



DRP – In Need of a Change?

Moderator: Michael Condon
Condon Consulting, LLC
November 1, 2006



Session Objectives

- Understand the DRP business model as it exists today, with some historical perspective for context
- Discuss the business realities associated with today's model....both good and bad from various perspectives
- Explore needed changes to today's model to better position the industry for the coming decade



Format & Agenda

- Format
 - 90 Minute, moderated session
- Agenda
 - DRP Overview – Michael Condon
 - Perspectives – A few prepared questions for the Panelists
 - Panel Discussion – Written questions submitted by audience to panelists



Panelists

- Beryl Carlew ... *Founder, Carlew & Associates*
- Russell Thrall ... *Publisher, "Collision Week"*
- Anthony Severo ... *President, Vertical Spin*
- Dave Boden.... *Vice President, CCCIS*



Scope of the Discussion

- Focus

- DRP plus hybrids, i.e., “Referral Programs”
- Business model vs. specifics of any carrier’s program
- Technology as an enabler
- Reality vs. Rhetoric



Evolution of Referral Programs

Where did Referral Programs come from,
and how have they evolved? *

(*A highly suspect & debatable journey through time)



Evolution of Referral Programs

- Early 80's – Awakening
 - Formalizes local programs, very low utilization ... primarily used to support staff estimating labor rates
- Late 80's – Legitimatization
 - Introduction of training, education and process requirements wins over many detractors - membership criteria provides the industry "cover" for participation and repairing more cars
- Early 90's – Process Consistency via Automation
 - Introduction of automated estimating, assignment and quality control IT products provide data, measurement processes and management controls
 - Franchise, network and MSO development



Evolution of Referral Programs

- Late 90's – Utilization
 - Significant service and LAE benefits drive utilization, SF joins the party with ~20% share and utilization soars
- Early 00's – Creativity & Risk Taking
 - Management Consulting and Equity firms discover our industry and support/fund innovation and industry restructuring
 - Insurer owned shops
 - Consolidation
 - Networks
 - Managed Care / Concierge
 - New IT Service Providers & integration solutions



Evolution of Referral Programs

- Today - Nov 1, 2006
 - Status Quo or Stagnation.....
 - Are we OK with this?
 - Financial or regulatory implosion?
 - What is the probability?
 - Foundation for next generation B2B/C programs?
 - What success stories can / should be leveraged?



Where to Begin the Discussion?

- Let's begin with a nod to referral program detractors.....



What Does a World Without Referral Programs Look Like?

- “Level” playing field where all compete equally for the customer
- Likely advantage to the more entrepreneurial owners
- Return to a sales vs. order focus
- Margins improve over time



What Does a World Without Referral Programs Look Like?

- Immediate 20 to 60% reduction in volume to over 50% of the repair community
 - Significant revenue drop at the store level
 - Potential shrinkage/elimination of MSO model
 - Labor rate increases unlikely to offset loss of volume
- Immediate increase in Insurer and/or IA produced estimates
 - Increases in carrier adjusting staff, partially filled from repair community
 - Negotiation required on all estimates **and** supplements?



What Does a World Without Referral Programs Look Like?

- Elimination of Information and Service Provider assignment-based electronic transactions
 - Assignment, Updates, Supplement Processing, Repair status, EFT, etc
 - Potential loss of estimate and repair data at shop level
 - Potential shrinkage / elimination of Service Providers
- Without Referral Program “criteria” to drive compliance & quality, shrinkage in industry training and education programs and their related organizations



What Does a World Without Referral Programs Look Like?

- Adverse impact on non-OEM part suppliers
 - Parts is primarily a zero sum game
- CSI providers – will there still be value to CSI results?
- Customer service deterioration
 - 70% of insurance customers want referral advice – would not be available at FNOL
 - Significant increase in “get 3 estimates” process



What Does a World Without Referral Programs Look Like?

.....and there still would be “Referral Programs” - administered informally by local adjusters and agents. ☹



So What's the Point.....???

Most if not all industry segments have a vested interest in the continued evolution and improvement of the current referral program model



But is the Current Referral Program Model Sustainable?

- Continued short term focus on cost, driven by “most favored pricing” implementation
 - Re-energized detractors What is the risk?
 - Change in profitability mix has potential to reduce overall GP by ~2 ppt’s (?) - Where are the efficiency tools to help offset this financial pressure?
- Exclusive membership limits B2B technology efficiencies to participants, even if staff adjusted repairs are in a “technology enabled” repair facility or MSO
 - CIC re-keying initiative a start, but focused on estimate vs. complete claim/repair process
 - ***Why is an "assignment" a requirement for E-commerce?***



But is the Current Referral Program Model Sustainable?

- Closed vs. open platform positions
 - Undermine years of industry standards work
 - Arguably impacts the long-term performance of the companies that promote it
- Subjective and ambiguous KPI's
 - Undermine Corporate performance management objectives
 - Membership criteria/evaluations heavily influenced by local network management personnel



But is the Current Referral Program Model Sustainable?

- Can we “Vision” a better business model that is more open, more inclusive and more objective? One that.....
 - Respects existing referral models yet
 - Enables efficient business transactions when a referral is not involved and
 - Takes our industry to a new level?
- Who will champion the vision?



Session Objectives – Your Turn

- Understand the DRP business model as it exists today, with some historical perspective for context
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Panelist Introductions and Q & A



Why Referral Programs Need to Evolve

"More than any time in history, mankind faces a crossroads. One path leads to despair and utter hopelessness, the other to total extinction. Let us pray we have the wisdom to choose correctly."

Woody Allen



Thank you for attending this session.
Please fill out an evaluation.