My view

THE COLLISION REPAIR INDUSTRY IS CURRENTLY IN THE MIDST OF A VERY DYNAMIC PERIOD, SO JOE THOUGHT IT WAS TIMELY TO PUT TOGETHER HIS OBSERVATIONS.

Firstly, to help set the scene, it is worth reflecting on the size of the industry, which can be difficult to quantify and, of course, depends on the definition. So, without becoming overly analytical, if we include both passenger and commercial vehicle collision repair, it is consistently reported that a reasonable estimate of the value of the collision repair industry in Australia is circa. $5 billion.

The insurance industry, of course, is a major stakeholder, with the two largest groups (IAG and Suncorp) holding a majority market share through their various brands. In addition, they have exerted their influence over the years through preferred partnerships, joint ventures and direct ownership of repair facilities. I'm sure you can estimate the value of their businesses, which perhaps helps illustrate why both are so active in this space.

There is much activity from both major insurers, although it appears there is an element of déjà vu with the direction each appears to be headed. It is widely reported that Suncorp is entertaining the divestment of their controlling interest in Capital SMART and considering various proposals. As one industry source has suggested: Suncorp is not the natural owner of a collision repair facility. Conversely, IAG has now confirmed they are taking an equity position in collision repair facilities with the development of their Repair Hub, a joint venture that is a key part of an integrated strategy and quite different to when they owned their Accident Repair Centres several years ago.

Whilst it may be difficult to fully understand the rationale behind these organisations moving in opposite directions (again), perhaps the recent Banking Royal Commission and its potential flow-on effects, the strategy being formulated by those in the drivers' seats, and the accelerating influence of some multi-shop operators (MSOs) are key factors.

And, speaking of MSOs, they built businesses to leverage economies of scale, and to improve efficiencies and purchasing power. Over time, several of these MSOs have morphed into consolidators to further strengthen their market position. For example, it appears that AMA Group has recently moved into "hyperdrive", which may well be related to changes in their board, strategy, structure and leadership. Two clear indicators are the 22 percent growth in the number of facilities in the past six months and the diversification strategy and restructuring of the business to support this strategy.

Using AMA's reported revenue and our estimate of market size, it looks like they have a market share of almost 9 percent and a stated objective to reach revenues of $1 billion by 2021, which will effectively double their market share. Make no mistake, AMA Group is a serious player and will continue to dominate the landscape as they aggressively pursue their growth strategy.

A new player has emerged, Strategic Collision Repair Group (SCRG), established to acquire an initial portfolio of collision repair facilities and raise $74 million from institutional investors. This initial portfolio reportedly generated solid historical profits and has forecast this to continue. Although the intention was to list on the stock exchange on 19th July, at the time of writing this had not occurred, with multiple sources suggesting SCRG was having difficulty raising the funds, notwithstanding the valuation being reported to be a significant discount to AMA Group. Potential investors may have taken other factors into account, although the outcome is still unclear.

What is clear, however, is that consolidation in some way, shape or form will continue as investors, insurers and independent repairers jostle for position in today's everchanging industry.

We have also seen a significant increase in involvement of OEMs as they proactively promote their certified repairer networks, approved repair procedures and the use of genuine parts. Rather cynically, some suggest this is just a strategy to sell more parts, although the more-informed observer will see this as a genuine strategy to protect their brands and to ensure the vehicle will perform as intended in any subsequent collision.

It should be self-evident that these are all inter-connected and are the driving forces behind the changing "shape" of our industry. Consolidation, as one independent observer suggested, is not all bad as it can provide a way out for some, improve industry efficiencies and create competition.

Whilst there may be a degree of scepticism with regard to the motivations of some of the players, it is incumbent on all of us to ensure that industry standards do not drop, quality is not compromised, and safe and proper repairs are undertaken, ensuring the safety of all road users.