A new collision blueprint for pricing and payment reform

Turn to your customers for service payment when insurers aren't up to par

The insurance industry has been very successful at controlling its own costs in the automotive and healthcare industries, in part due to the suppression of rates. In healthcare, this continuing and ever-increasing third-party suppression of rates, other new costs and billing allowances have in most cases led hospitals to shift costs to private patients because of inadequate payments from insurers. The share of physicians' revenue that comes from patients, rather than insurers, is growing due to health plans that are requiring higher deductibles and other out-of-pocket charges.

The collision industry is faced with these same low reimbursement rates. Repairers may be put in a position where they perform "free" work to ensure a vehicle is repaired properly. But it's critical that you get paid for every operation your shop performs. Hopefully, you are prepared to assist in the proper handling of a claim, from the first customer contact through vehicle disassembly and repair. Performing a 100 percent damage analysis in your shop and learning how to negotiate effectively are keys to your success.

But how much preventive care are you taking with your collision center assets after the insurance company states, "that's all we allow?" Inserting pre-emptive processes into your operations can prevent absolute denials, increase efficiency and allow you to increase your employees' pay rate, while also allowing you to make a more reasonable profit when compared to your costs. There are preventive measures you can take to keep payments — and customers — moving smoothly through your office. Customers often have little understanding of what the process of billing the insurer entails; small issues can escalate into frustration when they're left in the dark. Lift the lid on the situation by sharing any billing issues with customers as soon as possible. This transparency may help you and the insurance company reach a fair agreement faster.

When facing third-party price suppression tactics by insurers, we have as an industry not typically charged the difference back to the customer. Shouldn't we start to consider dropping the stigma we have historically attached to simply charging the vehicle owner fair market prices for our rates and the operations that need to be performed to return a vehicle to a safe working condition? We are responsible for bringing the vehicle back to pre-accident function and performance. We need to be getting paid for the required services. As the repair experts, we are entitled to make a fair profit for our labor and services.

WE ARE RESPONSIBLE FOR BRINGING THE VEHICLE BACK TO PRE-ACCIDENT CONDITION. WE NEED TO GET PAID FOR THE REQUIRED SERVICES.

Why do we continue to accept the practice of simply taking what's offered by an insurance company to repair a vehicle, knowing that it's not profitable enough? Could our industry's acceptance of being undervalued daily be the real reason why we as an industry are facing a technician crisis? Even with the best shop negotiation skills, are you constantly challenged to pay your technicians a fair rate and remain profitable? Is it possible that we are not seeing the large pink elephant in the room?

In recent years, an increasing gap has developed between the actual cost of providing services to an insurance customer and the reimbursement a collision repair facility can expect from an insurance company for the services provided. This makes it more difficult to be profitable and also pay a fair wage to our production employees. The insurers fail to consider even the most common overhead business costs that would allow for proper equipment, adequate training budgets to meet increasing vehicle repair complexities, and other associated expenses. Furthermore, even the direct costs of meeting shop needs such as sublet charges, labor rates and materials, which are needed to perform these repairs, aren't being reimbursed by insurance companies. Or if they are, the rates fall well short of fulfilling true sustainable margins of profit.

For example, in most markets insurance companies will pay collision repair businesses only for the sublet costs based on a sublet's original invoice cost, and refuse to pay even a standard markup. Insurance companies typically justify these gaps between actual total costs and reimbursements by insisting that it is only

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doing what any prudent purchaser would do — namely, it is paying the shop owners only for the costs strictly and directly attributable to serving their customer. This prudent purchaser argument — that a payer should not pay for any unnecessary costs generated — appears reasonable to the average consumer. Unfortunately, we as an industry have let our business, our family, our technicians and their families suffer by continuing to accept what is offered as the final bill versus what the final bill should actually be if paid correctly. So it raises the troublesome question of "who will pay a fair and reasonable percent of profit on our costs of doing business?"

I contend that the collision industry, like the medical industry, is deeply affected by insurance company or third-party influences and price suppression. It is time that collision repairers adopt similar counter-measures and business tactics that enable our industry to effectively build and sustain fair profit margins.

The third-party payer system — insurers — continually causes losses to collision repair shops. Some are absorbed as "DRP discounts" and some are forced on the industry by the "we don't pay for that" mantra. This isn't sustainable for our industry. We operate on slim margins and when the third party tries to make them slimmer, collision shops lose. Insurers are using the MSO model as an example of pricing performance. But a 250-shop MSO will or should be able to negotiate better agreements than an independent store. The third-party payer can't force those types of discount requirements on an independent, especially given repair performance.

Let's expand the scope of analysis of this article by attempting to compare the efficiency and equity of our industry's typical cost absorptions in several other ways. Not shifting the costs back to the consumer leaves three other alternatives: searching for ever higher and sometimes elusive technician production efficiencies, a lowering of technician hourly rates or longer work weeks and hours worked. These alternatives are intended to relieve underlying problems of rising collision repair costs and return the collision industry to fair profit margins and salary expectations, rather than merely continuing to absorb the burden experienced by the underpricing from insurance companies.

Here then is a blueprint for reform. A suggestion to bring about a change of the current collision shop cost absorption practice. Consider offering customers a financing system to pay their insurance company short-pay amounts. This added revenue from insurance companies' short-pay policies could be used in many ways — better employee benefits, higher tech salaries, larger estimator compensation plans, a more adequate or improved pay structure for administrative staff, facility improvement, equipment purchases, designing and implementing a training budget, an advertising budget, or improving net profit for the business. The intent here is not to overanalyze all of the possible options and alternatives, but rather to focus on the lost profit on this pricing aspect of your business. Most shop owners have spent countless hours trying to achieve operational excellence each month and year, all in an attempt to produce enough revenue to pay themself, their technicians and staff a reasonable wage.

Reaction to and accounting for the industry-wide magnitude of this cost-absorbing phenomenon is receiving more attention. For those who cannot afford an "insurer-imposed discount" from the total cost of repair, it may eventually require identifying and implementing a set of controls that block providers from passing the forced discount on to them. As an industry we must realize that most insurance cost-shifting tactics are unrestrained and uncontrolled. The third-party payers will continue to force this revenue reduction tool on the entire collision industry. This includes DRP shops as well as non-DRP shops. The continued pressure to reduce severity, material allowances and labor hours, and suppress labor rates effectively will continue to reduce the real income of all employed in the collision repair industry. The greater the push by repairers to have insurers pay fair and reasonable costs to have a vehicle properly repaired, the more the industry can spend on innovation, updating and training.

As repairers, we need to be focused on profitability, retaining our customers and being a supplier of labor — not being the discount arm of the insurance companies. Deciding on the merits of adopting pricing or discount reforms is up to the collision industry. A lack of change can only lead to ever-shrinking profits and decreasing cash flow, as has been experienced in recent years. If market-oriented reforms go unchanged, a combination of increased tightened insurance industry controls and continued pressure for reductions in automotive claim severity is the likely consequence.

These competing objectives could force us to alter our industry's historical "social contract" with our customers. Repairers are forced to continually absorb the difference between what is paid by an insurance company and the actual repair price that should allow for a fair and reasonable profit. Repairers need to capitalize on the fact that their repair contract is with the car owner and not with insurers. Your staff will need to proactively start the conversation and inform the customer that they are responsible for any differences, which can be uncomfortable, but will be necessary as the price differences occur. Give the same notification as a medical office billing person will and make payment arrangements BEFORE a repair is performed.