

Saskatchewan Collision Repair Industry Study

Final Report

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Prepared For: Saskatchewan Association of Automotive Repairers (SAAR)
Saskatchewan Automobile Dealers Association (SADA)
Saskatchewan Government Insurance (SGI)

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1.0 Executive Summary

Saskatchewan Government Insurance (SGI) has a long-term, ongoing business relationship with approximately 380 independent, commercial and dealer collision repair facilities in Saskatchewan. As organizations with a common interest in a healthy, sustainable industry, Saskatchewan Association of Automotive Repairers (SAAR), Saskatchewan Automobile Dealers Association (SADA), and SGI agreed to jointly sponsor a comprehensive industry analysis to identify and address current and future issues having an impact on the health of the collision repair industry in Saskatchewan.

The primary data collection tool was an on-line survey of SGI accredited collision repair businesses that completed repairs for SGI in 2011. MNP also gathered information from published sources such as Statistics Canada, the CRA Business Registry and published industry research to profile the industry and relevant trends and issues. Information was also collected from other provinces with public insurance schemes, including physical damage claims activity and rates.

The following report reflects the results of this industry analysis.

1.1 General Overview of the Industry

In 2011, Statistics Canada reported 8,392 Automotive Body, Paint and Interior Repair and Maintenance locations in Canada, approximately 1.5% less than in 2009. There were 361 shops in Saskatchewan, reflecting a 4.5% reduction in the number of locations from 2009 to 2011, the largest decline of the western provinces. Nationally, approximately half of the shops reported less than 10 employees. This is expected to under-represent the true number as there are a large number of shops for which employee numbers are not available.

Nationally, body shop financial performance in both year over year sales and profit margins generally declined in 2010 compared to 2008, with larger shops showing significantly better performance than those with revenue under \$500,000. While experiencing a similar pattern, Statistics Canada reported a net profit margin of 5.7% for Saskatchewan in 2010, compared to 3.0% for Canada and 4.7% for Western Canada (MB to BC). Operating profit margins for Saskatchewan Automotive Body, Paint and Interior Repair and Maintenance are lower than the broader Automotive Repair and Maintenance category in Saskatchewan.

National data shows that parts dollars declined, while labour and paint materials both increased as a percentage of the average appraisal. The mix of parts by type (aftermarket, recycled, remanufactured, OEM) has remained fairly stable. In the southern provinces, average labour rates range from \$47.07 in Quebec to \$69.65 in Alberta. Saskatchewan labour rates are second highest. The average hourly rate for Paint and Materials was \$33.68.

A number of recent trends are continuing in 2012. These include the rapid pace of new technology, including electronics and materials, industry consolidation, and generally declining repair volumes.

1.1.1 Economy & Labour Market Environment

Inflation, as reflected in the Consumer Price Index, showed a cumulative change of 5.3% in Saskatchewan in 2009 – 2011 compared to 5.0% nationally. The industrial average wage showed more dramatic increases with a cumulative change in Saskatchewan of 12% in 2009 to 2011, compared to 8% for Canada.

GDP growth in 2011 for Saskatchewan was 4.8%, compared to a national average of 2.6%. The unemployment rate is the lowest in Canada at 4.5%, and is expected to remain about the same through

2013. Full time jobs were up year over year to April 2012 by 17,599, and the Conference Board of Canada forecasts that Saskatchewan will add an additional 19,000 jobs by 2013.

The low unemployment rate is being felt across many industries in Saskatchewan as a business challenge. In 2010, 26 of 34 trades experienced labour shortages. Conditions are expected to worsen by 2013. The trade of Motor Vehicle Body Repairer was identified as experiencing a “moderate” shortage across most areas of Saskatchewan. There are ‘severe’ shortages for automotive service technicians and heavy duty equipment mechanics, trades that could be expected to be competing with body shops to attract new apprentices.

An average of 27 Motor Vehicle Body Repairer apprentices per year completed their training to achieve journeyman status from 2009 – 2011. According to a 2011 Saskatchewan wage survey average wages for MV Body Repairers in SK were approximately 10% below Automotive Service Technicians, and over 20% below other mechanical trades.

1.1.2 Canadian Public Insurance Jurisdictions

Saskatchewan, Manitoba and B.C. are the only Canadian provinces that operate a public automotive insurance scheme.

Claim payments trended upwards in Saskatchewan and Manitoba between 2009 and 2011 by 18.3% and 9.4% respectively. In both cases, the dollar amounts increased more than the number of payments, reflecting higher severity numbers. Payments in BC declined by approximately 8% from 2009 to 2011. Total losses as a percentage of claims in both Manitoba and Saskatchewan in 2011 were similar to 2009 levels.

Average severity, or the average payment per repair claim excluding total losses, increased by 8% in Saskatchewan from 2009 to 2011; and 7% in Manitoba. Average severity is influenced by the rate per hour of labour, which varies by province, as well as the vehicle characteristics (age, materials and technology). Body labour rates have increased 4% in Saskatchewan, 9% in Manitoba and 6% in BC since 2009.

All three provinces pay for repairs through a combination of hourly rates for labour and materials. Manitoba and BC apply different labour rates for body repair, paint, frame and mechanical repairs. Saskatchewan applies a blended rate across all categories. Applying the same blend to Manitoba and BC rates shows Saskatchewan labour plus material rates to be approximately equivalent to BC, and approximately 4% higher than Manitoba.

The BC market has been challenging for collision repair shops in the last few years with a significant drop in claims volume in 2010 that has continued in 2011. Industry capacity was estimated at approximately 70%, and consumers are finding ready access to repair services in most areas of the province. The declining volume and access to work was identified as the most significant issue impacting the industry in B.C. There has been less concern recently regarding access to skilled labour.

ICBC has multiple levels of accreditation with related requirements and standards. Shops that achieve “Earned Authority” can write estimates and supplements on ICBC’s behalf, and begin vehicle repairs without seeking approval from ICBC if the total estimated repair cost is within their Earned Authority threshold (\$1,500 to \$2,500). ICBC also offers variable rate structure related to levels of accreditation and shop performance whereby shops are compensated at a higher rate for meeting higher service standards.

The industry in Manitoba is fairly stable, with very few new shops in the past five years. While the industry is still believed to be overpopulated, it is considered relatively healthy. A number of initiatives in

the past few years are believed to have positively impacted the industry, particularly incentives to help attract and retain employees (tool allowances, apprenticeship grants). A review is currently underway to evaluate these changes.

The industry in Manitoba continues to experience challenges related to the types and makes of vehicles, including the use of newer materials, technology and proprietary OEM information. The labour supply remains tight, particularly for technicians, as all trades are competing for new apprentices.

1.2 Survey Results

Surveys were distributed to 321 accredited collision repair businesses across the province that had received payments from SGI in 2011. Survey responses were received from 99 shops, for a total response rate of 31% of accredited autobody repair businesses. Survey respondents represent \$124 million of SGI payments in 2011, or 52% of accredited repair business with SGI. A high proportion of businesses in the higher payment categories responded to the survey; businesses with SGI payments of less than \$500,000 were under-represented in the survey response.

79% of responding businesses were independently owned and operated; 72% had 10 or fewer employees. Shops under \$1 million in revenue typically require one journeyperson body repairer, one painter and one apprentice. The total number of technicians required doubles once revenue is over \$1 million. Shops above \$2 million typically require 4 Journeyperson/equivalent body repairers, 2 painters, 2 apprentices, as well as a supervisor and dedicated parts and customer service staff. Average annual pay for a journeyperson body repairer was approximately \$60,000; \$63,100 for a painter. Average pay increased significantly for senior technicians and management with the size of the shop.

A shortage of skilled labour was one of the most frequently cited concerns by employers responding to the survey. Turnover is also extraordinarily high, with turnover rates of near 50% for body repairers, 33% for painters and 65% for apprentices. It took respondents an average of over six months to fill any of these technical positions. Expected replacement rates for senior technicians are approximately 15% (painters) to 20% (body repairers) in the next five years. With modest annual growth requirements, total demand for technicians would require an average apprentice completion rate of 40 per year, which is approximately 50% more than the recent average.

Overall, training investments represented less than 1% of wages. Body repair technicians averaged approximately 2 days of training per year. This is low compared to a general best practice benchmark of approximately 2%, particularly given the pace of technological change in the industry. Painters averaged between 3 and 4 days, which is believed to be at least in part related to the recent regulatory change to required use of waterbourne paints.

The major business processes that cause interaction between SGI and collision repair businesses include the estimate and supplemental estimate process, parts procurement, and account reconciliation. Responding businesses reported spending between 42 hours per week for very small shops to 102 hours per week for large shops on these business processes.

Responding shops reported average revenue growth of 6% in 2010 and 14% in 2011. Gross margins also improved over this period, from 29.4% to 31.8%. Gross margin varies significantly by size of shop, from approximately 25% for shops with less than \$500,000 in revenue to over 37% for shops over \$2 million. Overall average earnings before interest, taxes, depreciation and amortization (EBITDA) represented approximately 6.5% of revenue in 2011, a significant improvement from average EBITDA of 2% in 2009. EBITDA also varied significantly by size. Shops with revenue under \$500,000 showed operating losses in each year, compared to EBITDA of approximately 9% - 11% for shops with revenue over \$2 million.

Shops indicated the top issues affecting profitability included shop rates, difficulty attracting and retaining people in the industry, lower paint and materials margins, and administrative time required for supplemental estimates. Approximately 45% of responding business owners expect to retire within 10 years.

1.3 Summary Analysis and Conclusion

1. Financial performance of shops in Saskatchewan is relatively strong compared to other provinces.

Comparative national data indicates the collision repair industry in Saskatchewan outperforms most other provinces.

2. Revenue growth has kept pace with or exceeded operating costs over the past three years.

Labour, parts and material are the most significant expenses in a collision repair business. These costs have remained relatively constant as a percentage of revenue, or declined modestly to provide overall improved returns during the period. General overhead expenses have also remained relatively constant.

3. Saskatchewan shop rates are comparable to other public insurance jurisdictions.

The overall blended rate for collision repairs in Saskatchewan is relatively similar to the combination of rates in BC for Earned Authority Valet shops, and approximately 4% higher than Manitoba.

4. A significant portion of collision repair business is conducted by shops that are too small for ongoing viability.

Over half of SGI-accredited collision repair shops handle insurer-pay business of under \$500,000. This represents \$38.5 million or approximately 16% of SGI collision repair business. A further 74 shops handle business of between \$500,000 and \$1 million, representing \$54.4 million or 23% of SGI collision repair claims. Combined, these two categories are responsible for approximately 39% of collision repair in the province.

Survey results, supported by national data, indicate the profits from these businesses are not sufficient to enable ongoing investment in technology, or to warrant purchase of the business. Average profitability of businesses under \$1 million 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 health industry structure if a high percentage of repair volumes are conducted by businesses that may not be viable in the long term.

5. Operating profits are not sufficient to support significant capital investment for shops with revenue below \$2 million.

Businesses with less than \$500,000 have limited to no ability to invest in equipment or technology. Businesses with between \$500,000 and \$1 million in revenue have some ability, however would fall behind on standard replacement rates and would not be able to service the debt to construct a new shop. Revenues for this category would need to increase by approximately 8% without any corresponding increase in costs to create a business case for a prospective owner.

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

Eighteen percent of businesses plan to exit the industry within 5 years; 45% within 10 years. Selling the business to employees or an unrelated buyer are among the intentions of owners, including owners of businesses with under \$1,000,000 revenue. The limited ability of businesses with under \$1 million 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.

7. Availability of labour is a significant concern to the industry.

While labour as a percentage of revenue has not increased, the industry is experiencing labour challenges. Extended times to fill positions, over six months for all technical positions, indicate an overall shortage. Very high turnover rates indicate a workforce that is prepared to be mobile. The industrial average wage in Saskatchewan has increased by approximately 12% from 2009 to 2011, compared to an approximately 4% increase in door rates; if businesses are matching increases in wages to changes in door rates, it may be creating a lack of competitiveness for key positions, particularly technicians. Barriers to employment also include the cost of tools, a lack of skills, the negative public perception of skilled trades, and industry working conditions. These challenges will also need to be addressed to ensure the industry is able to compete for new talent.

The industry needs to generate approximately 50% more apprentices per year to meet future demand for technicians. Addressing the barriers to employment will be important to attract the required additional talent.

8. There are opportunities to streamline business processes, particularly related to supplemental estimates.

SGI related activities absorb more than the equivalent of one full time position even in the smallest businesses. In businesses over \$2 million, this becomes over 100 hours per week. Account reconciliation and estimates tend to involve the highest time, followed fairly closely by parts procurement. The supplemental process was among the top five issues of concern to the industry. While the supplemental ratio in SK has been improving the process for handling supplemental estimates is cumbersome.

1.4 Recommendations

1. Develop Performance Benchmarks and Management Training

Develop a joint strategy to provide industry information, performance benchmarks and shop performance education to assist collision repair businesses to evaluate and improve business performance. Over three quarters of collision repair businesses are operating at volumes of business too low to be sustainable. Left to market forces, this may cause significant holes throughout the province if many small shops close instead of transferring to new owners. Approximately half of reporting shops indicated they are using performance measures, but only just over one quarter report adopting new management practices.

Information on the volume and nature of claims within certain market areas may allow shops to make decisions regarding growth and consolidation, ensuring better continuity of service and more secure investments for shop owners. Armed with better performance information, shops may be able to improve their performance and compete effectively to grow to more sustainable size, as well as improve both productivity and customer satisfaction.

Incorporating performance measures may also provide SGI with a means of improving results and controlling severity, reducing overall claims costs. Development of performance measures also provides an opportunity to develop variable rate models to reward shops that perform well, and control costs in shops with lower quality or productivity.

2. Enhance attraction and retention of talent in collision repair.

A lack of available personnel extends cycle times, particularly if the customer's vehicle is not driveable, increasing costs for the insurer and reducing throughput for the shop. At 47%, the turnover rate for journeyperson technicians is more than twice the norm, which is considered high at 20%. At 65% the turnover rate for apprentices makes it extremely difficult to develop new talent. Some industries experiencing unusually high costs have adopted a surcharge approach to fund costs that may be extraordinarily high for a period of time. This approach may present some opportunity in Saskatchewan, as labour rates are otherwise reasonably in line with most other jurisdictions. The labour market in Saskatchewan has been compared to that experienced in Alberta related to oil demands. While the insurance schemes differ, according to Mitchell average labour rates in Alberta were approximately 4% higher than in Saskatchewan.

While wages can be a significant driver, particularly in Saskatchewan's current labour climate, other factors do contribute to employees choosing to move on. Effective management practices are also important. Proactive efforts to address the identified barriers, including competitive wages, financial assistance for investments in tools, improving public perception of the trade, and improving the work experience are recommended.

3. Ensure rates remain competitive.

Saskatchewan labour rates are generally in line with the industry, however only the largest businesses generate sufficient profit to enable re-investment. While the gap to sufficient profitability for smaller businesses may be too large, smaller adjustments would enable shops with \$1 million revenue and over to generate sufficient return on investment to both invest in technology and attract future owners for succession. Some of these improvements may be found in improved business processes, supported by management information; some will likely require rate adjustments. Rate increases have been fairly consistent with CPI changes, however changes in the IAW should also be considered to enable competitive rates for skilled technicians. Material rates are approximately 2% below the national average.

4. Conduct a review of the estimates, supplemental and account reconciliation processes.

Respondents identify between 42 and 102 hours per week on SGI business processes. The opportunity to free up employee time for more productive pursuits (or reduce demand for staff in a challenging environment) would be highly valuable to shops. Survey responses also frequently cited the supplemental process as causing delays and added costs, causing frustration to the customer as well as the shop. At a minimum, use of technology and performance standards (e.g., appraiser decision within two hours) should be used to make the process timelier. Consideration should also be given to enabling shops to conduct estimates on low-risk claims, supported by risk based auditing, and monitored through an overall performance measures program.

5. Facilitate training in new technologies

Shops experience challenges releasing employees from productive work hours as well as investing in training when operating margins are already very slim. A joint strategy to evaluate and where possible extend training offerings or enable partnerships in regions to rationalize technical specialties is recommended to ensure customers can have their cars repaired within a reasonable distance, and shops can continue to conduct business within the new demands of technology.

2.0 Introduction and Objectives

2.1 Introduction

Saskatchewan Government Insurance (SGI) has a long-term, ongoing business relationship with approximately 380 independent, commercial and dealer collision repair facilities in Saskatchewan. In 2010, SGI made approximately 101,000 payments totalling \$215 million dollars to these facilities.

As organizations with a common interest in a healthy, sustainable industry, Saskatchewan Association of Automotive Repairers (SAAR), Saskatchewan Automobile Dealers Association (SADA), and SGI agreed to jointly sponsor a comprehensive industry analysis to identify and address current and future issues having an impact on the health of the collision repair industry in Saskatchewan.

The following report reflects the results of this industry analysis.

2.2 Objectives

The purpose of the study was to prepare an industry analysis that represents a comprehensive view of the collision repair industry in Saskatchewan that will:

- Provide current and historic information
- Act as a benchmark for monitoring the industry's ongoing health
- Offer recommendations and solutions to ensure that the collision repair industry remains viable in meeting the short-term and long-term needs of SGI, the industry and their shared customers

For the purpose of this study, viability has been defined as the degree to which the industry is able to:

- Attract and retain employees
- Invest in equipment, technologies and expertise
- Attract investment for succession

3.0 Methodology

3.1 Business Survey

The primary data collection tool was an on-line survey of SGI accredited collision repair businesses that completed repairs for SGI in 2011.

3.1.1 Ensuring a Valid Instrument

The initial draft survey was based on the instrument used to collect data for the Manitoba Collision Repair Industry Study in 2009 to allow for comparison. The results obtained by this survey had been previously validated as a fair reflection of the industry from both the insurer and industry association perspectives. The survey instrument was customized and modified to reflect additional information requirements for Saskatchewan in consultation with SAAR, SADA and SGI (hereafter referred to as the "survey sponsors").

3.1.2 Ensuring a Reasonable Sample

MNP and the survey sponsors employed a number of tactics to achieve the required response rate.

- A communication strategy was developed to establish a consistent message to the industry regarding the purpose of the survey, how individual privacy would be protected, the importance of a representative response, and how the results would be used. The communication strategy included planned communications by survey sponsors to reinforce industry support for the survey and encourage member participation.
- Contact information for individual businesses was based on the SGI database of businesses conducting repairs for SGI in 2011.
- The survey was initially communicated to this list by direct e-mail, with a link and password for the on-line survey. MNP conducted follow up calls to confirm the invitation to participate in the survey had been received, and to offer support and options as necessary to achieve a response. Where an e-mail address was not provided, MNP contacted the businesses to obtain the information.
- A general fax notice was also provided to all shops, notifying them of the survey.
- The survey was also designed to be printed and completed on paper if the respondent preferred. MNP also offered respondents the option to submit financial statements for the detailed financial data portion of the survey.
- A toll free support line was established to assist shops in completing the survey.
- SAAR and SADA contacted their members to encourage response both by telephone and email, and a notice was placed on the SGI e-Pay page.
- MNP conducted follow up phone calls with shops that had not yet responded to offer assistance and encourage response.

3.1.3 Ensuring Reliable Data

In financial statement surveys such as this one, reliability can be complicated by varying accounting practices within individual businesses. The greater the desired detail, the greater the challenge. For example, categories of expenses are often captured in different ways, management fees may be used for many purposes, assets may be managed through separate corporations, and wages taken by owners for direct shop activity may not represent market rates. Similarly, costs associated with owned versus leased premises, or fully amortized facilities can influence comparability. The following methods were used to ensure reported information was consistently categorized and normalized to enable comparison.

- Definitions and explanations of what should be included in particular revenue and expense categories were included as “drop-downs” on electronic surveys or comment boxes on hard copy surveys.
- Responses were individually reviewed in detail and compared to existing benchmarks and the developing data from survey respondents to identify outliers and other potential errors in the data. MNP contacted respondents directly to confirm, clarify or correct this information.
- Detail was gathered regarding the allocation of owner wages and owner time spent performing specific functions. This information was used to normalize owner wages to industry averages for the respective functional categories.
- Market detail was gathered regarding lease rates for industrial property in major centres, minor centres and rural areas. This information was used as a basis for occupancy costs.

3.1.4 Confidentiality

MNP acted as an independent third party in this study. Individual respondent data was received and maintained only by MNP. The results are reported collectively and in aggregate with no ability to identify individual businesses. A minimum group size for analysis of 5 businesses was established to further protect this anonymity.

All information provided to MNP, including completed surveys will be used only for the purpose of this study and will be retained by MNP until the final report has been accepted by SAAR, SADA and SGI. Upon acceptance, all survey responses and identifying business information will be destroyed.

3.2 Secondary Research

MNP gathered information from published sources such as Statistics Canada, the CRA Business Registry and published industry research to profile the industry, including by size, distribution and performance, as well as trends and issues impacting the industry in North America. Information was also collected from other provinces with public insurance schemes, including physical damage claims activity and rates.

4.0 Overview of the Collision Repair Industry

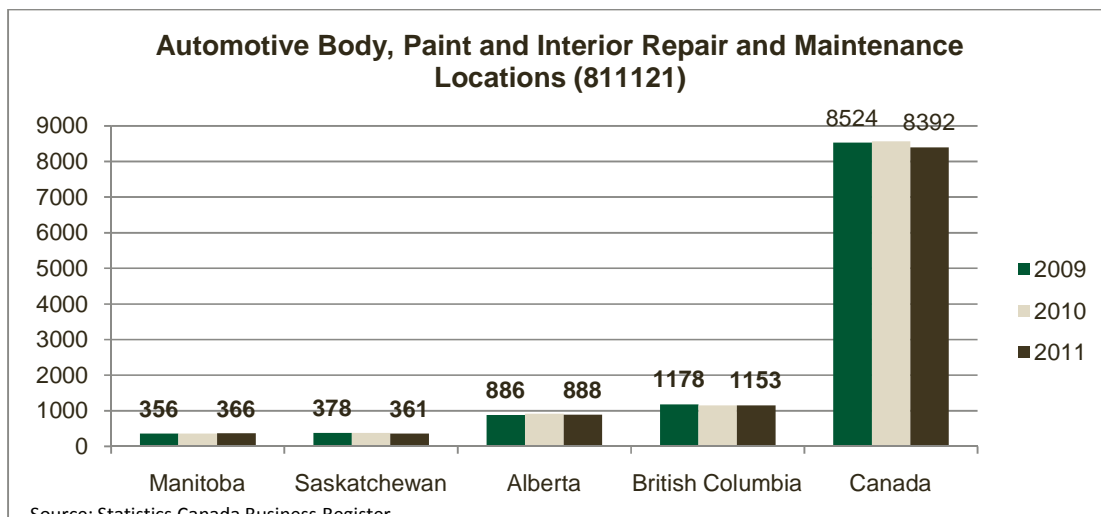
The following section provides an overview of the collision repair industry in Canada, Western Canada and Saskatchewan to provide contextual information for the analysis of the data collected directly from establishments in Saskatchewan.

4.1 Industry Size and Composition

The collision repair industry is represented most directly by NAICS Code 811121 - Automotive Body, Paint and Interior Repair and Maintenance¹. It is a sub-sector of Automotive Repair and Maintenance (NAICS Code 8111), which also includes mechanical repairs (service shops).

In 2011, Statistics Canada reports 8,392 Automotive Body, Paint and Interior Repair and Maintenance locations in Canada. There were 361 shops in Saskatchewan. As shown in Figure 1 below, Saskatchewan experienced a 4.5% decline in the number of locations between 2009 and 2011, the largest decline of the western provinces. The number of shops in B.C. declined by 2.1%, while Manitoba locations increased by 2.8%. There was no significant change in Alberta. The overall number of locations in Canada declined by 1.5% from 2009 to 2011.

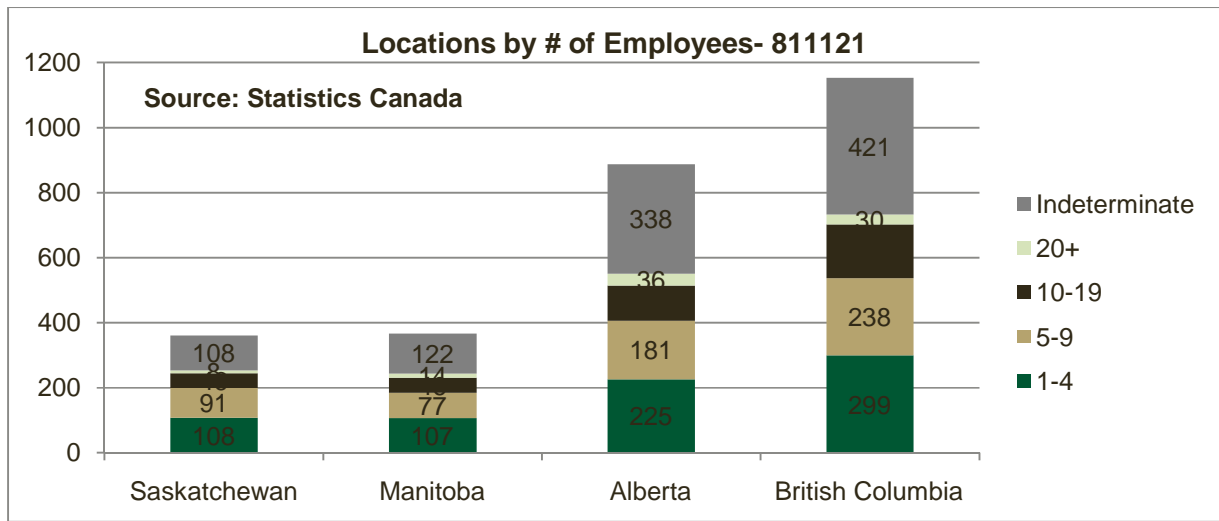
FIGURE 1: AUTOMOTIVE BODY, PAINT AND INTERIOR REPAIR AND MAINTENANCE LOCATIONS



In 2011 48% of Automotive Body, Paint and Interior Repair and Maintenance businesses in western Canada employed less than 10 employees; 55% in Saskatchewan. The reliability of this measure is compromised by the high proportion of businesses in the “indeterminate” category. See Figure 2.

¹ NAICS is the North American Industry Classification System, used by statistical agencies to categorize industries. 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.

FIGURE 2: AUTOMOTIVE BODY, PAINT AND INTERIOR REPAIR AND MAINTENANCE LOCATIONS BY NUMBER OF EMPLOYEES

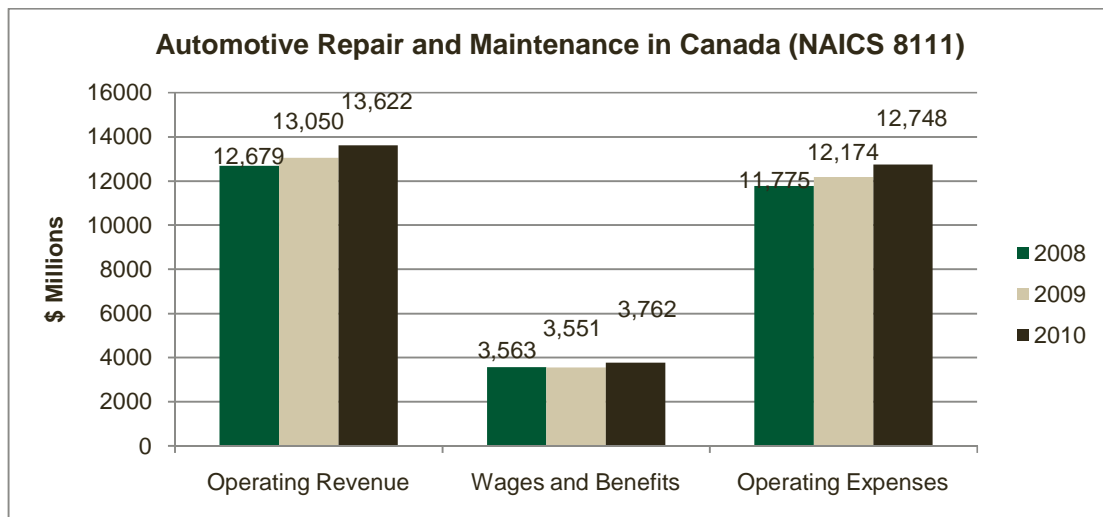


4.2 Financial Performance – Statistics Canada

In Canada, the overall Automotive Repair and Maintenance industry generated annual operating revenues of approximately \$13.6 billion in 2010, an increase of 4.4% from 2009². Saskatchewan revenue represents approximately 3.4% of the total, consistent with the proportion of the country's population residing in Saskatchewan.

Operating revenue grew by 3% and 4% respectively in 2008 and 2010, slightly less than operating expenses which grew by 4% and 5% respectively. Wages were flat in 2009, and then grew by 6% in 2010. Salaries, Wages and Benefits represent 32% of operating expenses. See Figure 3 below.

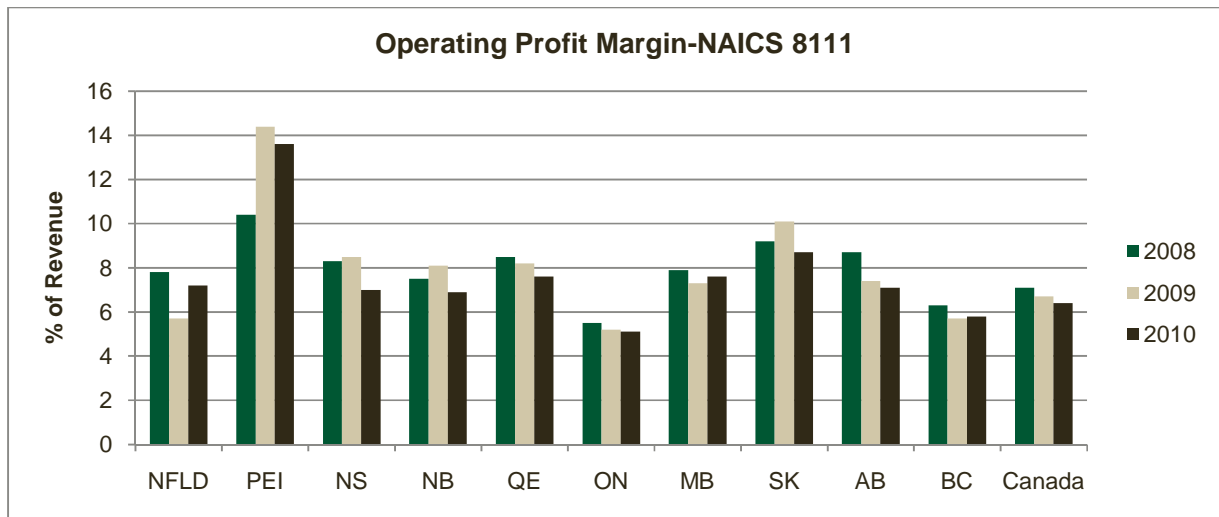
FIGURE 3: AUTOMOTIVE REPAIR AND MAINTENANCE FINANCIAL PERFORMANCE – STATISTICS CANADA



² Statistics Canada: <http://www.statcan.gc.ca/pub/63-247-x/63-247-x2012001-eng.pdf>

In 2010, Statistics Canada reports an operating profit margin of 8.7% for Saskatchewan Automotive Repair and Maintenance businesses, compared to 6.4% for Canada as a whole. British Columbia reported the lowest operating profit among the other western provinces, which averaged 7.3%. Saskatchewan reported an operating profit in 2010 that was 19% higher than the average in Western Canada and 36% higher than the Canadian average. See Figure 4 below.

FIGURE 4: AUTOMOTIVE REPAIR AND MAINTENANCE PROFIT MARGINS BY PROVINCE



Comparative performance across a select set of service or equipment related industries in Saskatchewan indicate modest declines in performance from 2007 to 2010 with the exception of automotive equipment rental and leasing. Automotive Repair and Maintenance lags several of these industries, but performs better than the overall set of Non-Financial Industries in Canada. See Table 1 below.

TABLE 1: CROSS INDUSTRY COMPARISON³

Operating Profit Margin (%) - Saskatchewan	2005	2006	2007	2008	2009	2010
Retail (Non-Store) - Fuel Dealers		15.2	14	12.5	14.8	13.1
Commercial and Industrial Machinery & Equipment Rental and Leasing	13.1	14.6	15.4	12.3	11	11.4
Automotive Equipment Rental & Leasing	9.4	8.9	8.9	11	9.5	10.2
Dry Cleaning & Laundry Services		11.9	14.6	9.4	9.6	9.6
Automotive Repair and Maintenance (8111)	6.6	2.6	9.6	9.2	10.1	8.7
Retail - Gasoline Service Stations				4.4	3.3	3
Canada - Non-Financial Industries	7.09	6.87	7.04	6.13	6.22	6.76

³ Source: Statistics Canada Summary tables, CANSIM Tables 2009121511034920348, 2009121511182921629, 2009121511344022883, 2009121511384723312

Financial data available from Statistics Canada for the Automotive Body, Paint and Interior Repair and Maintenance broken down by size of firm is limited to a national summary, highlights of which are shown below⁴.

Body shop financial performance generally declined in 2010 compared to 2008, with shops over \$500,000 in revenue showing significantly better performance than those with revenue under \$500,000. Year over year sales also declined from 2008 to 2009, and again in 2010.

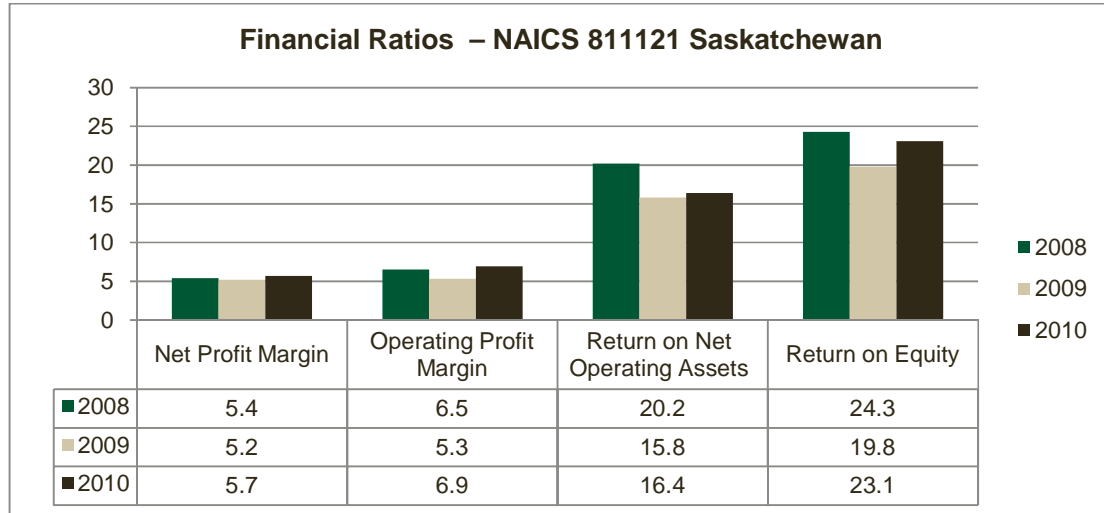
TABLE 2: RATIOS FOR AUTOMOTIVE BODY, PAINT AND INTERIOR REPAIR AND MAINTENANCE (NAICS 811121)

Automotive Body, Paint and Interior Repair and Maintenance (Canada)	Year	Average	Firms \$500,000 to < \$5,000,000	Firms \$30,000 to < \$500,000
Operating Profit Margin	2008	4.2	5.1	3.7
	2009	3.3	4.1	2.0
	2010	3.3	4.2	2.9
Net Profit Margin	2008	3.6	4.0	2.8
	2009	2.4	3.3	1.4
	2010	2.9	3.2	2.5
Return on Net Operating Assets	2008	13.8	20.8	8.0
	2009	10.2	16.7	4.5
	2010	9.8	15.1	5.6
Return on Equity	2008	21.4	25.7	15.9
	2009	15.9	18.8	10.7
	2010	15.5	18.0	11.4
Sales, Year Over Year Change (Average, all categories)	2007-2008	3.9		
	2008-2009	-0.8		
	2009-2010	-3.2		

⁴ Financial Performance Indicators for Canadian Business, Small Firms – Canada, Statistics Canada

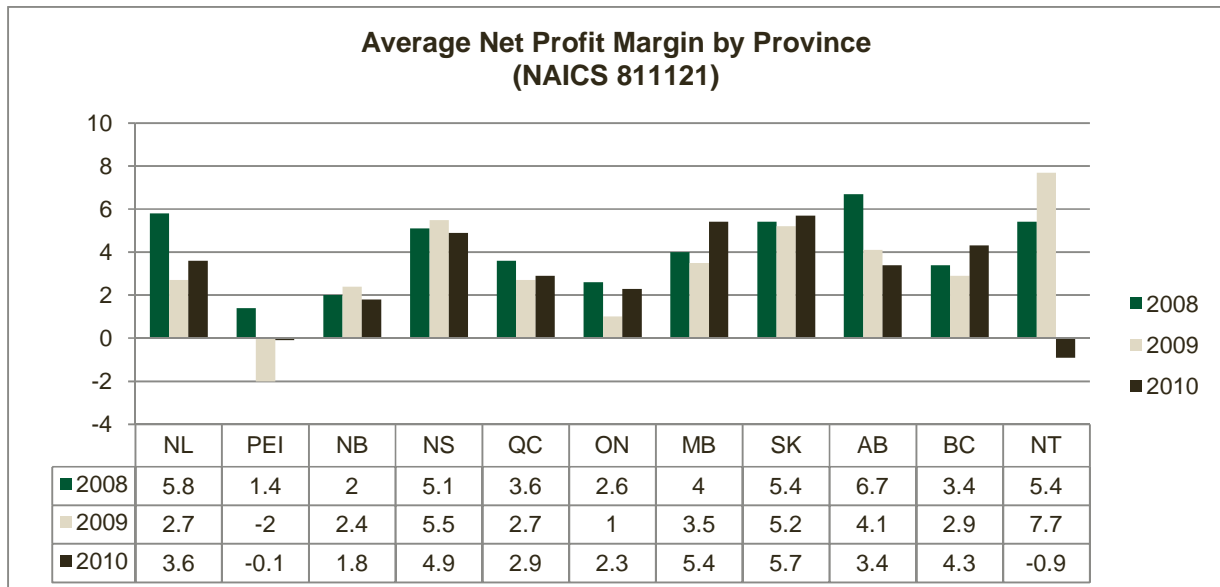
Operating profit margins for Saskatchewan Automotive Body, Paint and Interior Repair and Maintenance (NAICS 81121) are lower than the broader Automotive Repair and Maintenance category, and dipped lower in 2009. Return on operating assets declined from 2008 to 2010. See Figure 5 below.

FIGURE 5: FINANCIAL RATIOS - AUTOMOTIVE BODY, PAINT AND INTERIOR REPAIR AND MAINTENANCE⁵



The Saskatchewan Automotive Body, Paint and Interior Repair and Maintenance sub sector achieved higher net profit margins than all other provinces in 2009 and 2010.

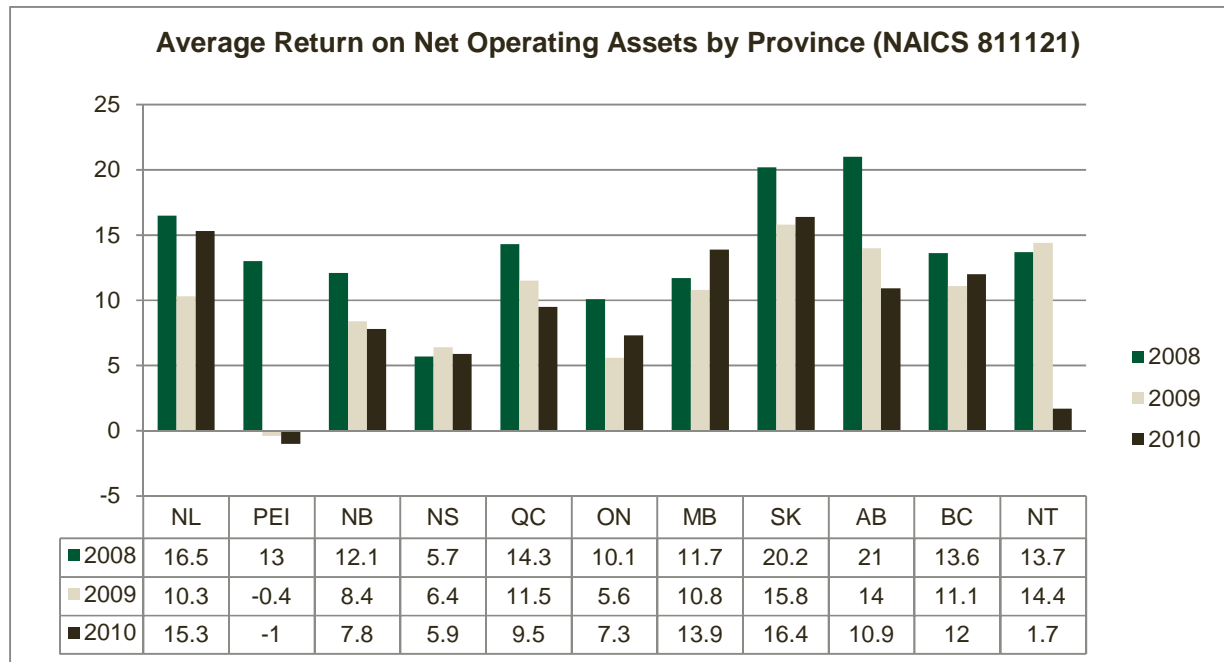
FIGURE 6: 81121 NET PROFIT MARGIN BY PROVINCE



⁵ Financial Performance Indicators for Canadian Business, Small Enterprises – Saskatchewan, NAICS: 81121

Similarly, Saskatchewan body shops achieved the highest return on net operating assets in 2009 and 2010 of all Canadian provinces.

FIGURE 7: 811121 RETURN ON NET OPERATING ASSETS



4.3 Industry and Business Environment

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

4.3.1 Economic Environment

As with most industries, collision repair businesses are impacted by the economy in which they operate. According to the Saskatchewan Ministry of Finance, Saskatchewan is an economic leader in Canada and enjoys one of the lowest costs of living in Canada⁶. Saskatchewan's taxes and household expenses are among the lowest in Canada and the personal sales tax of 5% is the lowest of the nine provinces that currently charge a sales tax. According to the 2012 Intercity Comparison of Taxes, Utilities, and Housing, a family with a total income of \$50,000 per year would expect to pay a total of \$16,614 in total taxes, utilities and housing in Saskatoon. Families in Winnipeg can expect to pay \$16,931 and a family in Vancouver would pay \$35,960. Please refer to the table below for further comparisons in a variety of Canadian cities.

⁶ Saskatchewan Ministry of Finance, March 2012, <http://www.saskimmigrationcanada.ca/cost-living>

TABLE 3: TAXES AND HOUSEHOLD EXPENSES⁷

**2012 Intercity Comparison of Taxes, Utilities and Housing
Family at \$50,000 Total Income**
(Values in Dollars)

	Vancouver	Calgary	Saskatoon	Winnipeg	Toronto	Montréal	Saint John	Halifax	Charlotte- town	St. John's
<i>Provincial Taxes and Health Premiums</i>										
Provincial Income Tax	833	1,058	301	2,302	214	2,251	2,121	2,398	2,797	2,116
Tax Credits and Rebates	(123)	(832)	(308)	(700)	(362)	0	0	0	0	0
Active Families Benefit	0	0	(300)	(109)	(102)	0	0	(88)	0	0
Health Premiums	1,536	0	0	0	300	0	0	0	0	0
Retail Sales Tax	1,828	0	751	1,318	2,179	2,624	2,179	2,724	1,853	2,322
Gasoline Tax	622	180	300	230	294	334	214	310	316	330
Total Provincial Taxes and Health Premiums	4,696	406	744	3,041	2,523	5,209	4,514	5,344	4,966	4,768
<i>Household Utility Costs</i>										
Home Heating	1,092	851	881	985	933	1,563	1,964	1,650	2,672	2,643
Electricity	569	1,173	1,091	614	1,132	586	915	1,146	1,302	998
Telephone	312	291	258	295	271	271	268	304	298	266
Auto Insurance	1,439	1,957	991	985	4,787	1,514	1,579	1,911	1,589	2,491
Total Household Utility Costs	3,412	4,272	3,221	2,879	7,123	3,934	4,726	5,011	5,861	6,398
Total Taxes and Utilities	8,108	4,678	3,965	5,920	9,646	9,143	9,240	10,355	10,827	11,166
<i>Housing Costs</i>										
Mortgage Costs	25,131	12,238	10,035	8,283	15,536	8,238	5,550	8,058	4,973	7,202
Net Property Taxes	2,721	2,114	2,614	2,728	2,999	3,083	2,701	2,332	2,600	1,422
Total Housing Costs	27,852	14,352	12,649	11,011	18,535	11,321	8,251	10,390	7,573	8,624
Total of Taxes, Utilities and Housing	35,960	19,030	16,614	16,931	28,181	20,464	17,491	20,745	18,400	19,790

While the above suggests Saskatchewan enjoys an advantage, a lack of housing and a high cost of living have been cited as issues contributing to a labour shortage. While overall living expenses are lower based on the above, the low end of the price for a detached bungalow in Regina and Saskatoon is exceeded only by Toronto and Vancouver out of a set of nine Canadian cities, and compare relatively close to Calgary and Ottawa.

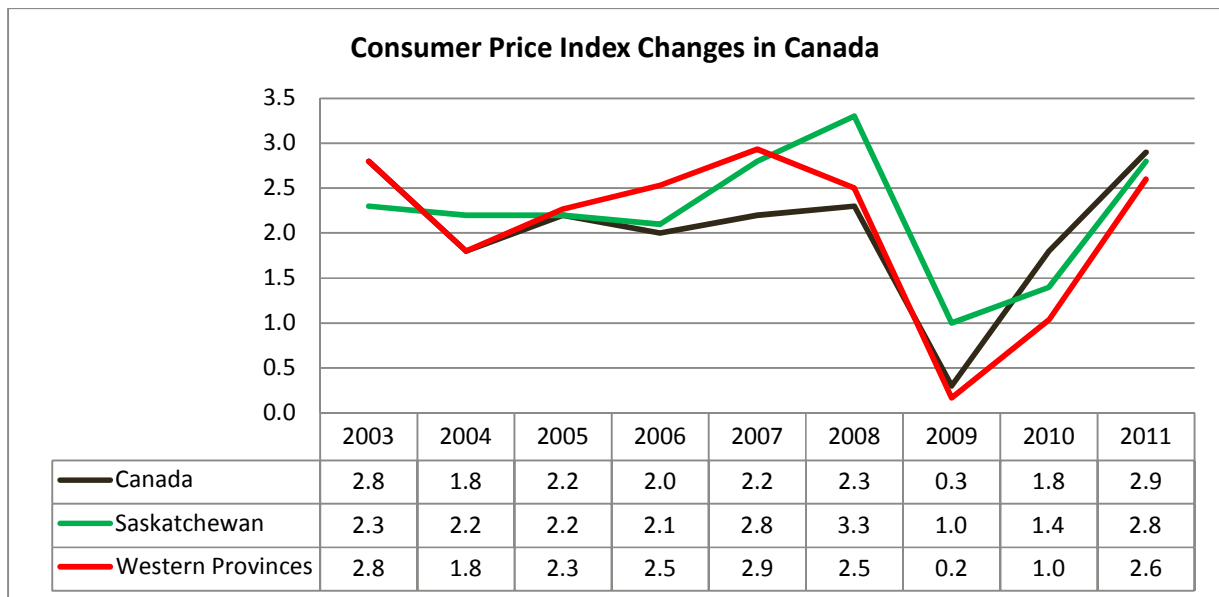
⁷ <http://www.enterprisesaskatchewan.ca/taxes>

TABLE 4: HOUSE PRICE COMPARISON⁸

House Price Comparison (rounded)	Detached Bungalow		Executive 2-Storey Detached	
	Low	High	Low	High
Montreal Area, QC	\$240,000	\$308,000	\$407,000	\$680,000
Halifax, NS	250,000	310,000	355,000	355,000
Winnipeg, MB	265,000	288,000	348,000	448,000
Calgary, AB	302,000	576,000	407,000	815,000
Ottawa, ON	311,000	586,000	369,000	594,000
Regina, SK	312,000	321,000	483,000	520,000
Saskatoon, SK	320,000	359,000	440,000	500,000
Toronto Area, ON	355,000	825,000	472,000	1,730,000
Vancouver Area, BC	465,000	1,350,000	480,000	1,850,000

Inflation, as reflected in the Consumer Price Index shows a cumulative increase of 5.3% in Saskatchewan for the years 2009-2011 compared to 5.0% nationally, and 3.8% in Western Canada. See Figure 8 below⁹.

FIGURE 8: CPI SASKATCHEWAN AND CANADA

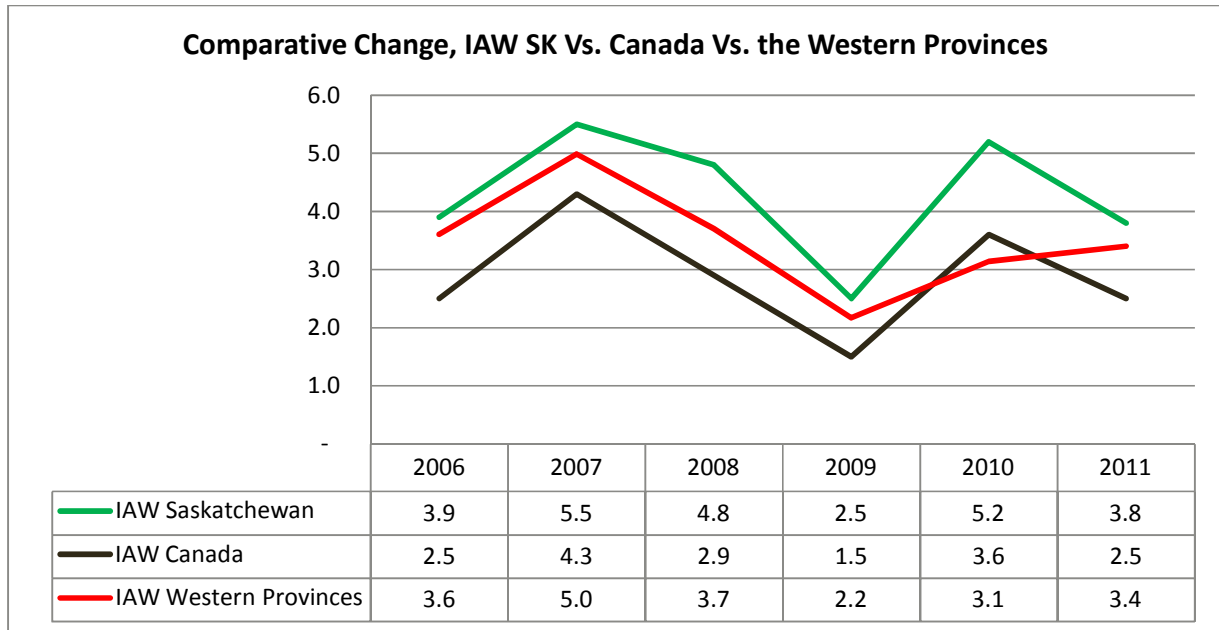


⁸ Royal LePage House Price Survey, 4th Quarter 2011, <http://www.enterprisesaskatchewan.ca/housing>

⁹ Saskatchewan Bureau of Statistics, January 2012 <http://www.stats.gov.sk.ca/stats/consumer2012/cpiapr12.pdf>

While overall inflation was not dramatically different when compared nationally, the industrial average wage (IAW) showed more dramatic results with a cumulative change in Saskatchewan of 19.8% from 2005 to 2008, followed by a further 12% cumulative increase from 2009 to 2011. This compares to increases of 14.3% and 7.8% respectively for Canada as a whole. The IAW in Western Canada increased by 9% in 2009-2011.

FIGURE 9: INDUSTRIAL AVERAGE WAGE¹⁰



According to Statistics Canada, a rebound in mining (which includes potash) led the economic recovery in Saskatchewan post 2008. Gains in support activities for mining and oil & gas extraction and other engineering construction also added to the advance.

Forecasters continue to believe that Saskatchewan will be among the leading provinces in real GDP growth in 2012, as commodity prices and global demand continue to increase.

Results published by Enterprise Saskatchewan in July indicate economic prospects continue strong. GDP growth in 2011 was 4.8%, compared to a national average of 2.6%¹¹. Home sales also saw double-digit increases in both Saskatoon and Regina. Nationally, consumer confidence is also reflected in increases in car sales and housing starts up 5.8% and 190% respectively from a year ago (March 2012)¹².

Utility rates, including natural gas and electricity, represent approximately 1.5% of revenue for collision repair businesses. The price of oil stabilized over the period of 2009 to 2012 as compared to the

¹⁰ Employment, Earnings and Hours, Statistics Canada Catalogue 72-002-X, (2006 - 2008 data from September 2009, 2009-2011 data from March 2012 <http://www.statcan.gc.ca/pub/72-002-x/72-002-x2012003-eng.pdf>)

¹¹ Saskatchewan Economic Checklist, Enterprise Saskatchewan

¹² RBC Economics Research Current Trends Update – Canada, June 22, 2012

dramatic fluctuations seen in the period of 2006 to 2008. The non-residential Primary Gas Billed Rate declined from a high of \$0.3195 in November of 2008 to a low of \$0.1453 in April of 2012, which has been the lowest rate since December of 1999.

Forecast increases in GDP of 2.9% and 3.5% for 2012 and 2013 may be slowed by the European economic crisis and related cuts to potash production. The mining industry is expected to grow by a modest 2.7% in 2012, followed by more dramatic growth of over 9% in 2013. Growth is expected to be broad based, with agricultural product shipments up 21.5% in January 2012, energy products up 93.5%, machinery and equipment up 44%, manufacturing sales up 17.9% (5% nationally) and consumer goods up 13.3%.¹³

The unemployment rate is expected to remain about the same at 4.5% through 2013. Full time jobs were up year over year to April by 17,599, with a decrease in part time jobs of 4,300, predominantly in non-agricultural employment. Personal disposable income is projected to grow by 4.4% in 2012; 3.9% in 2013.¹⁴ Additional indicators are shown in the Saskatchewan Economic Checklist, below.

TABLE 5: Saskatchewan Economic Checklist July 2012¹⁵

Economic Indicators	Period	Values	Year-over-year % growth	Canadian average (%)	Rank in Canada % Growth
Population	April 1, 2012	1,072,082	1.9%	1.1%	2nd
Number of People Employed	Jun 2012	548,900	2.2%	1.0%	4th
Unemployment Rate	Jun 2012	4.5	4.5%	6.7%	2nd
Economic Growth					
Real GDP at Basic Prices in Billions Dollars*	2011**	\$41.2B	4.8%	2.6%	2nd
Forecasted Economic Growth (Real GDP)					
-RBC (June 2012)		--	3.7%	2.6%	2nd
-CIBC (March 2012)		--	3.1%	2.1%	2nd
-TD Bank (April 2012)		--	3.1%	2.2%	2nd
-CBOC (Spring 2012)		--	2.9%	2.3%	2nd
-BMO (June 2012)		--	2.9%	2.0%	2nd
-Scotiabank (June 2012)		--	2.8%	2.0%	2nd
-Global Insight (January 2012)		--	2.5%	1.8%	1st
Average Forecasted Economic Growth (Real GDP)***	2012	--	3.0%	2.1%	2nd
Average Forecasted Economic Growth (Real GDP)***	2013	--	3.2%	2.4%	2nd

* Statistics Canada reports GDP in basic prices, chained 2002 dollars.

**Preliminary estimates

*** Average of seven private sector fore

Figures are as of July 6, 2012

For more information, see Statistics Canada at
and the Saskatchewan Bureau of Statistics at

www.statcan.gc.ca
<http://www.stats.gov.sk.ca/>



¹³ Conference Board of Canada, May 16, 2012

¹⁴ Ibid.

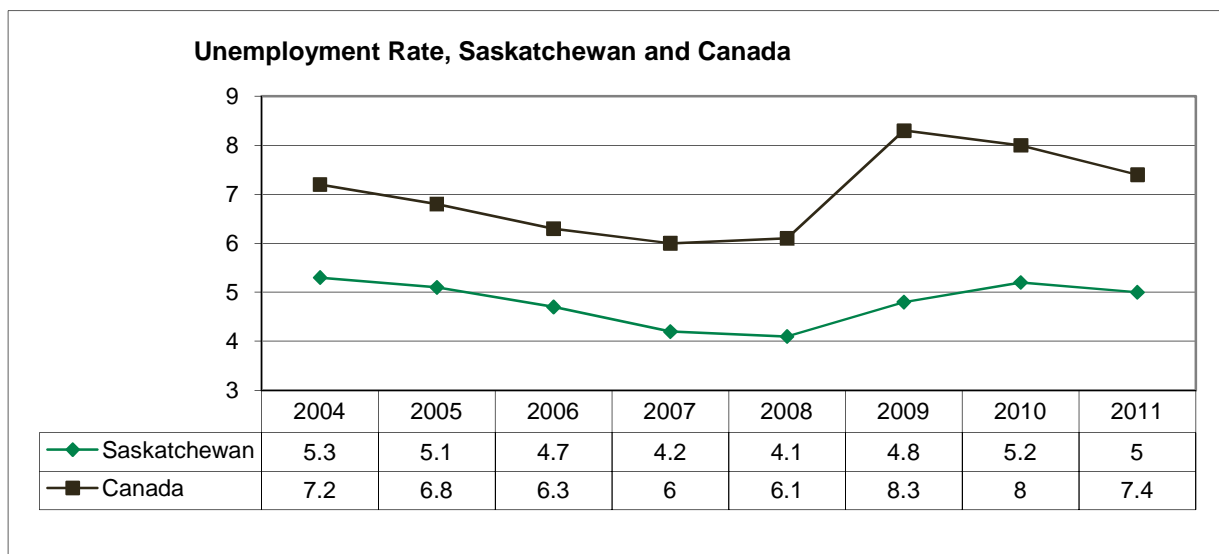
¹⁵ www.enterprisesaskatchewan.ca

4.3.2 Labour Market

While the population of Saskatchewan increased by approximately 3% from 2010 to 2012, the labour force only increased by 2.1%. The HRSDC Spring 2012 Labour Market Bulletin¹⁶ indicated employment in Saskatchewan increased by 0.5% in the first quarter of 2012, compared to a national employment growth rate of 0.2%. The trend is forecasted to continue in the future and the Conference Board of Canada forecasts that Saskatchewan will add an additional 8,000 jobs this year and 11,000 additional jobs in 2013. Saskatchewan has experienced total employment growth of 5% over the past five years (2007-2012), exceeding the national growth rate of 4.2% during that period¹⁷.

Saskatchewan's economy has been more stable and the unemployment rate has remained lower when compared nationally, as shown in FIGURE 10 below. In 2012, Saskatchewan continues to possess the lowest unemployment rate in the country¹⁸.

FIGURE 10: UNEMPLOYMENT RATE, SASKATCHEWAN AND CANADA



The low unemployment rate is being felt across many industries as a business challenge. In 2010, 26 of 34 trades experienced labour shortages¹⁹. The resumption of oil patch activity, mining, major projects and housing starts have all contributed to high demands for labour without a corresponding increase in supply. Conditions are expected to worsen by 2013.

Mobility of workers within the province was the main staffing concern reported, with inter-provincial mobility, aging and retirement of workers as growing future concerns. Other recruitment and retention issues include wage competition from other trades/employers, and a lack of qualified workers, both

¹⁶ http://www.hrsdc.gc.ca/eng/workplaceskills/labour_market_information/bulletins/sk/sk-lmb-2012spring.shtml

¹⁷ Statistics Canada, Labour Force Survey-Seasonally Adjusted Quarterly Data

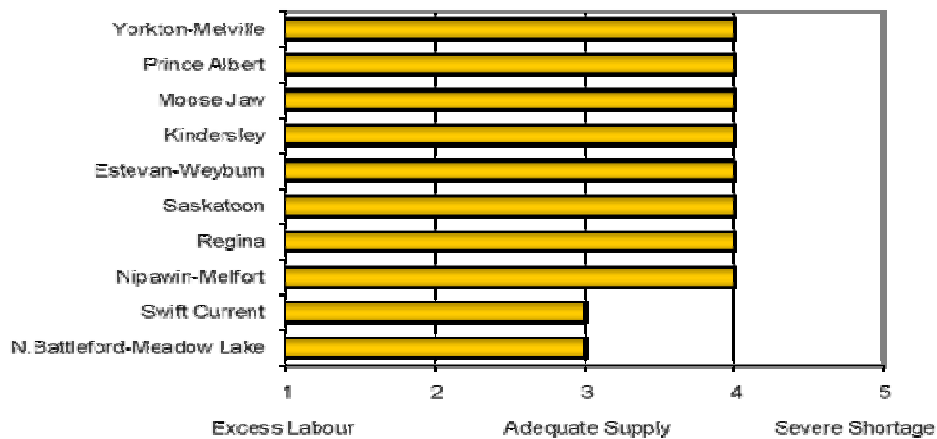
¹⁸ Study: Canada's Employment Downturn, October 2008 to October 2009, Statistics Canada; Canadian Economic Observer.

¹⁹ Labour Market Conditions for the Apprenticeship Trades in Saskatchewan (2010 to 2013), Saskatchewan Apprenticeship and Trade Certification Commission

related to a lack of interest in the trade and a lack of experienced workers. Employers are looking to new labour pools to alleviate trade shortages, including Aboriginal, youth, and immigrants.

The trade of Motor Vehicle Body Repairer was identified as experiencing a “moderate” shortage across most areas of Saskatchewan. There are ‘severe’ shortages for automotive service technicians and heavy duty equipment mechanics, trades that could be expected to be competing to attract new apprentices.

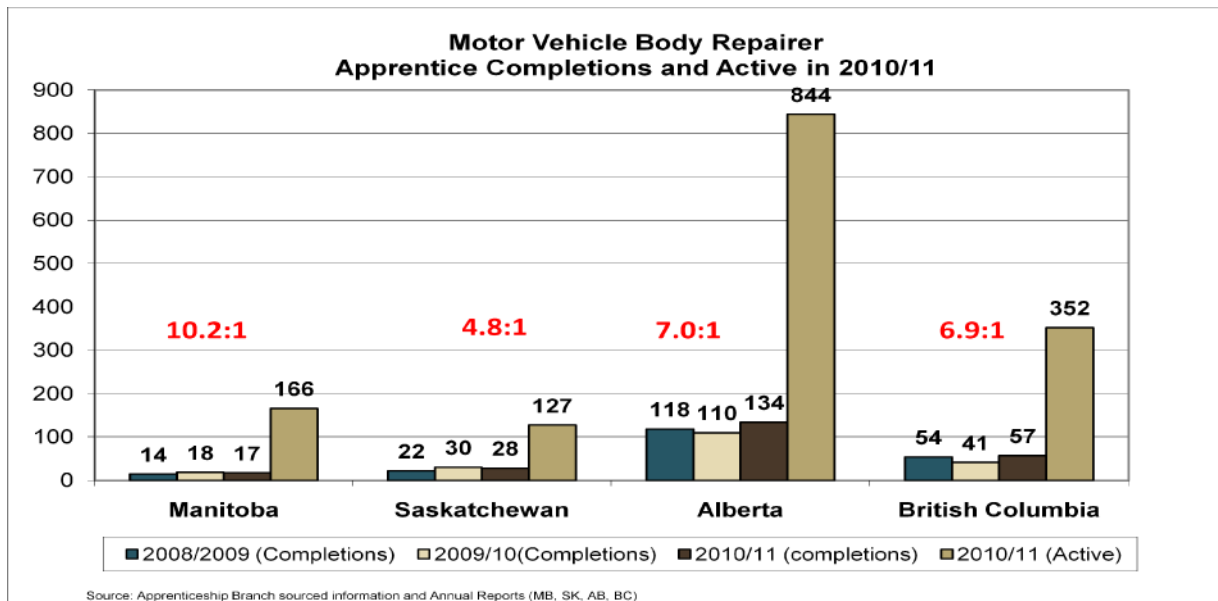
FIGURE 11: REGIONAL MARKET CONDITIONS, MOTOR VEHICLE BODY REPAIRER²⁰



The most direct source of skilled labour for the collision repair industry is the apprenticeship system. There were 127 active Motor Vehicle Body Repairer apprentices in 2010/2011. An average of 27 apprentices per year completed their training to achieve journeyman status from 2009 – 2011. At 4.8 to 1, the Saskatchewan ratio of active apprentices to average completions is the lowest in western Canada.

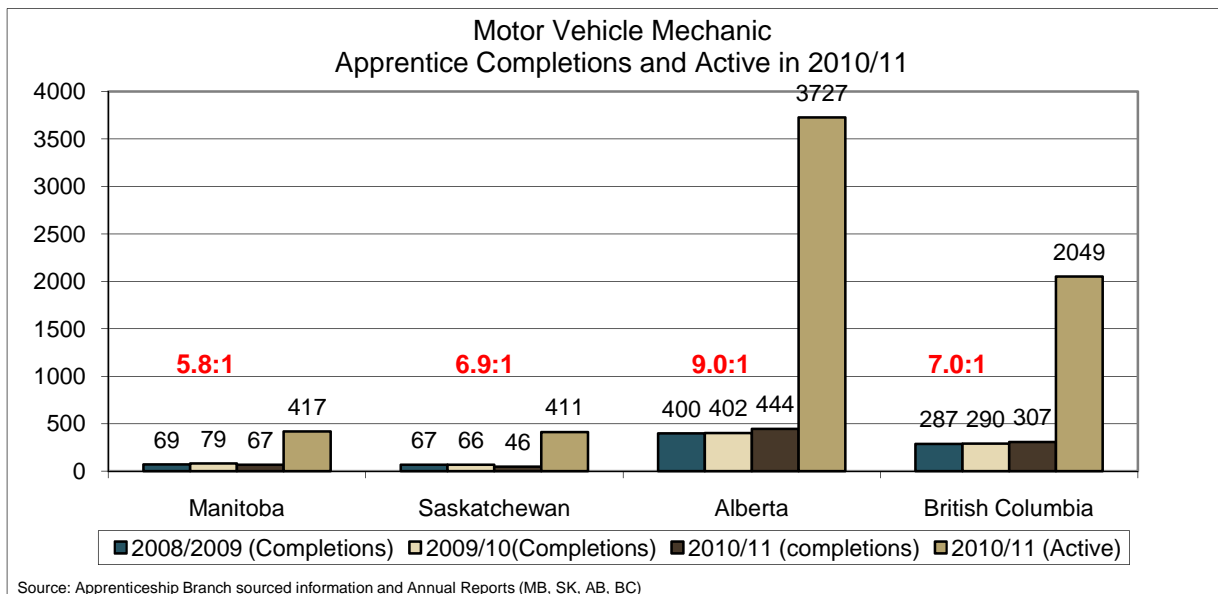
²⁰ Labour Market Conditions for the Apprenticeship Trades in Saskatchewan (2010 to 2013), Saskatchewan Apprenticeship and Trade Certification Commission

FIGURE 12: MOTOR VEHICLE BODY REPAIRER APPRENTICE COUNTS²¹



By comparison, there are 411 active Motor Vehicle Mechanic apprentices in Saskatchewan, or approximately 3 mechanic apprentices for every body repair apprentice. An average of 60 apprentices per year completed their training to become journeypersons in this trade from 2009 - 2011. The ratio of active Motor Vehicle Mechanic apprentices to average completions is more in line with other provinces.

FIGURE 13: MOTOR VEHICLE MECHANIC APPRENTICE COUNTS



²¹ Apprenticeship Branch sourced information and Annual Reports (MB, SK, AB, BC)

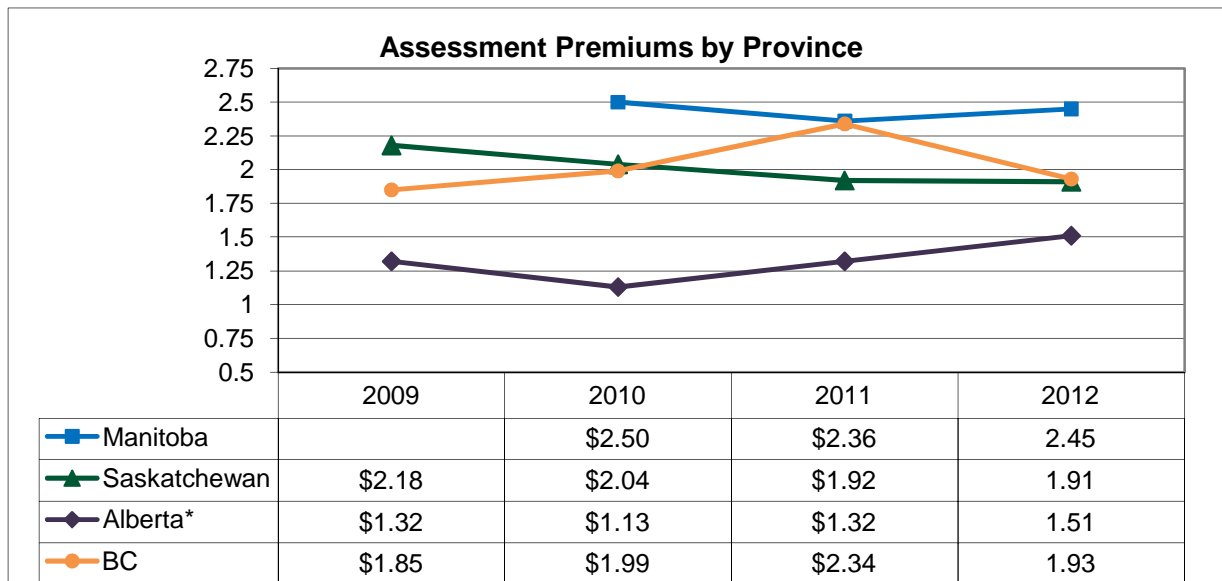
According to a 2011 Saskatchewan wage survey average wages for MV Body Repairers in SK were approximately 10% below Automotive Service Technicians in 2011, and over 20% below other mechanical trades²².

TABLE 6: COMPARISON OF WAGES BETWEEN SELECTED SASKATCHEWAN TRADES

Saskatchewan Journeyperson Wage Comparisons	# In Sample	Low	High	Average
Motor Vehicle Body Repairers (NOC 7322)	67	\$14.43	\$89.37	\$26.63
Automotive Service Technicians, Truck and Bus Mechanics and Mechanical Repairers (NOC 7321)	248	\$10.71	\$63.42	\$29.67
Heavy Duty Mechanics (NOC 7312)	275	\$16.00	\$75.00	\$33.96
Welders and Related Machine Operators (NOC 7265)	264	\$17.00	\$53.00	\$31.70
Plumbers (NOC 7251)	117	\$16.00	\$42.80	\$33.06
Construction Millwrights and Industrial Mechanics (except Textile) (NOC 7311)	312	\$23.00	\$42.80	\$35.60

Workers compensation premiums have been decreasing relatively steady since 2008 as is noted in the chart below (Figure 14). The Rate Code in Saskatchewan is C62 - Automotive Service Shops, Towing²³. A comparison of assessment premiums by province shown below indicates Saskatchewan is 'mid-pack' along with B.C.

FIGURE 14: WCB ASSESSMENT RATES – SASKATCHEWAN



²² Saskatchewan Wage Survey, 2011, Ministry of Advanced Education, Employment, and Immigration

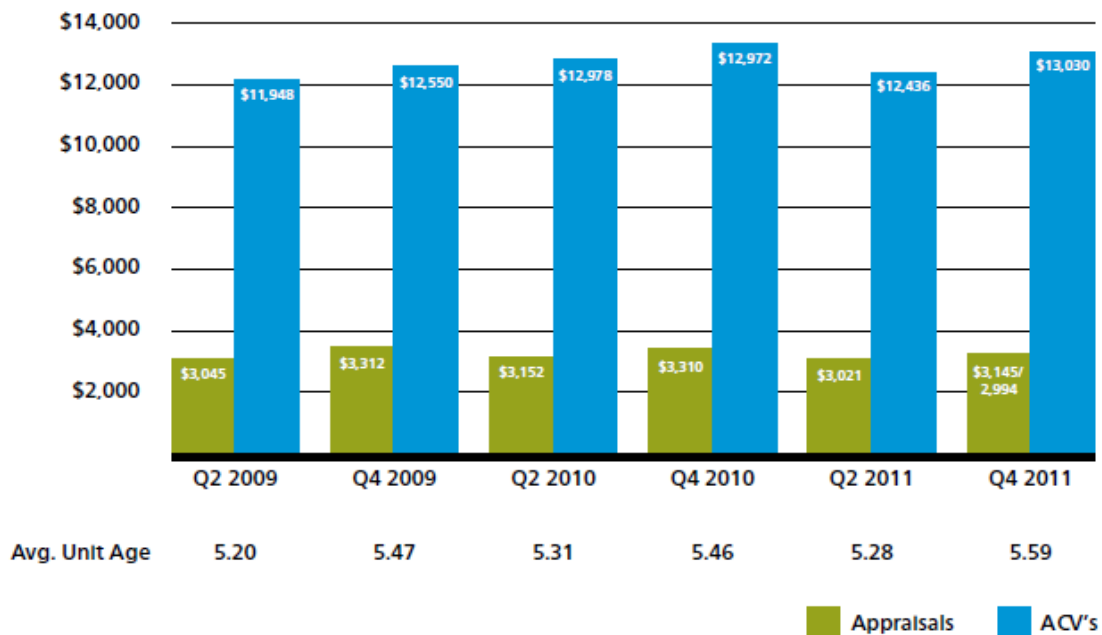
Source: <http://www.aeei.gov.sk.ca/sk-wage-survey>

²³ <http://www.wcbask.com/WCBPortalWeb/ShowProperty?nodePath=/WCBRepository/formsPublications/publications/assessment//pdf>

4.4 Collision Industry Data

Mitchell collects data on all appraisals performed using the Mitchell estimating system in Canada and the U.S.. In Canada, collision severity fluctuated within a range of approximately \$300 between the second quarter of 2009 and the fourth quarter of 2011. Average initial gross collision severity in Q4 2011 was \$3,145, a decrease of 10% from Q4 2010²⁴.

FIGURE 15: COLLISION SEVERITY Q2 2009 - Q4 2011



The percentage of estimates supplemented one or more times in Q4 2011 decreased by 24% compared to Q4 2010. The average amount of these supplements decreased by 34%.

TABLE 7: SUPPLEMENT FREQUENCY

Date	Q2/09	Q4/09	Q2/10	Q4/10	Q2/11	Q4/11	Pt/\$ Change	% Change
% Est Supplements	39.32	43.06	43.60	47.57	43.40	36.16	-11.41	-24%
% Supplements	55.92	20.66	60.44	65.10	86.42	74.13	9.03	14%
Avg Combined Supp Variance	376.95	461.59	472.24	522.74	447.92	343.49	-179.25	-34%
% Supplement \$	12.37	14.13	15.33	15.9	14.94	10.94	-4.96	-31%

²⁴ Mitchell Industry Trends Report, Q1, 2012

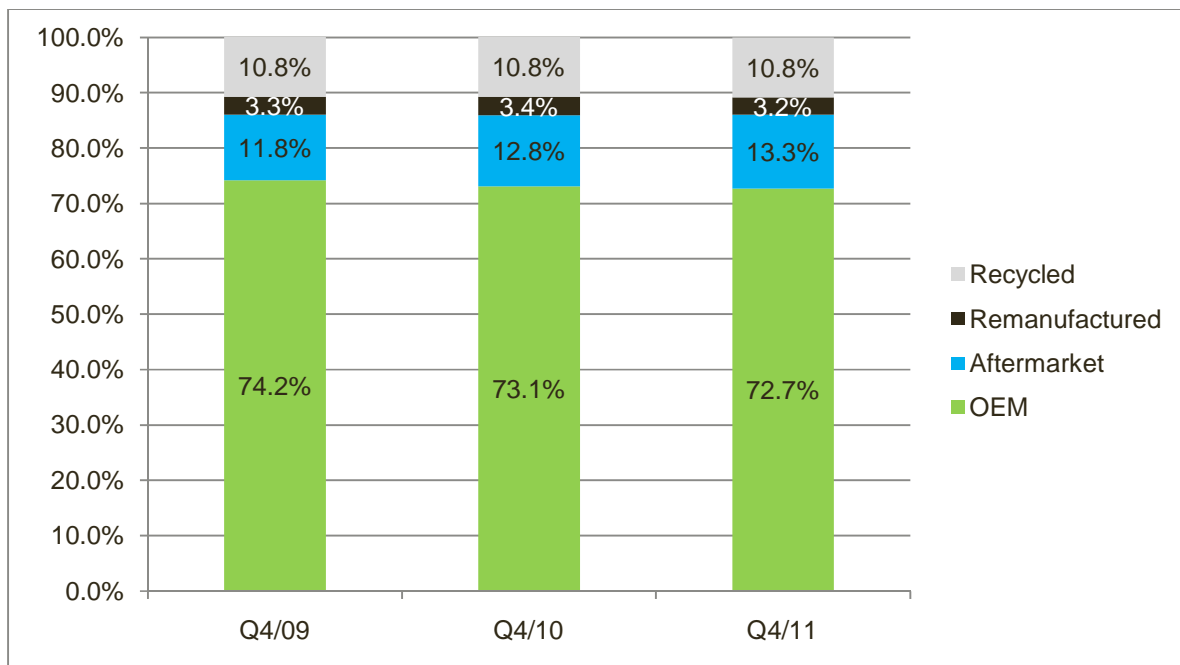
While parts dollars declined, labour and paint materials both increased as a percentage of the average appraisal.

TABLE 8: PARTS, LABOUR & MATERIALS COST AS PERCENTAGE OF APPRAISAL

Date	Q2/09	Q4/09	Q2/10	Q4/10	Q2/11	Q4/11	Pt/\$ Change	% Change
% Average Part \$	39.52	43.79	42.34	43.37	40.47	42.13	-1.24	-3%
% Average Labor \$	48.06	44.33	45.63	45.07	47.22	45.88	0.81	2%
% Paint Material \$	8.86	8.70	9.09	8.74	9.33	9.18	0.44	5%

Aftermarket parts have continued a modest increase to 13.3%, compared to 11.8% in 2009. After an extended rising trend, use of OEM and Recycled parts appear to have stabilized at 72.7% and 10.8% respectively. Re-manufactured parts have dipped slightly to 3.2%.

FIGURE 16: USE OF PARTS, BY TYPE



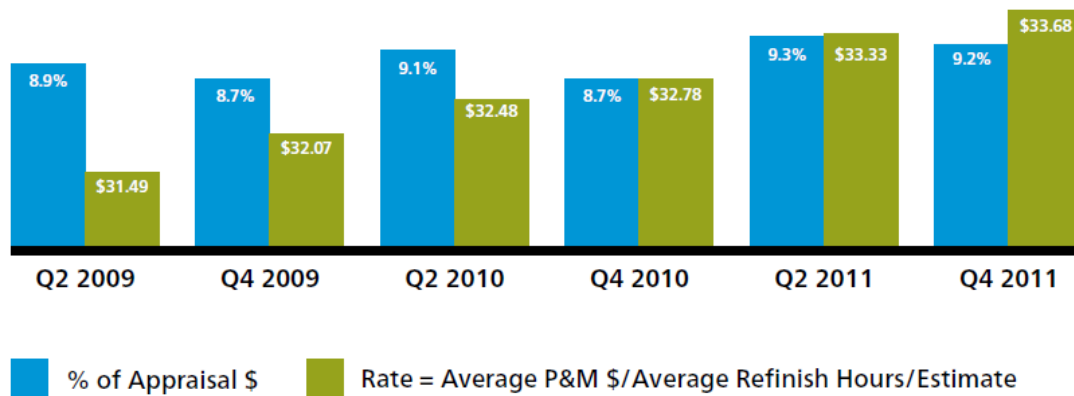
In the southern provinces, average labour rates range from \$47.07 in Quebec to \$69.65 in Alberta. Of the seven provinces listed, Saskatchewan labour rates are second highest, approximately 4% less than Alberta, and essentially equivalent to B.C. Labour rates in northern Canada are significantly higher.

TABLE 9: AVERAGE LABOUR RATES, BY PROVINCE

	2010 (by month)	2011 (by month)	\$ Change	% Change
Alberta	\$67.64	\$69.65	\$2.01	3%
British Columbia	\$59.50	\$66.55	\$7.05	11%
Newfoundland & Labrador	\$57.85	\$58.36	\$0.51	1%
Nova Scotia	\$55.35	\$56.29	\$0.94	2%
Northwest Territories	\$77.99	\$80.29	\$2.30	3%
Ontario	\$53.33	\$53.83	\$0.50	1%
Quebec	\$45.88	\$47.07	\$1.19	3%
Saskatchewan	\$68.27	\$66.72	\$(1.55)	-2%
Yukon Territory	\$80.84	\$82.82	\$1.98	2%

Paint and Materials made up 9.2% of the average repairable appraisal, with an average hourly rate of \$33.68.

FIGURE 17: PAINT AND MATERIAL RATES



4.5 Trends Impacting the Collision Repair Industry

A number of recent trends in the collision repair industry are continuing in 2012.

Rapid Pace of New Technology: New automotive technologies, including crash avoidance systems, communications, lighter and stronger steels, continue to be introduced at a rapid pace. Original Equipment Manufacturers (OEM) are expected to occupy a stronger position in the collision repair industry as they set up their own accreditation systems for repair facilities working on their vehicles²⁵. In Canada, Toyota is one of the first movers in this direction with the Coucours Collision Centre in North Calgary. In the U.S., the CAFÉ fuel economy standard is expected to drive proliferation of start-stop technology, hybrids, light weight metals and weight saving compounds. To service these vehicles, shops will need high output MIG and TIG welders, separate vacuum systems, advanced technical knowledge, and step by step OEM recommended repair procedures²⁶.

Industry Consolidation: While only minor consolidation appears to be happening in Canada, in the U.S., market overcapacity, persistent economic woes and rapid changes in technology are re-shaping the collision repair industry and accelerating industry contraction. Insurers are funnelling more work to fewer shops, with a marked preference for shops with a strong market preference, ability to increase capacity, rigorous systems to support quality, speed and competitive price²⁷.

- *“There is excess capacity in the collision industry today, and as shops improve their performance, their capacity increases. This doesn’t bode well for those who are not working at continuously improving their operations”.*

- Jim Berkey, Director of PPG MVP Business Solutions

Declining Repair Volumes; Increasing Competition: The miles travelled and crash volumes have continued to decline in the U.S. The average mileage decreased 1.2% in 2011 and in 2012 it is expected annual driving could be below 2004 levels. The overall fleet is also shrinking with the number of cars scrapped each year exceeding the number of cars sold. This trend is expected to continue through 2020²⁸.

The average number of repaired vehicles per shop declined by almost 8% and the average repair revenue per shop declined about 3.5% (\$702,000 to \$677,000). Shops at the \$1-\$2 million gross revenue range are believed to be in the most jeopardy, with overhead costs that make it difficult to keep the doors open. The declining trend in the number of repairs has also been attributed to more total losses (in part because of higher salvage values), advancements in safety and collision avoidance technology, safer roads, and a record high average vehicle age of 11 years. In order to compete shops are increasing marketing via traditional avenues and through social media and websites. Forty-eight percent of shops used the Internet to market their services in 2011 as compared to 34% in 2007²⁹.

²⁵ *Collision Management Vol 2, No 3, February 2012*; [issuu.com/collisionrepair/docs/crm_book_11_2-Collision Repair Magazine-OEM Voice](http://issuu.com/collisionrepair/docs/crm_book_11_2-Collision%20Repair%20Magazine-OEM%20Voice)

²⁶ Mitchell Industry Trends Report, Q1 2012 (CAFÉ = Corporate Average Fuel Economy standard)

²⁷ State of the Industry 2011–12, Body Shop Business

²⁸ First Research, 2012

²⁹ State of the Industry 2011–12, Body Shop Business; *Collision Management Vol 2, No 3, February 2012*.

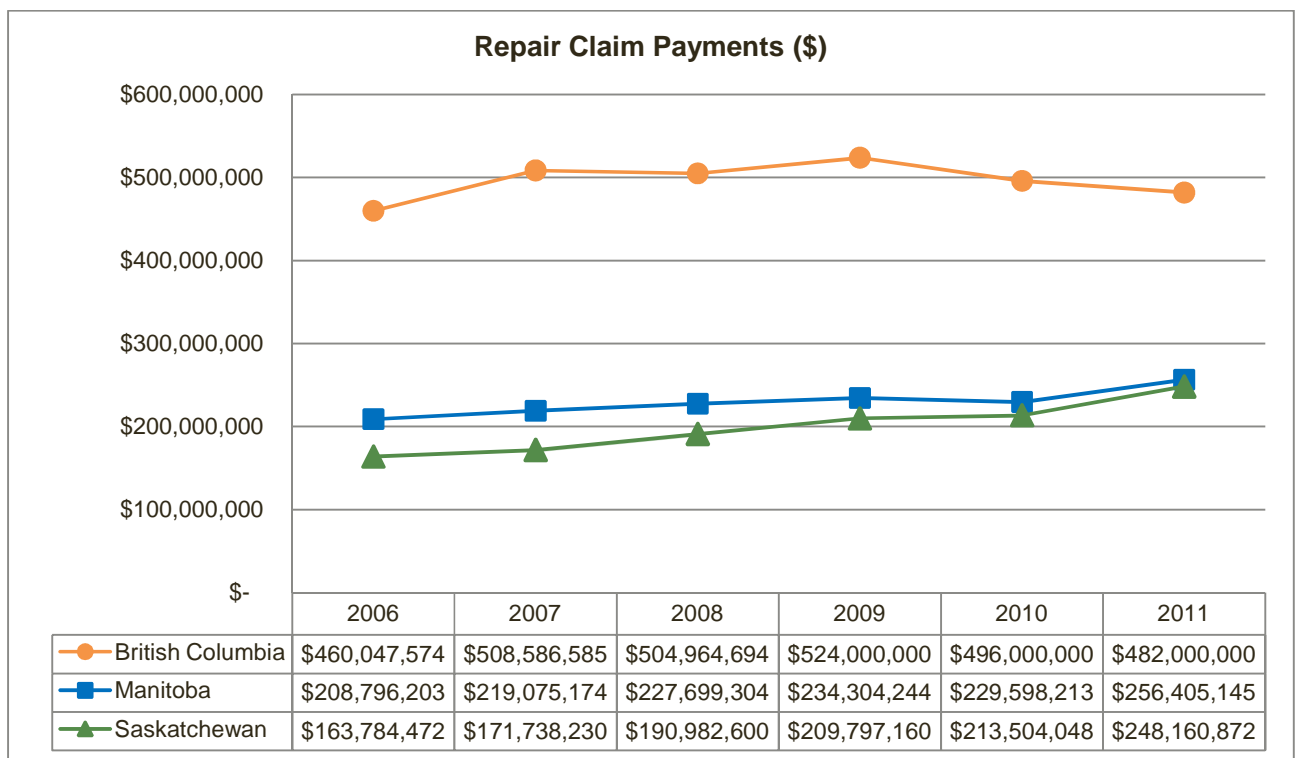
5.0 Canadian Public Insurance Jurisdictions

Saskatchewan is one of three provinces with a public automobile insurance scheme. The others are Manitoba and British Columbia (B.C.).

5.1 Claims Activity

Claim payments for automotive repairs in Saskatchewan continued to trend upwards from 2009- 2011³⁰. Repair claim payments increased by 16.3% in 2011 following a very small increase of 1.8% in 2010 after increases of 10% and 11% in the prior two years. Year over year changes can be significantly impacted by weather events, such as the hail experienced in 2011. The overall change from 2009 to 2011 was 18.3%. This compares to an overall increase of 9.4% in Manitoba over the same period. Claim payments in BC actually declined by over 8% from 2009 to 2011.

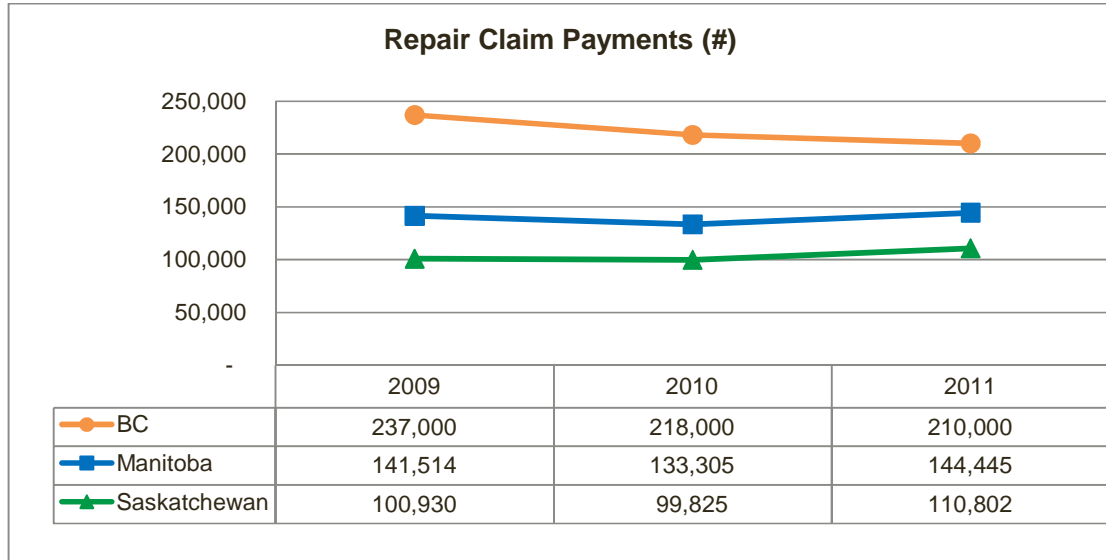
FIGURE 18: REPAIR CLAIM PAYMENTS (\$) 2006 - 2011



³⁰ 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.

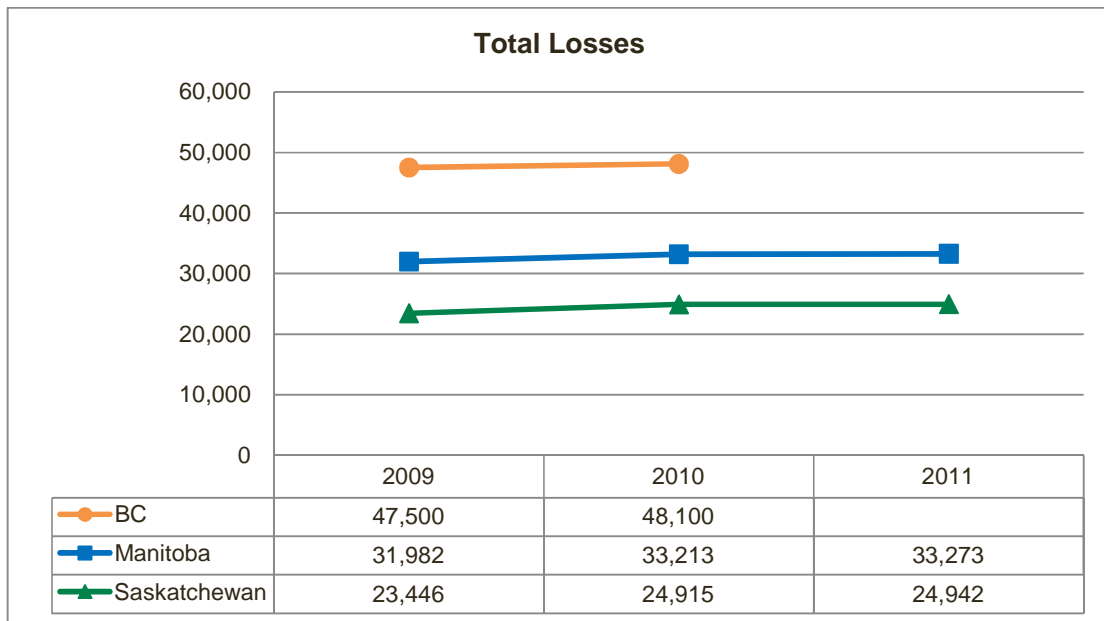
The number of payments in Saskatchewan increased by 10% from 2009 to 2011. Although fluctuating down somewhat in 2010, the number of Manitoba payments in 2011 was within 2% of 2009. The number of repair claim payments in BC declined by approximately 11% from 2009 to 2011.

FIGURE 19: REPAIR CLAIM PAYMENTS (#), 2009 - 2011



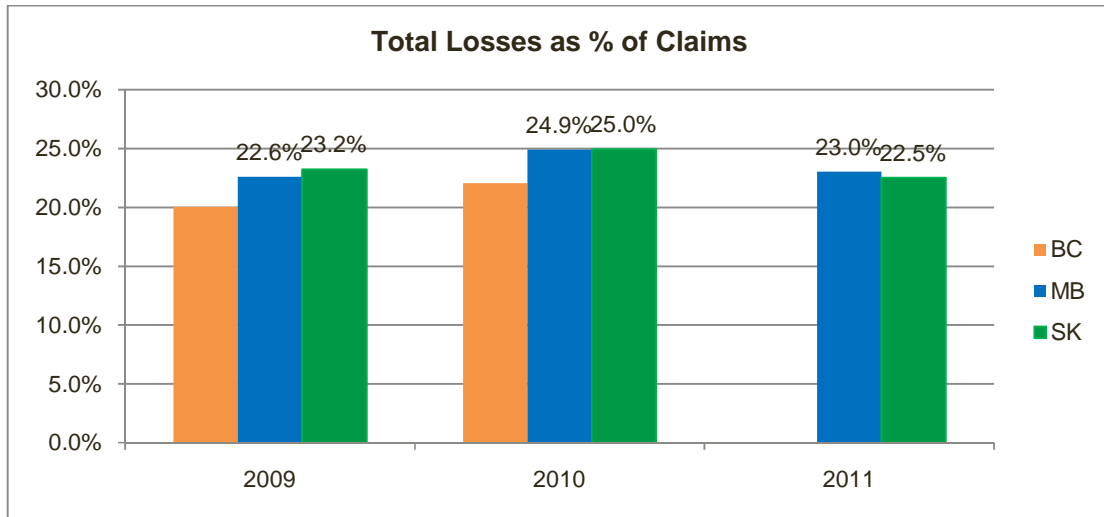
Total losses in Saskatchewan increased by about 6% from 2009 to 2011, and about 4% in Manitoba.

FIGURE 20: TOTAL LOSSES, 2009 - 2011



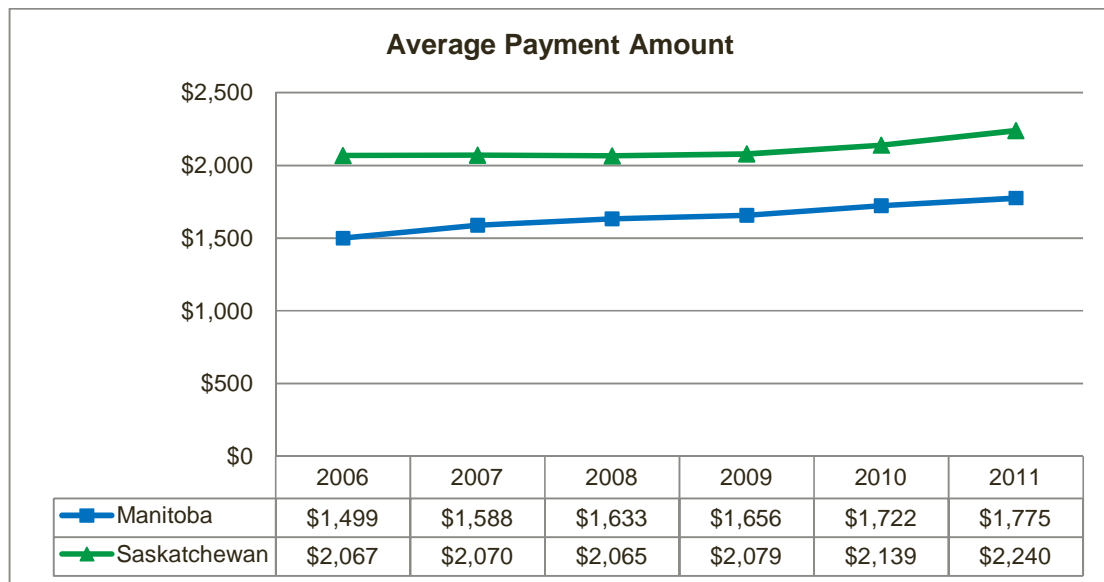
Total losses as a percentage of claims in both Manitoba and Saskatchewan showed an increase in 2010 before returning to nearer 2009 levels in 2011. This proportion is impacted by the value of the vehicles and the cost of repairs.

FIGURE 21: TOTAL LOSSES AS A PERCENT OF TOTAL CLAIMS



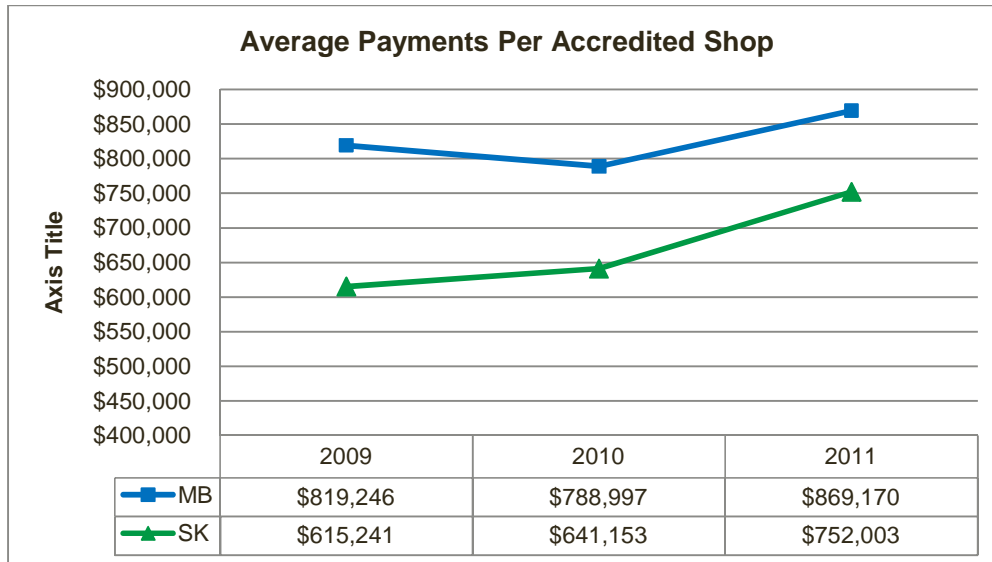
The total amount of payments divided by the number of payments results in an average payment to repair shops of \$2,240 in 2011, up 8% in Saskatchewan from 2009; 7% in Manitoba. BC data is unavailable. Average payment (a simple form of severity) is influenced by the “door rate”, or rate per hour of labour, which varies by province, as well as the vehicle characteristics (age, materials and technology).

FIGURE 22: AVERAGE PAYMENT EXCLUDING TOTAL LOSSES



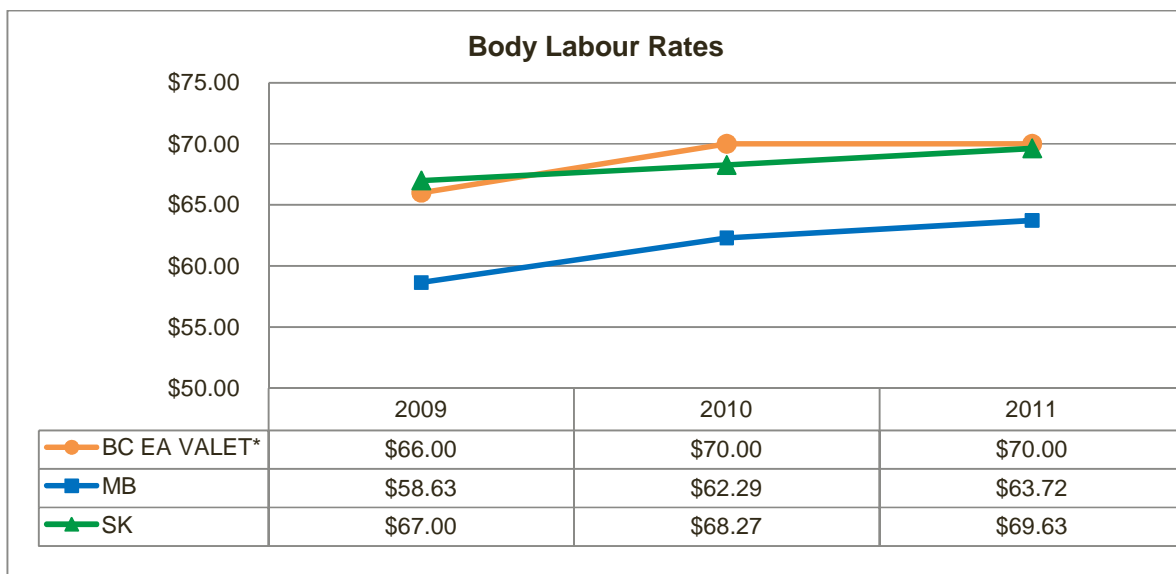
The average dollar amount of payments per shop trended up in Saskatchewan, with a similar pattern in Manitoba. BC data is unavailable.

FIGURE 23: AVERAGE PAYMENTS (\$) BY ACCREDITED SHOP



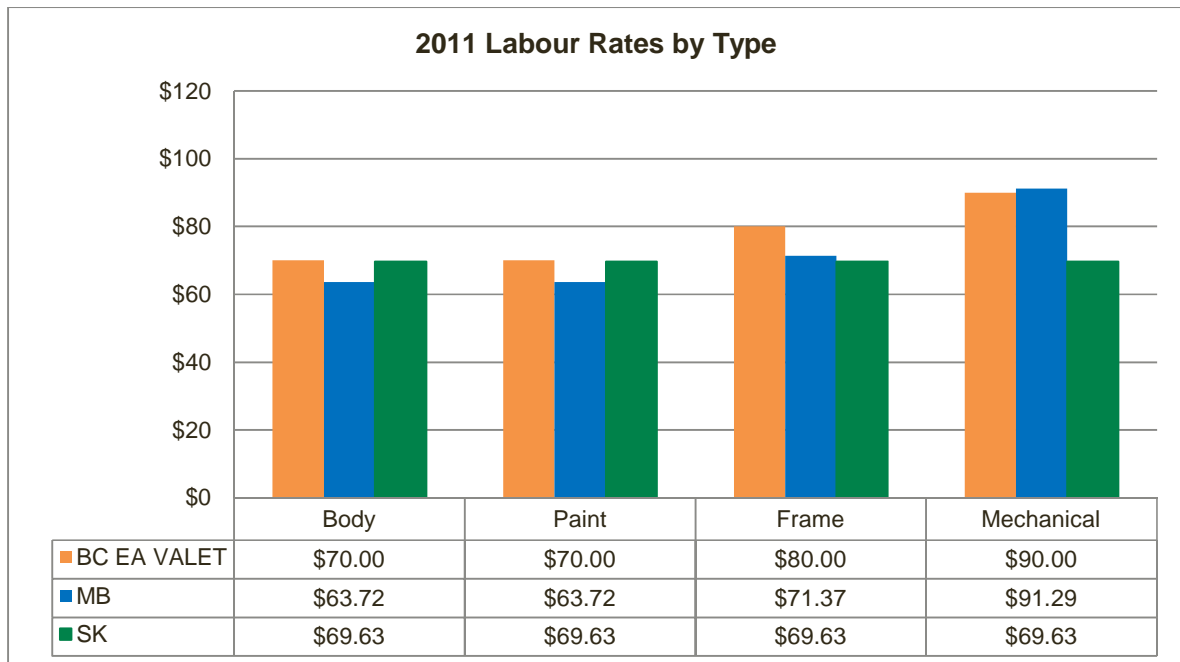
Body labour rates have increased 4% in Saskatchewan, 9% in Manitoba and 6% in BC since 2009. In 2010, ICBC increased the labour rate from \$66 to \$70 for Earned Authority Valet shops. Non-earned Authority Valet shops remained at \$66. BC rates shown in the following series of slides are all for Earned Authority Shops.

FIGURE 24: BODY LABOUR RATES



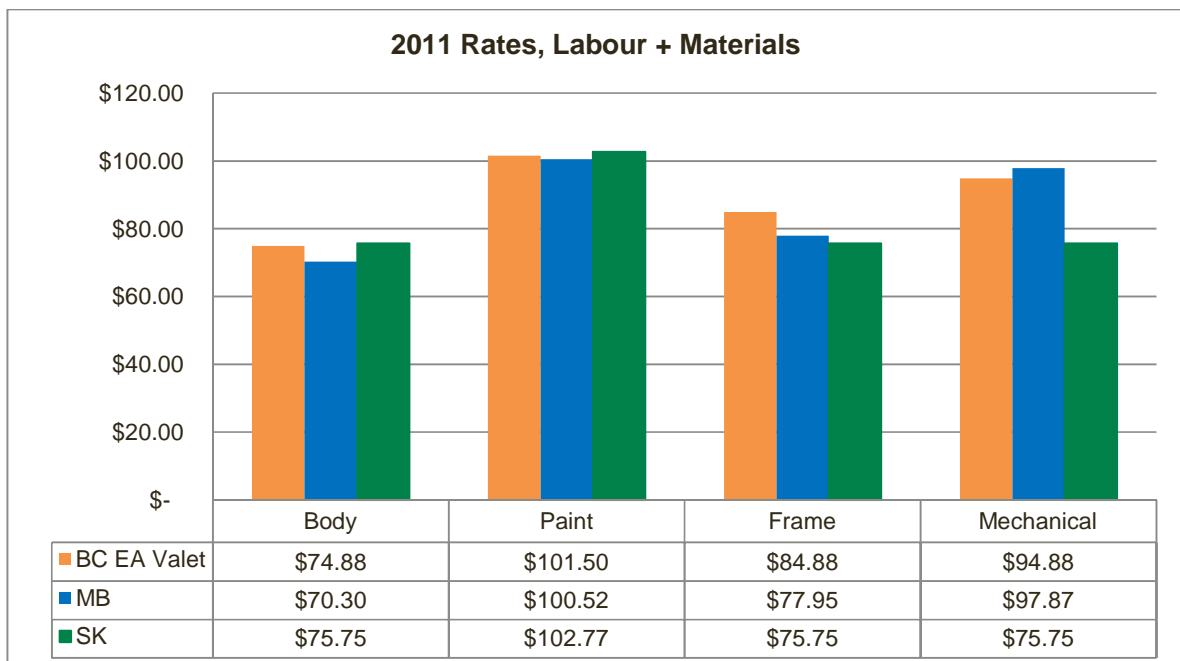
All three provinces apply the same labour rate for both body repair and paint. Manitoba and BC apply different rates for frame and mechanical repairs as shown below. Saskatchewan applies a blended rate across all categories.

FIGURE 25: 2011 LABOUR RATES BY TYPE



Adding material allowances reduces the difference between jurisdictions. Saskatchewan's paint materials rate, at \$33.14, is near the national average of \$33.68 as reported by Mitchell, and is between BC at \$31.50 and Manitoba at \$36.80.

FIGURE 26: 2011 LABOUR + MATERIAL RATES



Survey respondents indicated body/frame, paint and mechanical work represented approximately 48%, 37% and 7% of repair revenue respectively (the remaining 8% is glass). Saskatchewan has adopted an overall blended rate – when a similar 'blend' is created for BC and Manitoba, the Saskatchewan rate is

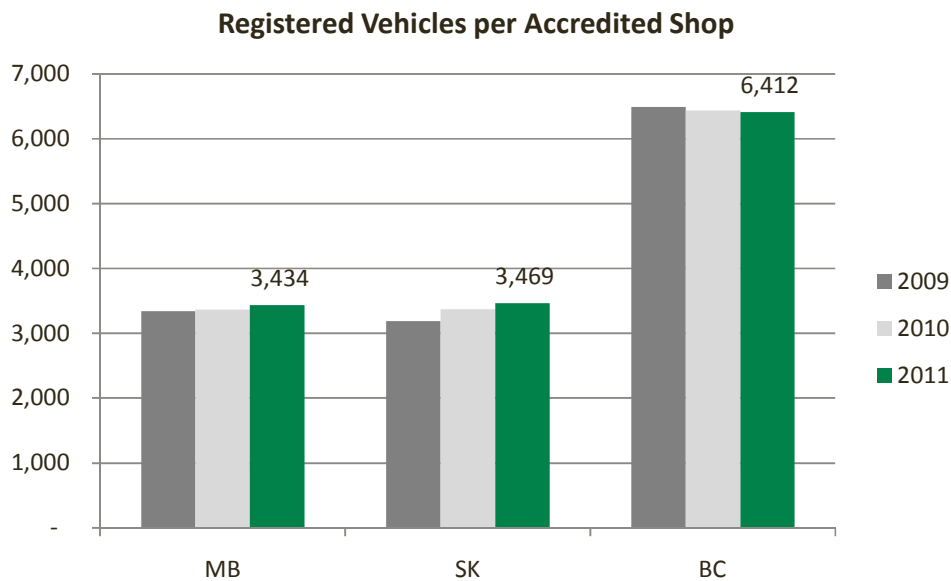
essentially equivalent to B.C., and 4% above Manitoba. It is important to note, however, that body and frame work have both been combined under the body rate for this analysis – both Manitoba and BC provide higher rates for frame work which will reduce the difference with Manitoba and bring BC somewhat higher.

TABLE 10: BODY/FRAME, PAINT AND MECHANICAL RATE

	Body / Frame	Paint	Mechanical	Blended Rate
Estimated portion of repair	48%	37%	7%	
Saskatchewan	75.75	102.77	75.75	79.69
Manitoba	70.30	100.52	97.87	76.39
BC	74.88	101.50	94.88	79.44

As with many businesses, financial performance of collision repair shops improves with the volume of work available. The number of registered vehicles in Saskatchewan increased by 5% from 2009 to 2011, 6% in Manitoba, and 3% in BC. In 2011, there were 3,469 registered vehicles per accredited shop in Saskatchewan, approximately 9% more than in 2009. This is very comparable to Manitoba. B.C. has a significantly higher population of registered vehicles per shop³¹.

FIGURE 27: REGISTERED VEHICLES PER ACCREDITED SHOP



³¹ Source: MPI, SGI, ICBC Quick Statistics, 2012 <http://www.icbc.com/about-ICBC/Newsroom/quick-statistics.pdf>

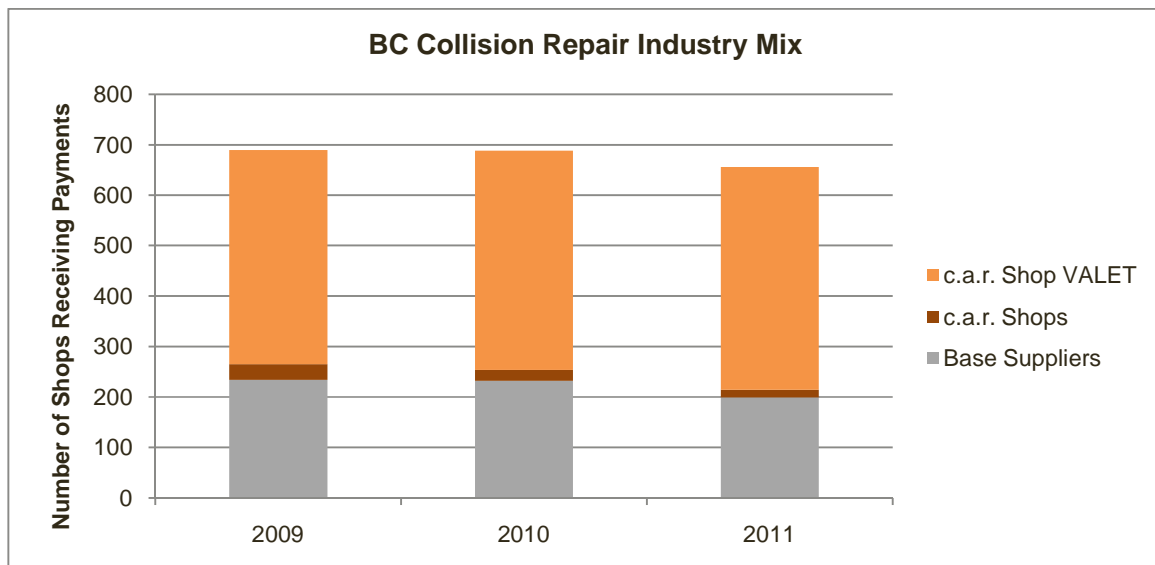
5.2 Industry Insights

MNP interviewed representatives from the Insurance Corporation of British Columbia (ICBC) and Manitoba Public Insurance (MPI) to learn about trends and issues experienced in those jurisdictions.

5.2.1 British Columbia

According to ICBC's representative, the industry in B.C. has remained fairly stable, with little change in the main group of Express Valet shops. There has been some decline in the number of non-accredited shops. The BC industry is experiencing some consolidation with four or five locations becoming part of a 'chain', and buying consortiums seeing further penetration.

FIGURE 28: BC COLLISION REPAIR INDUSTRY MIX



The BC market has been challenging for collision repair shops in the last few years with a significant drop in claims volume in 2010 that has continued in 2011. Industry capacity was estimated at approximately 70%, and consumers are finding ready access to repair services in most areas of the province. The declining volume and access to work was identified as the most significant issue impacting the industry in B.C. There has been less concern recently regarding access to skilled labour.

While claims have declined, there has been no change in registered vehicles. The reduction in claims is believed to be related to graduated licensing, tougher laws, road safety engineering initiatives, and accident avoidance technology. Unlike physical damage, injury claims costs have increased in B.C.

ICBC developed its first accreditation program in 1996 in consultation with industry to ensure the availability of a baseline level of certified, safe, quality repairs across the province. Today, categories of body shops include:

- “Base” (i.e. non-accredited) supplier: these suppliers meet minimum ICBC requirements. ICBC writes all the vehicle damage estimates and supplements, and no workmanship guarantee is provided;
- “c.a.r. shop”: these suppliers meet the accreditation standards for facility, equipment and training and provide a workmanship guarantee, however they have no authority to write estimates or supplements;

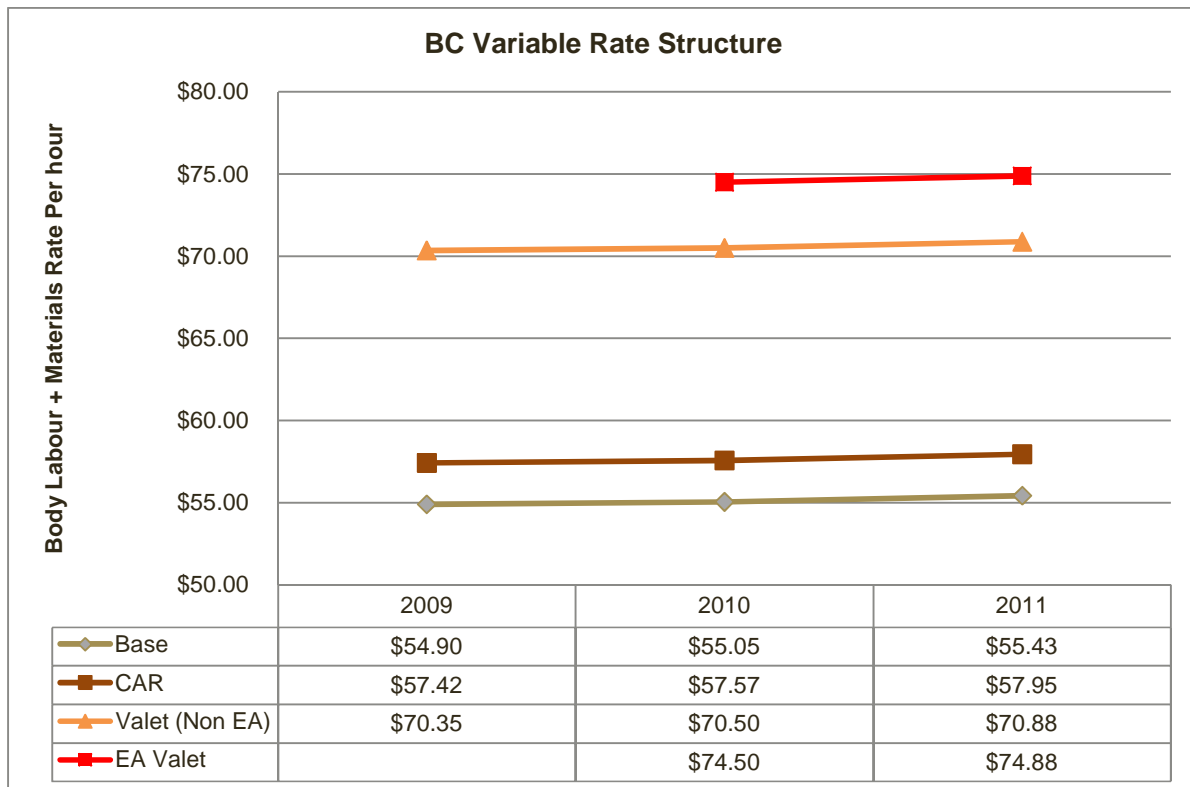
- “c.a.r. shop VALET” (hereinafter interchangeably referred to as “Express Repair” or “ER” shops): these suppliers meet the accreditation standards for facility, equipment and training, provide a workmanship guarantee, and handle the customers’ alternate transportation needs. They have authority to write estimates and supplements on ICBC’s behalf, and can begin vehicle repairs without seeking approval from ICBC if the total estimated repair cost is within their Earned Authority threshold (\$1,500 to \$2,500).

ICBC’s accreditation program is strictly voluntary and open to any body shop wishing to participate and able to meet its requirements. Claimants are free to choose any shop (whether accredited or not) for their vehicle repairs. However, accredited shops are compensated at a higher rate for meeting higher service standards.

The Express Repair (ER) shop category’s share of ICBC repair volumes and payments has been growing steadily since its inception in 2002. ER shops represented over 90% of total ICBC repair volumes and payments in 2011 (up from 85% in 2006).

The rates for the different levels of accreditation are shown below.

FIGURE 29: ICBC VARIABLE RATE STRUCTURE



The 2008 Collision Repair industry Agreement in B.C. increased door rates to \$70 per hour, increased payments for materials and refinish labour rates, and tied annual increases in door rates to performance measures and accreditation level. ICBC also agreed to use 100% of Audatex Estimating System refinish times and established a refinish rate of \$96.21 (labour and materials).

As a result of recent changes to federal legislation, ICBC has changed the way they set rates paid to suppliers for the services they provide to ICBC and its customers. To remain in compliance with federal

legislation, ICBC will no longer negotiate rates with industry associations. Rather, they establish rates based on their analysis of market conditions.

ICBC has continued to evolve practices related to collision repair, seeking to streamline processes. All Express Repair participants must meet certain performance standards in order to stay in the program. It is important to note that Earned Authority is a reward that allows shops to conduct repairs below a set threshold without first obtaining ICBC's authorization. As a result, Earned Authority status rewards only those Express Repair participants that meet high standards for repairs and customer service as measured by key performance indicators.

The ICBC Express Repair Program, in place for a number of years, allows accredited shops that meet program criteria to directly estimate claims. If the Express Repair shop has Earned Authority, and value of the claim is less than \$1,500 the shop can start work immediately after the estimate is submitted to ICBC; 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 begin work. To enable this program, ICBC provides shops with access to business systems and software for estimating.

In 2011, ICBC has updated its KPI model, and created a second level of "Earned Authority" for Express Repair shops, which allows shops that have achieved and maintained a higher performance as measured by a KPI score to proceed with repairs up to \$2,500 after submitting the estimate and in advance of receiving ICBC approval.

5.2.2 Manitoba

According to representatives from MPI, the industry in Manitoba is fairly stable, with very few new shops in the past five years. While the industry is still believed to be overpopulated, it is considered relatively healthy. Larger, well-established shops continue to expand and generally have a minimum of two weeks work ahead. Smaller shops may only have a day or two of work ahead, and often tend to supplement their business with other activities to keep staff busy (e.g., vehicle salvage, re-building). A number of initiatives in the past few years are believed to have positively impacted the industry, particularly incentives to help attract and retain employees (tool allowances, apprenticeship grants). A review is currently underway to evaluate these changes.

The industry in Manitoba continues to experience challenges related to the types and makes of vehicles, including the use of newer materials, technology and proprietary OEM information. The labour supply remains tight, particularly for technicians as all trades are competing for new apprentices.

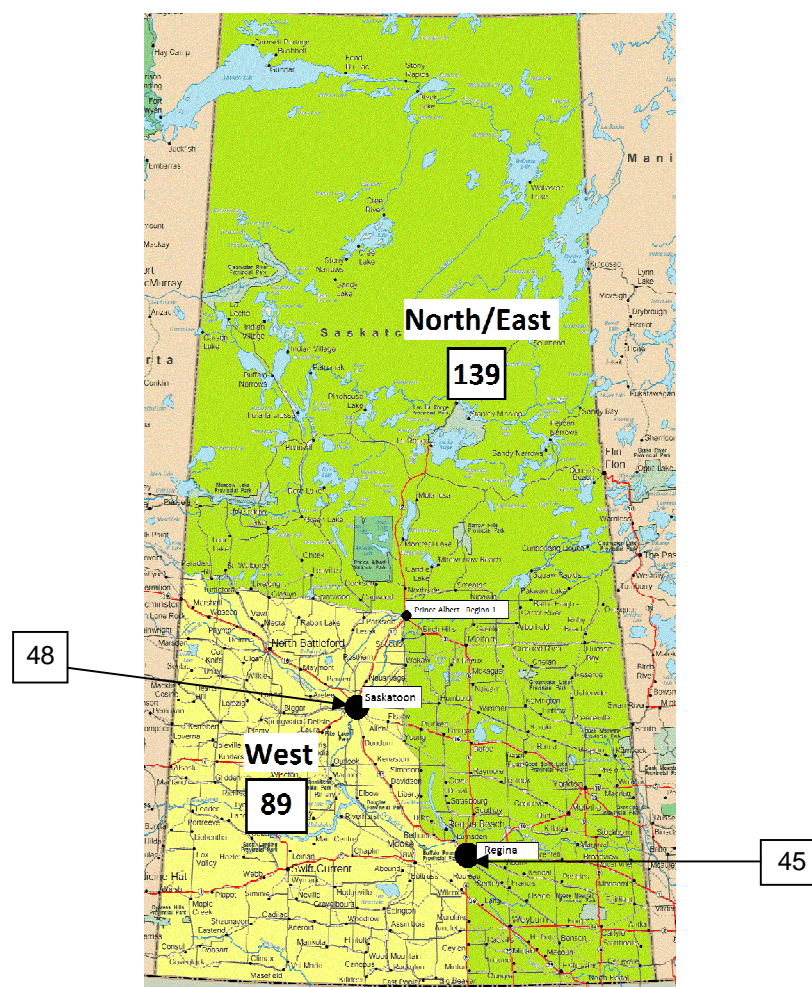
Changes in insurer business processes have included the e-Glass Program implemented in 2010. This program allows customers to take their vehicle directly to the shop, where the vendor can open the claim on their behalf. A physical damage re-engineering initiative is currently underway. The purpose is to streamline business processes for both MPI and repair shops. Some policy changes, increased automation, and more use of on-line systems are anticipated through this initiative. MPI is also currently in discussions with the industry regarding the re-cycled parts program with similar goals of streamlining processes and improving efficiency.

6.0 Survey Results: Profile of the Collision Repair Industry in Saskatchewan

6.1 Survey Population

Surveys were distributed to 321 accredited collision repair businesses across the province that had received payments from SGI in 2011. For the purposes of this study the province was divided into four regions: Regina, Saskatoon, North/East and West. Of the 321 accredited collision repair business in Saskatchewan, 14% (45) are located in Regina, 15% (48) are located in Saskatoon, 43% (139) are located in the North/East region and 28% (89) are located in the West. Distribution and geographic boundaries for these regions are shown on Figure 30 below.

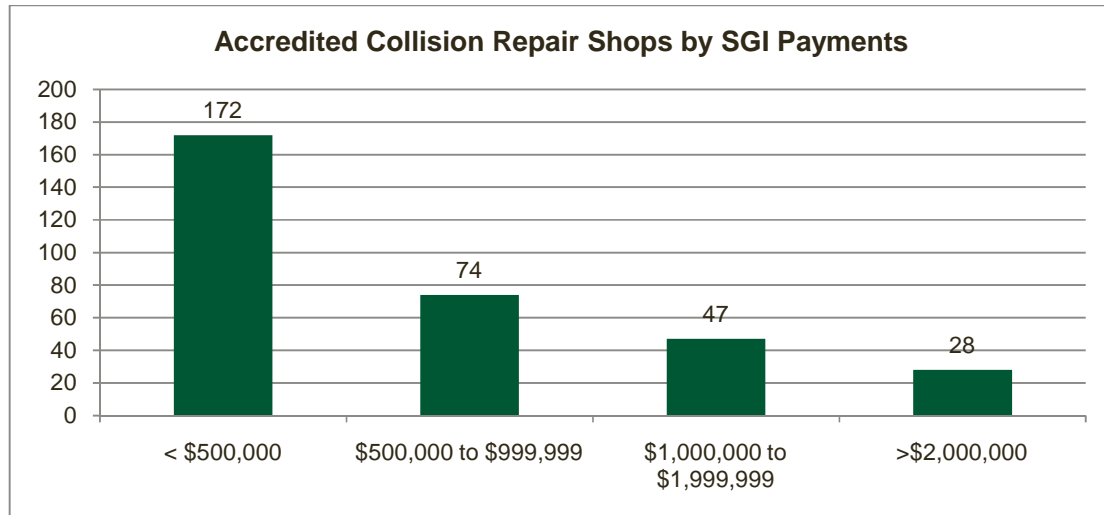
FIGURE 30: ACCREDITED COLLISION REPAIR BUSINESSES BY REGION – SASKATCHEWAN



Shops were also segmented by size, based on revenue received from SGI. Fifty-four percent of the survey population received payments of less than \$500,000 from SGI in 2011. Twenty-three percent of shops received payments between \$500,000 and \$1,000,000; 15% received payments between

\$1,000,000 and \$2,000,000, and 9% received payments over \$2,000,000. Shops over \$1 Million in revenue account for 62% of SGI payments in 2011. This breakdown is shown in Figure 31 below³².

FIGURE 31: COLLISION REPAIR BUSINESSES BY ACCREDITED PAYMENTS



6.2 Survey Response Rate

Survey responses were received from 99 shops, for a total response rate of 31% of accredited autobody repair businesses.

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.

6.2.1 Affiliations

Respondents were asked to identify their affiliation, if any, with the Saskatchewan Association of Automotive Repairers (SAAR) and Saskatchewan Automobile Dealers Association (SADA). Eighty-four percent of respondents were members of one of the organizations; 18 respondents were members of both.

Affiliation	# of Respondents	% of Total
A member of SAAR	78	81.25%
A member of SADA	21	21.88%
Not a member of either organization	15	15.63%
Total (N=96)	114	

³² SGI accredited payments list, 2011

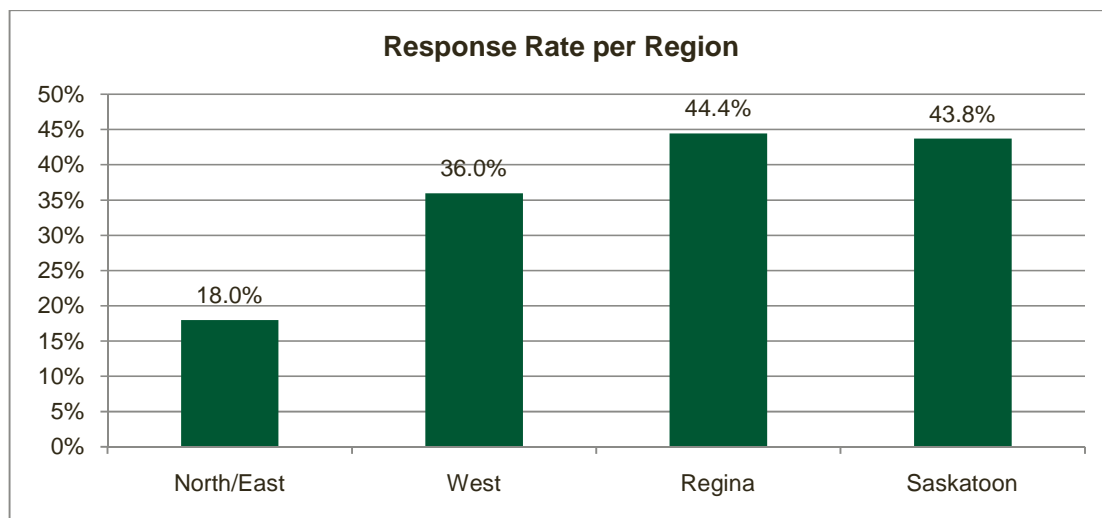
6.2.2 Region

Forty-four percent of collision repair businesses in Regina and Saskatoon responded to the survey. Thirty-six percent of businesses in the West region, and 18% of the North/East region responded to the survey. This results in the North/East being under-represented in survey results.

TABLE 11: SURVEY RESPONDENTS BY REGION

	Population		Respondents		
	Number	% of Total	Number	% of Shops in Region	% of Total
North/East	139	43%	25	18%	26%
West	89	28%	32	36%	33%
Regina	45	14%	20	44%	20%
Saskatoon	48	15%	21	44%	21%
Total	321		98		100.0%

FIGURE 32: RESPONSE RATE PER REGION



6.2.3 SGI Payments

Total SGI payments to accredited autobody businesses were \$240.6 million in 2011. Survey respondents represent \$123.9 million of those payments, or 51.5% of accredited repair business with SGI.

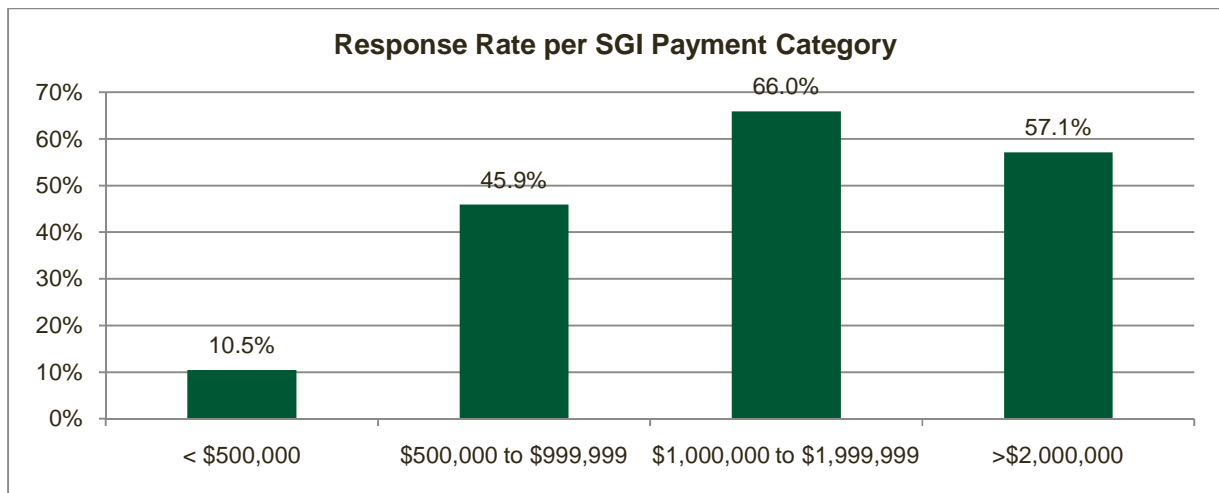
Please note: SGI payments do not reflect total revenue. Not all respondents provided financial data; more detail in this regard is provided in Section 6.7.1.

A high proportion of businesses in the higher payment categories responded to the survey; businesses with SGI payments of less than \$500,000 were under-represented in the survey response, as shown in Table 12 and Figure 32.

TABLE 12: RESPONSE RATE BY PAYMENT CATEGORY

Category	Population		Respondents		
	Number	% of Total	Number	% of Shops in Payment Category	% of Total
< \$500,000	172	54%	18	10.5%	18.2%
\$500,000 - <\$1,000,000	74	23%	34	45.9%	34.3%
\$1,000,000 - \$2,000,000	47	15%	31	66.0%	31.3%
> \$2,000,000	28	9%	16	57.1%	16.2%
	321		99		100.0%

FIGURE 33: RESPONSE RATE BY PAYMENT CATEGORY

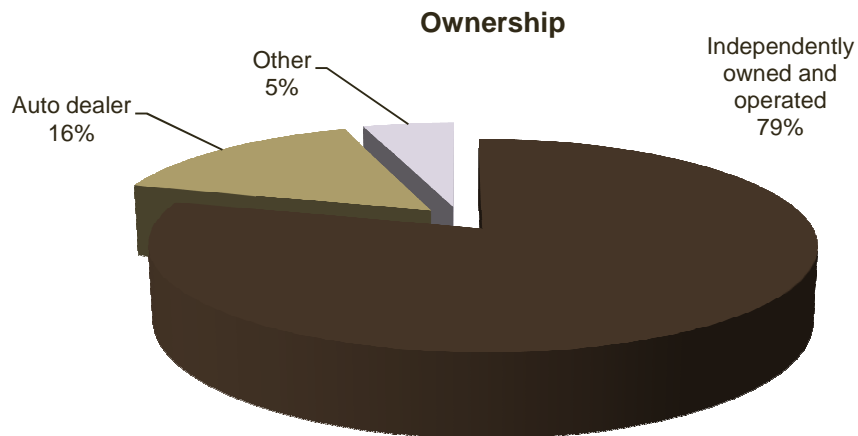


6.3 Business Profile

6.3.1 Corporate Structure

Seventy-nine percent of survey respondents (77) indicated their collision repair business is independently owned and operated, 16% (15) are owned by an auto dealer and 5% (5) indicated some other form of business ownership.

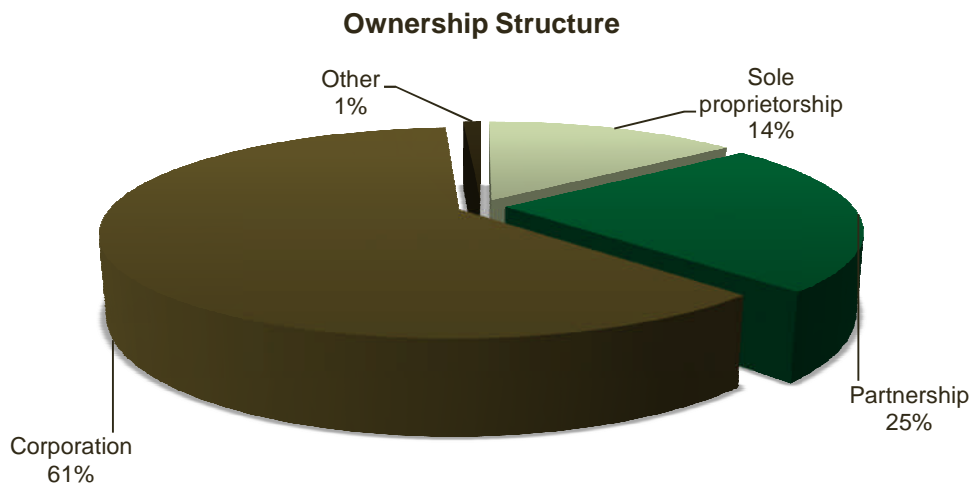
FIGURE 34: SURVEY RESPONDENTS – OWNERSHIP TYPE



Those survey respondents who indicated “other” for the type of ownership listed multi-location franchise, multi-location corporate owned, franchise and division of limited partnership.

The most common collision repair business ownership structure among survey respondents is that of a corporation, at 61%. Twenty-three percent indicated their business is a limited partnership, 14% a sole proprietorship.

FIGURE 35: SURVEY RESPONDENTS – OWNERSHIP STRUCTURE

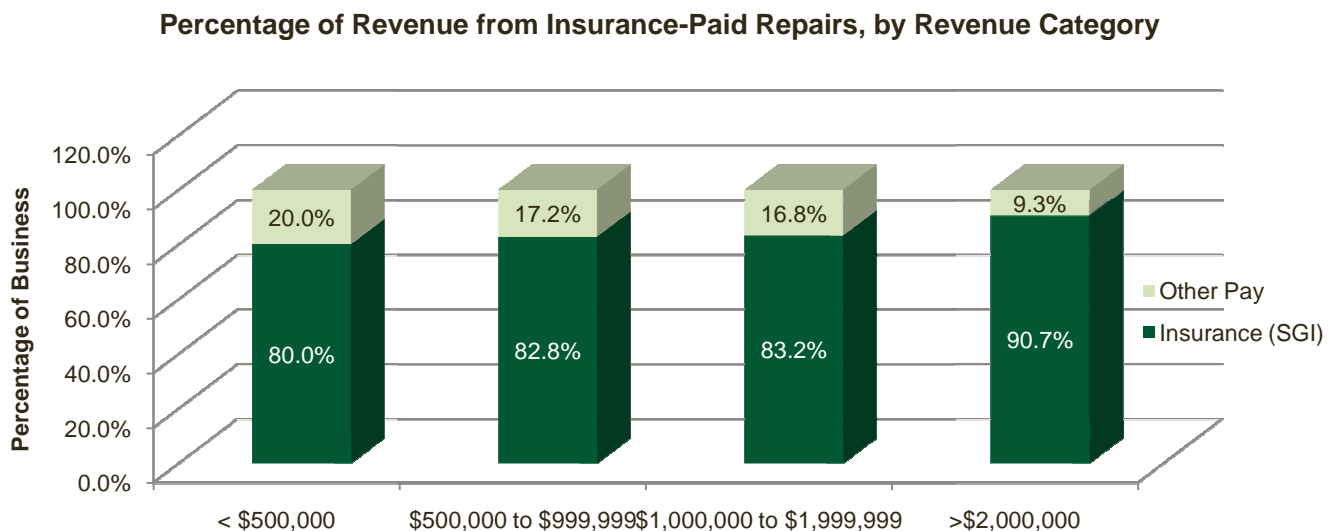


Responses were fairly evenly distributed among the collision repair businesses in terms of their average annual revenues. Of the 99 survey respondents, 18% identified revenues of under \$500,000, 34% between \$500,000 and \$1 million, 30% between \$1 million and \$2 million and 18% reported annual revenue of over \$2 million. *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, 84% of collision repair business revenues are garnered through SGI insurance work, while 16% of revenues come from other pay.

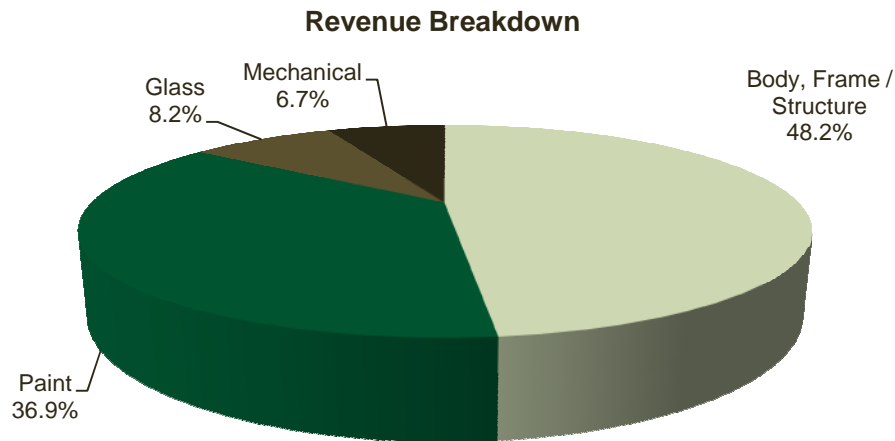
When looking at the survey respondents by revenue category, the chart below shows that as annual revenues increase, the percentage of work from other sources decreases.

FIGURE 36: PERCENTAGE OF REVENUE FROM INSURANCE-PAID REPAIRS, BY REVENUE CATEGORY



As the chart below illustrates, survey respondents indicated that on average 48% of their collision repair business revenues are obtained through body, frame/structure, and 37% paint, and 7% mechanical services. Glass makes up the remaining 8%.

FIGURE 37: REVENUE BREAKDOWN BY TYPE

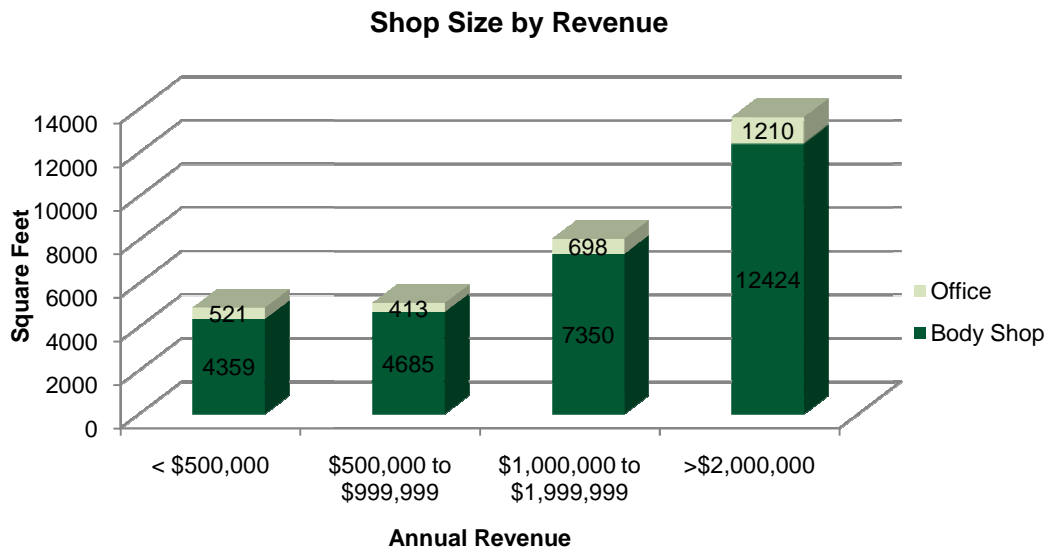


6.3.2 Shop Size

Survey respondents indicated an overall average shop area of 6,786 square feet, with a corresponding average office area of 657 square feet, or 10%.

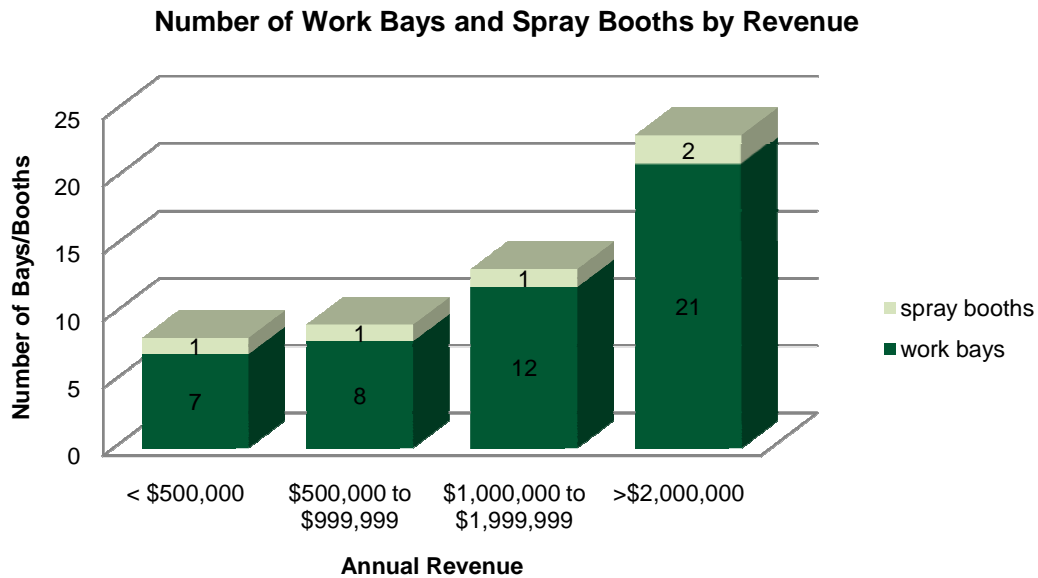
A breakdown by revenue category is shown in Figure 38 below.

FIGURE 38: SHOP SIZE BY REVENUE CATEGORY



Shops below \$1 million in revenue averaged 7-8 work bays. Typically only the largest shops had two spray booths. The average number of work bays and spray booths by revenue category is shown below.

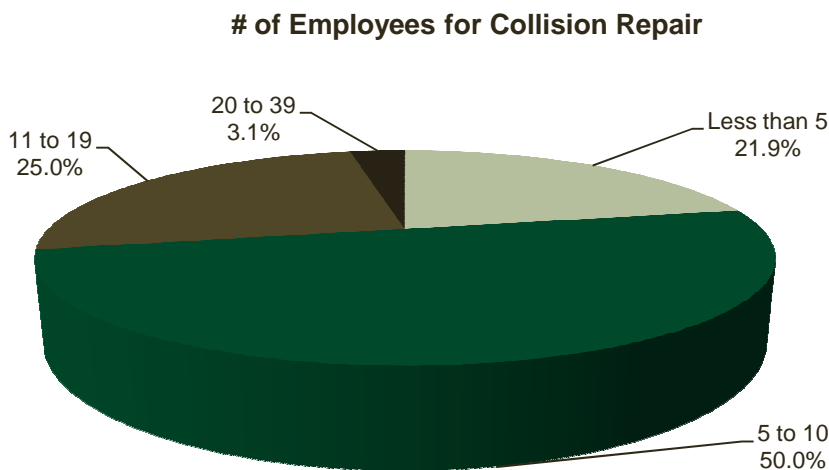
FIGURE 39: WORK BAYS AND BOOTHS



6.3.3 Number of Employees

Ninety-six shops responded to questions about employee numbers. Seventy-two percent of responding shops indicated that they have 10 or fewer 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 their collision repair area.

FIGURE 40: NUMBER OF EMPLOYEES FOR COLLISION REPAIR



6.4 Human Resources

6.4.1 Current Employment

The 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 Equivalent³³ (JE)
- Painter
- Apprentice (APP)
- Shop Supervisor / Foreperson
- Other Shop Floor Staff
- Customer Service Representative / Estimator / Service Advisor (CSR)
- Parts Person
- Management / Administrative Staff

Ninety-three employers provided detailed information regarding the number and demographics of their employees, by position. Responding businesses reported a total of 771 employees. Ninety-one percent of all employees work full time.

The average age of journeyperson body repairers is 39; 37 for painters. There are 10 females working as technicians out of 470 individuals in these positions (2%); 7 of these are apprentices.

TABLE 13: EMPLOYMENT STATUS AND DEMOGRAPHICS BY POSITION

	JBR	JE	Painter	APP	Supervisor	Other Shop	CSR	Parts	Mgmt/Admin
Part-time	15	1	0	3	2	26	1	2	20
Full-time	173	70	103	105	24	82	33	21	90
Female	0	1	2	7	1	11	20	6	65
Avg. Age	39	44	37	24	40	30	37	39	45
Total	188	71	103	108	26	108	34	23	109.5

Shops under \$1 million in revenue typically require one journeyperson body repairer, one painter and one apprentice. The total number of technicians across these categories doubles once revenue is over \$1 million. Shops above \$2 million typically require 4 Journeyperson/equivalent body repairers, 2 painters, 2 apprentices, as well as a supervisor and dedicated parts and customer service staff.

³³ As defined in Accreditation Agreement

TABLE 14: TYPICAL STAFF COMPLEMENT BY REVENUE CATEGORY

(Average)	< \$500,000	\$500,000 to < \$1 MM	\$1MM to <\$2 MM	>\$2 MM
Journeyman Body Repairer	1	1	2	3
Journeyman Equivalent	0	0	1	1
Painter	1	1	1	2
Apprentice	1	1	1	2
Shop Supervisor/Foreperson	0	0	0	1
Other Shop Floor Staff	0	0	1	2
Customer Service Representative/Estimator/Service Advisor	0	0	0	1
Parts Person	0	0	0	1
Management/Administrative Staff	1	0	1	1

6.4.2 Compensation

Respondents reported total annual wages as identified below. Total annual wages would include overtime and production bonuses or other variable pay. At standard hours, the average annual pay for Journeyman Body Repairer would be the equivalent of \$28.85 per hour. The average hourly wage as reported by the Saskatchewan Salary Survey of \$26.63 would achieve this total annual pay with approximately 8% made up of some combination of over-time or bonus.

TABLE 15: ANNUAL PAY FOR FULL-TIME EMPLOYEES

Annual Pay for Full-time Employees	Count	Low ³⁴	High	Average	Median
Journeyman Body Repairer	70	\$29,841	\$110,000	\$60,016	\$56,680
Journeyman Equivalent	37	\$30,000	\$92,464	\$56,048	\$55,000
Painter	58	\$27,722	\$112,000	\$63,129	\$59,334
Apprentice	57	\$17,947	\$65,034	\$33,507	\$32,000
Shop Supervisor/Foreperson	22	\$33,000	\$85,000	\$57,230	\$55,000
Other Shop Floor Staff	43	\$12,000	\$44,950	\$28,730	\$27,260
CSR/Estimator/Service Advisor	28	\$22,880	\$62,400	\$40,151	\$39,737
Parts Person	23	\$25,000	\$63,489	\$40,746	\$36,737
Management/Administrative Staff	51	\$8,200	\$110,000	\$52,381	\$47,348

³⁴ Bottom and top 5% removed from analysis as outliers

Average pay increases significantly for senior technicians and management with the size of the shop. For technicians, this would be the logical result of higher productivity in a higher throughput shop. Higher volume shops are also more profitable, creating more ability to pay higher wages.

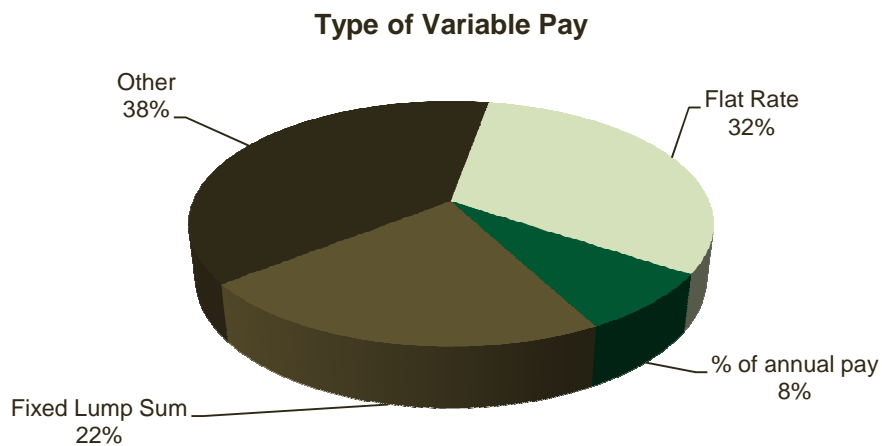
TABLE 16: AVERAGE ANNUAL PAY FOR FULL-TIME EMPLOYEES BY REVENUE SEGMENT

Annual Pay for Full-time Employees	<\$500,000	\$500,000 to <\$1 MM	\$1 MM to <\$2 MM	> \$2 MM
Journeyman Body Repairer	\$54,428	\$56,245	\$57,651	\$72,036
Journeyman Equivalent		\$54,118	\$53,919	\$59,934
Painter		\$54,296	\$61,523	\$77,981
Apprentice	\$35,664	\$31,958	\$33,738	\$34,088
Shop Supervisor/Foreperson			\$52,522	\$62,022
Other Shop Floor Staff		\$25,334	\$30,633	\$28,967
CSR/Estimator/Service Advisor			\$40,850	\$38,136
Parts Person			\$40,926	\$43,005
Management/Administrative Staff		\$45,885	\$52,167	\$58,925

Note: If the response count was less than 5 the information was not included above.

Forty-seven percent of businesses reported offering some form of variable pay, broken down as shown below.

FIGURE 41: TYPE OF VARIABLE PAY



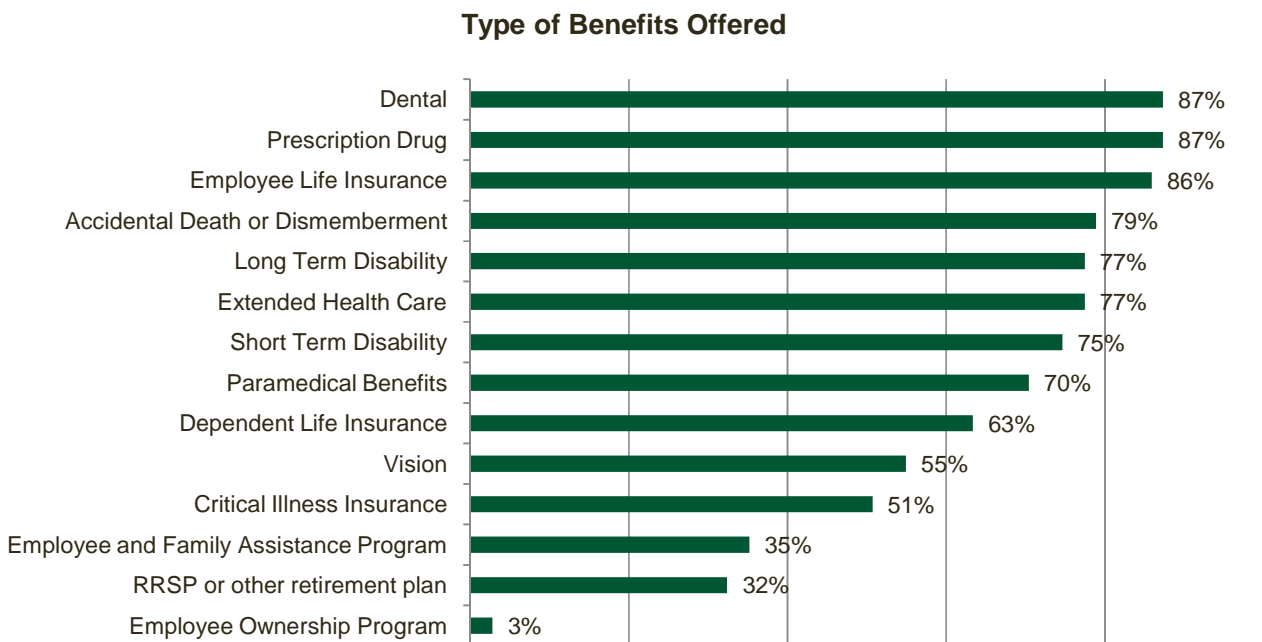
Flat rate was the most common at 21% for all employee groups, and 62% and 51% for Journeyman Motor Vehicle Body Repairers and Painters respectively. Only 12% of respondents provided a flat rate opportunity to Apprentices, with lump sum bonuses more common for this group. Shop supervisors were most likely (23.5%) to receive variable pay based on a percentage of their annual salary and parts persons most likely to receive a fixed lump sum (36%). Survey respondents listed a variety of “other” methods used to calculate variable pay including the following:

- Per hour top up over weekly/monthly chargeable hours target (based on flat rate)
- Percent of monthly profit (shop/dept.)

- Production bonus
- KPI bonus
- Bonus for JPBR based on Apprentice chargeable hours
- New client commission
- RRSP contribution matching
- Sliding scale hourly bonus

Eighty percent of responding businesses offered some form of benefits to their employees. Of those respondents who offer benefits to their employees, over 85% offer Employee Life Insurance, Dental, and Prescription Drug coverage, and at least 70% of respondents offer Accidental Death or Dismemberment, Short Term Disability, Extended Health Care and Paramedical benefits. Thirty-two percent of SCRIS respondents offer an RRSP or other retirement plan to their employees. Respondents indicated that the premiums for all benefits offered are most often split between the employee and employer.

FIGURE 42: BENEFITS OFFERED TO FULL-TIME EMPLOYEES



6.4.3 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/Service Advisor positions. Among the technician group, turnover was highest for Apprentices at approximately 65%.

TABLE 17: TURNOVER RATE BY POSITION

Position	Total Employees Reported	Reported Turnover	Rate
Journeyman Body Repairer	188	89	47.3%
Journeyman Equivalent	71	36	50.7%
Painter	103	34	33.0%
Apprentice	108	70	64.8%
Shop Supervisor/Foreperson	26	6	23.1%
Other Shop Floor Staff	108	142	131.5%
CSR/Estimator/Service Advisor	34	33	97.1%
Parts Person	23	19	82.6%
Management/Administrative Staff	109.5	28	25.6%

A shortage of skilled labour was one of the most frequently cited concerns by employers responding to the survey. Over 50% of respondents reported trying to hire a journeyman body repairer in the past 24 months. Recruitment efforts for Journeyman Equivalents and Management/Administrative Staff took the longest, at an average of almost eight months each. Businesses reported periods of almost seven months to recruit Journeyman Body Repairers, Parts Persons and Customer Service/Estimator/Service Advisors. Painters and Apprentices were found within approximately six months. Shop Supervisors/Forepersons and Other Shop Floor Staff were generally found within three months.

TABLE 18: RECRUITMENT EFFORTS PAST THREE YEARS

Hired or Tried to Hire Over the Past 36 Months	Respondents		Months to Fill Position
	#	%	
Journeyman Body Repairer	51	52%	6.8
Journeyman Equivalent	16	16%	7.8
Painter	25	25%	6.1
Apprentice	34	34%	6.3
Shop Supervisor/Foreperson	7	7%	3.0
Other Shop Floor Staff	29	29%	3.0
CSR/Estimator/Service Advisor	17	17%	6.6
Parts Person	10	10%	6.6
Management/Administrative Staff	16	16%	7.6

Ninety-four percent of responding shops with revenue over \$2 million recruited journeypersons in the past three years, a significantly higher percentage than smaller shops. They were also more quickly able to fill positions. The smallest shops required up to two years to find painters and apprentices.

TABLE 19: RECRUITMENT EFFORTS PAST THREE YEARS BY REVENUE CATEGORY

Hired or Tried to Hire Over the Past 36 Months	<\$500,000		\$500,000 to <\$1 MM		\$1 MM to <\$2 MM		> \$2 MM	
	#	%	#	%	#	%	#	%
Journeyperson Body Repairer	5	28%	15	44%	16	52%	15	94%
Journeyperson Equivalent	2	11%	7	21%	2	6%	5	31%
Painter	0	0%	13	38%	5	16%	5	31%
Apprentice	3	17%	12	35%	11	35%	7	44%
Shop Supervisor/Foreperson	1	6%	1	3%	2	6%	3	19%
Other Shop Floor Staff	3	17%	9	26%	6	19%	11	69%
CSR/Estimator/Service Advisor	1	6%	3	9%	7	23%	6	38%
Parts Person	2	11%	1	3%	3	10%	4	25%
Management/Administration	1	6%	2	6%	5	16%	8	50%

TABLE 20: NUMBER OF MONTHS TO FILL POSITIONS

Average Number of Months to Fill the Position	<\$500,000	\$500,000 to <\$1 MM	\$1 MM to <\$2 MM	> \$2 MM
Journeyperson Body Repairer	7.8	6.5	8.9	4.3
Journeyperson Equivalent	3.0	8.3	20.0	1.2
Painter	24.0	5.3	8.3	2.3
Apprentice	21.3	7.0	4.5	2.4
Shop Supervisor/Foreperson	12.0	0.0	1.5	2.3
Other Shop Floor Staff	3.3	3.9	3.0	2.2
CSR/Estimator/Service Advisor	0.5	4.0	15.0	1.1
Parts Person	6.5	6.3	13.3	1.8
Management/Administrative Staff	1.0	0.0	13.3	1.6

The highest demand position in the next five years is for Body Repairers (Journeyman or Journeyman Equivalent) with respondents indicating 143 are needed in the next five years. Fifty-three of these are replacement positions, which represent a replacement rate 20% in the next five years for the reported number of 259 combined Journeyman and Journeyman Equivalent Body Repairers

TABLE 21: STAFF REQUIREMENTS IN NEXT FIVE YEARS

Staff Needs In Next Five Years	Add	Replace	Total
Journeyman Body Repairer	66	46	112
Journeyman Equivalent	24	7	31
Painter	29	15	44
Apprentice	59	20	79
Shop Supervisor/Foreperson	12	3	15
Other Shop Floor Staff	31	29	60
CSR/Estimator/Service Advisor	16	10	26
Parts Person	13	6	19
Management/Administrative Staff	13	9	22

Respondents indicated that 90 Journeymen/Equivalent are to allow for growth. At 66% of the total complement of these same respondents this represents approximate average growth of over 10% per year. As the rate of growth in claims is expected not to exceed population growth, projected at approximately 1%³⁵, these positions can reasonably be expected to be largely at the expense of other businesses.

To determine overall future demand based on these replacement and growth rates, the overall population of technicians first needs to be estimated.

Respondents represent approximately half of SGI collision repair business. If the 259 Journeyman/Equivalent Body Repairers represent average productivity, this suggests a total population of approximately 518. As a second means of estimating the total population, applying the average staff complement to the number of shops in each revenue segment suggests a population of approximately 500, as shown below.

TABLE 22: ESTIMATED JOURNEYMAN / EQUIVALENT POPULATION

Estimated Journeyman/ Equivalent Population	<\$500,000	\$500,000 to <\$1 MM	\$1 MM to <\$2 MM	> \$2 MM	Total
Number of Shops	172	74	47	28	
Average Number Journeyman Body Repairers	1	1	2	3	
Average # JBR Equivalent	0	0	1	1	
Total	172	74	141	112	499

³⁵ Mid-point of Statistics Canada projections for population growth based on six scenarios, Population Projections for Canada, Provinces and Territories, 2009 to 2036, Statistics Canada, Catalogue no. 91-520-X

Since there are also unaccredited shops, the higher number was chosen for the purpose of analysis. Using an estimate of 520 total Journeyperson body repairers/equivalents, a replacement rate of 20% over the next five years would result in approximately 104 Journeypersons needed for replacement of existing employees. Annual growth of 1% results in a requirement for approximately 27 additional Journeypersons over the next five years. 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. This combines with replacement requirements for a total demand of 131 Journeypersons/Equivalents.

Painters in Saskatchewan are trained through the same apprenticeship program, and develop further specialized skills through employment and on the job training. Respondents reported 103 total painters, with need to replace 15 in the next five years, or a replacement rate of approximately 15%. Applying the average of 1 painter per shop under \$2,000,000 and 2 above this level results in a total requirement by accredited shops for approximately 350 painters in the province. A replacement rate of 15% would mean demand for approximately 50 more over the next five years. A 1% annual growth rate would require an additional 18 over the next five years, for a total of 68.

Respondents reported employing 108 apprentices with a similar replacement rate as journeypersons of 20% or 20 apprentices. The reported number of apprentices represents 85% of the total of 127 registered in the program. As the respondent group is weighted toward larger employers, it can be expected that they employ more than their relative share of apprentices. If this represents 85% of the demand, that would mean an overall need for 24 replacement apprentices. Applying a similar growth demand of 1% suggests a need for another 7 apprentices over the next 5 years above the current number of 127.

The combined demand of these three important positions is 230 additional people over the next five years. See below.

TABLE 23: DEMAND FOR TECHNICIANS

Total Demand for Technicians	Replacement	Growth	Total
Journeyman/Equivalent Body Repairer	104	27	131
Painter	50	18	68
Apprentice	24	7	31
Total			230

If the demand for Journeypersons and Painters is met through the Apprenticeship Program, producing 199 technicians over the next five years would require an average completion rate of 40 per year. If all 127 current apprentices completed training in the next four years, this would provide an average of 32 per year. On average, 27 Apprentices have completed the program in the past three years, meaning an approximate 50% increase in Apprenticeship completions is required. This could be achieved in part through a combination of retaining more apprentices in the program and encouraging more rapid completion, however even if all are retained and complete within four years, 25% more apprentices are still required. If this level of increased training occurred, it would also meet the need for additional apprentices.

6.4.4 Training

Employees in the collision repair industry require ongoing training due to changing technology, materials, environmental and safety legislation, new management practices and systems, certification and accreditation requirements. Overall, body repair technicians averaged just over 2 days of training per year. Painters participated in more training. This may in part be due to the recent requirement for conversion to low VOC paint. Shop supervisors and management also had higher training activity overall.

TABLE 24: TRAINING DAYS PER YEAR FOR EMPLOYEES

	Total Days Training			Average Days/Year/Employee (2011)
	2009	2010	2011	
Journeyman Body Repairer	284	297	393	2.1
Journeyman Equivalent	194	149	157	2.2
Painter	330	281	366	3.6
Apprentice	206	268	284	2.6
Shop Supervisor/Foreperson	64	80	102	3.9
Other Shop Floor Staff	22	59	83	0.8
CSR/Estimator/Service Advisor	80	85	74	2.2
Parts Person	24	26	57	2.5
Management/Administrative Staff	271	403.5	389	3.6

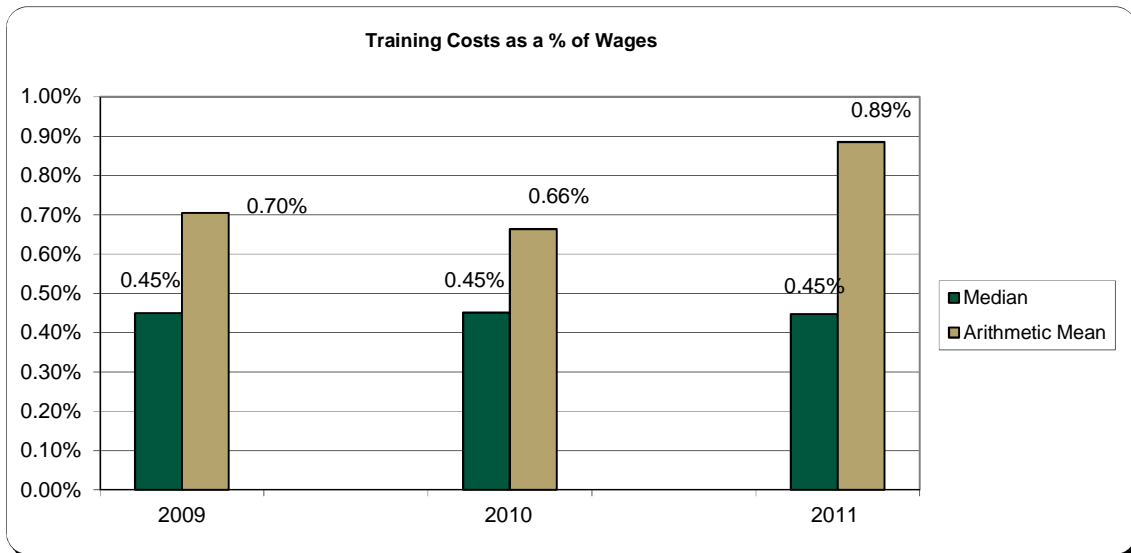
Training days for Body Repairers, Painters and Management were reported by sufficient respondents to enable comparison across revenue categories. While more days of training was expected to be found in larger companies, this was not necessarily reflected in the responses, with the exception of management/administrative staff.

TABLE 25: TRAINING DAYS BY POSITION BY REVENUE CATEGORY

Average Days Training Per Employee 2011	Revenue Category			
	<\$500,000	\$500,000 to <\$1 MM	\$1 MM to <\$2 MM	>\$2 MM
Journeyman Body Repairer	2.5	1.7	1.6	2.7
Journeyman Equivalent		2.9	2.2	1.4
Painter	7.1	2.9	3.7	3.0
Apprentice		1.6	2.7	4.1
Shop Supervisor/Foreperson				6.1
Other Shop Floor Staff		0.1		1.3
CSR/Estimator/Service Advisor		1.3		2.7
Parts Person				4.3
Management/Administrative Staff	2.4	1.6	2.8	6.4

Overall, training investments represented less than 1% of wages. This is low compared to a general best practice benchmark of approximately 2%, particularly given the pace of technological change in the industry. Conference Board of Canada research has shown that training investments have declined in general during a slow economy from 1.7% of payroll in 2006 to 1.5% in 2009, with a further decline of 13% in 2011 to just under \$690 per employee, which was 36% less than American organizations³⁶. This is identified as a concern to national productivity and competitiveness.

FIGURE 43: TRAINING EXPENSE AS A PERCENT OF WAGES



Training activity in the last 36 months by survey respondents is listed below in descending order of frequency.

TABLE 26: TRAINING RECEIVED IN THE LAST 36 MONTHS

Training Received in Last 36 Months	
1. Waterborne / painting / refinishing	17. Air conditioning
2. Various I-CAR courses	18. Adhesives
3. Car and materials manufacturer specific training	19. Brake systems
4. Frame	20. Automotive repair
5. Management/business training	21. Sales
6. Estimating	22. Customer service
7. Apprenticeship training	23. Cycle time
8. Mitchell / AllData systems	24. Detailing
9. Plastic repair	25. Diagnostic scanner
10. Technology advancements and upgrades	26. Corrosive repair

³⁶ Learning and Development Outlook 2011, Conference Board of Canada

11. Welding	27. Glass install
12. Lean production and management	28. Human resources
13. Structural repairs	29. Hybrids
14. Safety and health (including WHMIS)	30. Leadership
15. Quality	31. Shadowing
16. Office systems	

Survey respondents identified the following training requirements for the next 36 months, listed in order of descending frequency.

TABLE 27: TRAINING REQUIRED FOR THE NEXT 36 MONTHS

Training Required for Next 36 Months	
1. Painting / refinishing	18. Aluminium repair
2. Various ICAR modules	19. Detailing
3. Estimating / damage analysis / Appraisals	20. Health and safety
4. Frame and alignment	21. Hybrid
5. Management and business training	22. Mechanical
6. New materials / metals	23. Structural
7. Car and materials manufacturer specific training	24. Best practices
8. Technology advancements and updates	25. Claims processing
9. Electronics	26. Communication
10. Apprenticeship	27. Fork lift
11. Air conditioning	28. Glass
12. Computer systems and applications	29. Leadership
13. Journey person	30. Plastic repair
14. Key performance (ParaKaizen, Team)	31. Repair standards
15. Lean production and management	32. Spray-in box liners
16. Mitchell system	33. Staff retreat
17. Air bags	34. Vehicle safety

Concerns were raised by some survey respondents that technical training supplied by SGI is not teaching modern technologies and processes. The majority of respondents acknowledged the increasing need for training in their industry to respond to changing technology.

6.5 Equipment and Technology

Many respondents had concerns about the cost of the required equipment and technology in the collision repair industry. As shown in the series of figures below, the average cost of equipment purchases made in the last three years by businesses in the lowest revenue categories was significantly lower than those made by businesses with higher revenues. However, when looking at survey respondents' projected investments in equipment and technology in the next three years, the average cost for businesses in the lower revenue categories increases by 150% to 350%, compared to 12.5% to 40% for business in the \$1,000,000 to >\$2,000,000 range.

FIGURE 44: EQUIPMENT AND TECHNOLOGY PURCHASES LAST THREE YEARS

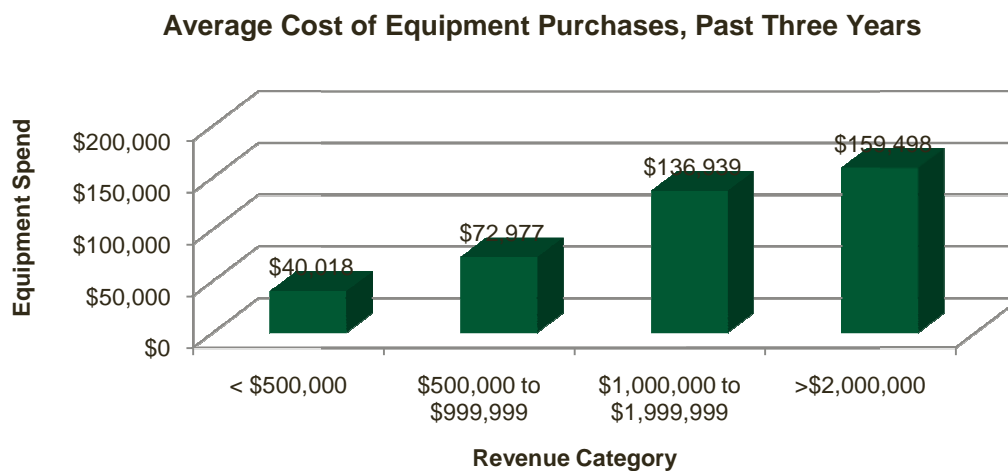
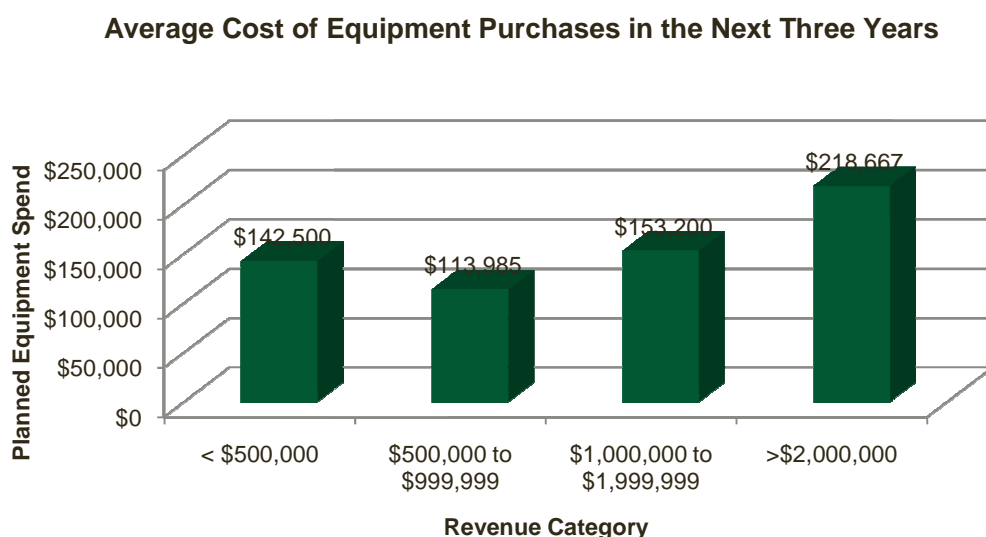


FIGURE 45: EQUIPMENT AND TECHNOLOGY PURCHASES NEXT THREE YEARS



Survey responses indicate that over the next three years business with revenues under \$500,000 plan to purchase equipment to facilitate technology advancements, instead of merely replacing older equipment or expanding their facilities, while those with revenues >\$2,000,000, having already invested in advanced equipment and technology purchases in the past three years, will focus on replacement.

FIGURE 46: PURPOSE OF EQUIPMENT AND TECHNOLOGY PURCHASES LAST THREE YEARS

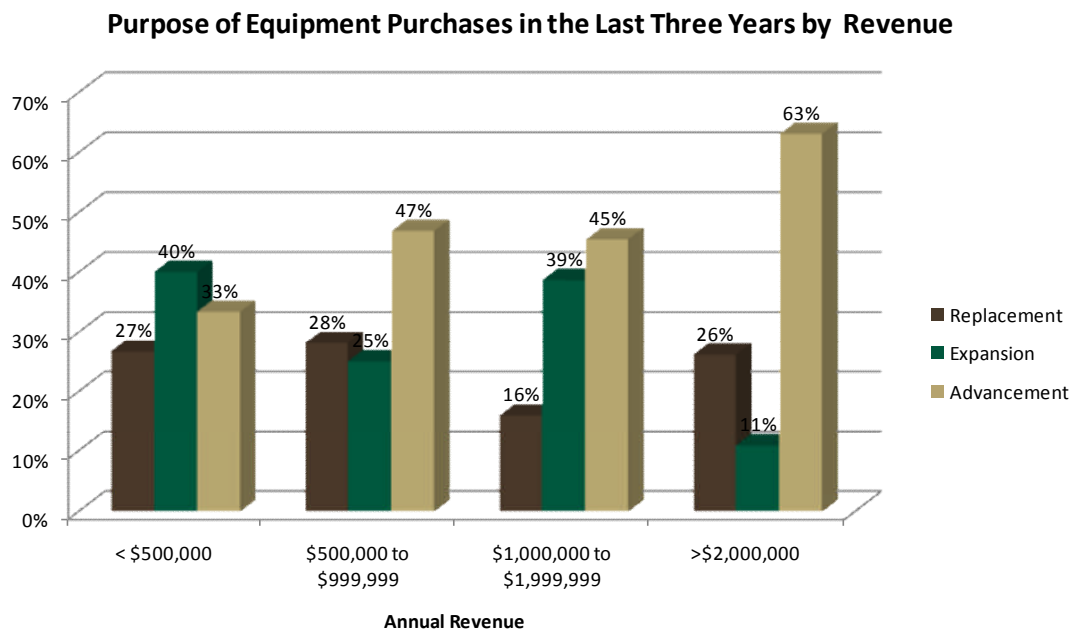
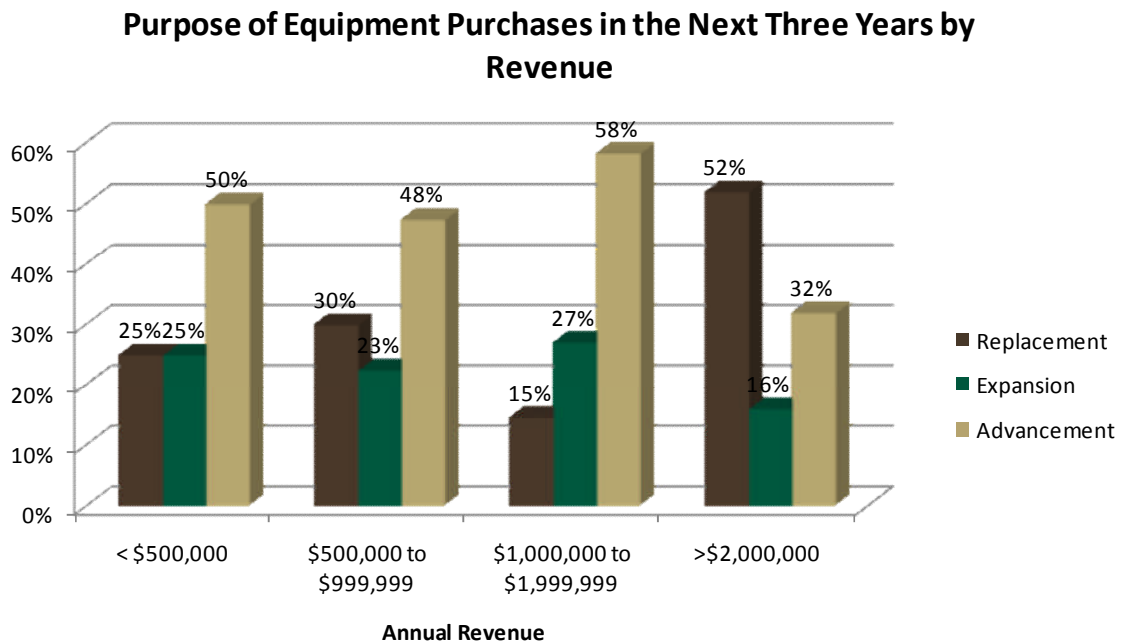


FIGURE 47: PURPOSE OF EQUIPMENT AND TECHNOLOGY PURCHASES NEXT THREE YEARS



Equipment purchases made and anticipated by respondents in the previous three years and over the next three years are listed below in descending order of frequency:

TABLE 28: RECENT EQUIPMENT PURCHASES AND ANTICIPATED EQUIPMENT PURCHASES

Past Three Years	Next Three Years
• Paint booths & systems	• Paint booths & equipment
• Computer hardware & software	• Frame machines/measuring equipment
• Compressors (air, screw)	• Welding equipment
• Resistance spot welders	• Computer hardware & software
• Frame machines/measuring equipment	• Prep stations
• Tow truck	• Building additions

6.5.1 Impact of Changes in Technology

Survey respondents were asked to comment on the impact that changing technology has had on their collision repair business. A summary of the most frequent responses is shown below:

TABLE 29: IMPACT OF CHANGES IN TECHNOLOGY

Impact of Changes in Technology
1. Increased productivity
2. Increased efficiency for estimating and ordering
3. Increased communication with SGI
4. Increased consistency
5. Increased cost <ul style="list-style-type: none"> • Outsourced training (safety features, electronics) • Equipment, tools and materials (boron, HHS metals, paints, welder) • Upgrade office equipment • Technical data/programs
6. High repair costs will drive more total losses
7. Need to sublet more mechanical work, impacting profitability (SGI does not reimburse for higher mechanical door rate)
8. SGI training offered has not kept pace with technology changes (ex. frame)
9. Returns on investments made in new technology are long term
10. Shops are making investments in new tools and technologies, but still have to deal with SGI on a paper basis
11. Older staff not familiar with computerized equipment
12. OEMs requiring shops to become certified in order to complete repairs on their vehicles. Added expense which may not be feasible for some shops, may result in dealership-only repair facilities
13. SGI materials rates not keeping up

6.5.2 Impact of Environmental/Regulatory Requirements

Survey respondents were asked to comment on the impact changing environmental regulations have had on their collision repair business. A summary of the most frequent responses is shown below:

TABLE 30: IMPACT OF ENVIRONMENTAL REGULATIONS

Impact of Environmental Regulations
1. Waterborne paint <ul style="list-style-type: none">• Significant cost for training (both \$ and time)• Significant cost for new equipment• Ongoing costs: filters require frequent changing, equipment takes longer to clean• Slower process overall – has increased painting turn-around time• Materials are more expensive (almost double)• Difficult to match the paint on older vehicles• Little impact on shops with new equipment, larger impact on smaller shops
2. Waste products <ul style="list-style-type: none">• Escalating costs• Difficulty finding recycling providers• Positive change
3. Regulations have reduced property values/curtailing ability to sell
4. Shops are cleaner and more environmentally friendly

6.6 Management Practices and Performance

6.6.1 New Management Practices

Twenty-seven percent of survey respondents indicated they have incorporated new management practices in their business in the last three years. The practices being implemented by these respondents include:

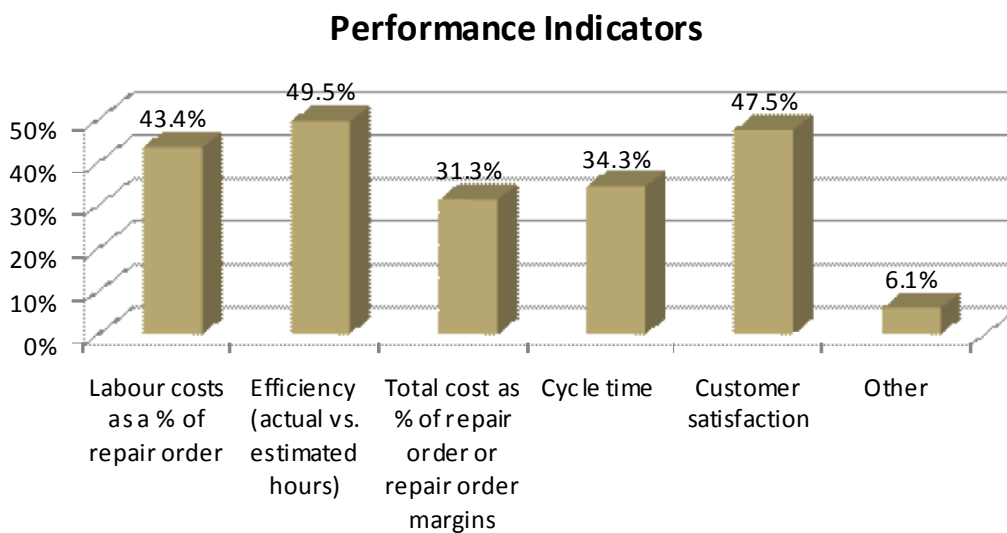
TABLE 31: NEW MANAGEMENT PRACTICES

New Management Practices	
• Lean	• Net promoter score
• Team system	• Scoreboard
• Mitchell (Ultramate, Shopman)	• Load leveling
• Inventory management system	• Flat rate system
• Scheduler system	

6.6.2 Performance Indicators

Sixty-three percent of respondents indicated that they formally monitor some form of performance indicator. Of these, almost half monitor efficiency, as expressed by actual vs. estimated repair hours, and customer satisfaction. Forty-three percent of these businesses monitor labour costs as a percentage of repair order.

FIGURE 48: PERFORMANCE INDICATORS

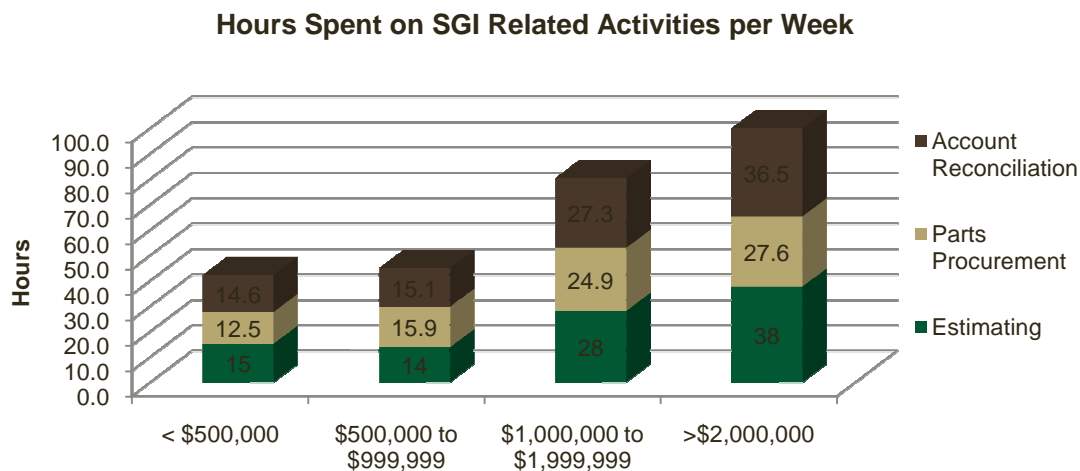


6.6.3 Time Required for SGI Processes

The major business processes that cause interaction between SGI and collision repair businesses include the estimate and supplemental estimate process, parts procurement and account reconciliation.

The SCRIS 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 23 hours per week for estimating, 20 hours per week for parts procurement and 23 hours per week for account reconciliation. Time varies by volume of business, as shown below, ranging from 42 hours for very small shops to 102 hours for shops >\$2 million in revenue.

FIGURE 49: HOURS SPENT ON SGI RELATED ACTIVITIES PER WEEK BY REVENUE CATEGORY



6.6.4 Relationship with SGI

Survey respondents were asked to comment on the business relationship with Saskatchewan Government 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 independent review by MNP.

TABLE 32: BUSINESS RELATIONSHIP WITH SGI COMMENTS

What is working well in your business relationship with Saskatchewan Government Insurance?
1. Epay system (75% of the time)
2. Road adjusters/appraisers (rover system)
a. Scheduled days for estimates
b. Good knowledge of repairs
c. Good relationship
3. Overall good relationship with mutual respect
4. SGI Salvage
5. Online supplementals (Mitchell)
6. Email communication
7. Glass claims/windshield replacement

What improvements could be made to the business relationship with SGI?

1. More accurate estimates by SGI
2. Better use of technology, quicker process for handling supplementals/paperwork. (e.g. email, scanning photos)
3. Higher door rates
4. More trust between industry and SGI
5. Allowing shops to complete their own estimates
6. Better communication with industry and joint development of policies
7. Quicker payments
8. Rural adjustor visits -- More time slots, dedicated use only for estimates, appt. details ahead of time
9. Standardized repair guidelines to ensure consistency in estimates –varies among appraisers
10. Quicker claims processing by appraisers
11. Quicker response to phone calls
12. Compensation for administrative tasks (e.g., paperwork to process supplementals)
13. Sharing of collision/customer info with shops (e.g. collision scene photos, accident details)

How would they improve the health of the industry in Saskatchewan?

1. Overall, enhance the ROI for shops and encourage investment in the industry
2. Higher employee compensation resulting in increased recruitment and retention
3. Increased profits allow for investment in technology, training, property, plant and equipment upgrades
4. More accurate estimates reduce supplemental claims and reduce cycle time
5. Increased automation enhances communication and cycle times, reducing rental costs, increasing appraiser productivity
6. Reduce frustrations on both sides
7. Increased customer satisfaction
8. Faster payments would enhance shop cash flow

6.7 Financial Performance

6.7.1 Participation Rates

Eighty-two (82) businesses provided detailed financial data. The majority of responding businesses provided financial information for each year from 2009 to 2011. As shown below, there is an apparent shift in participant counts in each of the revenue segments during this time period. From the sample group, the number of responding business with revenue over \$1,000,000 has increased. This trend is indicative of revenue growth in these businesses.

The number of business providing detailed financial information in the under \$500,000 revenue category is small, and represents only approximately 6% of accredited business 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 business in the category as a whole.**

Figures 49 and 50 show the number of responding business that provided financial information by revenue category and by region.

FIGURE 50: BUSINESS REPORTING REVENUE BY SEGMENT

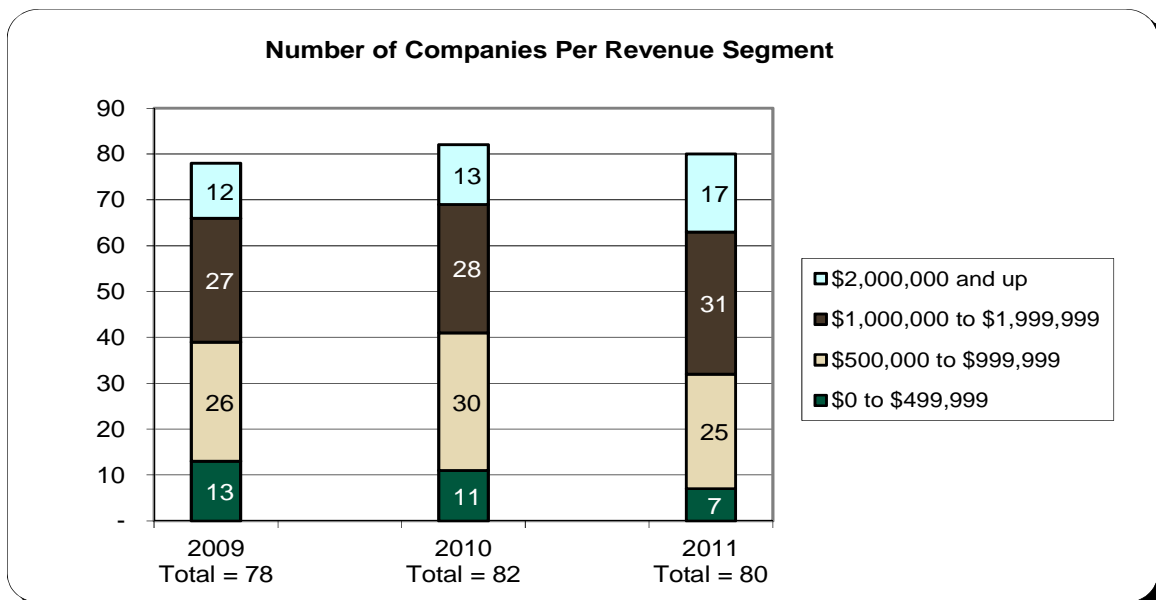
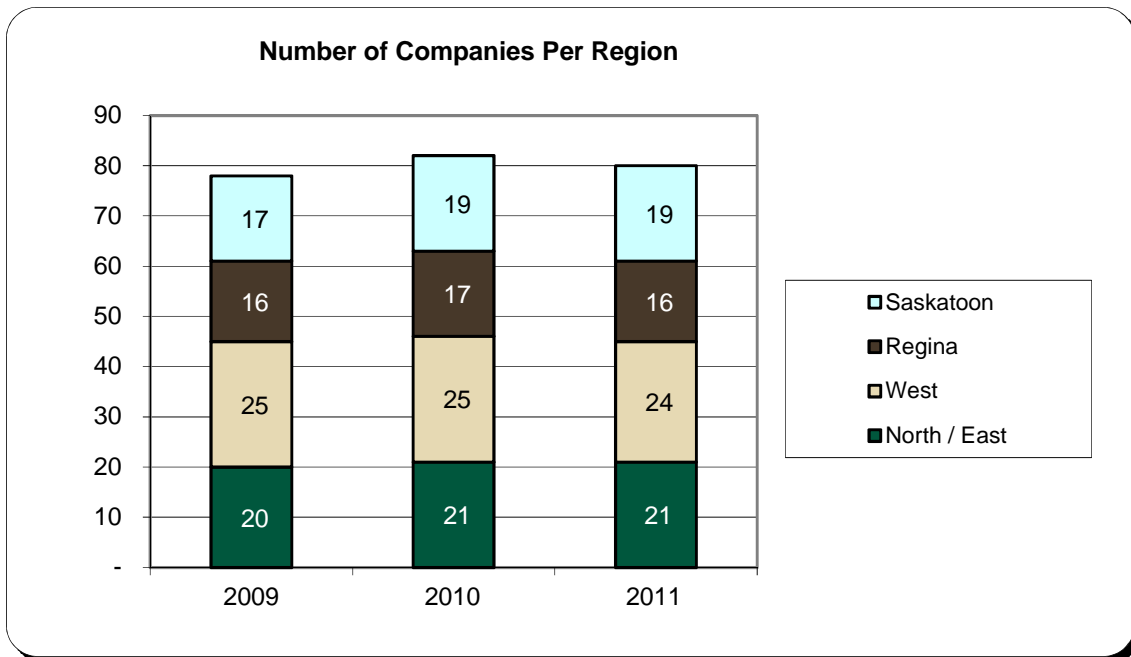


FIGURE 51: RESPONSES BY REGION



6.7.2 Validation and Normalization

Respondent financial information was collected via the web survey and/or through provided financial statements. The resulting data was checked for completeness and compared to industry information to identify significant variances. When the variances were flagged, MNP followed up with participants and, where applicable, corrected the information.

MNP made the following two normalizing adjustments to the financial statements:

- Owner compensation was adjusted to market rates, and
- Lease rates paid were adjusted to market rates.

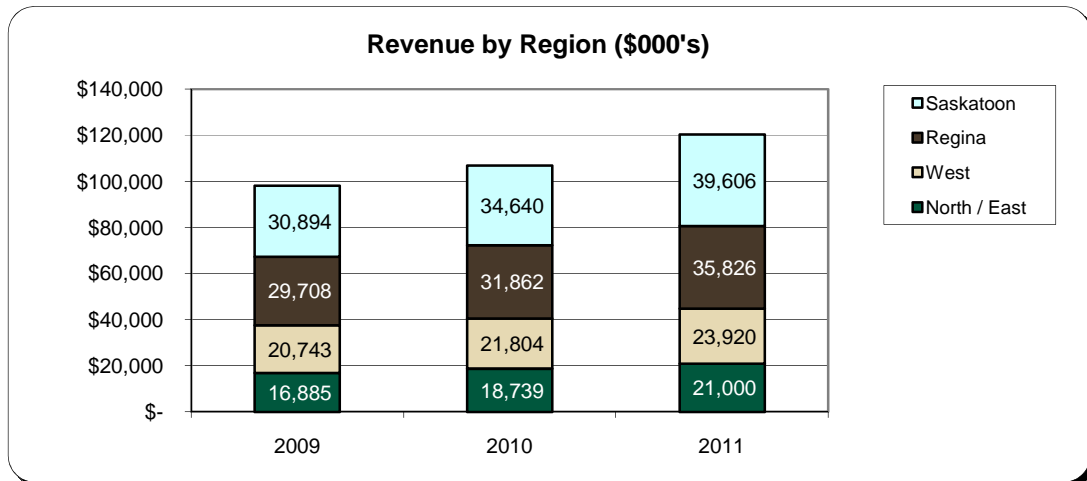
Applying normalization adjustments to the financial statement is consistent to the approach taken when valuing a business. When valuing a business, all the expenses are restated to market value. The intention is to treat the business like an investment and measure the returns after all the appropriate expenses have been fairly removed.

The steps taken for normalizing owner compensation and lease rates is the same. First, the actual expense, if any, was removed. Then a market rate for the respective expense was determined based on information provided by participants and used to replace the original expense.

6.7.3 Summary of Results

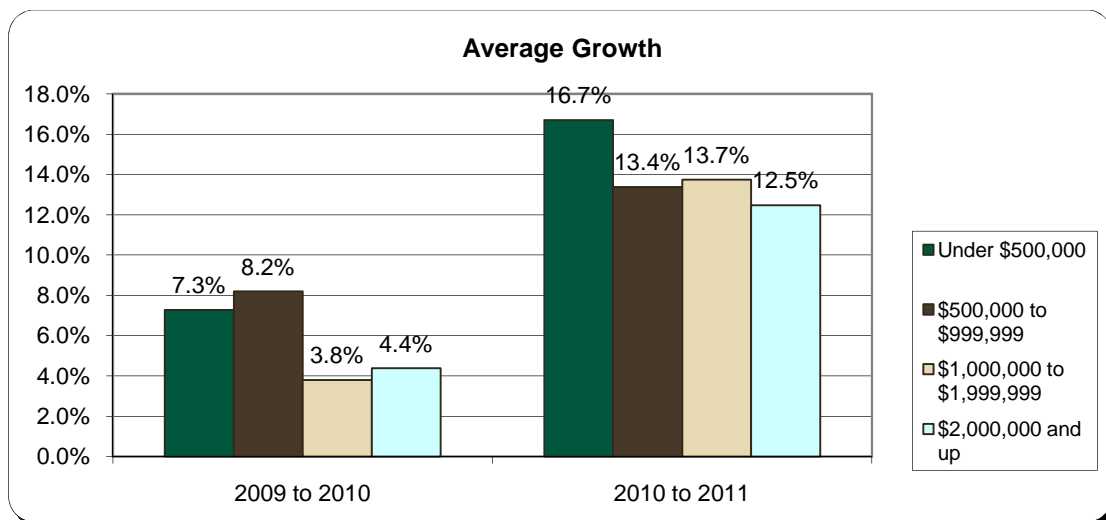
Total revenue for all businesses reporting revenue was \$120.4 million in 2011. By region, Saskatoon and Regina represented 63% of the total revenue and the North / East and West represent the remaining 37%. Total revenue includes any 'other' revenue generated by the business. "Other" revenue represented a significantly larger percentage of total revenue for small businesses (almost 8% compared to less than 1% for the top two revenue categories).

FIGURE 52: REVENUE BY REGION



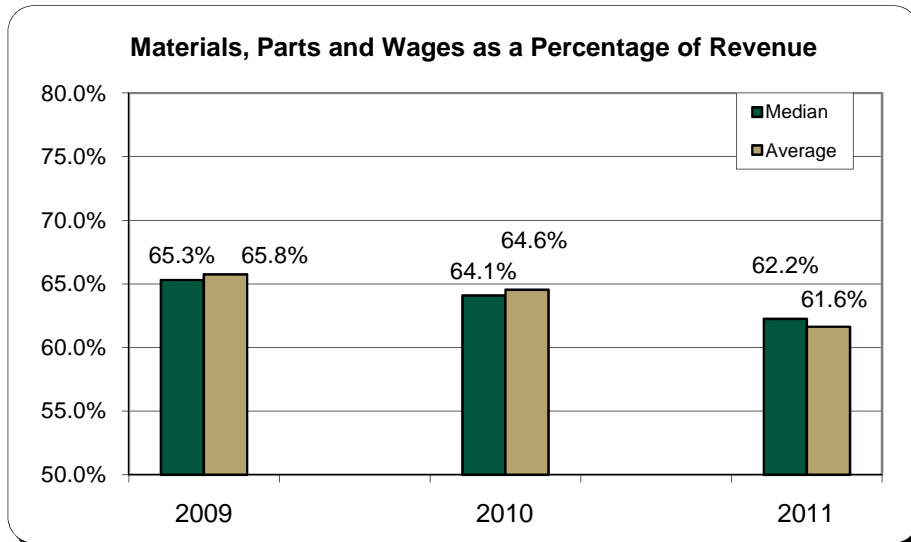
The average growth rate from 2009 to 2010 was 6.1% and from 2010 to 2011 was 13.9%. A number of significant hail events in 2011 have been identified as leading to increased claim activity. In 2009 / 2010 the largest growth was in the \$500,000 to \$999,999 revenue segment; in 2010 / 2011 it was in the under \$500,000 segment.

FIGURE 53: AVERAGE GROWTH



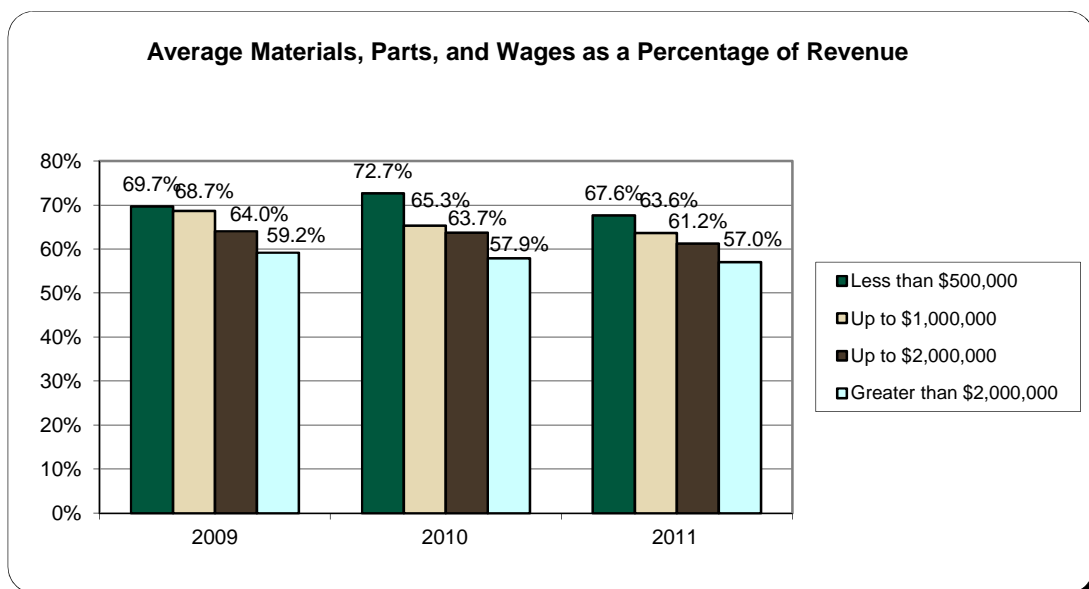
Materials, parts and wages averaged approximately 65.8%, 66.01% and 61.6% in 2009, 2010 and 2011 respectively. Assuming a 90% confidence interval, the difference from 2010 to 2011 is statistically significant.

FIGURE 54: MATERIALS, PARTS AND WAGES AS A PERCENT OF REVENUE



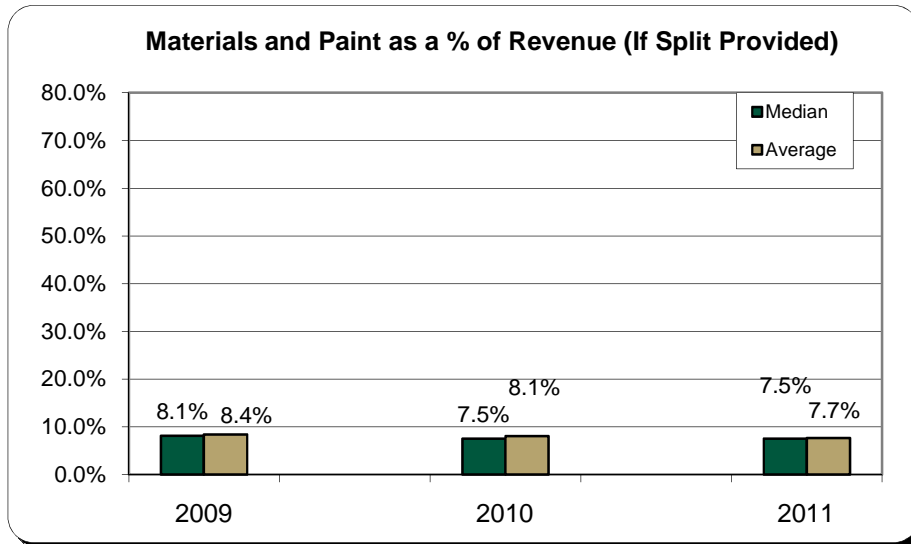
By revenue category, average materials, parts and wages margins improve significantly with business size. Again, data for the under \$500,000 revenue category reflects a very small sample and cannot be reliably used to estimate the overall experience for this category. The expenses do however seem to vary with size. In 2011, the average reported materials, parts and wages for business between \$500,000 and \$2,000,000 was between 61.2% and 63.6%, compared to 57.0% for business over \$2,000,000 in revenue.

FIGURE 55: AVERAGE MATERIALS, PARTS AND WAGES AS A PERCENTAGE OF REVENUE



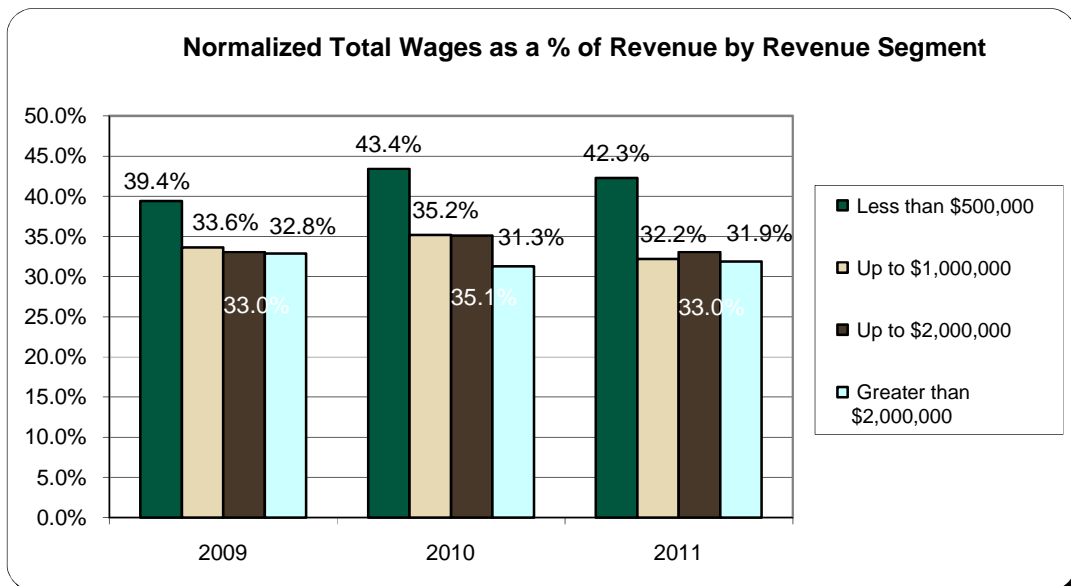
Materials and paint costs as a percent of revenue have been stable at approximately 8% of revenue. Change is statistically significant at +/- 0.59% based on a three year average.

FIGURE 56: MATERIALS AND PAINT AS A PERCENT OF REVENUE



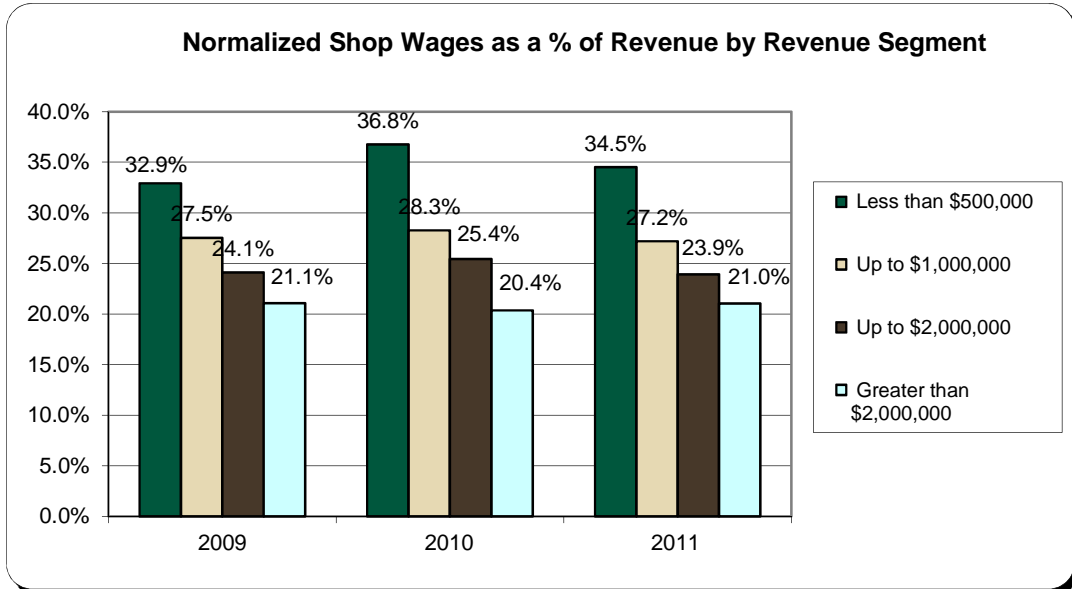
Total wages as a percentage of revenue were very consistent for businesses with revenue over \$1,000,000. Where applicable, MNP substituted a market wage for owners based on owner-estimated time spent performing specific job functions.

FIGURE 57: TOTAL WAGES BY REVENUE CATEGORY



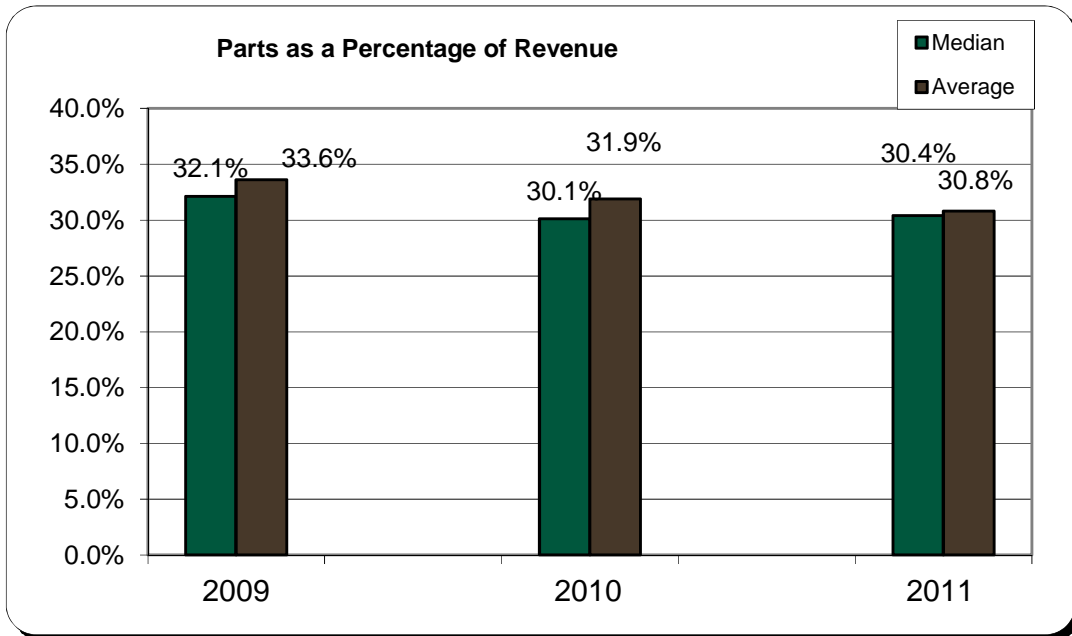
Shop wages as a percentage of revenue show significant improvements in labour productivity as business size increases.

FIGURE 58: NORMALIZED SHOP WAGES



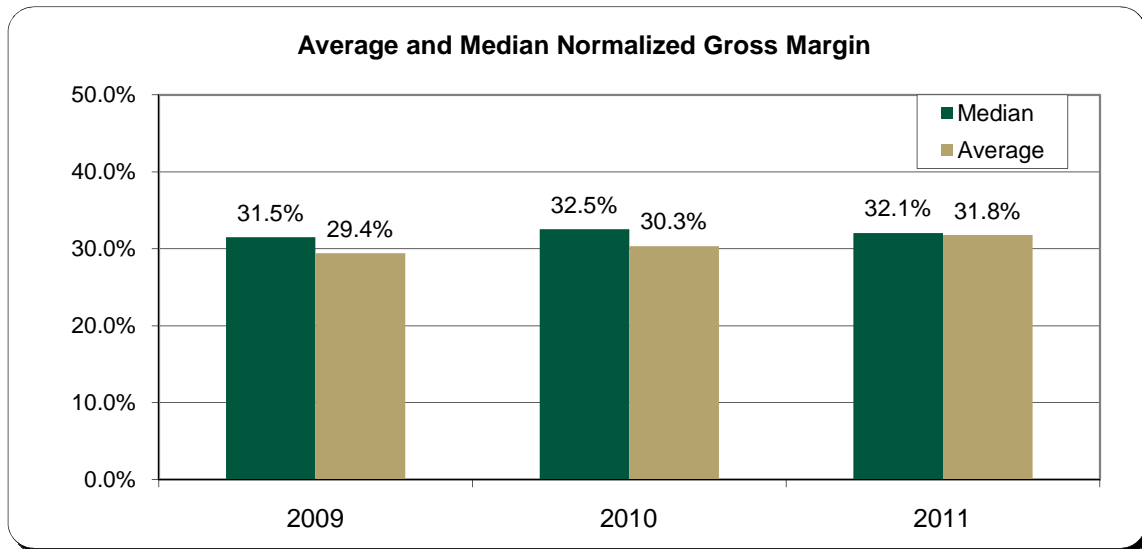
Parts, as a percent of revenue, have decreased significantly from 33.6% in 2009 to 30.8% in 2011.

FIGURE 59: PARTS AS A % OF REVENUE



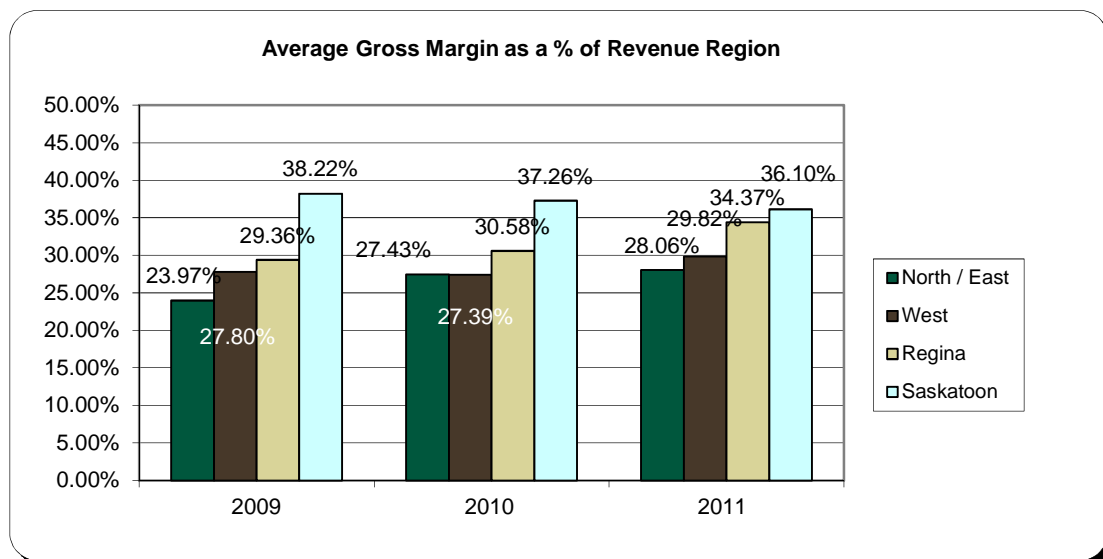
The average gross margin is calculated by subtracting from total revenue the following cost of sales: shop wages and benefits, parts, paint and materials, sublet and other related expenses. The average gross margin was 31.76% in 2011. While there appears to be an improvement from 2009 to 2011, the difference is not significant.

FIGURE 60: AVERAGE AND MEDIAN GROSS MARGINS



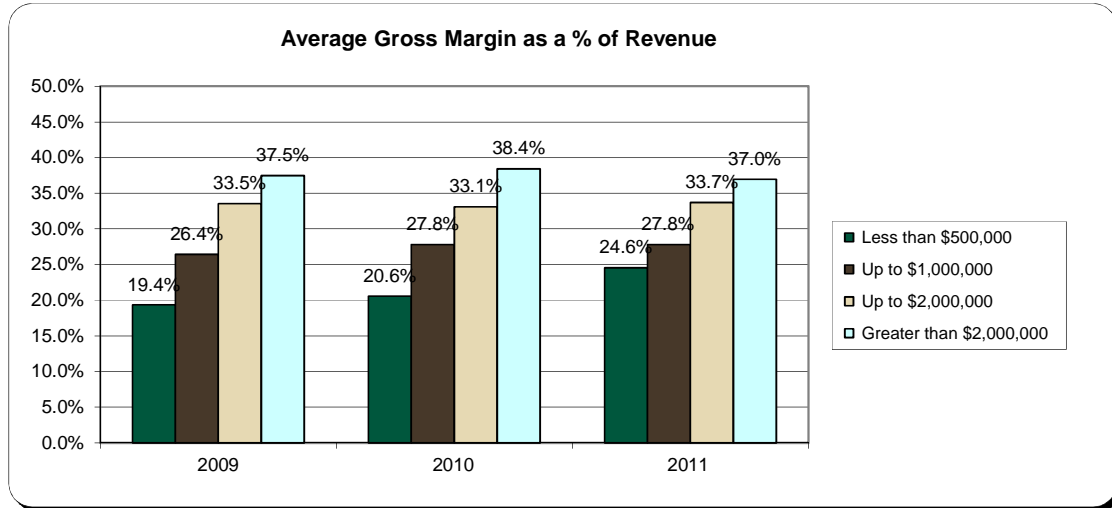
By region, margins ranged from 23.97% to 38.22% from 2009 to 2011. Although decreasing from 2009 to 2011, businesses in Saskatoon have consistently seen larger gross margins than the other regions. It is important to note that the information below splits the total sample size into four smaller segments, which reduces the level of confidence in the results, and it includes the performance from business with revenue less than \$500,000. The apparent gaps in the summary below between the regions from 2009 to 2011 are impacted by this.

FIGURE 61: GROSS MARGIN BY REGION



Gross Margin improves significantly by revenue category. Materials and parts are marginally higher (approximately 2% to 3%) for business up to \$1,000,000 in revenue. The larger driver in the gap between the small revenue category and the larger revenue category is shop wages.

FIGURE 62: AVERAGE GROSS MARGIN AS A PERCENT OF REVENUE



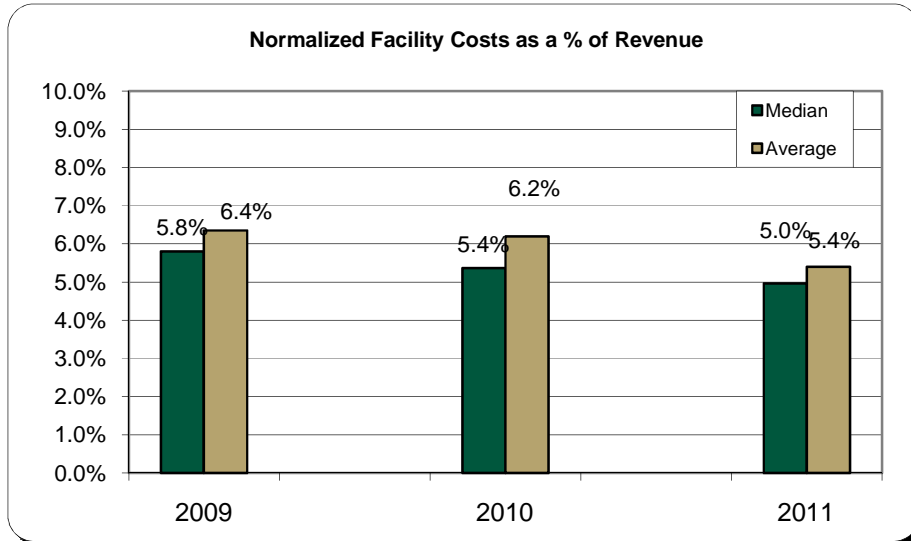
In the General Expense category, facility costs, management wages and advertising and promotion represent the highest individual costs. If facility costs were significantly less than or greater than estimated market rates, facility costs were normalized by applying estimated market commercial lease rates to the businesses reported shop size (in square feet). Rates were obtained from information collected from businesses and research collected from real estate professionals in each of the regional markets. The following table summarizes the estimated market rates applied:

TABLE 33: ESTIMATED MARKET RATES APPLIED

Region	Rate / s.f.
Rural (North / East & West)	\$8.00
Regina & Saskatoon	\$13.50

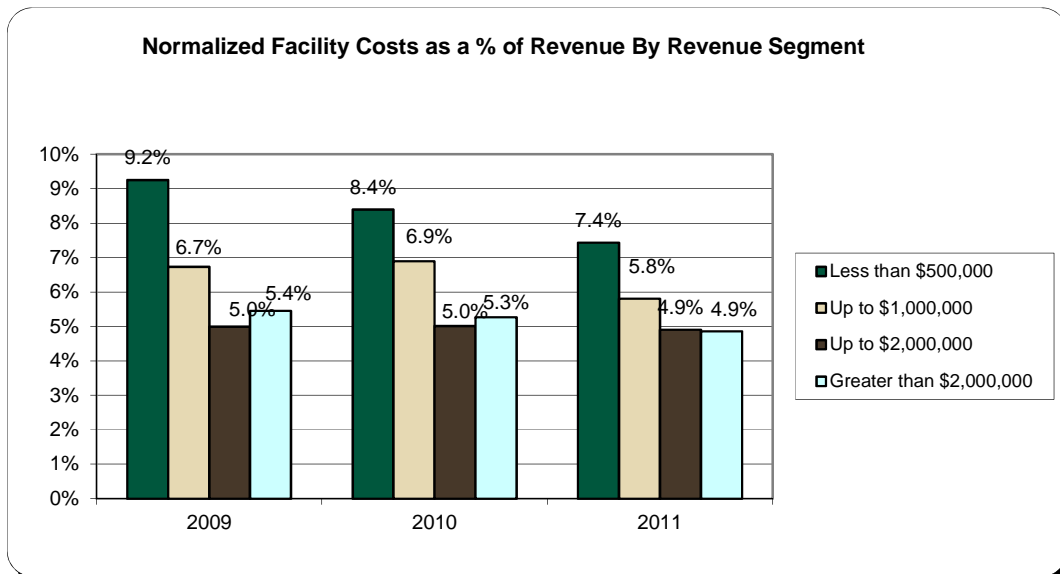
Normalized facility costs were 5.4% of revenue on average in 2011 (+/- 0.42%).

FIGURE 63: NORMALIZED FACILITY COSTS AS A PERCENT OF REVENUE



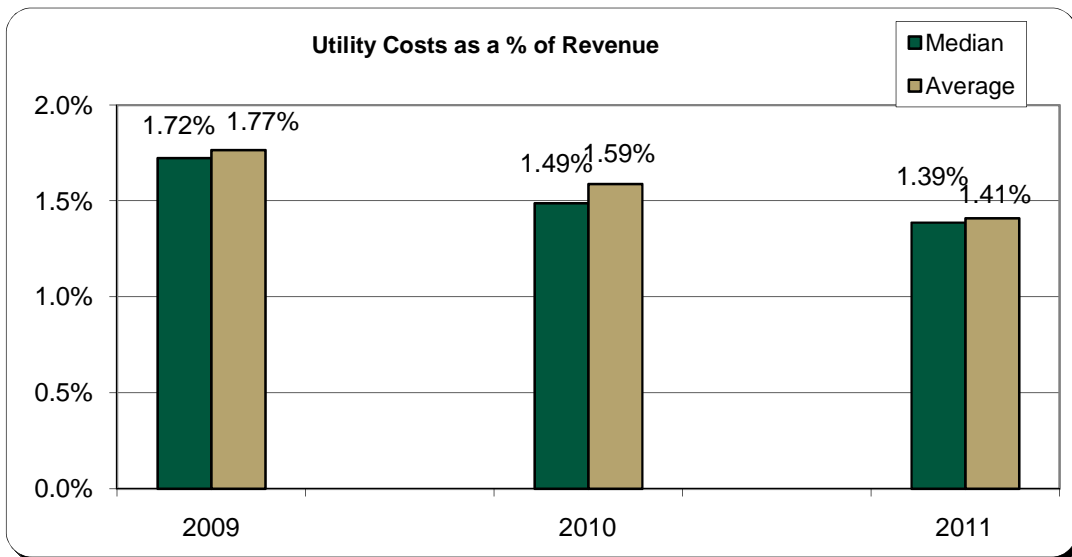
By revenue segment, facility costs were as follows:

FIGURE 64: NORMALIZED FACILITY COSTS AS A PERCENT OF REVENUE BY REVENUE SEGMENT



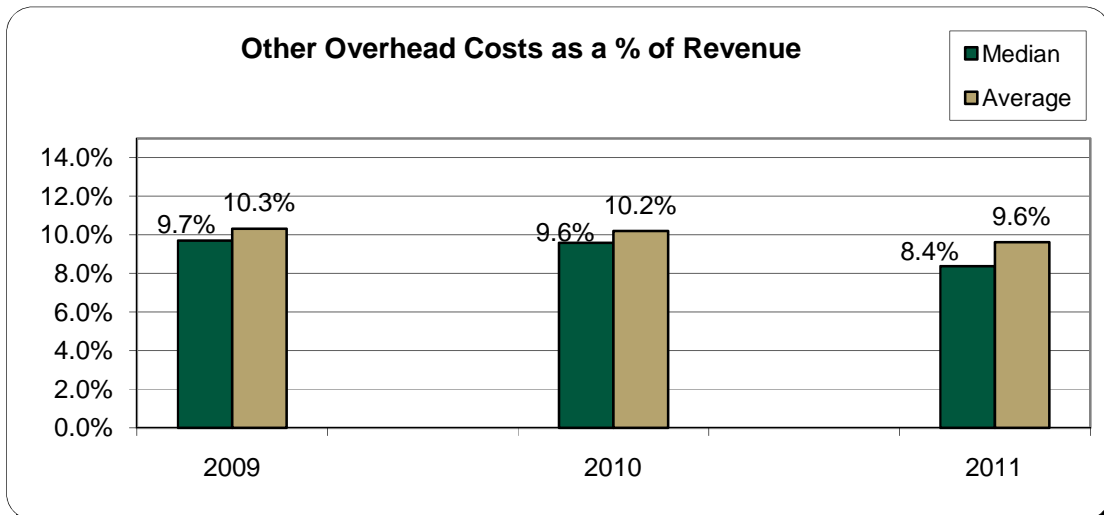
Utility costs averaged approximately 1.5% of revenue from 2009 to 2011 (+/- 0.1%).

FIGURE 65: UTILITY COSTS



Total overhead costs include advertising and promotion, communications, environmental costs, equipment lease, freight, insurance, IT, repairs and maintenance, supplies, training and other. Total overhead costs represent approximately 10% of revenue on average (+/- 0.8%).

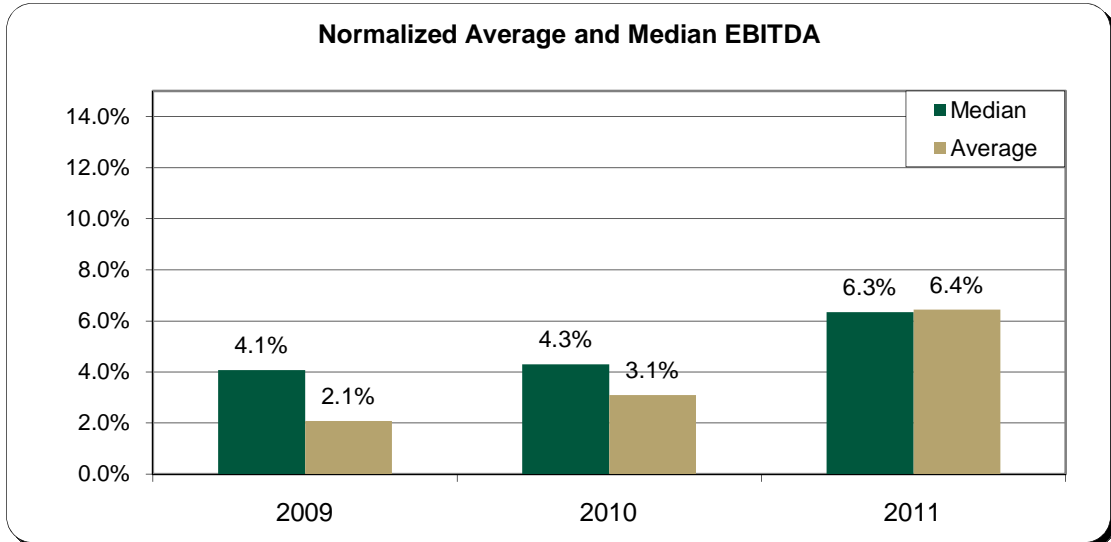
FIGURE 66: OVERHEAD COSTS



Overall, earnings before interest, taxes, depreciation and amortization (EBITDA) represented 6.45% of revenue in 2011. Results varied more widely on this measure, resulting in confidence intervals of +/- 1.73% in 2011 at a 90% confidence level. The difference as compared to 2009 and 2010 is statistically significant, but the difference between 2009 and 2010 is not statistically significant.

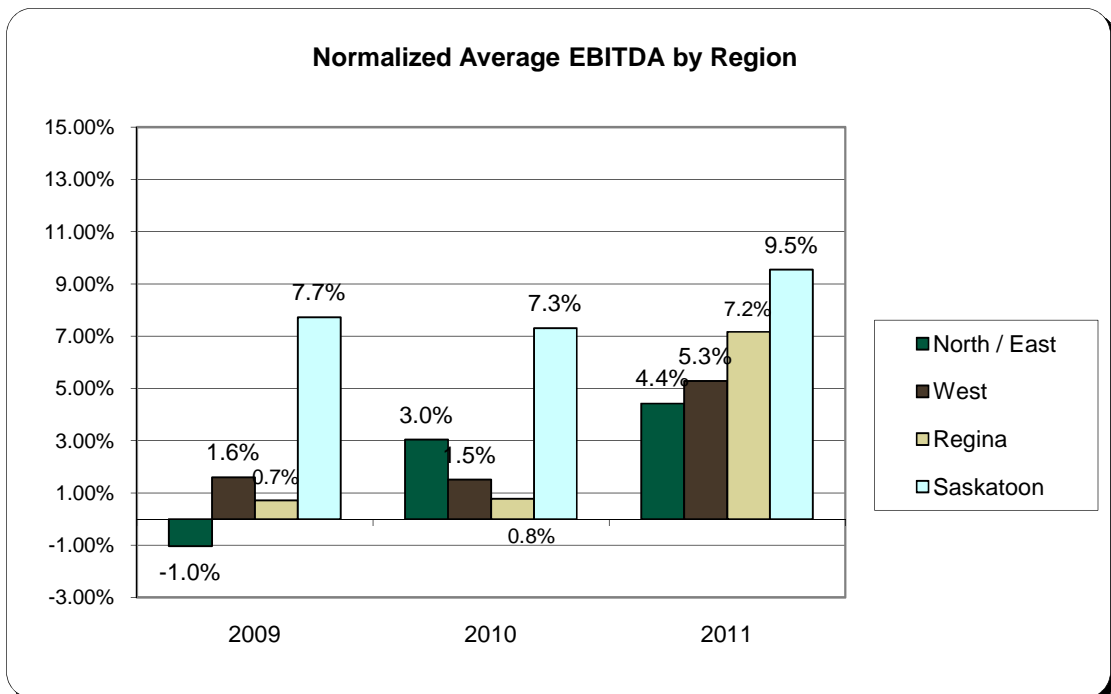
The improvement in 2011 is generally a result of increased revenue providing more gross profit while overhead expenses have remained relatively constant (becoming a smaller percentage of revenue).

FIGURE 67: NORMALIZED AVERAGE AND MEDIAN EBITDA



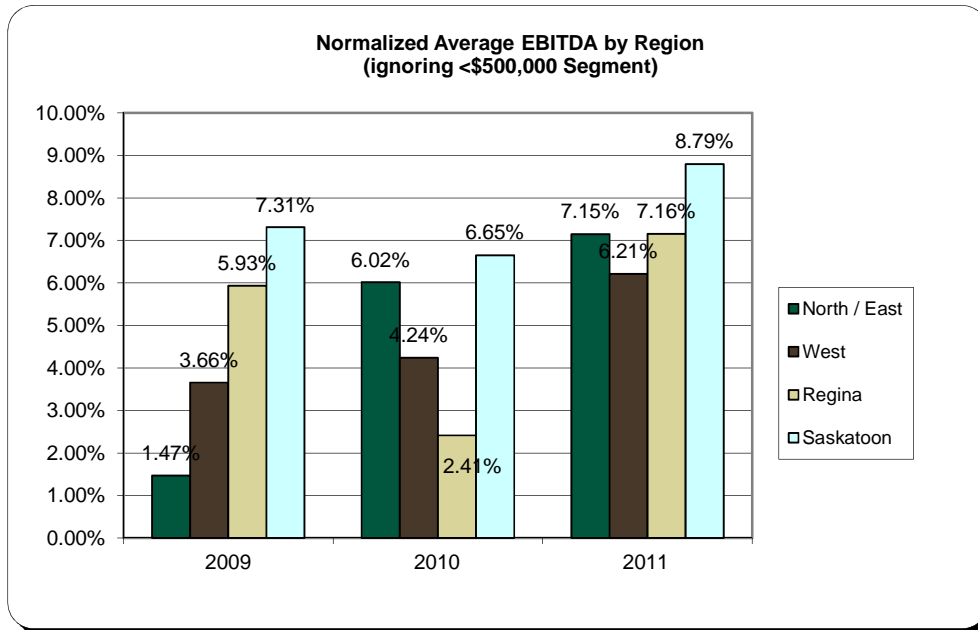
The normalized average EBITDA by region is significantly higher in Saskatoon than it is in other regions when including all the revenue categories.

FIGURE 68: NORMALIZED AVERAGE EBITDA BY REGION



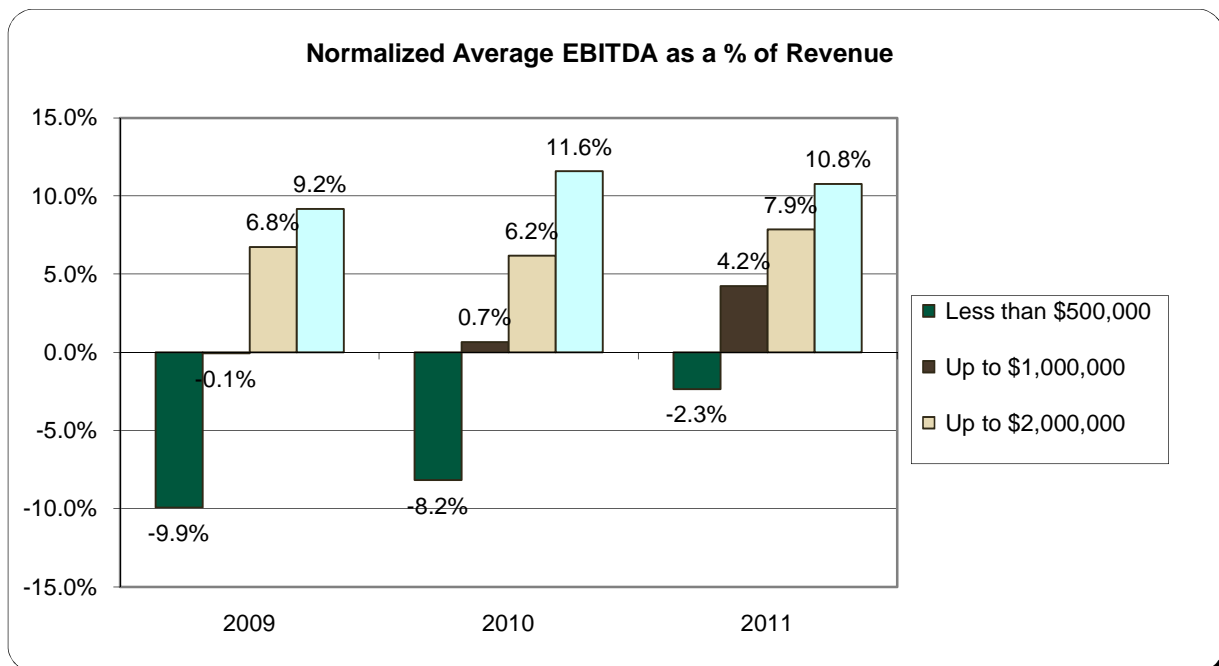
There were a small number of businesses in Regina the under \$500,000 category with very poor results that influences this gap, which closes when you remove the less than \$500,000 category, but it still remains. The information below splits the total sample size into four smaller segments, which reduces the level of confidence in the results. For example, there are only 16 businesses that reported results in Regina in 2011.

FIGURE 69: NORMALIZED AVERAGE EBITDA BY REGION (IGNORING <\$500,000 SEGMENT)



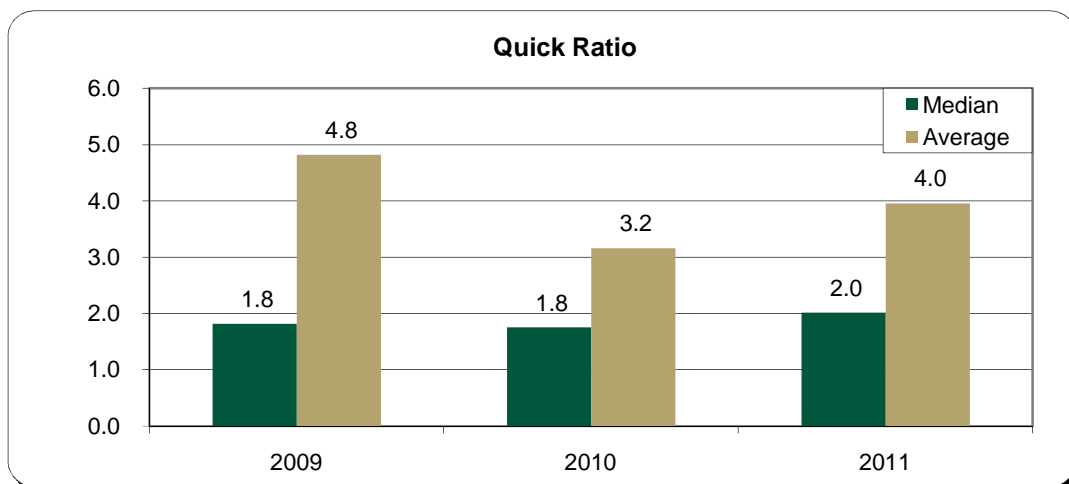
There is a consistent improvement in EBITDA as the business size increases.

FIGURE 70: NORMALIZED AVERAGE EBITDA BY REVENUE SEGMENT



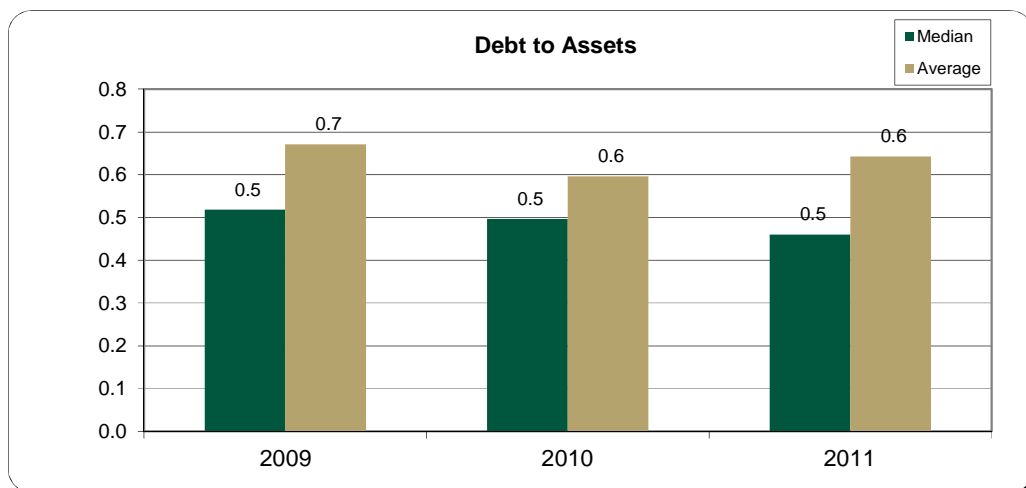
Liquidity has remained relatively consistent from 2009 to 2011 based on the quick ratio³⁷. The information collected has a relatively high standard deviation (average of 7.9 from 2009 to 2011), which indicates significant variability in the data. Based on the graph below, there appears to be above average liquidity in the industry.

FIGURE 71: QUICK RATIO



The debt to asset ratio for the industry has been consistent from 2009 to 2011. The average standard deviation from 2009 to 2011 is 0.7, which implies the data is relatively diverse. Based on the graph below, the average debt to asset ratio in 2011 was 0.6, which is lower but not significantly so than the industry average as reported by Statistics Canada of 0.8³⁸.

FIGURE 72: DEBT TO ASSETS



³⁷ The Quick Ratio measures a company's ability to meet its short-term obligations with its most liquid assets. The higher the quick ratio, the better the position of the company. It is calculated as current assets less inventories divided by current liabilities.

³⁸ Financial Performance Indicators for Canadian Business, 811121: Autobody, Paint and Interior Repair and Maintenance.

The following comparative income statement demonstrates the differences in costs and profitability in responding businesses by revenue segment.

FIGURE 73: COMPARATIVE INCOME STATEMENT BY REVENUE CATEGORY – 2011 RESULTS

Average Income Statement	<\$500,000	\$500,000 to <\$1 MM	\$1 MM to <\$2 MM	> \$2 MM	Average
<i>Count</i>	7	25	31	17	80
Average Revenue of Businesses Reporting in this Category	358,271	755,737	1,459,027	3,039,909	1,478,870
Autobody	92.00%	97.96%	99.12%	99.25%	98.84%
Courtesy car / Auto rental	0.30%	0.10%	0.13%	0.28%	0.20%
Other	7.70%	1.94%	0.75%	0.47%	0.97%
Total Revenue	100%	100%	100%	100%	100%
Shop wages and benefits	33.06%	26.91%	24.22%	20.38%	23.16%
Parts	25.55%	30.93%	30.30%	29.62%	30.00%
Paint and Materials	6.69%	6.05%	7.06%	6.57%	6.68%
Sublet	2.90%	2.65%	4.43%	5.38%	4.53%
Other related	5.25%	5.18%	0.39%	0.39%	1.26%
Total Cost of Sales	73.45%	71.72%	66.40%	62.34%	65.63%
Gross Profit	26.55%	28.28%	33.60%	37.66%	34.38%
Expenses					
Advertising and promotion	0.79%	1.18%	2.04%	1.84%	1.79%
Communications (phone, internet)	0.61%	0.60%	0.54%	0.22%	0.41%
Courtesy Car (net of rebates)	0.57%	0.57%	1.01%	1.02%	0.93%
Environmental	0.02%	0.08%	0.11%	0.09%	0.09%
Equipment	0.22%	0.15%	0.27%	0.10%	0.18%
Facility rent and property taxes	7.47%	5.62%	4.92%	5.06%	5.15%
Freight	0.15%	0.14%	0.19%	0.07%	0.13%
Insurance	1.21%	1.08%	0.71%	0.54%	0.70%
IT	0.10%	0.23%	0.51%	0.46%	0.43%
Management fees and royalties	0.25%	-0.29%	0.62%	0.08%	0.23%
Management / Administration wages and benefits	7.99%	5.45%	8.32%	10.96%	9.01%
Repairs and maintenance	0.90%	1.20%	0.87%	1.19%	1.07%
Supplies, tools	0.78%	1.07%	0.91%	0.86%	0.91%
Training	0.05%	0.06%	0.23%	0.22%	0.19%
Utilities	1.55%	1.41%	1.26%	1.37%	1.34%
All Other	4.40%	4.93%	3.15%	2.26%	3.07%
Total Expenses	27.06%	23.48%	25.66%	26.34%	25.63%
Earnings before Interest, Taxes, Depreciation, Amortization (EBITDA)	-0.51%	4.80%	7.94%	11.32%	8.75%

Note: The averages in the above income statements are calculated based on the group as a whole. As such, the information above will be smoothed as compared to the results previously presented for individual expenses.

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.

6.7.4 Investment Capacity

A key objective of this study was to provide recommendations to ensure the industry remains viable in meeting the short-term and long-term needs of SGI, the industry and their shared customers.

For the purpose of this study, viability has been defined as the degree to which the industry is able to:

- Attract and retain employees
- Invest in equipment, technologies and expertise, and
- Attract investment for succession

The following analysis considers the ability of collision repair shops in Saskatchewan to make ongoing investments in their business for equipment, new technologies, refurbishment, etc. based on debt service capability. Given the limited sample size for businesses with revenue under \$500,000, the Statistics Canada ratio was applied for the analysis below. 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 1.4% in 2009 and 2.5% in 2010³⁹.

TABLE 34: DEBT SERVICE CAPABILITY

Debt Service Capability	<\$500,000	\$500,000 to <\$1 MM	\$1 MM to <\$2 MM	> \$2 MM
EBITDA	\$24,632	\$36,174	\$115,931	\$344,221
Maximum annual payments at 1.5:1 Debt Service Ratio	16,421	24,116	77,287	229,481
Maximum Debt Potential				
7 year amortization at 7% interest	\$88,499	\$129,967	\$416,523	\$1,236,739

Long term debt for the purchase of equipment is typically amortized over 5 to 10 years. The maximum debt that a shop with revenue under \$500,000 can service with a 7-year amortization is just under \$90,000. Planned equipment purchases as reported by this group in the survey for the next three years exceed the debt a business in this revenue category would be able to carry. The total cost of equipment for shops with up to \$1 million in revenue has been estimated at \$300,000 (see Table 35 below). An average annual replacement rate of 20% would require investment of approximately \$43,000 per year, which is more than total EBITDA of both revenue categories.

³⁹ Financial Performance indicators for Canadian Business, 811121: Automotive Body, Paint and Interior Repair and Maintenance.

A second question of viability is whether the business generates enough profit to be attractive to a prospective purchaser. 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. Estimated capital requirements and associated pay back periods to establish a new shop are shown below. *Note:* rent has been removed from the calculation of earnings (EBITDA) for this analysis, as it assumes purchase of the shop facility.

TABLE 35: INVESTMENT ANALYSIS

Investment Analysis	<\$500,000	\$500,000 to <\$1 MM	\$1 MM to <\$2 MM	> \$2 MM
Average shop size (s.f.)	4,704	5,097	7,822	13,634
Construction cost (\$175/s.f.)	823,200	891,975	1,368,850	2,385,950
Equipment allowance	300,000	300,000	450,000	600,000
Total Capital Requirement	1,123,200	1,191,975	1,818,850	2,985,950
EBITDA (added back rent)	24,632	74,423	180,548	482,612
Maximum annual payments	16,421	49,615	120,366	321,742
• 1.5:1 Debt Service Ratio				
Maximum debt potential	149,561	451,889	1,096,283	2,930,398
• 15 year amortization at 7% interest				
Equity Requirement	973,639	740,086	722,567	895,785
• Capital requirement less maximum debt potential; minimum 30%				
EBITDA (added back rent)	24,632	74,423	180,548	482,612
Less: Average Annual Interest	6,450	19,489	47,280	90,145
Amortization	13,382	21,249	35,899	76,884
Net Income before taxes	4,800	33,685	97,369	315,584
Income taxes (13%)	624	4,379	12,658	41,026
Net Income	4,176	29,306	84,711	274,558
Return on Assets	0.37%	2.46%	4.66%	9.19%
Return on Equity	0.43%	3.96%	11.72%	30.65%
Payback Period	--	25.25	8.53	3.26

Based on the above, there begins to be a business case to build or purchase a shop that could achieve over \$1 million in revenue. The maximum capital investment to acquire a business under \$500,000 with even modest return on equity of 10% would be approximately \$190,000, which is less than the equipment costs alone. A business with between \$500,000 and \$1 million in revenue could achieve a 10% return on equity with a maximum \$750,000 investment.

At current productivity levels, increasing revenue by 2.5%, without corresponding increases in expenses would achieve a 20% return on equity for businesses in the \$1 to \$2 million revenue range. Revenue would need to increase by approximately 8.5% for businesses in the \$500,000 to \$1,000,000 revenue category to achieve this rate of return.

6.7.5 Top Issues Affecting Profitability

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

Please note: the following reflects the views of respondents, not independent analysis undertaken by MNP.

TABLE 36: TOP ISSUES AFFECTING PROFITABILITY

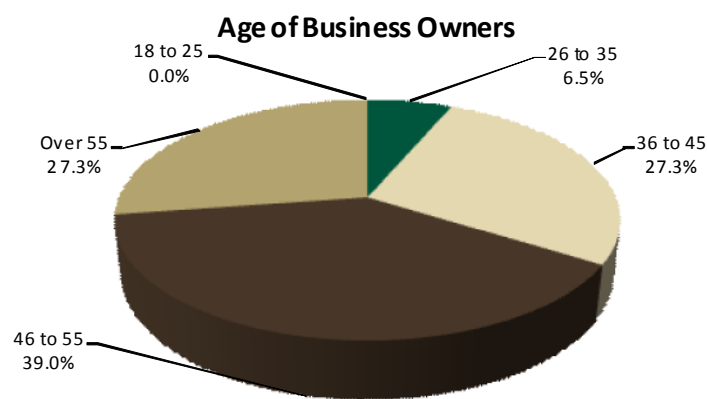
Top Issues Affecting Profitability
1. Low shop rate
2. Difficulty attracting and retaining people in the industry <ul style="list-style-type: none">• High labour costs• Many other attractive/well-paying trades in SK• Must train new journeypersons from scratch, especially in smaller centers• Results in some poor-quality employees being retained
3. Lower paint and materials margins
4. SGI's inaccurate estimates lengthen cycle time and increase related administrative time
5. Poor quality salvage and aftermarket parts
6. Increasing operating costs (i.e. taxes, insurance utilities, upgrading technology)
7. Constant upgrading of technology and equipment to meet demands on today's more complex repairs
8. Cost of courtesy cars (especially for PDR), which increases with delays in repair
9. Increasing administration (supplemental processing) being off-loaded from SGI to shops

6.8 Business Succession

With almost 80% of the industry in Saskatchewan made up of independent, owner managed businesses, ownership succession is extremely important. Ensuring sufficient qualified individuals are willing to assume ownership of these businesses and/or are prepared to start new businesses is extremely important to the health of the industry in Saskatchewan.

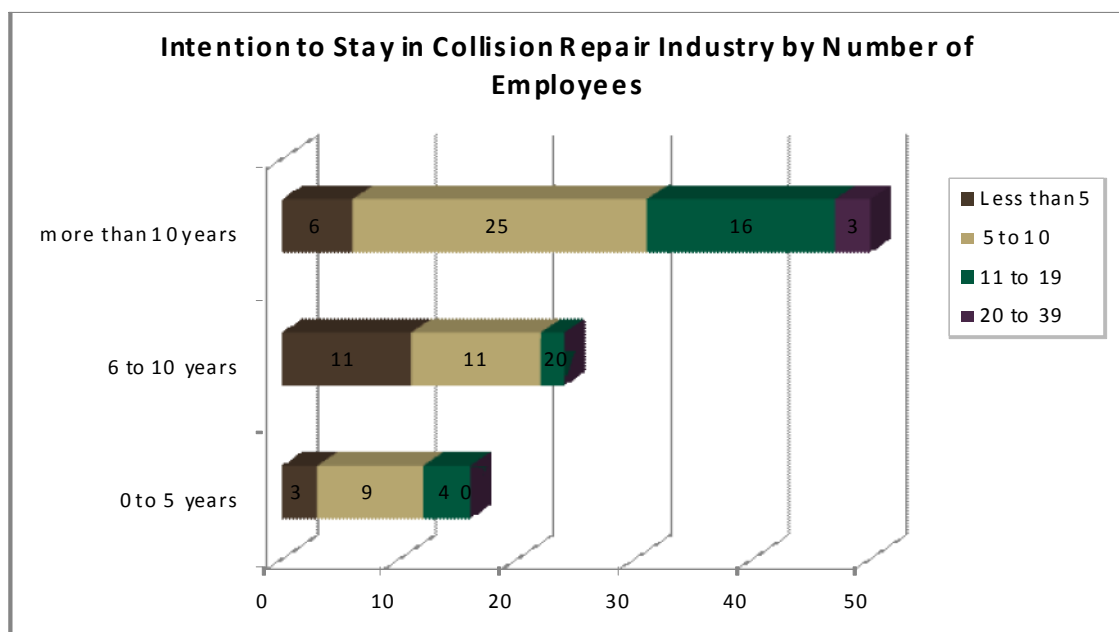
Responses to the survey indicated that just under 40% of business owners are in the 46 to 55 age category with the next largest groups between the ages of 36 and 45 and over 55. None of the respondents' owners were under 26. The owners over the age of 55 represent a group with the potential to retire within 10 years.

FIGURE 74: AGE OF BUSINESS OWNERS



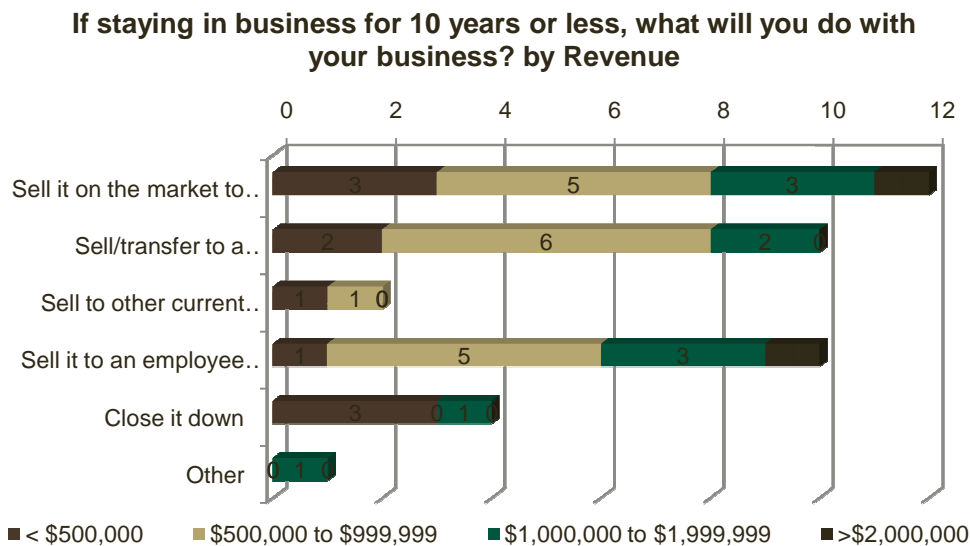
Eighteen percent of 90 responding businesses expected to retire within five years, 45% within 10 years.

FIGURE 75: BUSINESS INTENTIONS



The 45% of respondents who indicated they intend to retain their business for 10 years or less were asked how they intend to exit the business. The most common response from this group (31%) was a plan to sell their business on the market to an unrelated person. As indicated in the investment analysis section, it may be particularly challenging to do so for businesses under \$1 million. Twenty-six percent of respondents intend to sell their business to an employee or group of employees or sell/transfer to a family member, 10% intend to close down their business and 5% plan to sell to another current owner.

FIGURE 76: EXIT STRATEGIES BY REVENUE



Survey respondents were asked to identify the top issues affecting their ability to sell their business. A summary of the most frequent responses is shown below.

TABLE 37: TOP ISSUES AFFECTING ABILITY TO SELL BUSINESS

Top Issues Affecting Ability to Sell Business	
1. Low ROI makes business unattractive to investors	<ul style="list-style-type: none"> • Low door rates • High cost of equipment and rent • Not enough profit to satisfy financial institution requirements • High capital investment • SGI monopoly/control over industry
2. Shortage of skilled labour to sustain business	<ul style="list-style-type: none"> • Difficult to attract workers to trade • Low wages/hazardous conditions compared to other trades
3. Workers in trade do not make enough money to purchase business	<ul style="list-style-type: none"> • Owners not involved in the trade who hire management team would not make adequate ROI
4. Rural location	
5. Economy	
6. Long hours worked by owner/manager	

6.9 Overall Top Issues Currently Impacting the Collision Repair Industry in Saskatchewan

Survey respondents were asked to identify the overall top issues impacting the collision repair industry currently and in the future. A summary of the most frequent responses is shown below.

Please note: the following reflects the views of respondents, not analysis undertaken by MNP.

TABLE 38: TOP ISSUES IMPACTING THE COLLISION REPAIR INDUSTRY

Current Issues	Future Issues
<p>1. Shortage of skilled workers</p> <ul style="list-style-type: none"> • Aging workforce • Difficulty attracting & retaining young workers because of low wages in comparison to other trades <p>2. Low door rate doesn't compensate for increasing wage, training, materials, utilities and equipment costs</p> <p>3. Changing technology requires increasing investment in training, tools and equipment</p> <p>4. Poor quality estimates result in supplementals</p> <p>5. SGI processes create time consuming administrative work for shops</p> <p>6. SGI monopoly and control reduces shop owner's control over own business</p> <p>7. Low ROI</p>	<p>1. Shortage of skilled workers</p> <ul style="list-style-type: none"> • Aging workforce • Difficulty attracting & retaining young workers because of low wages in comparison to other trades <p>2. Door rates not keeping up with costs to run business</p> <p>3. Changing technology requires increasing investment in training, tools and equipment</p> <p>4. Training opportunities not adequate for new technologies</p> <p>5. Decreasing margins on parts and materials</p> <p>6. Growing Saskatchewan economy is driving up all costs</p> <p>7. SGI processes create time consuming administrative work for shops</p> <p>8. Increase in total losses</p>
<p>Other Comments</p> <ol style="list-style-type: none"> 1. Mechanical and body shop door rates used to be almost equal, now a large discrepancy 2. Numerous layers of management at SGI inefficient 3. Industry and SGI need to work together in partnership to address the problems in the industry 	

7.0 Summary Analysis and Conclusions

1. Financial performance of shops in Saskatchewan is relatively strong compared to other provinces.

Comparative national data indicates the collision repair industry in Saskatchewan outperforms most other provinces. While this information is useful for comparative purposes, there is caution in using this data as a 'true' baseline, since in many cases, owners are not paying themselves for work performed in the business. Once a market wage for the necessary functions is included, profits are considerably reduced.

2. Revenue growth has kept pace with or exceeded operating costs over the past three years.

Labour, parts and material are the most significant expenses in a collision repair business. As a percentage of revenue, these costs have remained relatively constant as a percentage of revenue, or declined modestly to provide overall improved returns during the period. General overhead expenses have also remained relatively constant.

3. Saskatchewan rates are comparable to other public insurance jurisdictions.

The overall blended rate for collision repairs in Saskatchewan is relatively similar to the combination of rates in BC for Earned Authority Valet, and claim costs exceed BC on average severity. Blended, combined rates are approximately 4% higher overall than Manitoba. This would suggest that overall rates are reasonably in-line with the industry nationally. That said, it is also a common complaint across the industry that rates are too low and it is difficult to compete for people with other trades that are paid higher rates. The recent resource activity in Saskatchewan has created both labour shortages and significant increases in available wages in other sectors. More competitive pay may be necessary to ensure the industry can attract and retain sufficient new entrants to the industry to fill future labour requirements.

4. A significant portion of collision repair business is conducted by shops that are too small for ongoing viability.

One hundred and seventy two, or 54%, of SGI-accredited collision repair shops handle insurer-pay business of under \$500,000. This represents \$38.5 million or approximately 16% of SGI collision repair business. A further 74 shops handle business between \$500,000 and \$1 million, representing \$54.4 million or 23% of SGI collision repair claims. Combined, these two categories are responsible for approximately 39% of collision repair in the province.

Survey results, supported by national data, indicate the profits from these businesses are not sufficient to enable ongoing investment in technology, or to warrant purchase of the business. Average profitability of businesses under \$1 million 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 if a high percentage of repair volumes are conducted by businesses that may not be viable in the long term.

5. Operating profits are not sufficient to support significant capital investment for shops with revenue below \$2 million.

Businesses with less than \$500,000 have limited to no ability to invest in equipment or technology. Businesses with between \$500,000 and \$1 million in revenue have some ability, however would fall behind on standard replacement rates and would not be able to service the debt to construct a new shop. Revenues for this category would need to increase by approximately 8% without any corresponding increase in costs to create a business case for a prospective owner.

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

Eighteen percent of businesses plan to exit the industry within 5 years; 45% within 10 years. Selling the business to employees or an unrelated buyer are among the intentions of owners, including owners of businesses with under \$1,000,000 revenue. The limited ability of businesses with under \$1 million 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.

7. Availability of labour is a significant concern to the industry.

While labour as a percentage of revenue has not increased, the industry is experiencing labour challenges. Extended times to fill positions, over six months for all technical positions, indicate an overall shortage. Very high turnover rates indicate a workforce that is prepared to be mobile. Trades people tend to be particularly aware of wage differentials between industries, and opportunities in other markets are easily found. The industrial average wage in Saskatchewan has increased by approximately 12% from 2009 to 2011, compared to an approximate 4% increase in door rates; if businesses are matching increases in wages to changes in door rates, it may be creating a lack of competitiveness for key positions, particularly technicians. The industrial average wage is being driven by significant activity in resource industries, particularly mining, oil and gas. Activity in these sectors is expected to remain high for a number of years, suggesting that wage pressures will continue if not increase. Unlike auto insurance and collision repair, however, resource industries can be highly cyclical, and employment (and wages) can also fall. If wage increases to keep pace are considered, there should be an ability to also “back off” so that wages do not remain artificially inflated.

Previous studies have indicated that barriers to employment also include the cost of tools, a lack of skills, the negative public perception of skilled trades, and industry working conditions. These challenges will also need to be addressed to ensure the industry is able to compete for new talent.

The industry needs to generate approximately 50% more apprentices per year to meet future demand for technicians. As noted earlier, this could be achieved in part through a combination of retaining more apprentices in the program and encouraging more rapid completion. Addressing some of the barriers to employment, ensuring a positive employment experience, and ensuring apprentices receive strong technical instruction on the job may all help to achieve this, as well as attract the additional talent needed. Providing apprentices a similar opportunity to earn more through improved productivity by participating in flat rate programs may also be considered attractive (only 12% of apprentices received flat rate opportunities compared to over 60% of Journeypersons).

8. There are opportunities to streamline business processes, particularly related to supplemental estimates.

SIG related activities absorb more than the equivalent of one full time position even in the smallest businesses. In businesses over \$2 million, this becomes over 100 hours per week. Account reconciliation and estimates tend to involve the highest time, followed fairly closely by parts procurement. The supplemental process was among the top five issues of concern to the industry.

The supplemental ratio in Saskatchewan has been improving, declining from approximately 58% in 2009 to 51% in 2011. According to Mitchell data, the overall percent of estimates with supplements decreased in 2011 to 36.2%. The total percentage of supplements to claims ranged from a low of 21% in Q4 2009 to a high of 74% in Q4 2011. Saskatchewan's performance is within this fairly wide range and shows improvement. It still means, however that 1 out of 2 estimates must go through a process for approving the supplemental. The process for handling supplementals, also presents an opportunity to improve. In Saskatchewan, an adjuster must inspect the vehicle in person to approve the supplemental, creating additional cost and delays. In BC, Earned Authority Valet shops are able to perform estimates and begin repairs immediately within their authority level. In Manitoba, original estimates are performed by MPI, but supplemental estimates may be approved via an email or fax request accompanied by a digital photo. MPI business processes were also identified as a concern in Manitoba, at 20-25% less time than is estimated in Saskatchewan.

8.0 Recommendations

1. Develop performance benchmarks and management training.

Develop a joint strategy to provide industry information, performance benchmarks and shop performance education to assist collision repair businesses to evaluate and improve business performance. Over three quarters of collision repair businesses are operating at volumes of business too low to be sustainable. Left to market forces, this may cause significant holes throughout the province if many small shops close instead of transferring to new owners. Approximately half of reporting shops indicated they are using performance measures, but only just over one quarter report adopting new management practices.

Information on the volume and nature of claims within certain market areas may allow shops to make decisions regarding growth and consolidation, ensuring better continuity of service and more secure investments for shop owners. Armed with better performance information, shops may be able to improve their performance and compete effectively to grow to a more sustainable size, as well as improve both productivity and customer satisfaction.

Incorporating performance measures may also provide SGI with a means of improving results and controlling severity, reducing overall claims costs. Development of performance measures also provides an opportunity to develop variable rate models to reward shops that perform well, and control costs in shops with lower quality or productivity.

2. Enhance recruitment and retention of talent in collision repair.

A lack of available personnel extends cycle times, particularly if the customer's vehicle is not driveable, increasing costs for the insurer and reducing throughput for the shop. At 47%, the turnover rate for journeyman technicians is more than twice the norm, which is considered high at 20%. At 65% the turnover rate for apprentices makes it extremely difficult to develop new talent. Some industries experiencing unusually high costs have adopted a surcharge approach to fund costs that may be extraordinarily high for a period of time. This approach may present some opportunity in Saskatchewan, as labour rates are otherwise reasonably in line with most other jurisdictions. The labour market in Saskatchewan has been compared to that experienced in Alberta related to oil demands. While the insurance schemes differ, according to Mitchell average labour rates in Alberta were approximately 4% higher than in Saskatchewan.

While wages can be a significant driver, particularly in Saskatchewan's current labour climate, other factors do contribute to employees choosing to move on. Incorporating effective management practices, such as recognizing good performance, providing interesting work and training opportunities, managing workload and listening to employee ideas all contribute. Exit interviews also help to understand the motivations to leave.

Proactive efforts to address the identified barriers, including competitive wages, financial assistance for investments in tools, improving public perception of the trade, and improving the work experience are recommended.

3. Ensure rates remain competitive.

Saskatchewan labour rates are generally in line with the industry, however only the largest businesses generate sufficient profit to enable re-investment. While the gap to sufficient profitability for smaller businesses may be too large, smaller adjustments would enable shops with \$1 million revenue and over to generate sufficient return on investment to both invest in technology and attract future owners for succession. Some of these improvements may be found in improved business processes, supported by management information, some will likely require rate adjustments. Rate increases have been fairly consistent with CPI changes, however changes in the IAW should also be considered. Material rates are approximately 2% below the national average.

4. Conduct a review of the estimates, supplemental and account reconciliation processes.

Respondents identify between 42 and 102 hours per week on SGI business processes. The opportunity to free up employee time for more productive pursuits (or reduce demand for staff in a challenging environment) would be highly valuable to shops. Survey responses also frequently cited the supplemental process as causing delays and added costs, causing frustration to the customer as well as the shop. At a minimum, use of technology and performance standards (e.g., appraiser decision within two hours) should be used to make the process more timely. Consideration should also be given to enabling shops to conduct estimates on low-risk claims, supported by risk based auditing, and monitored through an overall performance measures program.

5. Facilitate training in new technologies

Shops experience challenges releasing employees from productive work hours as well as investing in training when operating margins are already very slim. A joint strategy to evaluate and where possible extend training offerings or enable partnerships in regions to rationalize technical specialties is recommended to ensure customers can have their cars repaired within a reasonable distance, and shops can continue to conduct business within the new demands of technology.