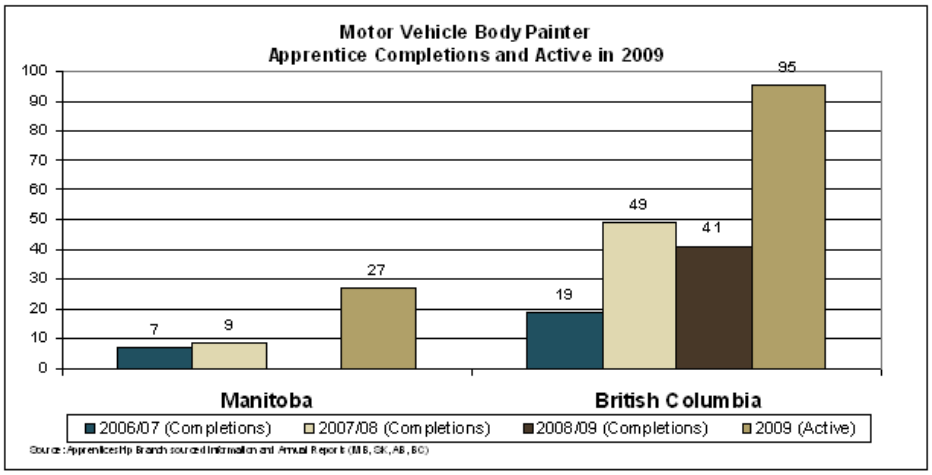
Figure 33: Motor Vehicle Body Repairer Apprentices



Motor Vehicle Body Painter is a designated trade with a two year apprenticeship of two levels. Red Seal Certificate of Qualification as a journeyperson in this trade (based on a score of 70% or more on an interprovincial exam) is recognized throughout Canada. Practical and technical training is a minimum of 1,800 hours per level. About 80 per cent of the time is spent learning practical on-the-job skills under the supervision of a certified journeyperson and 20 per cent consists of learning the theoretical and technical aspects of the trade through in-school training. A minimum of Grade 9 is required; a Grade 12 or equivalent high school academic standing is strongly recommended including a course in Mathematics. Individuals 19 years or older that do not hold a high school diploma may also qualify as a Mature Student.

In Manitoba, 16 individuals completed their apprenticeship from 2006 to 2008. There are currently 27 active Motor Vehicle Body Painter apprentices.

Figure 34: Motor Vehicle Body Painter Apprentices



In Manitoba, **Partsperson** is a recently designated trade[55]. The apprenticeship is three years consisting of three levels. Red Seal Certificate of Qualification as a journeyperson in this trade (based on a score of 70% or more on an interprovincial exam) is recognized throughout Canada. Practical and technical training is a minimum of 1,800 hours per level. About 80 per cent of the time is spent learning practical on-the-job skills under the supervision of a certified journeyperson and 20 per cent consists of learning the theoretical and technical aspects of the trade through a combination of on-line learning and in-school training. The in-school training for Level 3 is delivered by the Saskatchewan Institute of Applied Science and Technology (SIAST) in Saskatoon.

In order to become accredited as a journeyperson within the collision repair industry in Manitoba, the typical career path involves a combination of work experience and education – usually in the form of apprenticeship. Apprenticeship is quality, low-cost, post-secondary training that leads to certification as a journeyperson in a skilled trade. However, unlike university or college, as an apprentice an individual is paid to learn. Most trade programs take 2-4 years to complete and they combine approximately 80% paid-on-the job training with 20% technical/in-school learning.[56] In Manitoba, the apprenticeship program is administered through the apprenticeship branch of the government of Manitoba. Journeypersons may continue to work as a technician, take on supervisory responsibilities, or become involved in ownership.

ICAR

Formed by the collision industry in 1979, I-CAR is an international, not-for-profit training organization. I-CAR develops and delivers technical training programs to professionals in all areas of the collision industry. In addition, I-CAR provides a communication forum for anyone interested in proper collision repair. I-CAR's primary funding is derived from student tuition and services. I-CAR also maintains an industry training alliance which provides credit for industry delivered training. Partners noted in the training application include 3M, AkzoNobel Coatings Inc., BASF, Dupont and PPG, among many others. Some supplier-provided training is at no cost to the body shop. MPI identifies position-specific designated courses in the I-CAR program. All individuals performing structural welding are also required to have I-CAR welding certification as of December 1, 2009. MPI refunds 50% of the I-CAR annual renewal fee.

[55] Duties and pay rates as described at http://www.gov.mb.ca/tce/apprent/trades/partsperson.html
[56] http://www.gov.mb.ca/tce/apprent/about/index.html

HUMAN RESOURCES IN THE COLLISION REPAIR INDUSTRY – SUMMARY

At a national level the availability of skilled labour has been a significant concern in the automotive repair and service industry at least since 2005, with a persistent and pervasive shortfall expected to continue for several more years. While current employment data is not available for the autobody industry sub-sector, employment in the broader Automotive Repair and Service category declined overall in western Canada from 2006 to 2009 by approximately 6.5%. This was primarily the result of changes in B.C. and Alberta; employment in Manitoba and Saskatchewan has been fairly steady. Thirteen percent of workers in this industry in Manitoba are over 55, compared to 16% in across all occupations. Aboriginal and female workers are under-represented in this industry; immigrants represent a higher proportion than the population overall.

The collision repair industry is dependent upon technicians, skilled in the use of current technologies and applications in the repair of a variety of makes and models of vehicles. Barriers to employment in this industry have been identified as (in descending order) the initial expense of buying tools, low salaries, lack of skills, negative public perception of skilled trades, and industry working conditions. Body Repairer training involves a four-year apprenticeship. Of the trades with four year apprenticeships in Manitoba, the minimum fourth year wage for Body Repairer is among the lowest. Manitoba Job Futures profiles occupations to enable job seekers to choose careers. The high end annual earnings identified by Manitoba Job Futures is significantly lower than average journeyperson wages reported through the MCRIS survey, which, to the degree that this information is referenced, may discourage new entrants.

Wage data was not available for the autobody industry by province. At the broader Automotive Repair and Service industry level, Manitoba wages within the industry (all positions combined) trailed the other western Canadian provinces significantly from 2006 to 2008 before increasing by 24% in 2009. Wages in Manitoba are now approximately 3% below Saskatchewan and 18-19% lower than Alberta and B.C. Wages across all industries average approximately 14% below the other provinces.

A condition of MPI accreditation is to have at least one journeyperson or journeyperson equivalent motor vehicle body repairer. Ongoing annual training is also required to maintain certification, some of which can be gained through suppliers. New technologies continue to drive the need for training. The rate of change is described as “exponential” vs the more steady pace of new technology in the past. CARS estimates that about 40% of new technologies are likely to be fairly widely adopted, and the associated knowledge gaps will be medium to high.

7.0 OTHER JURISDICTIONS MODELS

Manitoba, Saskatchewan and British Columbia are the only public insurance models in Canada. MNP conducted interviews with representatives from the insurers and automotive associations in both provinces to gather information about issues impacting the industry, practices and innovations in other similar jurisdictions.

7.1 SASKATCHEWAN

In Saskatchewan, auto insurance is provided by Saskatchewan General Insurance (SGI), which operates as a monopoly. The Saskatchewan Association of Auto Repairers Inc. (SAAR), and Saskatchewan Automobile Dealers Association (SADA) represent the industry.

Saskatchewan is often used as a comparator for Manitoba given its similarities as well as proximity. A comparison of the provinces is shown below[57].. Strong economic activity in Saskatchewan in recent years has put pressure on wages, as evident in the weekly earnings, which were approximately 3.9% higher than Manitoba in September 2009.

	Saskatchewan	Manitoba
Population 2009-11-30	1,030,100	1,222,000
GDP (millions) 2009-11-10	$63,509	$50,834
Labour Market Size	519,500	608,600
Unemployment Rate	5.2%	5.3%
Participation Rate	69.9%	69.3%
Average Weekly Earnings (Sept 2009)	$814.56	$783.67
Retail Trade (millions)	$1,170,094	$1,258,291

The industry in Saskatchewan is believed to be in poor health at the small and mid level, with little to no growth and the potential for reduction. To an even greater degree than Manitoba, there are a large number of small shops distributed throughout rural areas. A thorough assessment of industry profitability has not been conducted; evidence to suggest a poor state is anecdotal from industry. Associations express frustration with their limited influence in a public insurance environment, citing imbalances in repair shop versus insurer accountability.

SGI implemented a significant increase in the "door rate" or rate per hour of labour for autobody repair effective April 2009, to $67 per hour. The rate increase was driven by industry demand. SGI explored information from operators, claims volume, and costs before determining the appropriate increase to re-balance rates.

An increased number of vehicles are being registered in Saskatchewan, with 50,000 more vehicles and trailers licensed in 2008 than 2007, a five-per-cent increase. The higher number of registered vehicles increased premiums by 9.2 per cent, but was more than offset by higher claims costs and lower investment earnings. Saskatchewan reported a 9% increase in total collisions from 2006 to 2007, including a 15% increase in urban street collisions, and 12% increase in rural road collisions[58].

SGI indicates gross payouts are increasing, from $165 million in 2006 to $202 million in 2008 (22%). The number of claims per capita has remained constant, growing at the rate of population increase. Rising claim costs and reduced investment performance led SGI to implement a premium increase of 4.2% effective November 1, 2009. The

[57] Economic Indicators by Province and Territory, Statistics Canada, 2009-12-16. http://www40.statcan.gc.ca/l01/cst01/indi02i-eng.htm derived from Statistics Canada, CANSIM, tables 277-0001, 277-0002, 281-0028, 382-0006 and 282-0087.

[58] 2007 Saskatchewan Traffic Accident Facts, SGI.

Saskatchewan Auto Fund (SAF) lost $42.7 million in 2008 and had to draw down its rate stabilization reserve (RSR) to $102.5 million[59]. Investment earnings were $61.9 million less in 2008 than the prior year. Claims costs also increased by six per cent in 2008, largely due to inflation costs of repairing vehicles, as well as injury income replacement benefits.

SGI's Accreditation Agreement recognizes journeyperson equivalent body shop repairers that were recognized prior to January 2007, however any new businesses, including purchased businesses, must have a journeyperson body repairer to maintain accreditation status. Trade associations and apprenticeship numbers suggest steady apprenticeship activity (registration data was not available for 2008/09).

There is a labour rate differential for accredited and non-accredited shops in Saskatchewan. The accreditation agreement also references a series of SGI policies, including supplement best practices, and the after-market parts program. The Accreditation Agreement also outlines a series of graduated penalties for non-compliance, including a financial penalty, temporary loss of accreditation status for increasing periods, and finally assumption of deliberate fraud.

SGI's policy regarding aftermarket or recycled parts is that only OEM parts will be used if the vehicle is the current model year, or the customer carries replacement cost coverage under an auto extension policy, otherwise SGI will specify use of recycled parts where available.

Saskatchewan has implemented more on-line and electronic services. SGI's eClaim registration service is a fast and easy way for customers to officially file their auto claim with SGI and, if necessary, set up an appointment to have the damage to the vehicle appraised. As long as the vehicle is registered in Saskatchewan, an auto claim can be filed by using this feature. The system uses a series of on-line forms, with a "progress" meter helping customers to know where they are in the 17 step process.

Saskatchewan has also implemented an ePay system that enables submission of administrative work and immediate payment. Accredited businesses are required to use the ePay system for at least 70% of their payments as of January 2008. Sixty-eight percent of shops now submit via the e-Pay system. Benefits to SGI have included reduced paper and administrative process; cash flow and receivables have improved in shops.

Other on-line services include the ability to search your vehicle's past, including Saskatchewan damage claims, and an on-line bidding system for salvage sales.

Glass claims are filed directly from the shop, saving time and administrative costs between the shop and SGI.

7.2 BRITISH COLUMBIA

In B.C.', the Insurance Corporation of B.C. (ICBC) is the monopoly provider of basic auto insurance, and competes with private carriers for the optional book of business. The Automotive Retailers Association (ARA) and the New Car Dealers Association of BC represent the industry.

The auto repair industry is mature and believed to be overpopulated in B.C. The general "theme" has been toward consolidation, and an increase in banner shops. Profitability is driven by volume and ICBC is concerned that overpopulation increases the potential for failure, creating warranty concerns. In B.C., accredited shops guarantee repairs for as long as you own the vehicle. A number of shops are reported to be "on watch" – going week to week without enough work.

B.C's. declining volumes are exacerbating this situation. Reductions in claims are believed to be partly due to the recent economy. Improved safety as a result of graduated licensing and emerging technologies are expected to

[59] SGI; "SGI requesting increase to auto insurance rates", Regina Leader Post April 6, 2009

continue this trend. Labour rates and declining vehicle values are driving an increase in total losses, further decreasing claims involving repair.

The 2009 Collision Repair Industry Agreement in B.C. increased door rates to $66 per hour, increased payments for materials and refinish labour rates, and tied annual increases in door rates to performance measures. ICBC has agreed to use 100% of Audatex Estimating System refinish times and established a refinish labour rate of $96.21[60].

The labour market in B.C. has been extremely tight, influenced by the demands of the adjacent Alberta economy, and the industry was concerned about losing people from the province. A number of shops have been recruiting through immigration programs. This situation has eased in the past year with the adjustment in the economy.

Industry relationships are characterized as "good to very good" and have improved significantly with the increased autonomy, focus on measuring performance on metrics the shop can control and ICBC efforts at communication, remaining accessible, and paying on time (within 2 weeks)[61]. ICBC indicates efforts to ensure their approach to industry and decision-making is fair, transparent and defendable. There is an ongoing interest in increasing industry autonomy. ICBC plans to implement an electronic audit tool to reduce "friction points", improve consistency and enable more autonomy. Should industry meet their performance targets, an increase in the labour rate to $70 is planned for April 2010. The increase in labour rate is expected to increase the number of total losses.

ICBC has established a Key Performance Indicator program that is believed to be driving some performance improvements. Turnaround time is currently approximately 15 hours, or 5 days based on a 3 hour/day target. Shops must maintain a certain threshold of performance on five basic KPIs to receive the highest rate. These KPIs are weighted, as shown below. ICBC collects the relevant data from repair orders, and reports to the shops quarterly. An example KPI report is attached as Appendix G.

Key Performance Indicator	Calculation Method	Weighting	Target
Repair Cost Indicator	Value of shop's total repairs divided by number of repairs	20%	Regional RCI Area Average
% OEM to Total Parts Cost	% OEM parts (excluding replacement policy claims)	30%	Regional OEM% Area Average
% Total Labour to Gross	Total Labour includes Repair, Replace,Paint, R&I	30%	Regional Total Labour %
Average Cycle Time	Shop's total labour hours divided by total cycle days	10%	3.0 hours Provincial Target
Customer Satisfaction	Customer Satisfaction Index	10%	90% Provincial Target

The ICBC Express Repair Program is designed to offer customers a choice of service options while allowing the repair facility a greater opportunity to effectively manage its business. Participating shops are provided access to business systems and software to estimate ICBC customers' vehicles. The Express Repair program is voluntary and is open to all accredited c.a.r. shop repair facilities that meet the additional criteria of the Express Repair Program.

[60] Collision Repair Industry Agreement, Industry Information Sessions, March 2009
[61] ICBC

Participating shops are required to provide "Valet Service" to the customer, meaning the shop is to manage the alternate transportation needs of their customer with up to a courtesy vehicle. This could include providing customers with a shuttle service, a bus pass or a courtesy vehicle. Benefits to the Express Repair program include improved facility efficiency due to increased throughput and greater control of workflow, and a reduced 'cycle' time for the customer[62]. Approximately 42% of claims qualify for the program[63]. Bodily injury, hit and run, or very old or new policies are not eligible for the program. When the customer files a claim that is eligible for the program, ICBC offers them the option of going directly to a c.a.r. shop VALET facility. Approximately 35% of customers are choosing this option. The customer provides a claim number and registration papers; the shop then completes the estimate on the software provided by ICBC. If the claim is less than $1,500, the shop can start work immediately; if over $1,500, the shop submits the estimate to ICBC for approval. ICBC provides a guaranteed 2 hour turnaround time on these estimates or the shop can start work.

Shop performance is monitored based on 7 primary and 10 secondary KPI's, reported on ICBC and shop estimates. ICBC collects its own data from repair orders to monitor these KPIs and also partners with AutoCheX to independently and objectively measure customer satisfaction levels at shops participating in the VALET program. Key factors used as measures in the customer satisfaction tracking include the shop's ability to keep the customer informed, provide on-time deliveries and quality repairs and the customer's willingness to recommend to shop to friends and family. Approximately 70,000 customers are surveyed annually as part of this customer service tracking. In November 2008, ICBC announced a list of 21 shops that won 2008 AutocheX Premier Achiever Awards, selected out of 9,000 entries from across North America for achieving customer satisfaction scores in the top 5% of shops measured in 2008[64].

ICBC also implements a risk-based auditing program. Some of the more common issues include poor quality photos or missing customer contact information. Of the more serious non-compliance issues, starting work before submitting the estimate sheets is more common. Four hundred and twenty-two shops are in the program out of a total of 771 in B.C.. In 2009, ICBC issued 75 warning letters, 10 shops are on review and 2 shops were removed from the program. ICBC has been able to reduce its own estimating staff by 100 FTE's creating considerable savings for the corporation, net of the additional costs to monitor the program.

[62] Express Repair Program Guide, ICBC c.a.r. shop VALET
[63] ICBC
[64] Collision repair shops win international customer service awards, ICBC Press Release, November 13, 2008.

OTHER JURISDICTIONS – SUMMARY

Manitoba, Saskatchewan and British Columbia are the only public insurance models in Canada. The insurers in both Saskatchewan and British Columbia indicated there is concern with profitability in those jurisdictions as well. From the insurer's perspective in B.C., a significant factor is the number of shops with insufficient volume to be sustainable.

Door rates in B.C. and Saskatchewan are similar at $66 and $67 per hour respectively, approximately 12-13% above Manitoba. The rate in Saskatchewan reflects a significant increase, effective April 2009.

Both Saskatchewan and B.C. have implemented more on-line and electronic services. In Saskatchewan this includes an on-line claim registration for customers and an on-line payment system for body shops. In B.C. estimates can be submitted electronically to ICBC for approval.

The Express Repair program in B.C. enables certain repairs to be estimated by participating autobody shops. ICBC provides these shops with access to business systems and software to enable this process, and monitors activity through a risk-based auditing program. Additional electronic audit tools are planned to improve consistency and enable more autonomy for shops. ICBC has also implemented a Key Performance Indicator system, and provides higher rates to those shops that maintain performance above a specified threshold. These measures include three related to cost, as well as cycle time and customer satisfaction. KPI reports are provided by ICBC, with clear indication of the impact of change on each measure to increase their overall score. ICBC believes this program is driving improvements in performance.

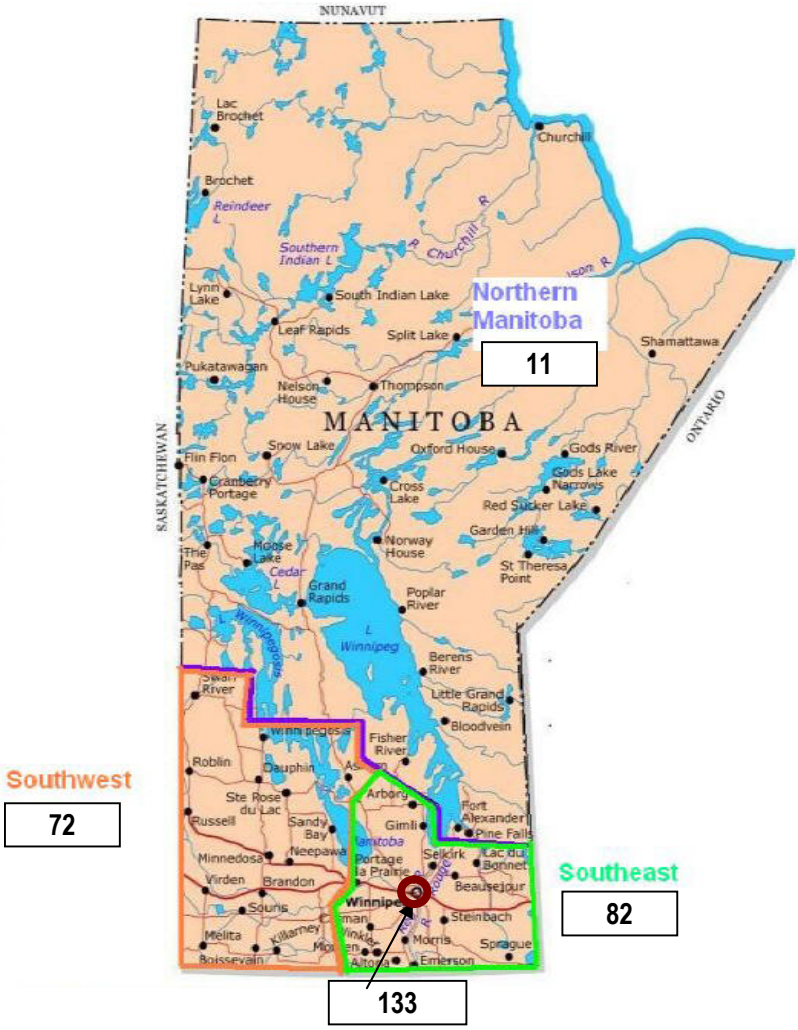
8.0 COLLISION REPAIR INDUSTRY IN MANITOBA

Please note: Unless otherwise referenced, the information in this section was gathered directly from industry participants through stakeholder interviews and the Manitoba Collision Repair Industry Study (MCRIS) survey conducted from August to October 2009.

8.1 SURVEY POPULATION

Surveys were distributed to 298[65] accredited collision repair businesses across the province. For the purposes of this study Manitoba was divided into four regions: Winnipeg, Southeast, Southwest and North. Of the 298 accredited collision repair businesses in Manitoba, 44% (133) are located in Winnipeg, 27% (82) are located in the Southeast region, 24% (72) are located in the Southwest region and 4% (11) are located in the North. Distribution and geographic boundaries for these regions are shown on Figure 35 below.

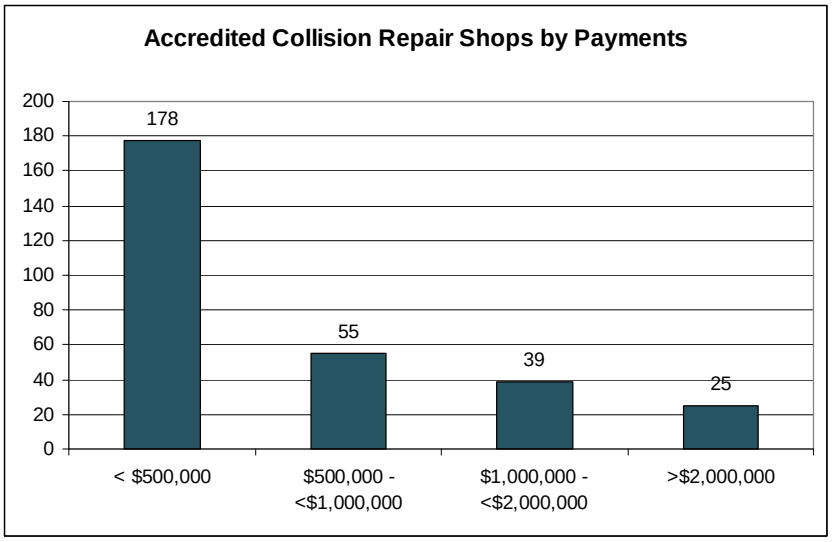
Figure 35: Accredited Collision Repair Businesses by Region – Manitoba



[65] One new accredited business that was not on MPI's 2008 list requested participation.

By revenue size, 60% of the survey population (178 shops) received MPI payments of less than $500,000 in 2008. Nineteen percent of shops received payments between $500,000 and $1,000,000; 13% received payments between $1,000,000 and $2,000,000, and 8% received payments over $2,000,000. Shops over $1 Million in revenue account for 64% of MPI payments in 2008. This breakdown is shown in Figure 36 below[66].

Figure 36: Collision Repair Businesses by Accredited Payments



8.2 SURVEY RESPONSE RATE

Survey responses were received from 127 accredited collision repair businesses, for a total response rate of 43% of accredited autobody repair businesses.

8.2.1 AFFILIATIONS

Respondents were asked to identify their affiliation, if any, with the Manitoba Motor Dealers Association (MMDA) and Automotive Trades Association (ATA). Sixty-five percent of respondents identified as members of one or both associations.

Affiliation	# of Respondents	% of Total
A member of the MMDA	14	11.20%
A member of the ATA	43	34.40%
A member of the MMDA and ATA	24	19.20%
Not a member of either organization	44	35.20%
Total	**125**[67]	**100.00%**

Sixty-four percent of collision repair businesses in the North region responded to the survey. Fifty-one percent of Winnipeg businesses, 37% of the Southeast region, and 31% of the Southwest region responded to the survey. This

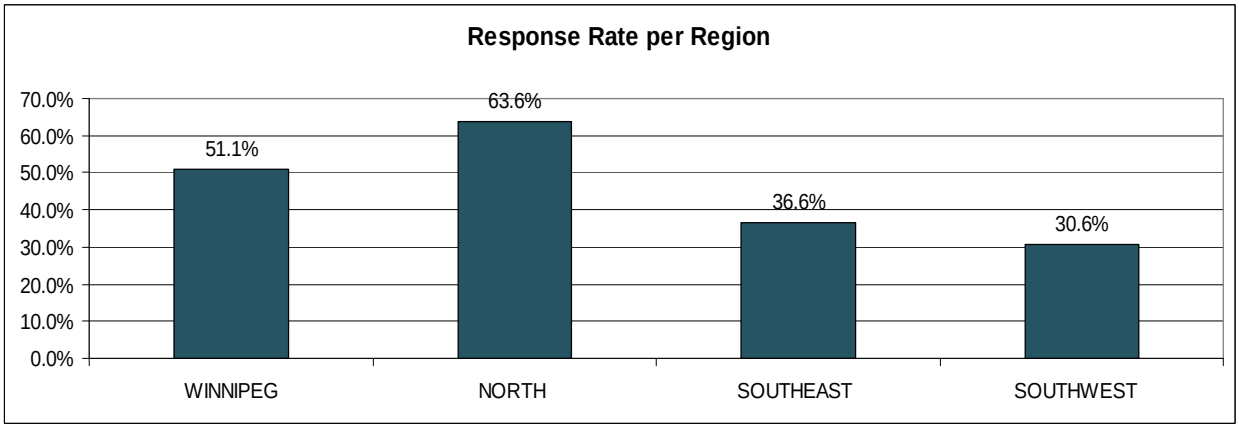
[66] MPI accredited payments list, 2008/09
[67] Two survey respondents did not respond to this question.

results in Winnipeg being over-represented by approximately 9% in survey results; southeast and southwest somewhat under-represented (by 4-7%)

Figure 37: Survey Respondents by Region

	Population		Respondents		
	Number	% of Total	Number	% of Shops in Region	% of Total
Winnipeg	133	44.6%	68	51.1%	53.5%
North	11	3.7%	7	63.6%	5.5%
Southeast	82	27.5%	30	36.6%	23.6%
Southwest	72	24.2%	22	30.6%	17.3%
	298		127		100.0%

Figure 38: Response Rate per Region

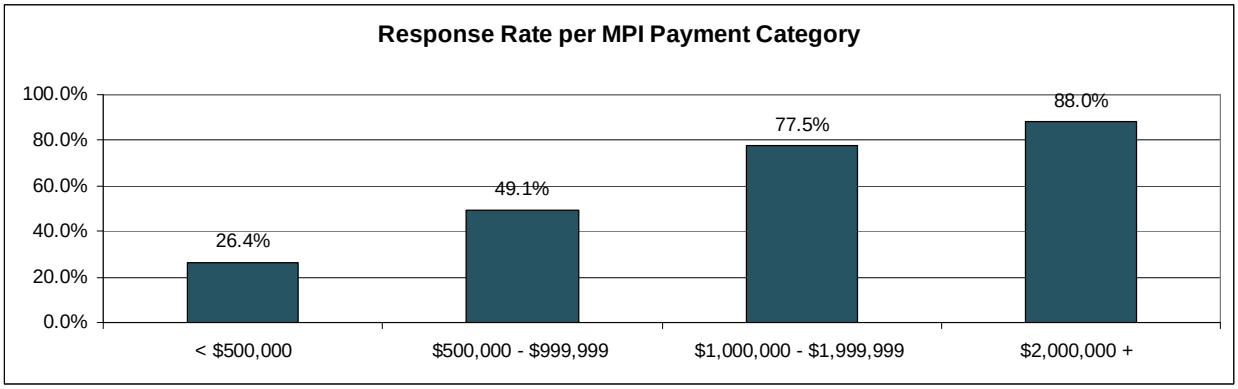


A high proportion of businesses in the higher payment categories responded to the survey; businesses with MPI payments of less than $500,000 were under-represented in the survey response. See Figure 39 below

Figure 39: Response Rate by Payment Category

	Population		Respondents		
	Number	% of Total	Number	% of Shops in Payment Category	% of Total
< $500,000	178	59.7%	47	26.4%	37.0%
$500,000 - <$1,000,000	55	18.5%	27	49.1%	21.3%
$1,000,000 - $2,000,000	40	13.1%	31	77.5%	24.4%
> $2,000,000	25	8.4%	22	88.0%	17.3%
	298		127		100.0%

Figure 40: Response Rate by Payment Category



Total MPI payments to accredited autobody and autobody frame repair businesses were $222,709,654 in 2008. Survey respondents represent $152,326,097 of those payments, or 68% of accredited repair business with MPI.

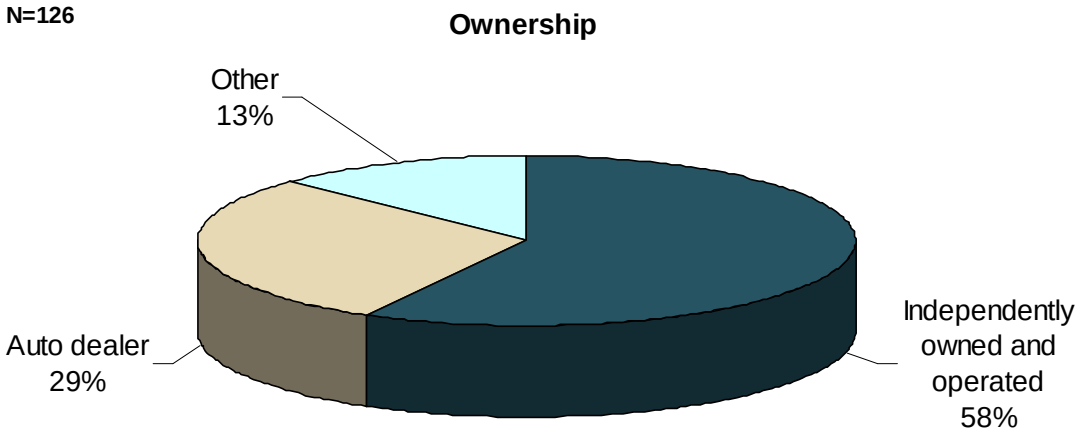
Please note: MPI payments do not reflect total revenue. Not all respondents provided financial data; more detail in this regard is provided in Section 7.6.

Where possible, survey results are shown by geographic region and by revenue category. To maintain confidentiality, results are only displayed for a category if it includes reported results from a minimum of five businesses.

8.3 BUSINESS STRUCTURE

Fifty-eight percent of survey respondents (73) indicated their collision repair business is independently owned and operated, 30% (29) are owned by an auto dealer and 13% (16) indicated some other form of business ownership.

Figure 41: MCRIS Survey Respondents - Ownership Type

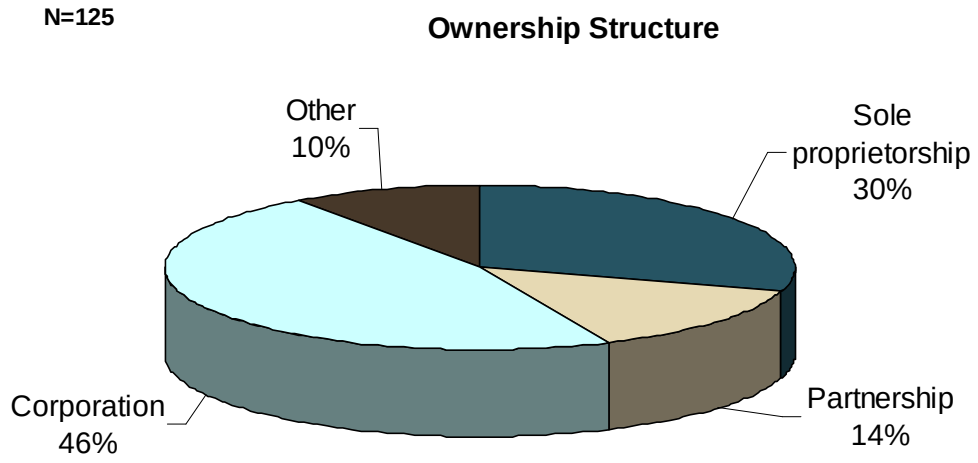


Those survey respondents who indicated "other" for the type of ownership listed multii-location, company owned, company owned auto group, franchise and dealer bodyshop independently owned and operated for their businesses.

The most common collision repair business ownership structure among survey respondents is that of a corporation, with 47% (59), 30% (37) indicated their business is a sole proprietorship; 14% (17) a partnership, and 10% (12) indicated some other ownership structure.

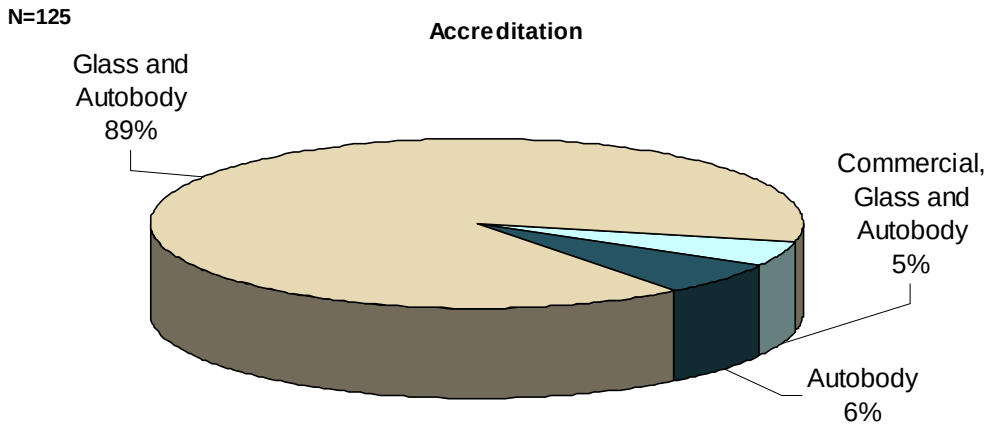
Other ownership structures indicated by survey respondents were 'Income trust public company' and 'Limited'.

Figure 42: MCRIS Survey Respondents - Ownership Structure



Eighty-nine percent (111) of survey respondents indicated they are accredited in both Glass and Autobody, while 6% (8) are accredited in Autobody only and 5% (6) are accredited in Commercial, Glass and Autobody repairs.

Figure 43: Accreditation Status

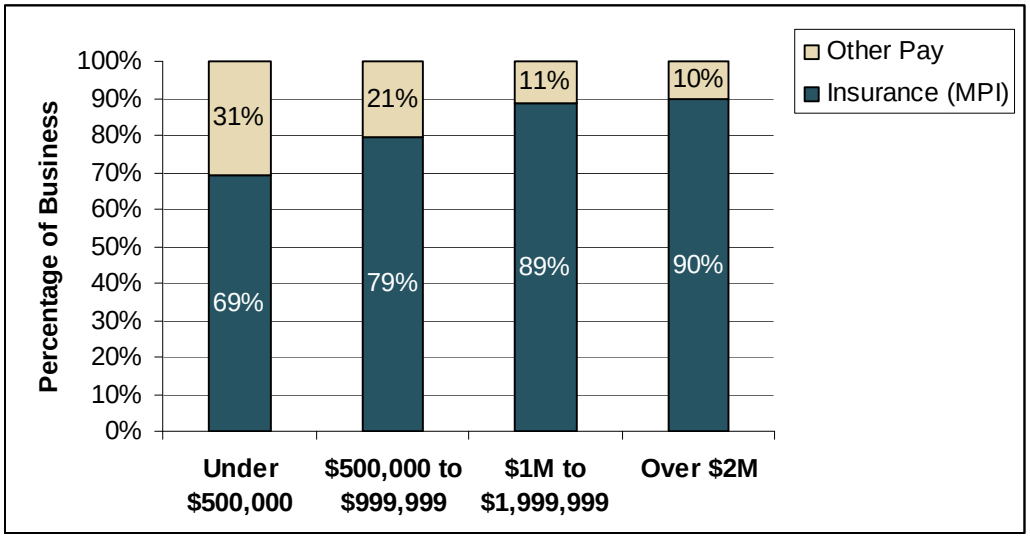


Respondents were asked to identify what category of revenue fit their business. Responses were fairly evenly distributed among the collision repair businesses in terms of their average annual revenues. Of the 125 survey respondents, 24% (30) identified revenues of under $500,000, 33% (42) indicated their collision repair business annual revenues are between $500,000 and $1M, 25% (32) between $1M and $2M and 18% (23) reported annual revenue of over $2M. *Note: This information is based on respondent's selection of a category to describe their business. Analysis based on respondent financial data is presented in Section 7.5.*

Survey respondents indicated that overall, 81% of collision repair business revenues are garnered through MPI insurance work, while 19% of revenues come from other pay.

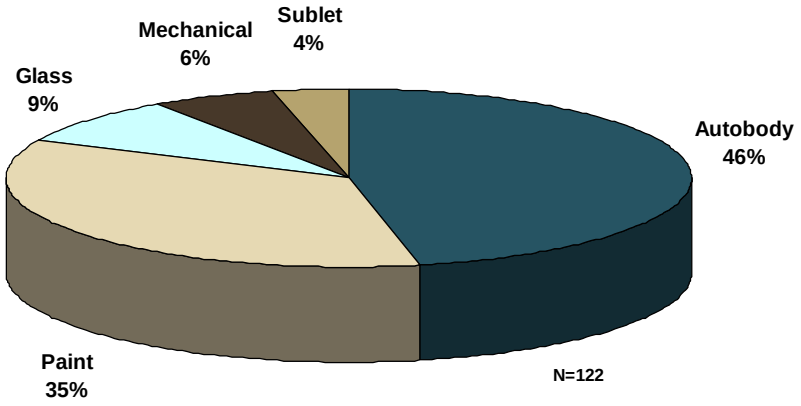
When looking at the survey respondents by revenue category, the chart below shows that as annual revenues increase up to $1,999,999 the percentage of work from other sources decreases.

Figure 44: Percentage of Revenue from Insurance-Paid Repairs, by Revenue Category



As the chart below illustrates, survey respondents indicated that on average 81% of their collision repair business revenues are obtained through autobody (46%) and paint (35%) services, while glass (9%), mechanical (6%) and sublet (4%) make up the remaining 19%.

Figure 45: Revenue Breakdown by Type



Number of Employees

One hundred shops responded to questions about employee numbers. Fifty-nine percent of responding businesses reported less than 10 total employees.

Figure 46: Shop Size by Number of Employees

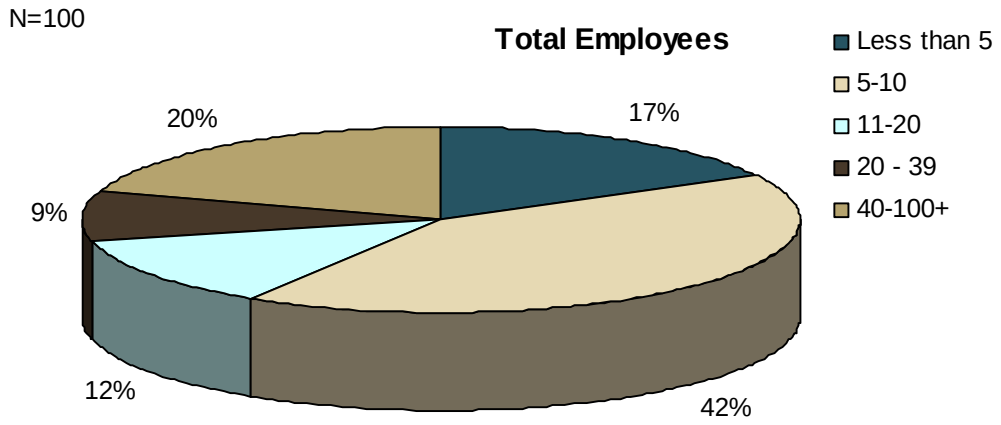
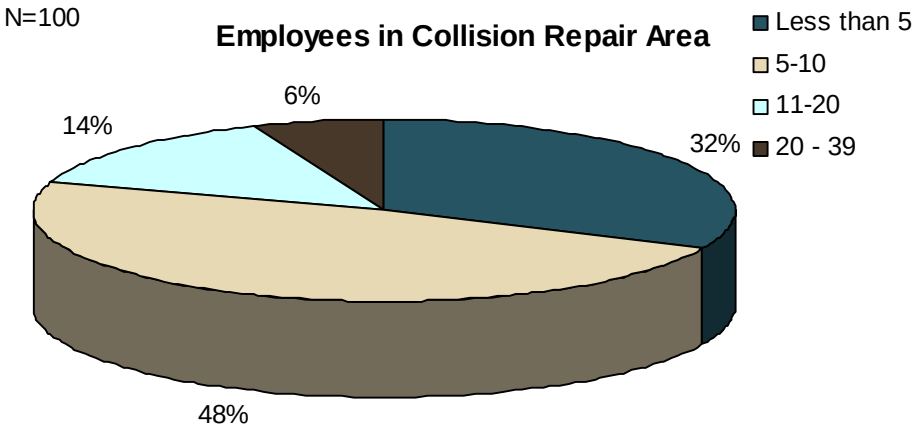


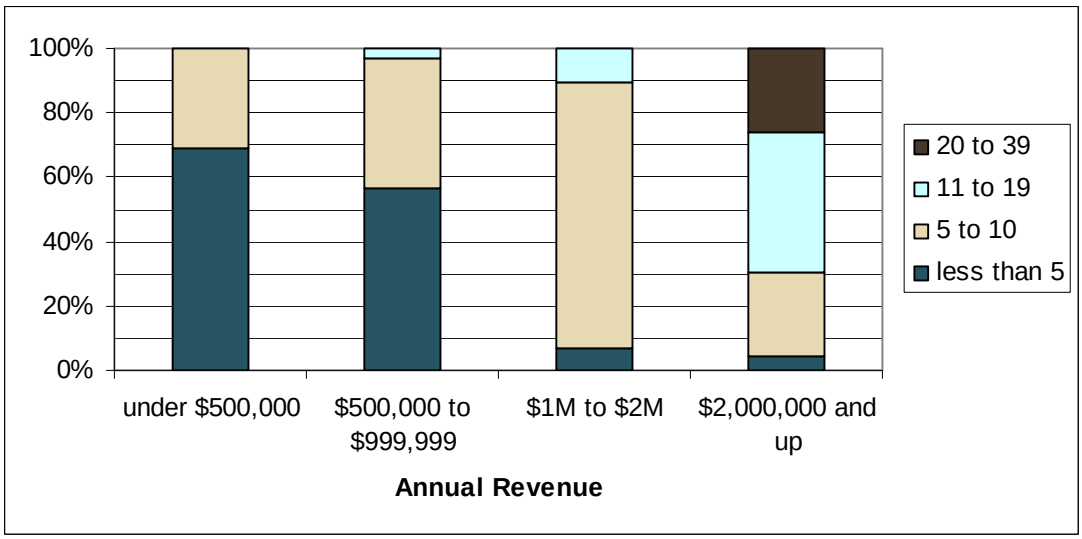
Figure 47: Number of Employees Working in Collision Repair Area



Eighty percent of responding shops indicated that they have less than 10 employees who work in the collision repair area of their business. None of the survey respondents indicated they have more than 39 employees working in the collision repair area.

Figure 48 below shows the percentage of respondents indicating employees in each range in the collision repair area of the respondents' businesses, with the business categorized by annual revenue.

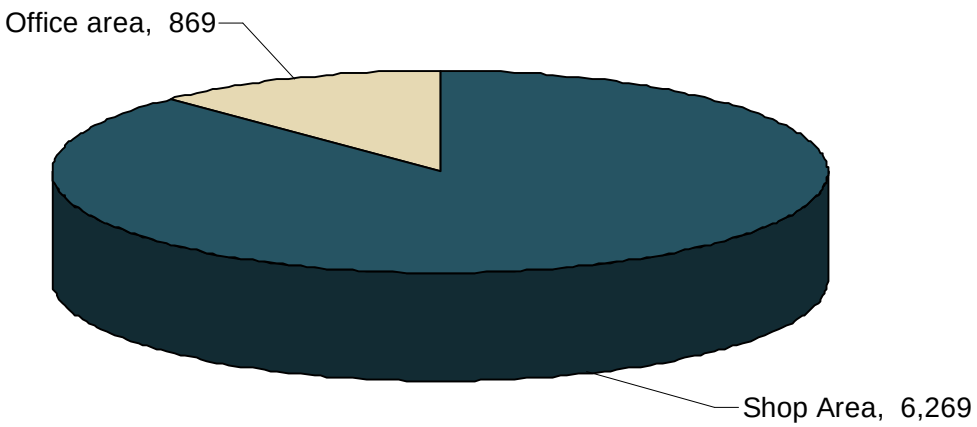
Figure 48: Number of Employees Working in Collision Repair by Revenue Category



Shop Size

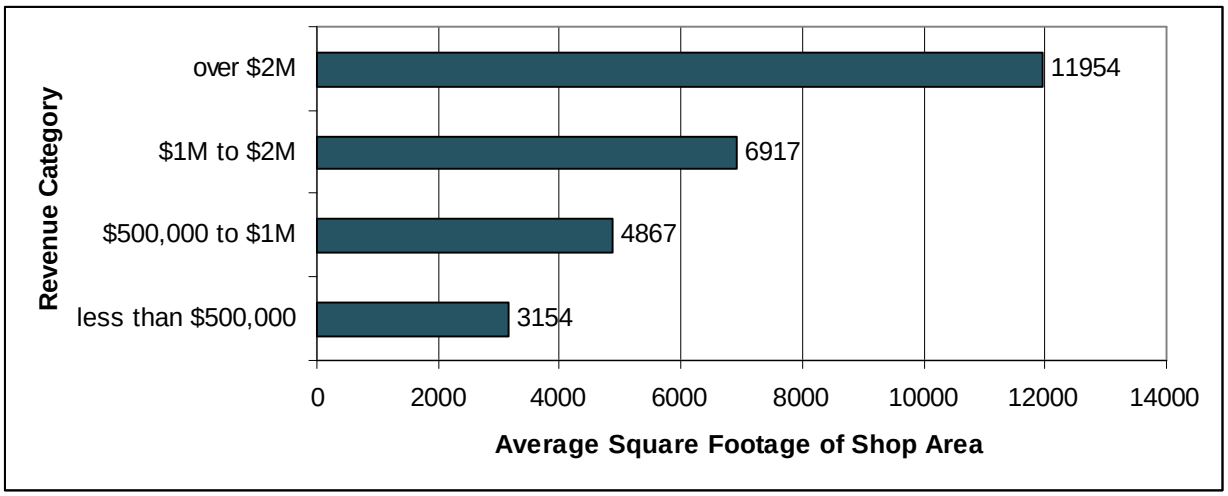
Survey respondents indicated an average shop area of 6,269 square feet, with a corresponding average office area of 869 square feet, or 14%.

Figure 49: Average Shop Size (square feet)



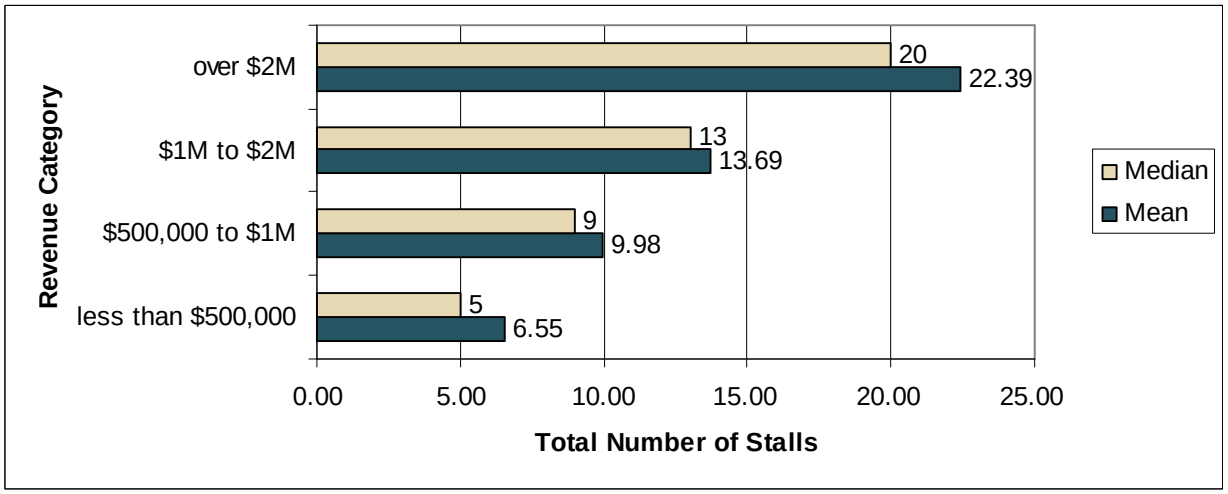
Square footage of the shop floor ranged from 800 square feet to 29,000. Square footage of office area ranged from 50 square feet to 6,100. A breakdown by revenue category is shown in Figure 50 below.

Figure 50: Shop Size by Revenue Category



Survey respondents reported an overall average number of work stalls (including frame machines, detail bays and spray booths) in their shops of 12.4 or a median of 11. The chart below shows the mean and median number of work stalls reported by businesses in each revenue category.

Figure 51: Workstalls by Revenue Category



The mean number of spray booths for the first three revenue categories (under $500,000 to $2M) was 1, with the mean increasing to 2 only for those collision repair business showing revenues of over $2M annually.

8.4 HUMAN RESOURCES

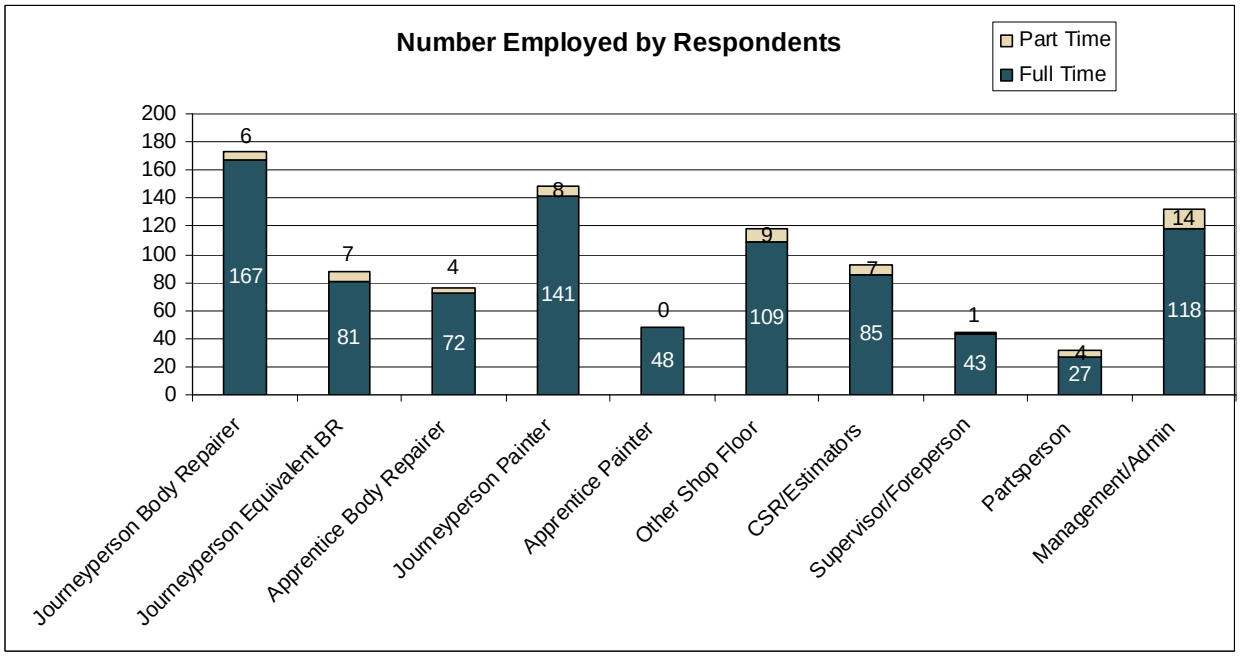
The MCRIS survey asked employers about their current staff complement, demographics, compensation and benefit programs, turnover and future needs for the following identified positions:

- Journeyperson Body Repairer (JBR)
- Journeyperson Equivalent[68] Body Repairer (JEBR)
- Apprentice Body Repairer (ABR)
- Journeyperson Body Painter (JBP)
- Apprentice Body Painter (ABP)
- Supervisor/Shop Foreman
- Other Shop Floor Staff
- Customer Service Representative/Estimator (CS)
- Partsperson
- Management and Administration.

8.4.1 CURRENT EMPLOYMENT

Eighty-two employers provided detailed information regarding the number and demographics of their employees, by position. Responding businesses reported a total of 951 employees. Ninety-four per cent of all employees work full time[69].

Figure 52: Total Number Employed, by Position



[68] As defined in Accreditation Agreement.
[69] Part time includes allocations for owner activity.

The average age of journeyperson body repairers is 42; 41 for journeyperson painters. There are 14 females working as technicians out of 509 individuals in these positions (2.7%); 13 of these are apprentices.

Figure 53: Employment Status and Demographics, by Position

	JBR	JEBR	ABR	JBP	ABP	Other Shop	CS	Super-visor	Parts	Mgmt/ Admin
Part Time	6	7	4	8	0	9	7	1	4	14
Full Time	167	81	72	141	48	109	85	43	27	118
Female	1	0	6	0	7	5	38	2	5	67
Avg. Age	42	42	25	41	28	30	39	44	41	45
55 and over	3	1	0	3	0	2	4	8	6	11

The following represents the average and median number of individuals by position as reported by employers responding to the survey. The median "staff complement" includes five shop and two office staff (including owner).

Figure 54: Average and Median Employees per Business, by Position

	Full Time		Part-Time	
Position	**Average**	**Median**	**Average**	**Median**
Journeyperson Body Repairer	1.7	1	.06	0
Journeyperson Equivalent Body Repairer	.8	1	.07	0
Apprentice Body Repairer	.7	1	.04	0
Journeyperson Body Painter	1.42	1	.08	0
Apprentice Body Painter	.48	0	0	0
Other Shop Floor Staff	1.10	1	.09	0
Customer Service/Estimator	.86	1	.07	0
Production Supervisor / Foreperson	.43	0	.01	0
Parts	.27	0	.04	0
Management / Administrative Staff	1.19	1	.14	0

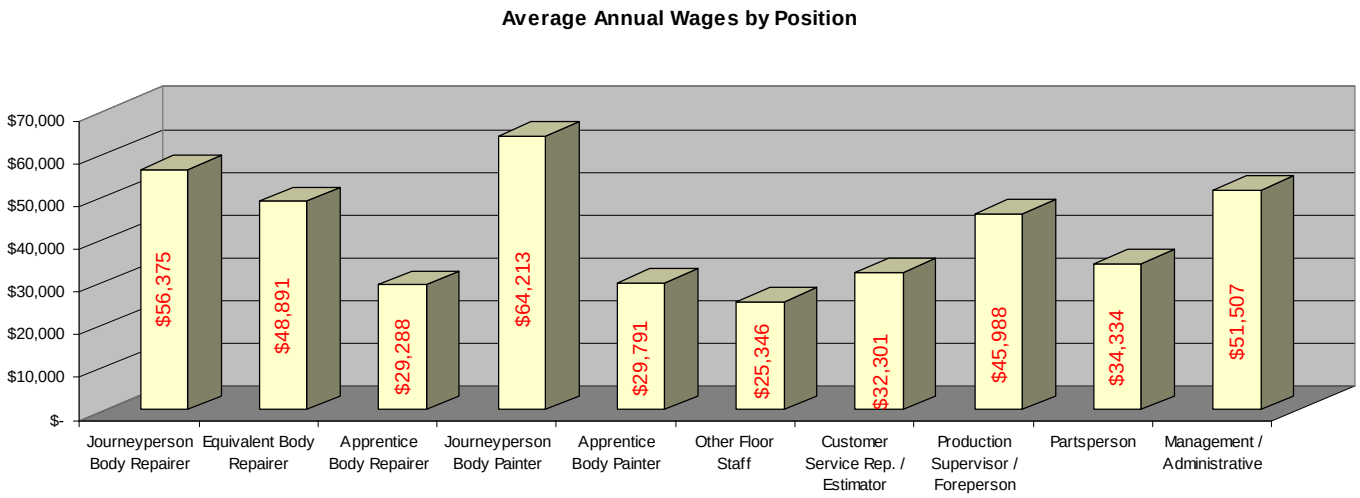
8.4.2 COMPENSATION

Employers responding to the MCRIS survey reported annual wages as identified below.

Figure 55: Annual Pay, by Position

Annual Pay for Full Time Employees	Low	High	Average Low – Average High
Journeyperson Body Repairer	30,000	162,000	50,749 – 62,002
Journeyperson Equivalent Body Repairer	26,326	107,000	46,271 – 51,512
Apprentice Body Repairer	15,000	75,500	27,748 – 30,829
Journeyperson Body Painter	20,892	155,195	59,521 – 68,905
Apprentice Body Painter	20,000	58,100	28,551 – 31,032
Other Shop Floor Staff (prep, detailers etc.)	13,500	62,327	23,588 – 27,105
Customer Service/Estimator	14,400	94,682	30,208 – 34,394
Production Supervisor/Foreperson	27,600	65,477	44,117 – 47,860
Parts	14,173	78,000	32,464 – 36,204
Management/Administration	16,000	162,990	46,312 – 56,703
Owner (not including dividends)	6,000	100,000	45,365 – 52,612

Figure 56: Average Annual Wages by Position



Forty-nine percent of businesses report offering some form of variable pay. Of these, flat rate or other production bonuses were the most common at 81%. Nineteen percent offer a fixed lump sum bonus.

Eighty percent of responding businesses offered some form of benefits; 88% provide the same benefit package to all employees.

Of those respondents who offer benefits to their employees, over 90% offer basic employee life insurance, long term disability, basic dental care and prescription drug coverage, and at least 65% of respondents offer accidental death and dismemberment, extended health care, paramedical benefits and dependent life insurance in their standard benefits package. With the exception of optional life Insurance, which is typically employee paid, all other standard package benefit premiums are split between the employee and employer.

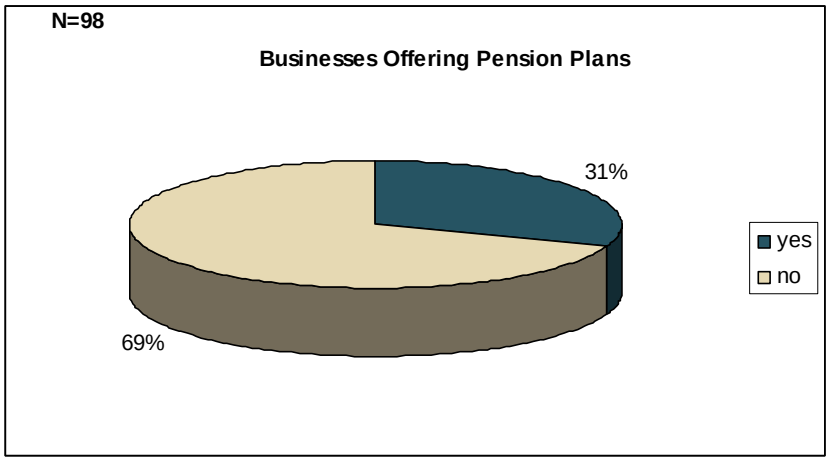
A much smaller number of respondents offer an enhanced package of benefits to some employees, with between 10% and 25% of business offering the items listed below in an enhanced package. Like the standard package, most premiums are split between the employer and employee, with the exception of long term disability, life insurance and optional life insurance which are typically paid by the employee.

Figure 57: Benefits Offered

Benefits Offered	Offer In Standard Package	Offer In Enhanced Package
Basic employee life insurance	95%	18%
Long term disability	90%	23%
Dental care (basic)	90%	24%
Prescription drug	90%	23%
Accidental Death or Dismemberment	85%	15%
Extended health care	83%	22%
Paramedical benefits	74%	23%
Short term disability	69%	20%
Dependent life insurance	65%	17%
Dental care (major)	56%	17%
Vision	55%	17%
Optional life insurance	54%	14%
Critical illness insurance	45%	10%
Dental care (orthodontic)	42%	18%
Employee and Family Assistance Program	40%	13%
Other	3%	2.6%

Thirty-one percent of MCRIS respondents offer a pension plan of some sort to their employees, with an average maximum contribution of 10.4% of annual earnings and a corresponding average employer maximum contribution of 2.3%.

Figure 58: Businesses Offering Pension Plans

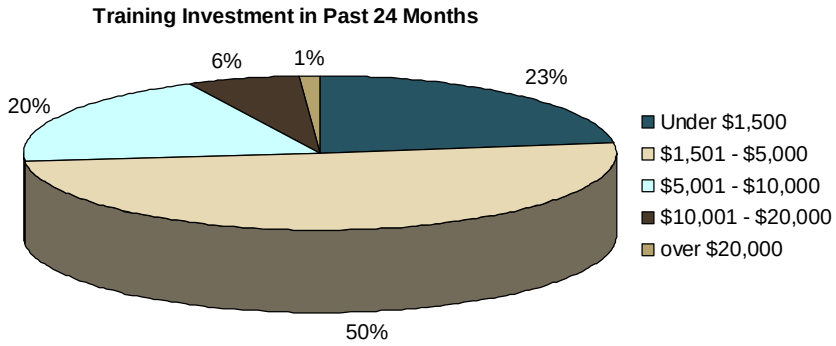


8.4.3 TRAINING

Employees in the collision repair industry require ongoing training due to changing technology, materials, environmental and safety legislation, certification and accreditation requirements.

Half of the MCRIS survey respondents identified training investments of between $1,500 and $5,000 in the past 24 months. This is expected to under-represent the full cost, as technician time to participate in training may not be included in this cost, and any travel and related expenses may also be captured in other general expense categories. Suppliers in the industry may also provide training at no cost.

Figure 59: Training Investment in Last 24 Months



Training received in the last 24 months by MCRIS respondents is listed below in descending order of frequency.

Figure 60: Training in Past 24 Months

1. Waterborne/painting/refinishing	15. Customer service
2. Various ICAR courses	16. Car and materials manufacturer specific training
3. Health and safety (including WHMIS and First Aid)	17. Structural repairs
4. Management and business training	18. Mechanical
5. Estimating	19. Quality
6. Lean production and management	20. Technology advancements and upgrades
7. Human resources	21. Wind noise and water leak
8. Hybrid and electric	22. Suspension
9. Mitchell system (Utramate, Imagemate)	23. Plastic repair
10. Apprenticeship	24. Key performance
11. Frame and alignment	25. Detailing
12. Aluminum repair	26. Electronic steering
13. Air conditioning	27. Advanced restraint systems
14. Computer systems and applications	28. Seminars and trade shows

MCRIS respondents identified the following training requirements for the next 24 months, listed in order of descending frequency.

Figure 61: Training Requirements

1. Various ICAR courses and upgrading	12. Frame and suspension
2. Waterborne/painting/refinishing	13. Human resources
3. Apprenticeship/journeyperson	14. Management/production
4. Estimating	15. Accounting
5. Lean production and management	16. Car and materials manufacturer specific training
6. WHMIS	17. Mechanical
7. Welding	18. Electronics
8. Mitchell system	19. Air conditioning
9. Computer systems and applications	20. Aluminum
10. Customer service	21. Seminars and trade shows
11. Hybrid and electric/new technologies	22. Wind noise

Concerns were raised by survey respondents that formalized training such as apprenticeship technical training and pre-employment programs are not teaching modern technologies and processes. There is a belief that new workers/apprentices are entering the workforce without the necessary skills. Red River College has recently undergone a validation exercise for Collision Repair and Refinishing involving a national comparison of training programs, and is about to undergo a full "DACUM" or thorough review of the curriculum with industry technicians to

determine the training requirements from entry to journeyperson status. The College has a policy of using vehicles for pre-employment training that are 10 years old or less to ensure development of relevant knowledge and skills[70].

While some survey respondents expressed frustration at required ICAR training, others expressed the need for increased training, specifically more training to respond to changing technology and access to this type of training in smaller centres. In spite of the above, the industry significantly lags best practice in its investment in training.

8.4.4 Recruitment and Retention

Employers were asked how many people left their employ by position in the past year. The highest rate of turnover was among other shop floor staff and customer service/estimator positions. Among the technician group, turnover was highest for journeyperson and journeyperson equivalent body repairers at approximately 27%.

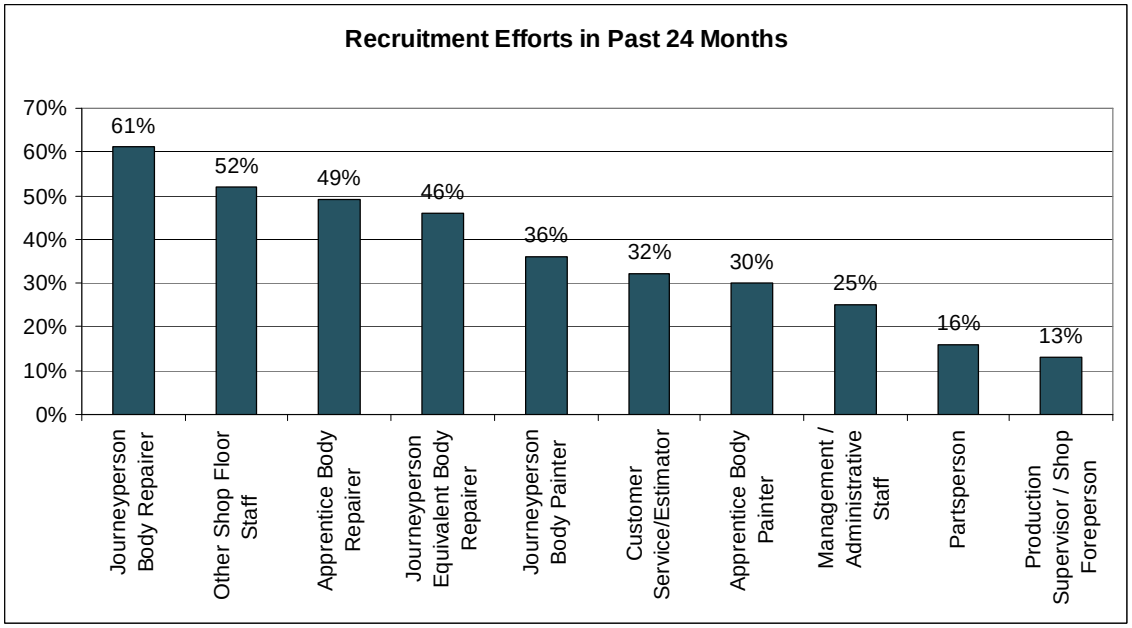
Figure 62: Turnover Rates by Position

Position	Total Employees Reported	Reported Turnover	Rate
Journeyperson Body Repairer	173	47	27.2%
Journeyperson Equivalent Body Repairer	88	24	27.3%
Apprentice Body Repairer	76	14	18.4%
Journeyperson Body Painter	149	17	11.4%
Apprentice Body Painter	48	11	22.9%
Other Shop Floor Staff (prep, detailers etc.)	118	80	67.8%
Customer Service/Estimator	92	37	40.2%
Production Supervisor/Foreperson	44	9	20.5%
Parts	31	7	22.6%
Management/Administration	132	20	15.2%

[70] Neil Cooke, Red River College

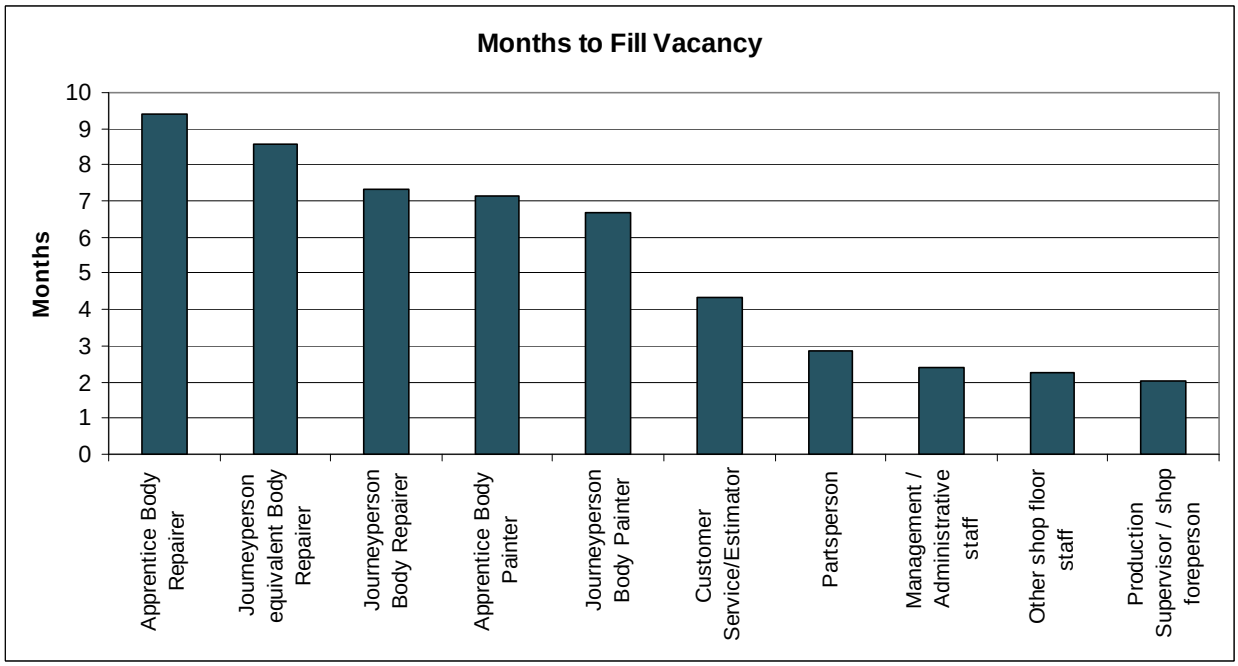
Over 60% of businesses responding to the MCRIS survey reported trying to hire a journeyperson body repairer in the past 24 months.

Figure 63: Positions Employers Recruited in Last 24 Months



Recruitment efforts for apprentice body repairers took the longest, at an average of approximately 9 months. Businesses reported periods of 7 to 8 months to recruit Body Repairers. Painters were found within approximately seven months. Parts, management and administration and other shop floor staff were generally found within approximately 2-3 months.

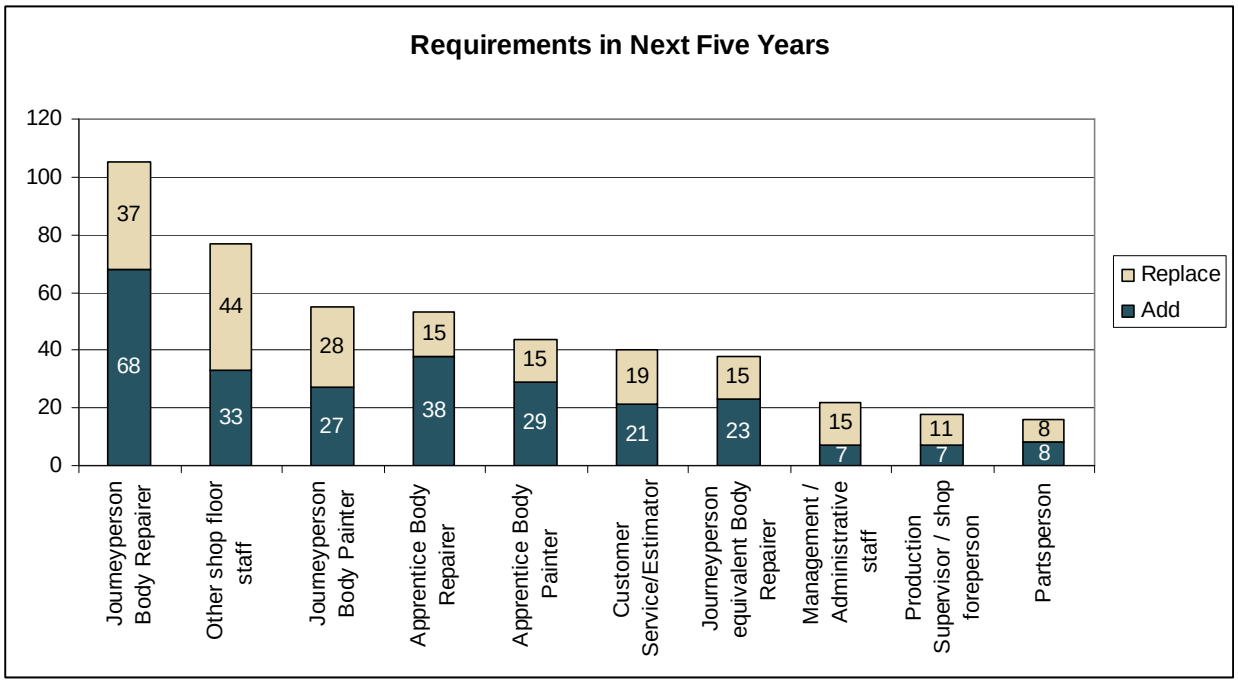
Figure 64: Time to Fill Vacancies



A shortage of skilled labour was one of the most frequently cited concerns by employers responding to the survey. The highest demand position in the next five years is for Body Repairers (journeyperson or journeyperson equivalent), with respondents indicating 143 are needed in the next five years. This information was obtained from 82 respondents out of 298 surveyed, representing approximately 50% of payments made to accredited bodyshops by MPI. Fifty-two of these are replacement positions, which represent a replacement rate of 20% in the next five years for the reported number of 261 combined journeyperson and journeyperson equivalent body repairers. If the 261 represent half of the population, the estimated current employment would be 522. A replacement rate of 20% over the next five years would result in approximately 104 journeypersons needed for replacement of existing employees.

Sixty-eight of the total required journeypersons are to allow for growth. This would increase the current number employed by responding employers by 26%. As the rate of growth in claims is expected not to exceed population growth, projected at an annual average of 1.2%[71], these positions can reasonably be expected to be largely at the expense of other businesses. Based on estimated current employment of 867[72], an annual increase of 1.2% annually for five years results in a requirement for 53 additional Journeypersons. This combines with replacement requirements for a total demand of 157 journeypersons. Fifty-three (53) apprentices are also expected to be required by respondents, suggesting total demand of 106 for the province. If this demand for journeypersons and apprentices is met through the apprenticeship program, completion (and retention in the province) of all 147 active apprentices and the addition of 116 new apprentices are required in the next five years. If a 75% combined completion and retention rate is achieved, supplying 110 journeypersons from the current 147 apprentices, approximately 170 new apprentices are required in the next five years for an average of 34 per year. On average, 21 apprentices have completed the program in the past three years, suggesting an approximate 60% increase in apprenticeship training is required. This can be expected to be somewhat high, in that it is based on the assumption that all journeypersons in the province are currently fully utilized and productive in collision repair.

Figure 65: Staffing Requirements Next Five Years



[71] Manitoba's Future Population Growth, 2009 to 2028. Manitoba Bureau of Statistcs

[72] Based on Manitoba Job Futures estimate of 1,445 technicians in 2006, of which it is estimated 60% are body repairers, 40% painters.

8.4.5 Recruitment and Retention Concerns

The major human resource challenges facing the industry, as identified by survey respondents, include an insufficient pool of skilled labour and high turnover attributed to lower wages than comparable trades, and challenges maintaining the required skills to keep up with technology.

MCRIS survey respondents confirmed the concerns expressed by industry associations related to door rates. The door rate of $58.63/hour for autobody compared to mechanical rate of $90/hr. Low door rates impact the wage the shop can pay technicians. This has made it difficult to attract and retain qualified employees. A higher proportion of the door rate must be paid to technicians in an effort to be competitive in the labour market, making it difficult to be profitable.

Industry contacts estimated average repairer efficiency in Manitoba of 124%. Applying this to average annual earnings of $56,375 results in an average hourly rate of approximately $21.85, or approximately 37% of the door rate of $58.63. Painter efficiency was identified as 129%. Applied to average earnings of $64,213 this equates to approximately $23.93 per hour. Overall labour gross profit, including benefits was identified as 58%.

8.5 Major Business Processes

The major business processes that cause interaction between MPI and collision repair businesses include the estimate and supplemental estimate process, parts procurement and account reconciliation. An overview of the estimate/supplemental estimate and parts procurement processes is attached as Appendix H.

8.5.1 Estimate and Supplemental Estimate Process

Customers contact MPI by telephone to report an accident. Details of the accident are taken from the customer and the Claim Centre staff creates a Request for Vehicle Action. An adjuster investigates the claim, and explains the customer's repair and appeal options. The customer is given a time and date to report to a MPI Claim Centre for an estimate of damage. There is one Claim Centre and four Service Centres in Winnipeg and nine Claim Centres and four Service Centres in rural Manitoba (Brandon, Steinbach, Thompson and Winkler). At the claim centre, an Estimator examines the vehicle and records the damage into a computerized estimating system that calculates parts prices, replacement labour and overall cost. This estimate is given to the customer, who then takes it to a body shop to conduct the repair.

At the shop, a technician or estimator will examine the vehicle. If additional repairs are identified as necessary, the shop will complete an Estimate Amendment Form and submit it by fax to MPI. Digital photos are emailed to provide evidence of the requirement. MPI reviews the amendment form and completes a Repair Estimate Supplemental Authorization. If approved, this authorization is faxed back to the shop. If the amendment cannot be approved based on the submitted information, a MPI estimator will attend the body shop to evaluate the repair requirement. The estimator will modify the estimate, submit it for a system check and if acceptable, print the estimate and release it to the repair shop. If the change is not approved, the body shop will consult with the customer for approval or direction. The supplemental estimate process may occur multiple times throughout the repair.

MPI provided the following fiscal year data on supplement frequency (number of supplements to estimates created):

- 2006 - 81% frequency
- 2007 - 77% frequency
- 2008 - 67% frequency

Mitchell reports that 33% of all original estimates prepared by Canadian Mitchell-equipped estimators during that period were supplemented one or more times. The pure frequency (supplements to estimates) was 64%[73], a 5% increase over the same period last year.

As part of the Accreditation Agreement, MPI has agreed to explain estimating policies to customers, including the use of recycled or aftermarket parts, and the requirement on the part of the customer to pay deductibles and/or depreciation. Depreciation relates to the difference in cost between a used part that may be the equivalent of the damaged part and a new part where it is not feasible to replace the part with a used part (e.g., a partially worn tire).

8.5.2 Parts Procurement Process

As part of the estimating process, the MPI estimator will contact the Recyclers Central Office (RCO) to determine if recycled parts are available. The RCO, an arm of the Automotive Recyclers Association of Manitoba, broadcasts the need to all recyclers. The recycler that replies first and/or can supply the most parts is asked to hold the part for 10 days. When a recycled part for the make and model year is available, it will be required for use in the repair. When an estimate is received by the body shop that includes a requirement to use recycled parts, the body shop will contact the RCO to source the recycled part. The RCO will provide the location and contact information for the source of the part. The shop will then contact the supplier. If the part is still available from the supplier, the body shop will order the part. Upon delivery, the shop will examine the part. If it is useable, the part will be installed. If it is not useable, the part is returned and a cancellation number is provided by the part supplier. If the recycled part cannot be used, and another recycled part is not available, the body shop will contact the claim centre to receive approval to use an after-market part. The RCO reports that the 2008 re-broadcast rate was 18.5%, which includes circumstances where an incorrect part was supplied, the part is of inferior quality, the 10 day hold expired, or the shop or insured was not willing to accept a like-kind-quality part.

8.5.3 Account Reconciliation

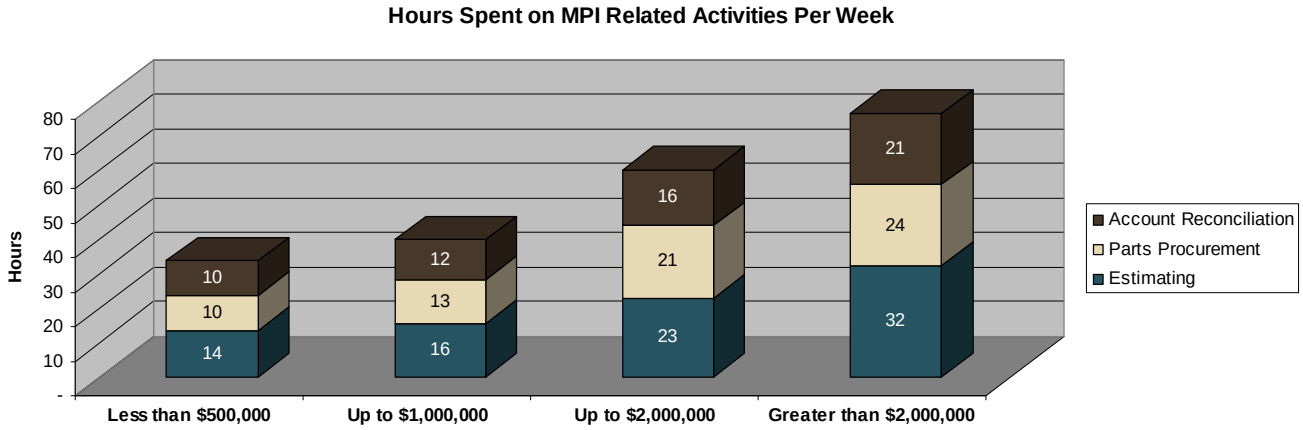
Upon completion of a repair, the Body Shop submits its account to MPI for payment. Reconciling payments to estimates and invoices is reported to be time consuming.

8.5.4 Time Required for MPI Processes

The MCRIS survey asked employers to estimate the number of hours per week spent on each of the identified business processes. Respondents identified an overall average of 24 hours per week for estimating, 19 hours per week for parts procurement and 16 hours per week for account reconciliation. Time varies by volume of activity, as shown below, ranging from 34 hours per week for very small shops to 77 hours for shops >$2 million in revenue.

[73] Mitchell Industry Trends, Q2 2009

Figure 66: Average Hours Per Week Body Shops Spend on MPI Processes



8.5.5 RELATIONSHIP WITH MPI

Survey respondents were asked to comment on the business relationship with Manitoba Public Insurance, taking into consideration areas for improvement and those areas that are working well. A summary of the most frequent responses is shown below.

Please note: the following reflects the views of respondents, not analysis or review of the processes by Meyers Norris Penny.

What is working well in your relationship with Manitoba Public Insurance?

1. Working relationships with MPI staff, and their level of knowledge, especially estimators and adjustors, are working well.
2. Use of photo imaging has sped up the supplemental process.
3. Direct deposits have increased the timeliness of payments from MPI.
4. Increased automation of processes, including pulling claims down electronically from MPI, the Ultramate system and electronic communications are recognized improvements.

What improvements could be made to the business relationship with Manitoba Public Insurance that would positively impact the future health of the collision repair industry in Manitoba?

1. Aftermarket and recycled parts policies and processes

- Delays in sourcing parts result in increased overall time from accident to repair for the customer and higher costs to the autobody business, including reduced productivity and throughput, use of shop space, and extended use of courtesy cars by customers when recycled parts are ordered and found to be in poor condition. Delays are particularly problematic in rural areas.
- High return rate and administrative handling for re-cycled parts that are unuseable because of damage or rust.
- Customers are generally unaware that their insurance does not cover OEM replacement parts on cars over 20,000 km and are dissatisfied when they learn they must pay extra if they choose to have OEM parts.

2. More accurate, consistent estimation process

- Supplemental estimate process creates delays. Enabling shops to perform estimates would reduce the frequency of the need for supplemental estimates.

- Estimates frequently provide insufficient blending time.
- Over-rides on the Ultramate estimation system create inconsistency.
- Standardization of policies and procedures for all claim centres and all estimators to improve consistency and reduce 'red tape'.

3. More automated processes

- Enable electronic submission of all required forms
- Increased automation has significant potential to improve turnaround times and reduce handling of supplemental estimates.
- Work together to maximize the potential of software (ie. Mitchell system)

4. Improved client service

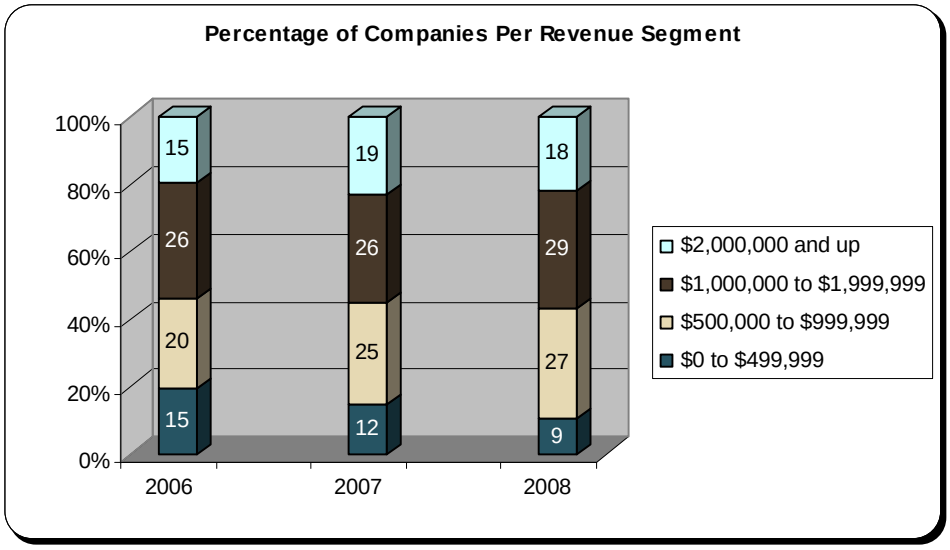
- Customers require a more thorough explanation of estimate and MPI policies and procedures to customers by MPI estimators, including as relates to alternative parts, depreciation and taxes. MPI's responsibility to do this is part of the Accreditation Agreement but is not consistently done.

8.6 FINANCIAL PERFORMANCE

Eighty-three (83) businesses provided detailed financial data. As shown below, the number of businesses providing detailed financial information in the under $500,000 revenue category is small, and represents only approximately 6% of accredited businesses with revenue under $500,000. ***As a result, findings for the revenue category below $500,000 are provided for illustration only, and cannot be extrapolated to the population of businesses in the category as a whole***.

The number of responding businesses with revenues in the under $500,000 category declined from 2006 to 2008, indicative of revenue growth in these businesses as shown in Figure 67 below.

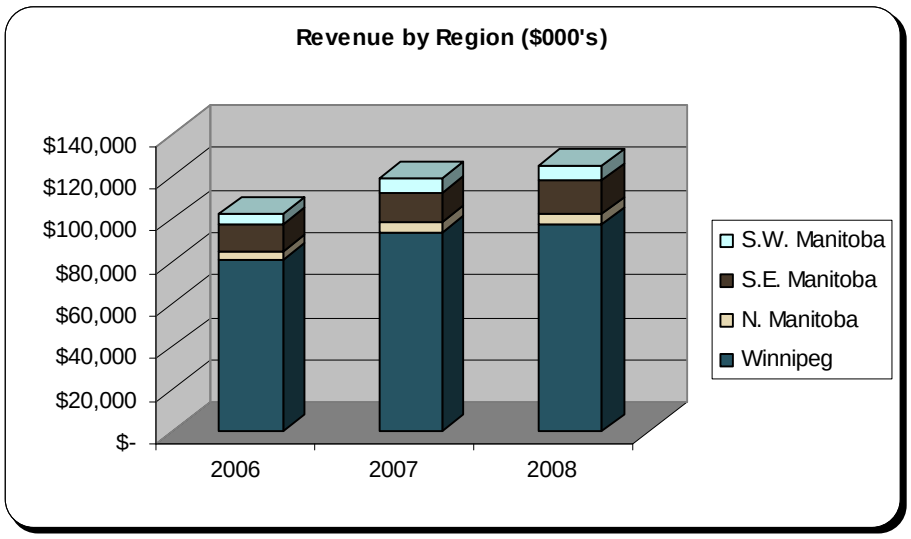
Figure 67: Business Reporting Revenue, by Segment



Total revenue for all businesses reporting revenues was $125.5 million in 2008. By region, Winnipeg businesses represent approximately 80% of total reported revenues. Overall, reported revenues increased by 22%, however 9%

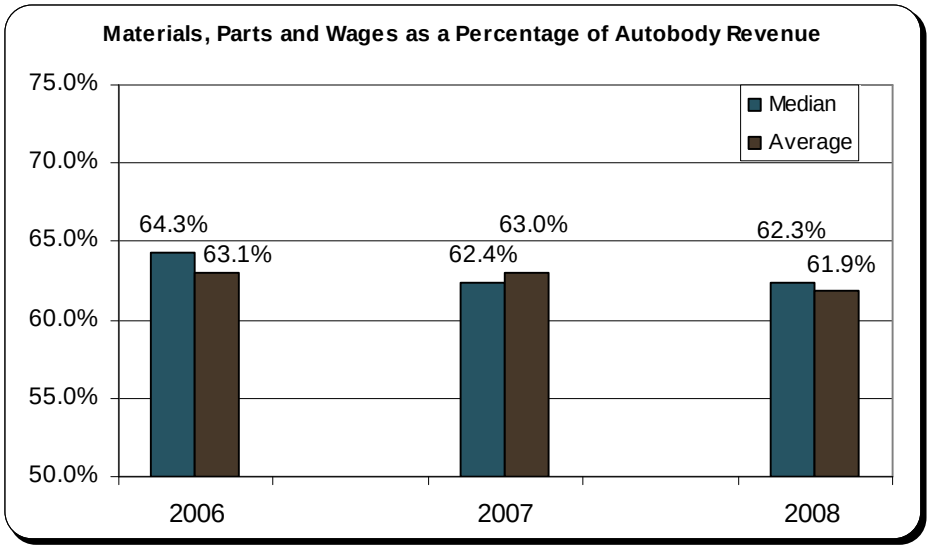
of businesses reporting data in 2008 did not report revenue in 2006. This was a result of a number of factors, including availability of accounting data over two years old. As a result, an overall growth rate cannot be reliably calculated.

Figure 68: Respondent Revenue by Region



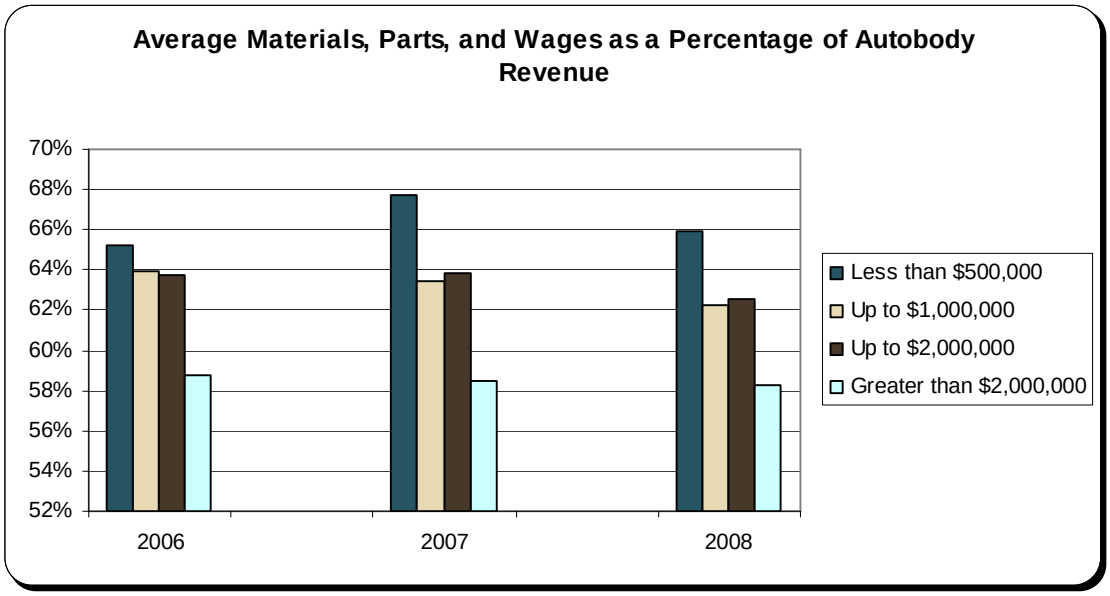
Cost of sales averaged approximately 62% in 2008. While there appears to be an improvement since 2006, based on the standard deviation, the difference is not statistically significant.

Figure 69: Materials Parts and Wages



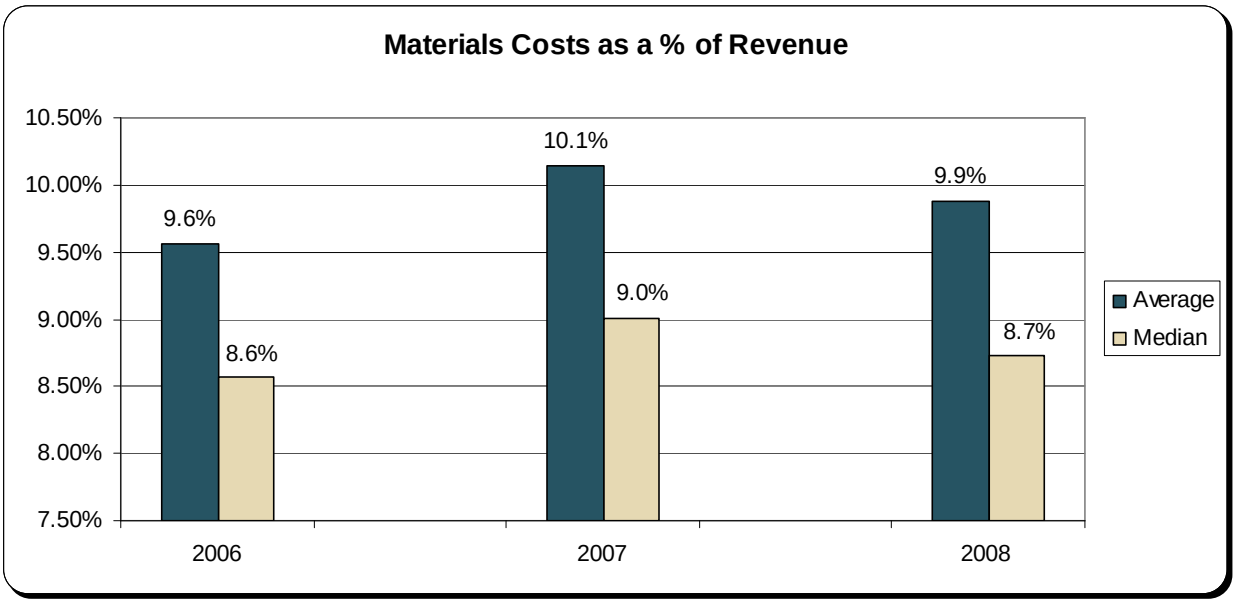
By revenue category, average cost of sales improves significantly with business size. Again, data for the under $500,000 revenue category reflects a very small sample and cannot be reliably used to estimate the overall experience for this category. Costs of sales do however seem to vary with size. The average reported cost of sales for businesses between $500,000 and $2 million was 62%, compared to 58% for businesses over $2 million.

Figure 70: Materials, Parts and Wages by Revenue Category



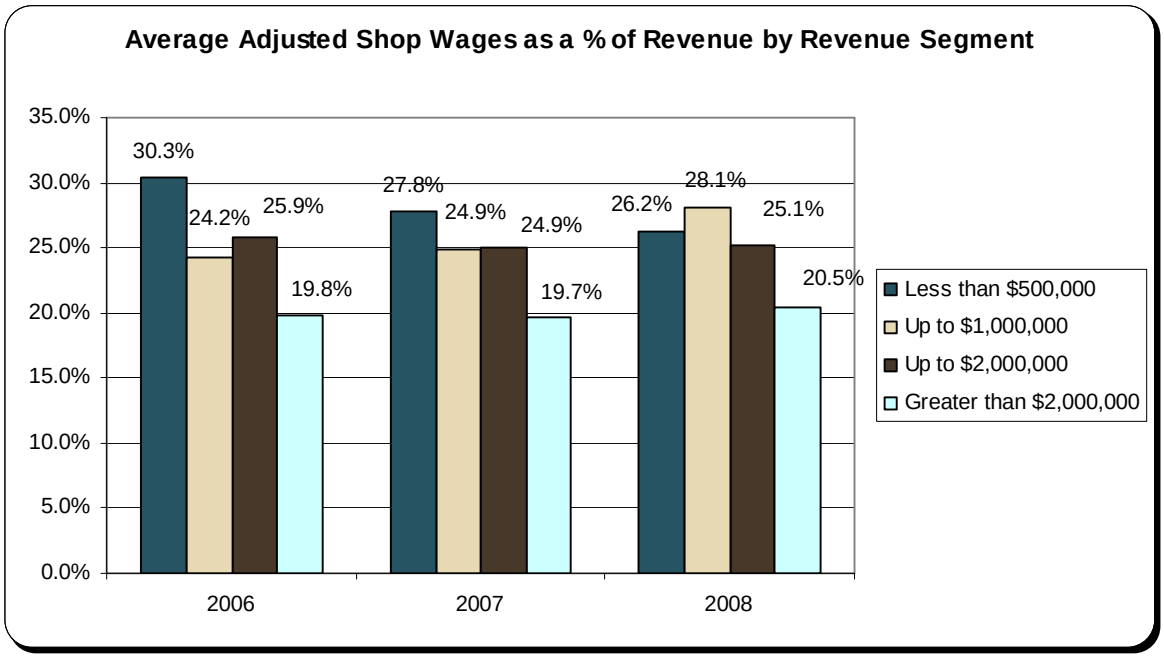
Material costs as a percentage of overall revenue have been stable at approximately 9% of revenue. Change is statistically significant at +/- 0.6%.

Figure 71: Material Costs



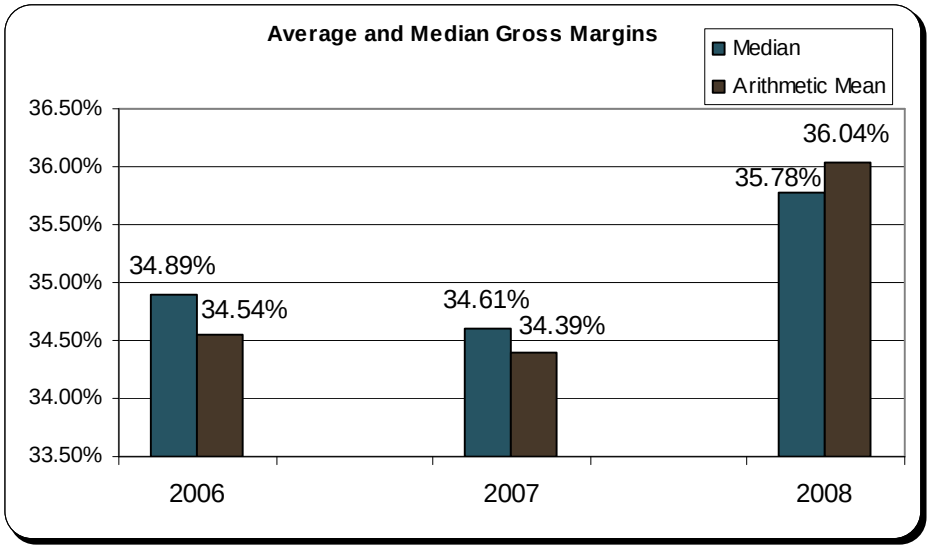
To normalize wages where owners performed duties normally included as shop wages, MNP substituted a market wage for the position and an annual cost determined based on owner-estimated time spent performing those activities. Adjusted shop wages indicate a significant improvement in labour productivity as business size increases.

Figure 72: Wages by Revenue Category



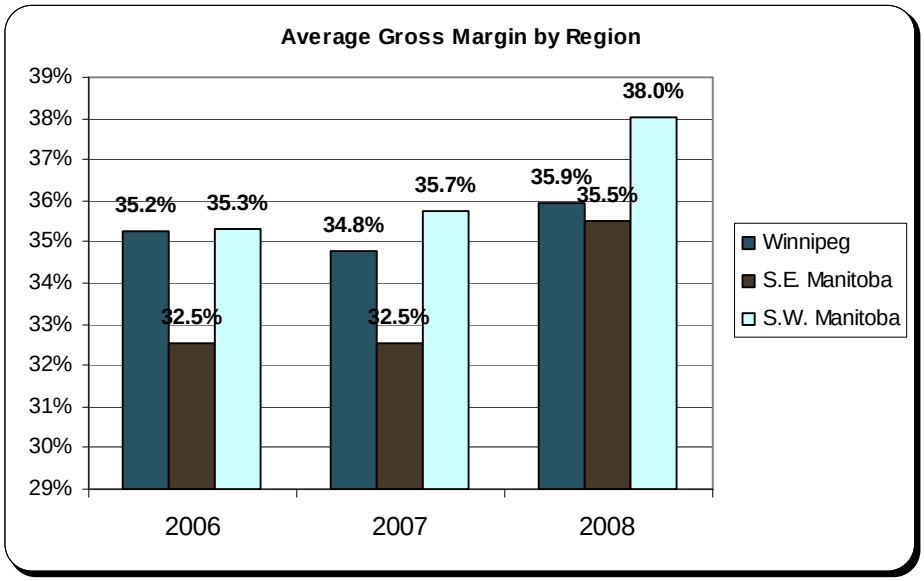
With normalized wages, average gross margin was 36% in 2008 (+/- 2.2%). While there appears to be an improvement from 2006 to 2008, the difference is not statistically significant.

Figure 73: Average and Median Gross Margins



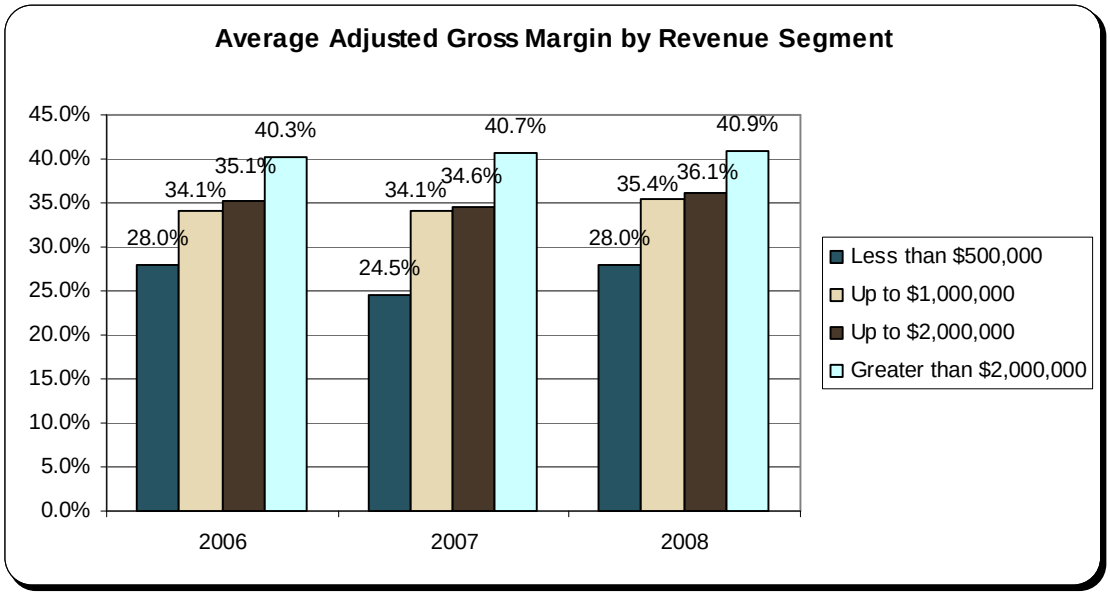
By region, margins range from 32.5% to 38% over the course of 2006 to 2008. Data from Northern Manitoba has not been included because of an insufficient sample size.

Figure 74: Gross Margin by Region



Gross Margin improves significantly by revenue category. Materials and parts costs are significantly higher (approximately 10%) as a percentage of revenue for businesses under $500,000 in revenue. Businesses over $2 million in revenue benefit from significant improvements in productivity, with wages representing a significantly lower percentage of revenue than other categories.

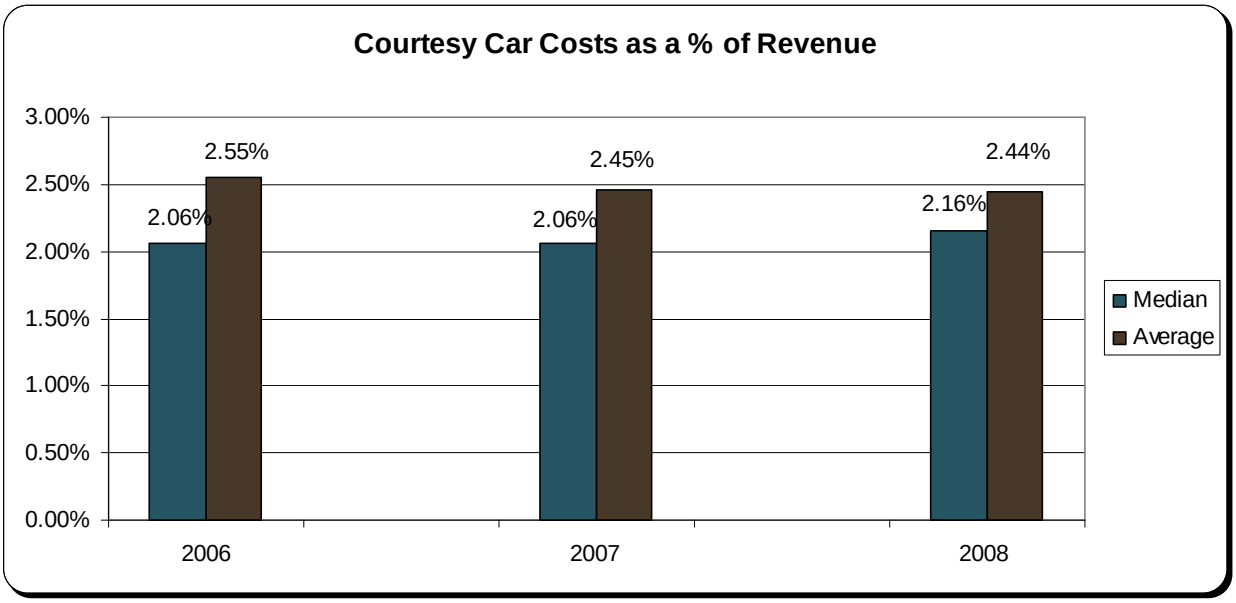
Figure 75: Gross Margin by Revenue Category



In the General Expense category, facility costs, management wages and courtesy cars represent the highest individual costs. Facility costs were normalized by applying commercial lease rates to the businesses reported shop size (in square feet). Rates were obtained from real estate professionals in each of the regional markets and a lower rate was applied for smaller shops. See Appendix I for detail. Courtesy car costs represent on average

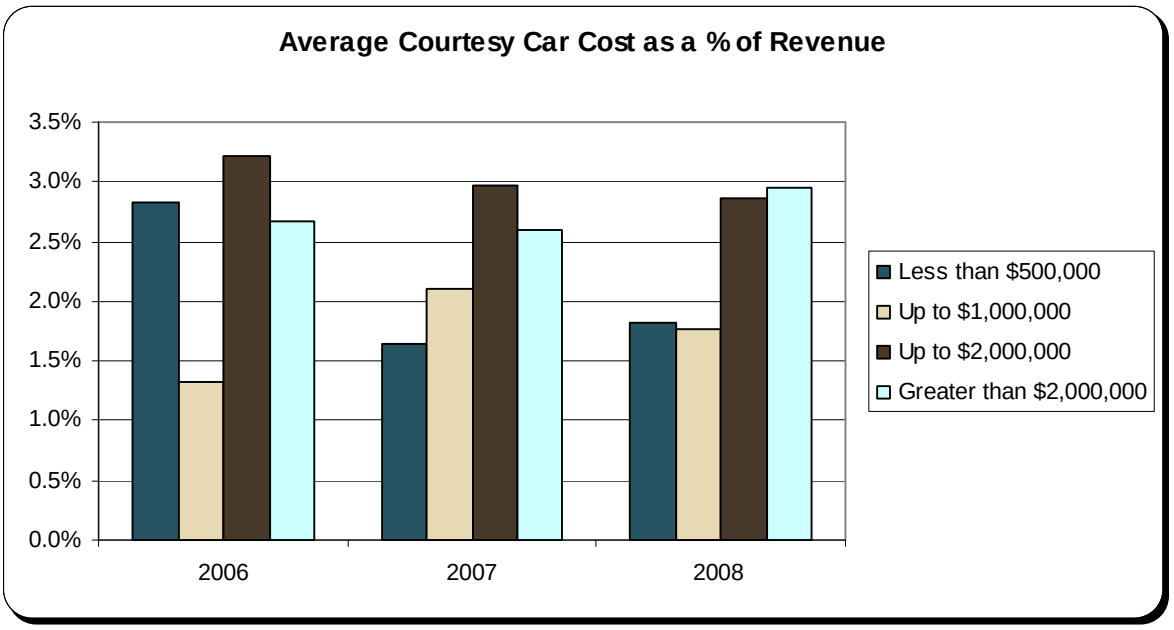
approximately 2.4% of revenue (+/-0.4%). This overall average is impacted by the higher proportion of large shops in the respondent base.

Figure 76: Courtesy Car Costs



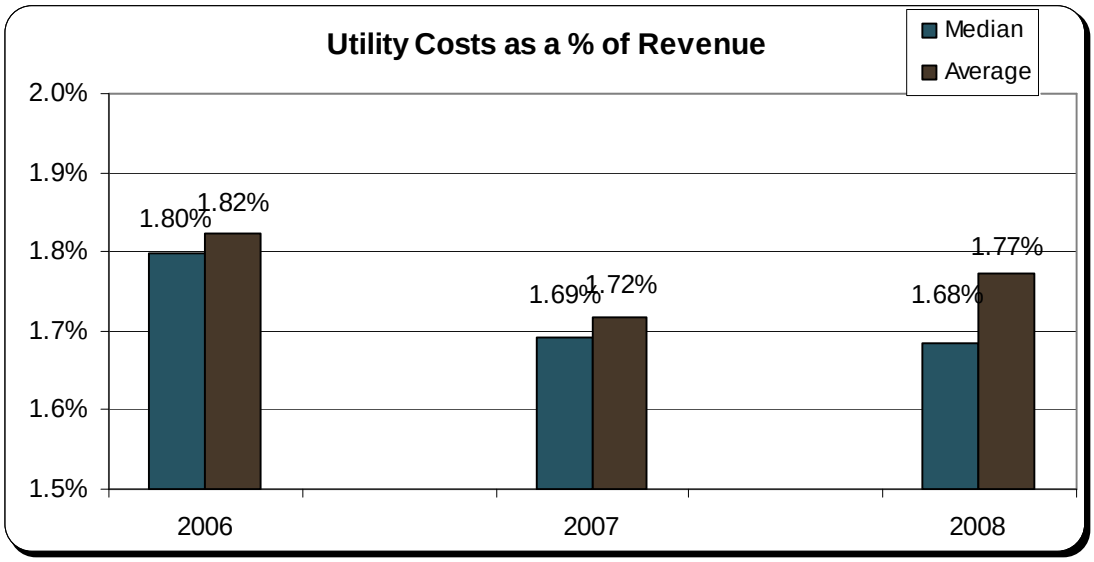
This cost does vary by size. Businesses under $1 million in revenue reported an average of 1.8% of revenue; businesses over $1 million reported 2.9-3.0% of revenue. This expense detail was not consistently tracked and is expected to be under-reported, with some of the "true" costs included in other general expenses.

Figure 77: Courtesy Car Cost by Revenue Category



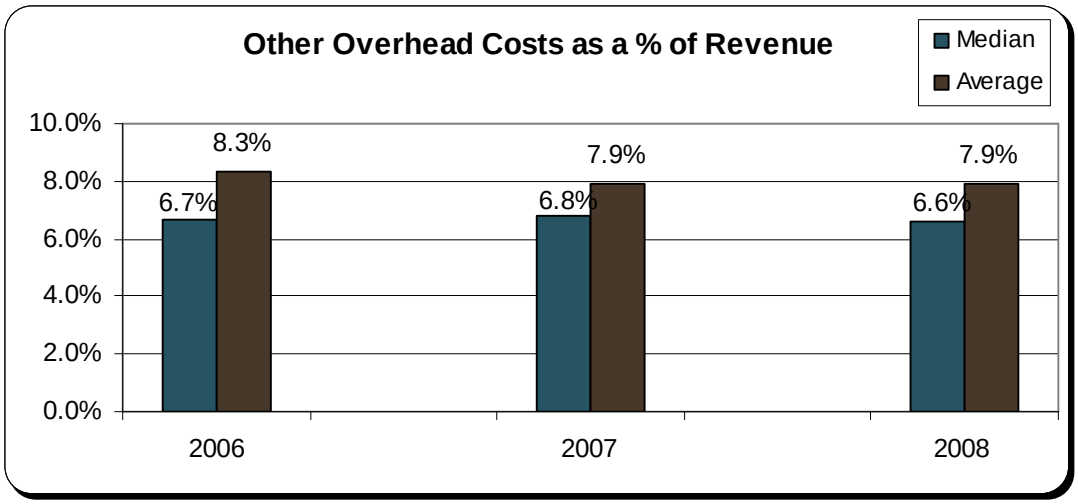
Utility costs averaged approximately 1.8% of revenue (+/- 0.2%) and have remained constant over the period surveyed.

Figure 78: Utility Costs



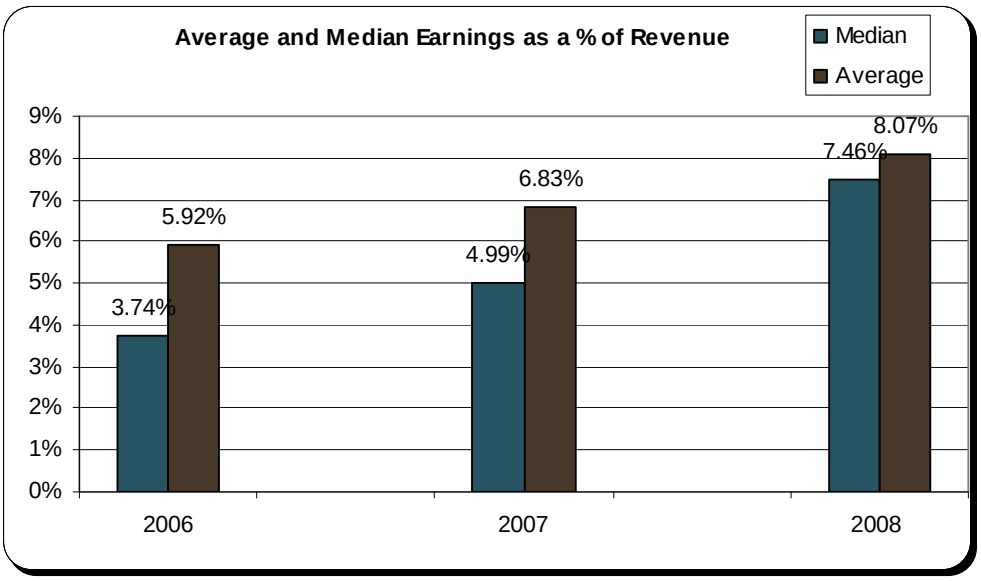
The overall average for other overhead costs was also relatively stable at approximately 8% (+/- 0.8%) of revenue.

Figure 79: Other Overhead Costs



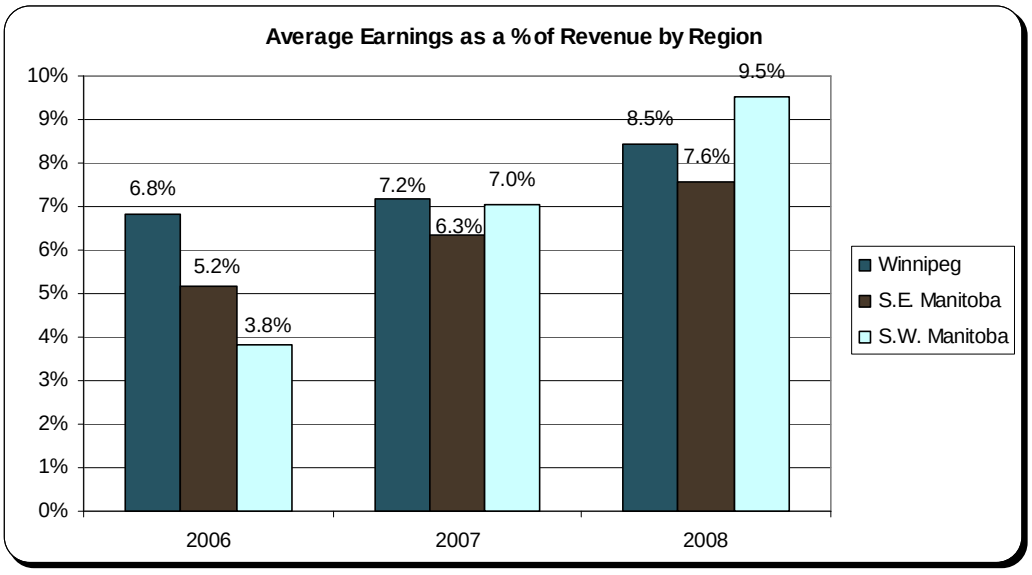
Overall, earnings before interest, taxes and amortization (EBITA) represented 8.1% of revenue in 2008. Results varied more widely on this measure, resulting in confidence intervals of +/- 2.5% in 2006 and +/- 2.0% in 2008 at a 90% confidence level. As a result, the difference between 2008 and 2006 is not statistically significant.

Figure 80: Average and Median Earnings (EBITA)



Net earnings (EBITA) by region shows a similar pattern as the gross margins.

Figure 81: EBITA by Region[74]



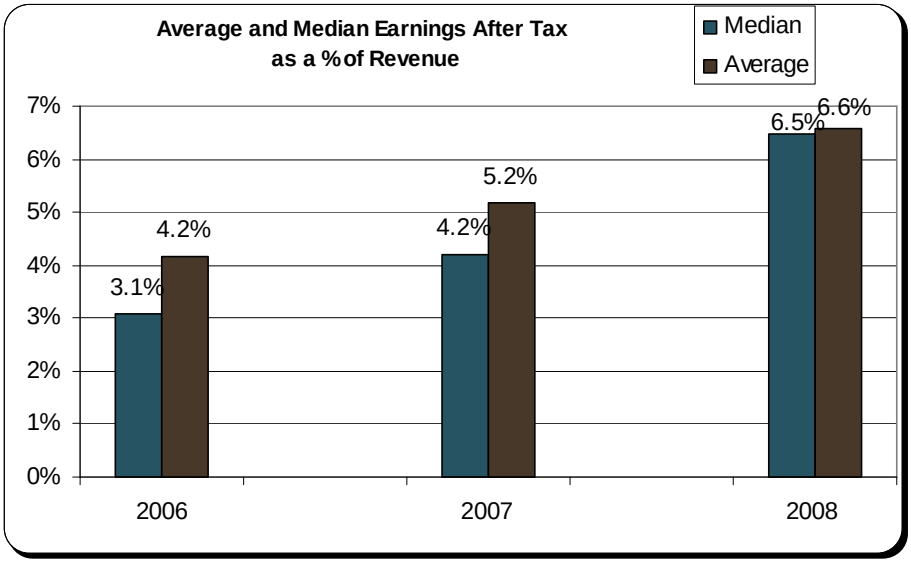
These margins are within the range of operating profit margins reported by Statistics Canada for this subsector, at 8.4% for the top performing quartile and -1.3% for the lowest quartile in 2007[75]. This indicator includes long term

[74] Data from Northern Manitoba businesses cannot be reported due to sample size.

interest expense, with interest coverage ratios ranging from 8.2 to 0.4 in 2007. Long term interest was not captured in the MCRIS survey.

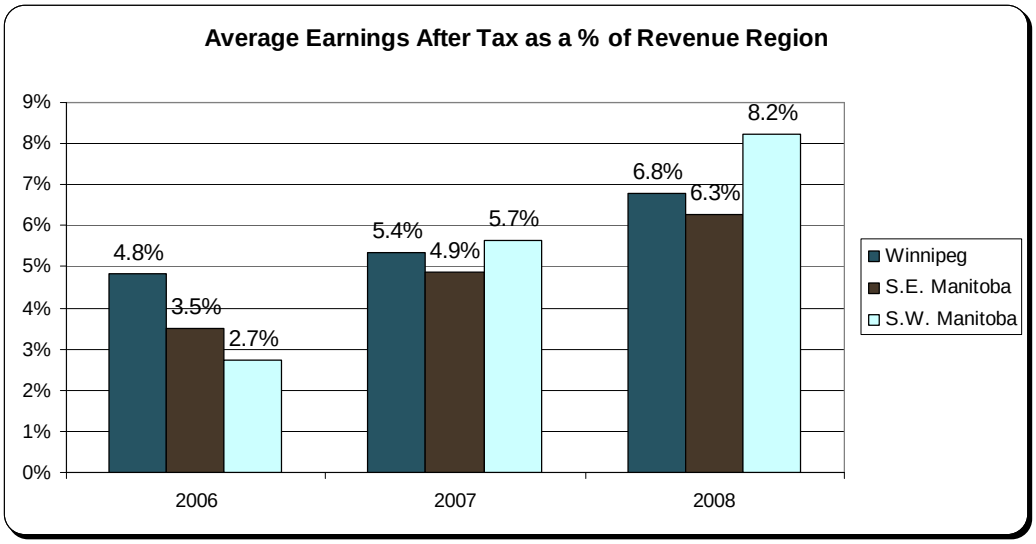
For businesses responding to the MCRIS survey, applying standard tax rates[76] results in average income, before interest and amortization, of 6.6% (+/- 2%).

Figure 82: Earnings After Tax



By region, earnings after tax display a similar pattern as EBIT earnings, with Southwest Manitoba results above the average, which is weighted more heavily by the larger sample in Winnipeg.

Figure 83: Earnings After Taxes by Region

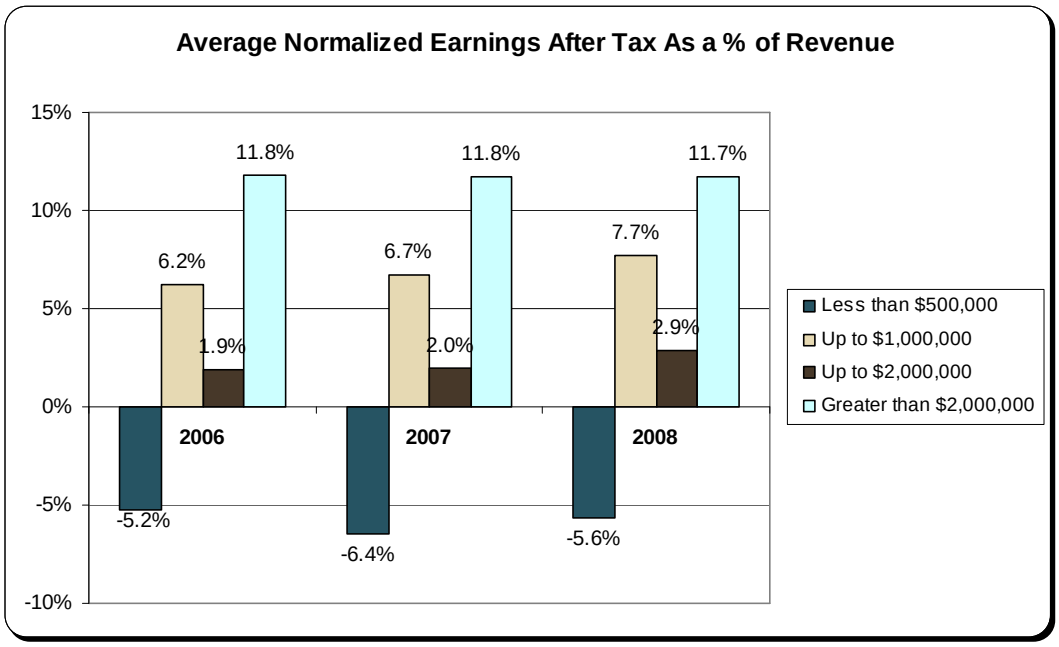


[75] Financial Performance Indicators for Canadian Business, NAICS 811121: Automotive Body, Paint and Interior Repair and Maintenance

[76] 13% for income less than $400,000; 33% for income over $400,000 in 2008. See Appendix I for detail by year.

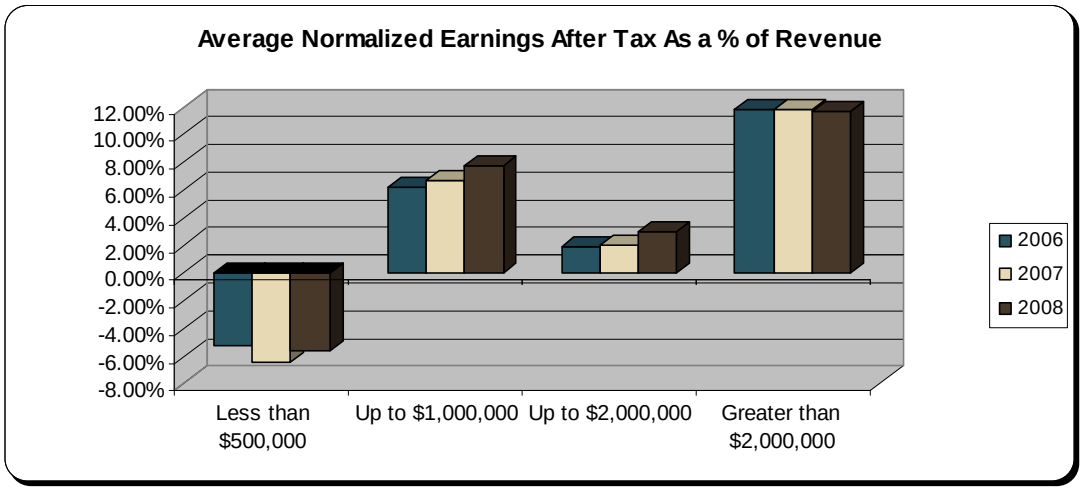
There are significant differences in earnings by size of business. Businesses with over $2 million in revenue enjoyed average margins of 11.7%. Responding businesses under $500,000 experienced losses in 2006, 2007 and 2008 ranging from 3 to 6%.

Figure 84: Earnings After Tax by Revenue Category



Net earnings reported by Statistics Canada for this sub-sector indicated net profit margins ranging from -1.2% in the lowest quartile to 6.8% in the highest. Seventy percent (70%) of firms represented by this benchmark were profitable. Firms with revenue of less than $500,000 had median net margins of 0.7%[77]. Improved performance from 2006 to 2008 is evident in businesses responding to the MCRIS survey with revenues between $500,000 and $2,000,000.

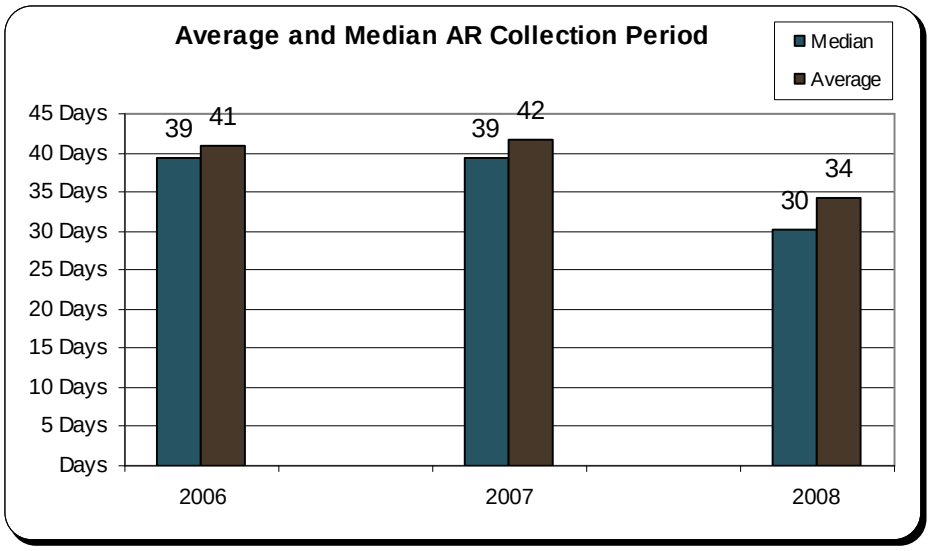
Figure 85: Earnings After Tax by Revenue Category by Year



[77] Financial Performance Indicators for Canadian Business, NAICS 811121

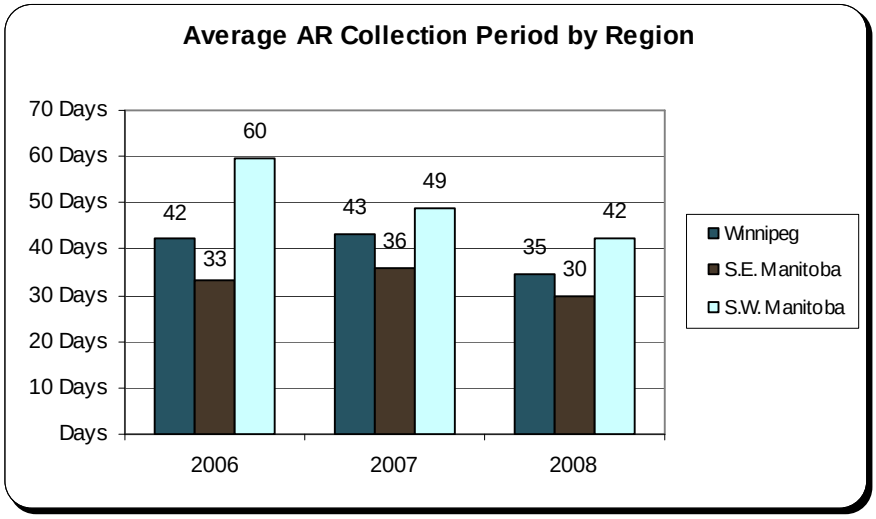
Collection of accounts receivable has improved in 2008, by an average of 7 days.

Figure 86: AR Collection Period



Collection of accounts receivable varies by region, with notably longer collection periods in Southwest Manitoba, averaging over 42 days versus 34[78] in Winnipeg. This includes other customer receivables as well as MPI. MPI tracks the time from when an invoice was received to when payment was issued. In 2006 and 2007, 91% of payments were completed within 30 days; 87% in 2008.

Figure 87: Average A/R Collection Period (Days) by Region



[78] Calculated based on the total reported accounts receivable of responding businesses, divided by their respective revenue and multiplied by 365 to arrive at an average collection period.

8.6.1 Average Income Statement Analysis

The following demonstrates the differences in costs and profitability in responding businesses by revenue segment. Larger organizations gain significant labour productivity improvements as well as improved costs for materials. General overhead expenses are also higher as a percentage of revenue for small businesses. Businesses over $2 million in revenue tend to spend a higher proportion of revenue on management and administration wages and courtesy cars. Comparative Income Statements for each category by year are attached in Appendix J.

Figure 88: Comparative Income Statement by Revenue Category – 2008 Results

Average Income Statement	< $500,000	$500,001 - $1,000,000	$1,000,000 - $2,000,000	>$2,000,000
Average Revenue of Businesses Reporting in this Category	$324,905	$665,274	$1,469,068	$3,530,599
Autobody Revenue	99.2%	98.5%	97.0%	97.1%
Sublet Revenue	0.7%	1.2%	2.7%	2.6%
Courtesy Car Revenue	0.1%	0.4%	0.3%	0.3%
Total Revenue	**100.0%**	**100.1%**	**100.0%**	**100.0%**
Shop Wages	30.0%	27.7%	25.0%	20.2%
Parts	29.7%	28.3%	26.7%	29.5%
Materials	16.3%	7.0%	9.4%	7.3%
Sublet	1.8%	2.2%	2.8%	2.6%
Total Cost of Sales	**77.8%**	**65.2%**	**63.9%**	**59.6%**
Gross Profit Margin	**22.2%**	**34.9%**	**36.1%**	**40.4%**
Expenses				
Advertising	1.5%	0.9%	2.2%	1.4%
Courtesy cars	1.3%	1.4%	2.4%	3.0%
Equipment	0.3%	0.3%	0.8%	0.8%
Facility	6.1%	4.3%	4.6%	4.8%
Management and Admin	5.4%	8.1%	10.4%	10.2%
Other Overhead	11.0%	6.6%	6.0%	4.5%
Training	0.2%	0.2%	0.1%	0.1%
Utilities	1.8%	2.0%	1.7%	1.3%
Total Expenses	**27.6%**	**23.8%**	**28.2%**	**26.1%**
EBITDA (Adjusted)	**-5.4%**	**11.1%**	**7.9%**	**14.3%**
Category Average Profit	($17,545)	$73,845	$116, 056	$504,876
Taxes[79]	--	9,600	15,087	86,609
Net Profit	**($17,545)**	**64,245**	**100,969**	**418,267**
Net Profit Margin	**-5.4%**	**9.7%**	**6.9%**	**11.8%**

[79] Taxes calculated at 13% for income less than $400,000; 33% for income over $400,000 in 2008. See Appendix I for detail.

Statistics Canada data indicates that the median net profit margin for Automotive Body, Paint and Interior Repair and Maintenance businesses in Canada with revenue under $500,000 was 0.6% in 2006 and 0.7% in 2007[80]. Given the limited sample size for this revenue category, the Statistics Canada ratio was applied for the analysis below. The maximum debt that a shop with revenue under $500,000 can service is approximately $78,000. The average business in the $500,000 to $1 million revenue category could self-finance investments (in equipment for example, or to purchase an existing business) of up to $470,356.

Debt Service Capability	< $500,000	$500,001 - $1,000,000	$1,000,000 - $2,000,000	>$2,000,000
Net Profit	$3,150*	$64,245	$100,969	$418,267
Add back - Amortization (est. at ½ facility expense)	$9,910	$14,303	$33,789	$84,734
Available for Debt Service	$13,060	478,548	$134,758	$503,001
Maximum annual payments at 1.5:1 Debt Service Ratio	$8,711	$52,392	$89,883	$335,502
Maximum debt potential, assuming 15 year amortization at 7% interest	$78,204	$470,356	$806,936	$3,012,010
Average shop size (s.f.)	3,154	4,867	6,917	11,954
Construction cost $125/s.f.	$394,250	$608,375	$864,625	$1,494,250
Equipment allowance	$300,000[81]	$300,000	$400,000	$500,000
Total Capital Requirement	$695,250	$908,375	$1,264,625	$1,994,250
Equity Requirement (Capital requirement less maximum debt potential; minimum 30%)	$617,046	$438,019	$457,689	$598,275
Earnings before Interest	$3,150*	$64,245	$100,969	$418,267
Average Annual Interest	$2,604	$15,660	$26,866	$46,477
Net Income	$546	$48,585	$74,103	$371,790
Return on Assets	0.08%	5.3%	5.9%	18.6%
Return on Equity	0.09%	11.1%	16.2%	62.1%
Payback period	--	9.0 years	6.2 years	1.6 Years

*Applying median net margin of 0.7% for this revenue category per Statistics Canada Financial Performance Indicators to $450,000 revenue.

Venture capital often requires returns on investment of 30-40% or more per year, reflective of the relative risk of the investment, with target portfolio returns of 17-20%. Average returns of 20-25% and payback periods of 5-7 years are generally attractive for business owners. Increasing revenue by 1.2%, without corresponding increases in expenses, would achieve a 20% return on equity for businesses in the $1-$2 Million revenue range. Revenue would need to

[80] Financial Performance indicators for Canadian Business, 811121: Automotive Body, Paint and Interior Repair and Maintenance.

[81] Equipment costs may be lower to the extent that a shop is able to source suitable used equipment.

increase by approximately 3.3% for businesses in the $500,000 - $1,000,000 revenue category to achieve this rate of return.

8.6.2 Top Issues Affecting Profitability

MCRIS Survey respondents were asked to identify the top issues impacting the profitability of their business. A summary of the most frequent responses is shown below.

Please note: the following reflects the views of respondents, not analysis undertaken by Meyers Norris Penny.

1. Use of Aftermarket/Recycled Parts

- Time wasted working with poor quality, poor fit of parts, excessive cleaning time, cancellations and re-ordering of parts that can't be used.
- Lower margins on aftermarket parts reduces overall profitability.
- Delays in sourcing parts increase rental car costs and decrease in number of cars that can be repaired

2. MPI Door Rate

- Low door rate as compared to wages that must be paid to retain skilled employees
- Body repair door rate much lower than mechanical door rate, yet same expenses.
- As some technologies are proprietary, dealerships often charge above the MPI mechanical rate and independent shops must absorb this difference.

3. Cost of materials, paint, parts, utilities, equipment

- Waterborne paint products more costly than old system
- Body materials margins are thin.
- MPI materials rates have not kept up with costs.

4. Shortage of skilled labour

- Must make large investments in training to get staff up to speed (time and $)
- Inexperienced/untrained labour are less efficient, productive

5. Amendment/Supplemental process/administrative time

- Complicated, time consuming
- Extra days of car rentals/courtesy cars increase costs to shops.
- Requirement by MPI to have supplementals hand written, even though Mitchell system produces a print out
- Delays cause increased cycle time, frustrated customers, cars and technicians sitting idle

6. Low estimates

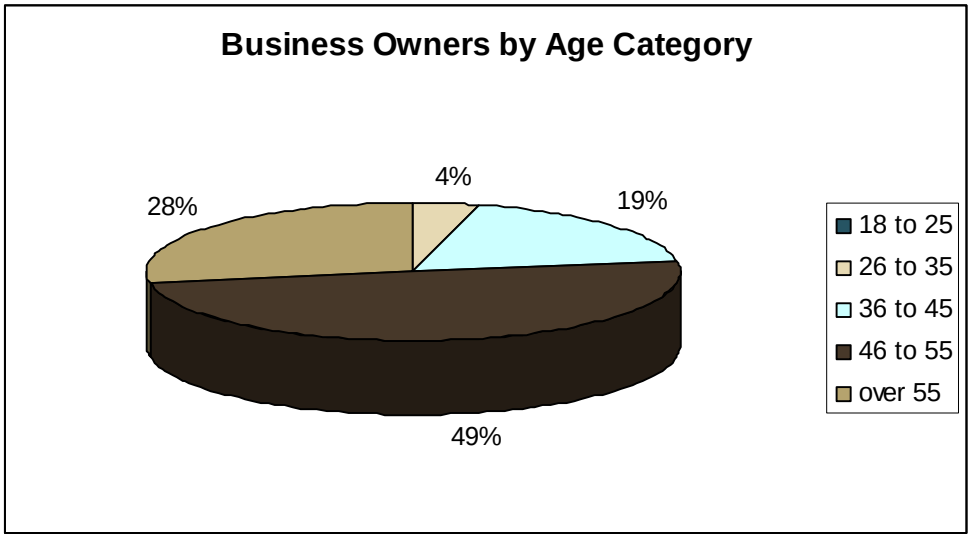
- Zone refinish times too low
- Estimators override Mitchell estimates, reducing time allowances
- Mitchell prices are sometimes out of date with dealership prices – shop loses out on this difference

8.7 Business Succession

Because a large percentage of the industry in Manitoba is made up of independent, owner managed businesses, ownership succession is extremely important. Ensuring qualified (both technically and financially) individuals are willing to assume ownership of these businesses and/or are prepared to start new businesses to meet the needs of the market is extremely important to the health of the industry in Manitoba.

Responses to the MCRIS survey indicated that just under half of the business owners are in the 46 to 55 age category with the next largest group between the ages of 36 and 45. None of the respondents' owners were under 26; 28% are over 55, creating potential for retirement within 10 years.

Figure 89: Business Owners by Age Category



Sixteen percent (16%) of 99 responding businesses expected to retire within five years; 34% within 10 years.

Figure 90: Ownership Succession Intention

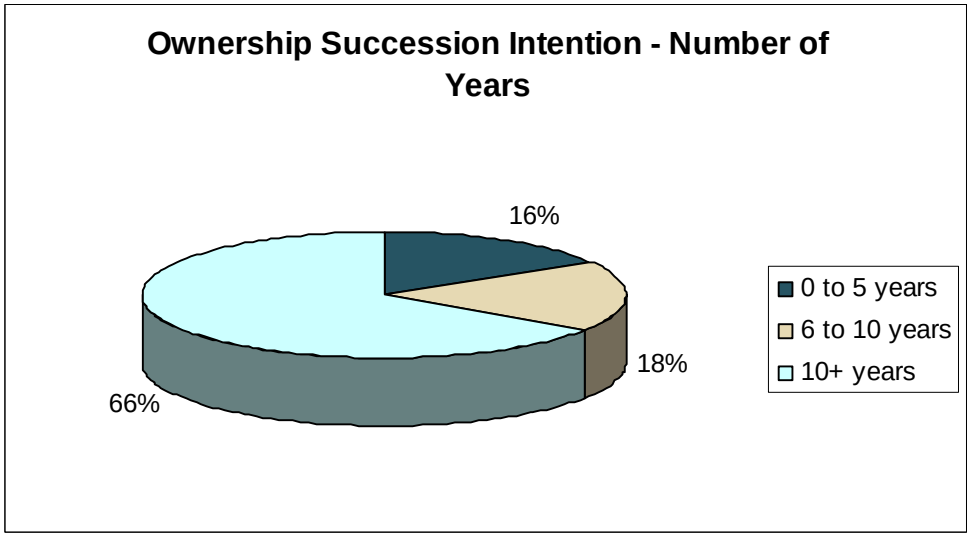
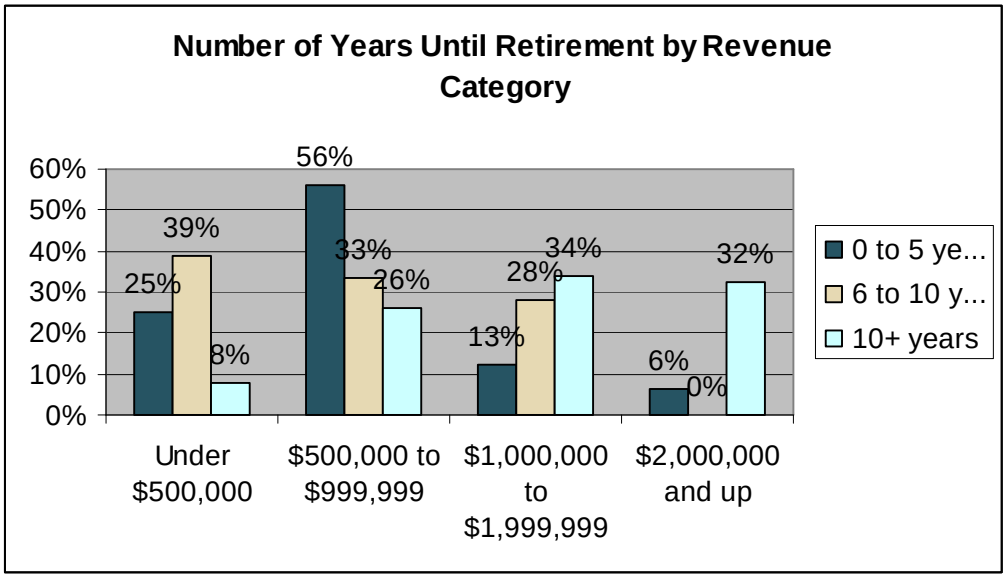
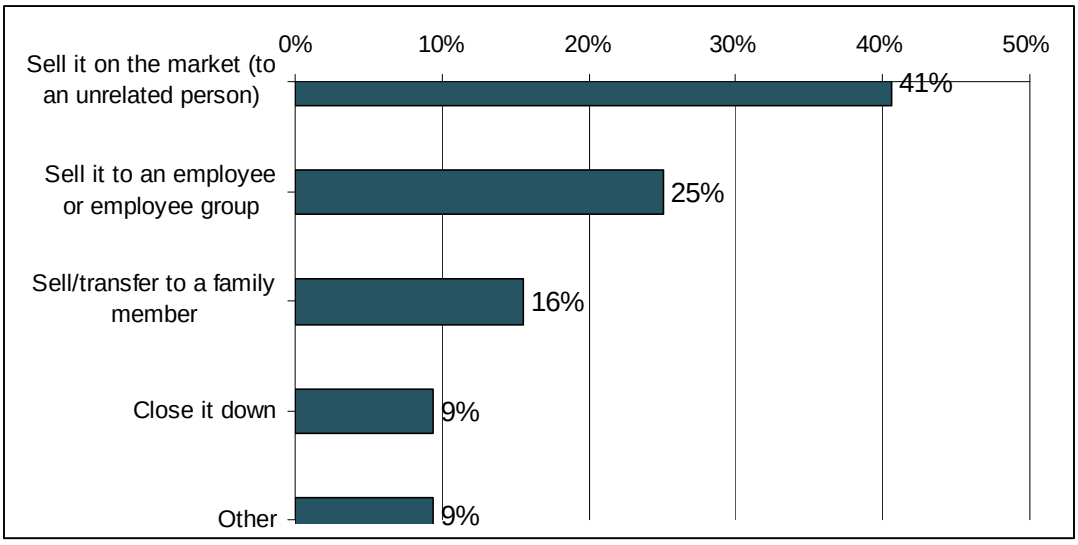


Figure 91: Time Until Retirement by Revenue Category



The 34% of respondents who indicated they intend to retain their business for 10 years or less were then asked how they intended to dispose of the business. The most common response from this group (41%) was a plan to sell their business on the market to an unrelated person, 25% intend to sell their business to an employee or employee group, 16% intend to sell/transfer to a family member, 9% intend to close down their business and 9% were unsure or intended to focus their business on mechanical repairs.

Figure 92: Exit Strategies



Employers' concerns related to succession included poor returns on investment making it difficult to attract buyers or service debt, fewer people entering the trade and migration to other industries from within the trade limiting the number of capable persons able to take over the business, and complex dealings with MPI discouraging employees to take on ownership responsibilities.

COLLISION REPAIR INDUSTRY IN MANITOBA – SUMMARY

Information was gathered directly from accredited autobody/autobody frame businesses in Manitoba to determine current performance and issues impacting the industry. One hundred and twenty-seven (127) businesses participated in the survey; 83 businesses provided detailed financial data. Accredited shops that received less than $500,000 in payments from MPI are under-represented in the survey results. Winnipeg businesses and businesses with over $1 million in revenue were over-represented. Southeast and southwest regions were somewhat under-represented (by 4-7%).

The majority (58%) of responding businesses are independently owned and operated. Eighty-nine percent (89%) hold both glass and autobody accreditation. MPI payments represent an increasing proportion of revenue as shop size increases: an average of 69% for the 30 shops that indicated revenue of under $500,000; 89-90% for the 55 shops that indicated revenue over $1,000,000.

Human Resources

Responding businesses represent 891 full time employees, including 120 apprentices of the total 174 registered body repairer and body repairer-paint apprentices. Eighty percent (80%) of shops reported less than 10 employees working in the collision repair area; 39% less than 5. The relatively small number of employees impacts a shop's ability to release employees for training without impacting operations.

Respondents to the survey indicated that major human resource challenges include an insufficient pool of skilled labour, high turnover, and challenges maintaining the required skills to keep up with technology.

The average wage for journeyperson body repairers ranged from $50,749 to $62,002 or approximately 30% above the industrial average wage; journeyperson equivalent body repairers are paid approximately 13% less on average than their certified counterparts. Journeyperson painters are reported to receive higher annual pay ranging from $59,521 to $68,905. Apprentice earnings (all levels) ranged from $27,748 to $31,032, or 85% to 95% of the equivalent of established fourth year minimum wages. Approximately half of responding businesses offer some form of variable pay, most commonly flat rate or other production bonuses. Eighty percent (80%) of responding businesses provide some form of benefits to their employees; 31% offer some form of pension plan.

Turnover rates for journeyperson body repairer are very high at 27%. Combined with the length of time required to fill a vacancy, this indicates a significant challenge to business continuity and growth. Turnover among apprentice body repairers is also high at 23%, with an even longer replacement period of over 9 months. Turnover among general shop floor staff and customer service representatives/estimators was also high, however the replacement periods were significantly shorter.

One quarter of survey respondents indicated training investments of less than $1,500 in the last 24 months; half invested between $1,500 and $5,000. While some training may be provided at no cost by suppliers, this level of investment is low compared to general best practice, and significant given the need for knowledge to keep up with the pace of technological change. Respondents expressed concern that formalized training (apprenticeship, pre-employment) is not keeping up with modern processes, and new workers/apprentices are entering the workforce without the necessary skills. The current rate of apprentice completions is not sufficient to meet projected requirements for journeyperson body repairers. Based on an assumed 75% completion rate, a 60% increase in the number of apprentices entering the program per year over the next five years is needed.

Operations

Major business processes that cause interaction between MPI and collision repair businesses, or that are impacted by MPI policy include the estimate and supplemental estimate process, parts procurement and account reconciliation. Shops spend between 34 hours per week for small shops and 77 hours per week for larger shops on activities related to these processes. Respondents expressed frustration particularly with the requirements and process related to re-cycled parts, indicating that they extend the total time for a repair and increase costs incurred by the shop. Concerns were also expressed regarding delays and inconsistencies in estimating. Opportunities were

identified to improve efficiency through the use of electronic communication and to improve customer satisfaction through improved communication.

Financial Performance

Total revenue for all businesses reporting detailed financial information was $125.5 million. Assuming an overall average of 85% of this revenue was from MPI, this represents just under 65% of total MPI payments in 2008. The number of businesses reporting detailed financial information in the under $500,000 revenue category is too small to extrapolate findings from the survey to the overall population of shops in this category.

Wages, parts and materials costs varied with size. The average cost of sales for businesses between $500,000 and $2 million was 62%, compared to 58% for businesses over $2 million. Material costs were stable at approximately 9% of revenue. With normalized wages, average gross margin was 36% in 2008. An apparent improvement since 2006 was not statistically significant. By region, margins were most favourable in Winnipeg.

In the General Expense category, facility costs, management wages and courtesy cars represent the highest individual costs. Courtesy car costs represent on average 2.4% of revenue, and increase with shop size. Utility costs averaged approximately 1.8% of revenue and remained constant over the period surveyed. Other overhead costs as a percentage of revenue also vary by size, from an average of 11% for the smallest businesses to 4.5% of shops over $2 million in revenue.

Average earnings before interest, taxes and amortization (EBITA) varied significantly by revenue category, from an average loss in 2008 of over 5% for businesses under $500,000 to an average profit of 14% for shops with revenue over $2 million. Businesses responding to the survey with revenue under $500,000 experienced losses each year ranging from 3 to 6%. Again, these results are for illustration only and cannot be reliably assumed to represent all shops of similar size because of the small number of responding shops in this revenue category. Statistics Canada financial performance indicators identify an average net profit of less than one percent for this revenue category across Canada. Earnings at this level are insufficient to support reinvestment. Investment sufficient to support new shop construction can only be fully supported by earnings for shops over $2 million in revenue.

The issues most frequently identified by survey respondents as impacting profitability included use of aftermarket and recycled parts, low door rates, increasing costs, skill shortages, supplemental estimate processes and low estimates.

Succession

Because a large percentage of the industry in Manitoba is made up of independent, owner managed businesses, ownership succession is extremely important. Owners of 16% of 99 responding businesses expected to retire within five years; 34% within 10 years. Owners of businesses under $1 million in revenue were more likely to be in this group.

Forty-one (41%) of those planning to exit indicated intentions to sell their business on the market to an unrelated buyer; 25% intend to sell their business to an employee or employee group. The limited ability of businesses with under $1 million in revenue to support investment will present a significant challenge to this group, and may result in a sale of assets versus sale of the business as a going concern.

Employers' concerns related to succession included poor returns on investment making it difficult to attract buyers, fewer people entering and remaining in the trade limiting the number of capable persons able to take over the business, and complex dealings with MPI discouraging employees to take on ownership responsibilities.

9.0 MAJOR OBSERVATIONS AND CONCLUSIONS

The following section contains a summary of significant observations and conclusions made by Meyers Norris Penny arising from analysis of all data collected.

1. The proportion of shops with revenue under $500,000 is too high for a healthy industry.

Shops with under $500,000 in payments represent 60% of accredited shops in Manitoba. Even if MPI payments represent only 70% of revenue (as indicated by respondents in this category), approximately half of the accredited shops would be in the under $500,000 revenue category. Profitability in this industry is driven by volume, and shops with less than $500,000 are not generally sustainable based on both national and MCRIS survey data. Median profitability of shops of this size is not sufficient to support reinvestment or attract buyers seeking a return on their investment. While some business owners or buyers may still choose to conduct business at this level, particularly in rural areas, it is not a healthy industry structure for the majority of businesses to be in this revenue range. Over the long term, the number of crashes is expected to go down, meaning there will be limited opportunity for smaller businesses to grow without attracting business away from other shops. The trend evident from 2006 to 2009 toward a reduction in the number of shops is likely a market reflection of this situation. While door rates certainly influence profitability, a number of business factors make it more difficult for smaller shops, including keeping up rapid changes in technology and associated training requirements, competition for labour, labour productivity, and distribution of overhead.

2. There are significant recruitment and retention issues in the industry.

The most significant impact of the economy on the collision repair industry has been the low unemployment rate across western Canada, resulting in high competition for labour. A nation-wide skill shortage in this industry is also evident in Manitoba. Barriers to employment in this industry have been identified as including (in descending order) the initial expense of buying tools, low salaries, lack of skills, negative public perception of skilled trades, and industry working conditions. Of the trades with four year apprenticeships in Manitoba, the minimum fourth year wage for Body Repairer is among the lowest. Door rates have not kept pace with increases in the industrial average wage in recent years. Wages for the broader Automotive Repair and Maintenance industry in Manitoba are now approximately 3% below Saskatchewan, 18-19% below Alberta and B.C. Wages across all industries average approximately 14% below the other provinces.

Extended times to fill positions, over 8 months for journeypersons body repairers, is clear evidence of a shortage. Turnover rates are very high suggesting this skilled trade is prepared to be mobile. Trades people, and the labour pool in general today, is very aware of wage differentials between industries, and opportunities in other markets are easily found.

The industry needs to increase the number of apprentices by 24% compared to recent average completions to meet the replacement and modest growth needs of the industry. Proactive efforts to address the identified barriers, including competitive wages, financial assistance for investments in tools, improving public perception of the trade and improving working conditions will be required.

3. Operating costs have not significantly increased over the period reviewed in this study.

The major cost drivers for this industry include shop wages, parts and materials. National reviews indicate that replacement parts have not increased overall in price. While national data indicates paint and materials have increased from 9.7% to 10.7% of revenue, this is not evident in MCRIS respondent data. MCRIS survey data indicates that gross profits have either been maintained or improved in the past three years, and that general overhead expenses have not increased as a percentage of revenue. National data indicates improvements in performance from 2005 to 2007. These costs, therefore, are not driving a need for increased rates.

4. Insurance-related business processes are driving operating costs and extending repair times.

Supplemental estimating and parts procurement processes require manual documentation and significant administrative handling, extending the cycle time and driving unrecoverable costs to collision repair businesses. MPI data indicates significant improvements in the ratio of supplemental estimates since 2006, with supplemental rates now nearing those reported by Mitchell as a national average. Saskatchewan and B.C. have implemented technology (ePayments, direct estimating submitted electronically) to streamline business processes that is not in use in Manitoba. Enabling industry to directly perform some estimating may also provide improved efficiencies. There is significant opportunity to improve the interaction between MPI and the collision repair industry, improve customer service, and the overall image of the collision repair industry, by addressing these processes.

5. Courtesy cars cost the industry an average of 1.3 to 3% of revenue.

The cost of providing courtesy cars to customers is, for the most part, an unrecoverable expense that is felt to be expected by customers and necessary to compete for collision repair business. MPI processes that increase the average time for a repair drive up the cost of courtesy cars for the business. At an overall average of 2% of revenue, based on MPI payments for 2008 this is the equivalent of $4.6 million.

6. Door rates in Manitoba lag the industry.

Door rates in Manitoba are currently approximately 12% below those offered in Saskatchewan and British Columbia. This is approximately twice the cost of living differential between Winnipeg and Saskatoon. Applying the 7% cost of living difference between Saskatoon and Winnipeg would indicate a door rate of $62.31. The cost of living in Vancouver is estimated at 75% higher than Winnipeg. Given the respective sizes of the cities and nature of the population, the comparison between Winnipeg as representative of Manitoba and Saskatoon as representative of Saskatchewan is considered a better one to make.

7. The current training investment is low, and may be insufficient to ensure necessary knowledge and skills for new technologies.

The rate of technological change is described as “exponential” and the associated knowledge gaps are expected to be medium to high. Survey respondents also indicated that apprentices are not achieving the full set of skills required. This combination indicates a need for ongoing training that can be expected to exceed the current level of investment, currently at approximately 0.2% of revenue or 0.8% of wages. Other challenges, including releasing technicians from the shop to attend training, are also limiting the development of knowledge. Increasing opportunities for on-line or remote training may help address this challenge.

8. Operating profits are insufficient to support significant capital investment for categories below $2 million in revenue.

Businesses with revenue of less than $500,000 have limited to no ability to invest in equipment or technology. In the $500,000 to $1 million revenue category, using the example in the average income statement, an additional $55,000 in net profit, or 7.5% increase in revenue with no increased costs is required to service the debt to finance construction of a new shop. A 7.5% increase in the 2008 door rate is the equivalent of $4.27. This increase would also need to be applied to parts and material allowances as well to achieve the full effect. The gap is not as large for businesses in the $1-$2 million revenue category. An increase in 1.4% of revenue would be sufficient to service the debt to finance construction of a new shop. A 1.4% increase in the door rate is the equivalent of $0.80. Again, this would need to be applied to all allowances to achieve the full effect.

9. Owners seeking to exit the industry may not find buyers.

Owners of 16% of 99 responding businesses expected to retire within five years; 34% within 10 years. Owners of businesses under $1 million in revenue were more likely to be in this group. 41% of those planning to exit indicated intentions to sell their business on the market to an unrelated buyer; 25% intend to sell their business to an employee

or employee group. The limited ability of businesses with under $1 million in revenue to support investment and high competition for skilled labour will present a significant challenge to this group, and may result in a sale of assets versus sale of the business as a going concern. Improved information to support management decisions may enable proactive business owners to better position their business for succession, and also improve the overall health of the industry if the more successful businesses continue.

10.0 RECOMMENDATIONS

Recommendation #1:

Using the working relationship between MPI, the ATA, and MMDA, develop key performance indicators, and to the extent available from MPI data, generate performance benchmarks and provide individual performance data to shops as management information to enable decisions to increase their profitability and service to mutual clients.

Rationale:

Approximately 60% of accredited businesses are operating at volumes too low to be sustainable. MPI has access to extensive data from repair orders that could be used by collision repair businesses to improve management practices and shop performance. Manitoba specific information about the indicators that impact or reflect profitability, productivity and client satisfaction could assist small to medium size organizations in this industry to increase their sustainability, ensure continued access to collision repair services in rural communities, and improve the overall image of the industry.

The survey results indicated that 34% of the respondents intend to exit the industry within the next 10 years. Of those respondents, 40% intend to sell the business in the market to someone they do not know. Therefore these businesses must have value greater than other business opportunities or investments and improved profitability to support debt service. This is not currently the case.

Impact:

Full analysis is required to determine the reporting and information management requirements for this recommendation. While only implemented this year, a similar system in B.C. is believed to already be driving improvements in performance. Better information may drive improved management decisions and associated profitability, enabling better recruitment and retention in the industry as well as investment in necessary training and technology important to the health of the industry. Better information may also drive owner-initiated consolidation and partnerships, enabling improved profitability and retirement security for current owners, and preventing a complete loss of service if a small business owner retires and is unable to sell the business. Thirty-four percent (34%) of shops under $1 million is the equivalent of 79 shops. This could have a significant impact on customer service if succession to enable business continuity of at least some of these shops is not achieved, particularly in rural areas.

Recommendation #2:

Enhance recruitment and retention in the collision repair industry in Manitoba.

Rationale:

Information from a variety of sources, including the MCRIS survey, indicates that the industry is experiencing significant challenges in attracting and retaining the qualified staff needed to be able to provide the level of service required in this industry. Turnover for technicians was 27% for journeyperson body repairers. This is significantly higher than the average turnover in most industries. Over 60% of businesses responding to the MCRIS survey

reported trying to hire a journeyperson body repairer in the past 24 months.

Survey results also demonstrated long periods of time to find or replace skilled technicians, impacting the ability for shops to sustain a profitable business. Survey respondents reported times of over 7 to 8 months to recruit body repairers. Recruitment efforts for apprentice body repairers took the longest, at an average of approximately 9 months. Painters were found within approximately seven months.

In these circumstances, the ratio of journeyperson to apprentice required to meet accreditation and regulatory requirements will be difficult to achieve and maintain, and the time to fill vacancies results in lost opportunity.

Barriers to employment in this industry have been identified as including (in descending order) the initial expense of buying tools, low salaries, lack of skills, negative public perception of skilled trades, and industry working conditions. Eighty-seven percent of technicians responding to the 2005 CARS survey indicated that better wages/benefits would encourage them to remain in the sector.

Of the trades with four year apprenticeships in Manitoba, the minimum fourth year wage for Body Repairer is among the lowest. Door rates have not kept pace with increases in the industrial average wage in recent years and are lower than in other provinces, allowing increased wage competition from other jurisdictions.

The industry needs to increase the number of apprentices by 24% compared to recent average completions to meet the replacement and modest growth needs of the industry. Other trades-reliant industries are also concerned with a shortage of skilled labour. Competing effectively for new apprentices will require competitive wages.

Proactive efforts to address the identified barriers, including competitive wages, financial assistance for investments in tools, improving public perception of the trade and improving working conditions will be required. The industry should also ensure wage potential information provided to job searchers (e.g., through Manitoba Job Futures, career fairs, etc.) is accurate, so that prospective apprentices are not discouraged by inaccurate information.

Impact:

While market comparative data for occupations outside the collision repair industry was not available to the study, an increase of 10% is generally considered to be significant to incumbents. An increase in technician wages of 10% will reduce shop profits by 2-3%.

Shops offering apprentices financial assistance to purchase tools may improve their ability to attract and retain this valuable resource. Other efforts, including ensuring clean, safe working environments and an industry-wide effort to project a professional, customer-oriented industry may also improve recruitment and retention.

Recommendation #3:

Increase the door rate paid to Manitoba accredited collision repair businesses to enable increased wages, training, profitability and overall competitiveness of the industry in Manitoba.

Rationale:

Competitive wages are important to attract necessary technicians and ensure business continuity. Ongoing investments in training are important to the overall health of the industry and current investments are less than optimal. Profit margins are already insufficient to support much higher investment in businesses under $1 million in revenue. While a significant increase would be required to enable new shop construction for businesses between $500,000 and $1,000,000, a smaller increase would enable shops over $1 million to self-finance a new development, and would also provide shops in the $500,000 to $1 million range improved capability to either expand/consolidate existing shops or invest in new equipment. Development of new shops under $500,000 is not recommended as this is not a sustainable category.

Impact:

At wage costs of 37% of the door rate, an increase in the door rate of 3.7% or $2.17 would be required to provide a 10% wage increase and maintain current profitability.

While it is difficult to estimate an increased cost of training because some courses are provided by suppliers at no cost, the equivalent of approximately 2% of wages would be considered more appropriate. Applying the same benchmark as above, increasing the training expenditure from 0.2% of revenue, or 0.8% of wages to 2% of wages would require an approximate 0.84% or $0.40 increase in the door rate to maintain current profitability.

An increase of 1.4% in revenue would be sufficient to service the debt to finance construction of a new shop for the average business in the $1-$2 million revenue range. A 1.2% increase would provide ROI in the target range to attract new investment. A 1.2% to 1.4% increase in the door rate is the equivalent of $0.68 to $0.80. This would need to be applied to all allowances to achieve the full effect.

The combined effect of the above would involve an increase in the door rate by $3.37 over and above inflation. The calculations above have been applied to the door rate in effect in 2008. Door rates in Manitoba were increased by 3% or $1.71 to $58.63 as of September 2009. Inflation during this period was 2.3%.

The door rate is currently approximately 12% below those offered in Saskatchewan and British Columbia. This is approximately twice the cost of living differential between Winnipeg and Saskatoon. Applying the 7% cost of living difference between Saskatoon and Manitoba would indicate a door rate of $62.31.

An effect of increasing the door rate will be to also increase the rate of total losses, as the door rate will drive up repair costs. A reduction in repair activity will reduce the amount of business available, and put further pressure on small business performance.

The above calculations arise from the results of this study, and do not reflect the cost-benefit of implementing the process recommendations or other considerations beyond the scope of this study, which will need to be factored into negotiations between MPI, the ATA and MMDA regarding an appropriate target rate and time frame.

Recommendation #4:

Conduct a review of the estimates process to increase consistency, efficiency and reduce the non- revenue generating time and overall vehicle repair time required by the individual repair shops.

Rationale:

Respondents to the MCRIS survey indicated that an average of 24 hours per week is spent in the estimating process. Respondents to the survey and interview participants indicated that the supplemental estimates process causes delays and that the process is not necessarily consistent in its application. This causes frustration on the part of the body shop as well as the customer.

Consideration should be given to enabling shops to conduct estimates on low-risk claims, supported by risk-based auditing similar to that implemented by ICBC. This would allow for estimates to be completed by the individual shops and a shift in focus by MPI to auditing for compliance. It should be noted that a performance measurement program is an integral part of this type of approach.

Impact:

According to survey respondents, estimating, parts procurement and account reconciliation processes consume the time equivalent of one full time employee for the smallest businesses; two for businesses over $2 million in revenue. A weighted average of hours by shop size results in an overall average of 42 hours per week. At the average salary for a partsperson ($34,000) the cost to the industry is approximately $10.1 million. While this time could not

reasonably be expected to be entirely eliminated, reducing it by half would release an additional $16,000 or more in profit per year or 21 hours of productive time per week to each shop. Additional cost savings and profit opportunity would be achieved by improving cycle times (reducing courtesy car expenses), and enabling more throughput.

Recommendation #5:

Require a condition report and/or digital photo demonstrating part condition to accompany responses to broadcast requests for parts by the Recyclers Office.

Rationale:

MPI requires use of re-cycled parts where available. When an estimate is received by the body shop that includes a requirement to use recycled parts, the body shop will contact the RCO to source the recycled part. The RCO will provide the location and contact information for the source of the part. The shop will then contact the supplier. If the part is still available from the supplier, the body shop will order the part. Upon delivery, the shop will examine the part. If it is useable, the part will be installed. If it is not useable, the part is returned and a cancellation number is provided by the part supplier. If the recycled part is no longer available or cannot be used, and another recycled part is not available, the body shop will contact the claim centre to receive approval to use an after-market part. Respondents to the survey and interview participants stated that there are numerous instances where the identified recycled parts are in poor condition. This causes increased time from accident to repair and increased costs to the business from production inefficiencies and extended use of courtesy cars.

Impact:

As identified above, reducing the administrative handling for parts procurement has significant potential impact on shop time. Additional cost savings and profit opportunity would be achieved by improving cycle times (reducing courtesy car expenses), and enabling more throughput.

The RCO reports a re-broadcast rate of 18%. There may be additional returns that are not reported if an aftermarket part is substituted instead of requesting a replacement re-cycled part. Ensuring that only suitable re-cycled parts are delivered will reduce shipping costs, handling and delays.

Recommendation #6:

Resolve the courtesy car issue.

Rationale:

The accreditation agreement stipulates that *"giveaways of products or services related to repairs are not permitted and agree to allow MPI to deduct the value of giveaways from the repair accounts which you submit. You understand and accept that a pattern of giveaways will result in the suspension of your accreditation*." MPI and the Associations agree the intent at the time this provision was added was that courtesy cars and detailing services were exceptions to this provision. This is not apparent in the wording of the agreement and if the intent remains, the provision should be clarified.

Manitoba Public Insurance offers 'loss of use coverage' to customers to pay for the use of a vehicle while their car is being repaired; however, only a portion of customers purchase this coverage. Customer expectations are driving the need to provide courtesy vehicles. Providing a courtesy car to customers is a common practice in the industry and has become a cost of doing business. Survey respondents have indicated that this expense is 1.3% to 3% of revenue, depending upon the size of the organization. MPI processes that increase the average time for a repair also drive up the cost of courtesy cars for the business.

The options to address this issue include no longer exempting this activity from the giveaway provision to encourage customers to purchase loss of use coverage, or build the cost of courtesy vehicles into approved rates and increase the door rate accordingly.

Impact:

At an overall average of 2% of revenue, based on MPI payments of $227.7 million for 2008 this is the equivalent of $4.6 million. Applying a 2% increase to the door rate would be the equivalent of $1.14, based on the door rate of $56.92 effective in 2008. To achieve the overall increase, the percentage would also need to be applied to other allowances, or a larger increase applied to the door rate.

Recommendation #7:

Consider the feasibility and viability of providing differential rates based on performance of the accredited collision repair shop.

Rationale:

Providing incentives for higher quality customer service is an effective way of enhancing the reputation and attractiveness of the collision repair industry in Manitoba. The ICBC model provides background and information about what this program could encompass and the expected results.

Impact:

A full analysis, with reference to the actual experience in B.C., and current cycle times and repair costs in Manitoba, would be required to determine the potential impact. Improved cycle times would reduce courtesy car costs, improve shop productivity and profitability, further increasing the incentive and benefit to shops that are able to participate in the higher door rate. Improved repair costs would offset the impact of the increased rate on MPI.