

CHALLENGES FACING THE TOWING & ROAD SERVICES INDUSTRY

PRESENTED BY



| Agero 



Towing and Recovery Association of America, Inc.® (TRAA) is the umbrella trade group and national voice of the towing and recovery industry, which is estimated to include more than 35,000 towing businesses in the United States.

Agero is the nationwide leader in servicing and supporting roadside assistance events for insurance and OEM programs.

SUMMARY

On average, drivers experience a roadside event at least once every 3 years. The severity of these events can range from a jump start or a flat tire to a mechanical breakdown on a highway. When events happen, most consumers require assistance to safely address their disabled vehicle and get on their way. The tow operator, and other service providers who come out at all hours to assist stranded drivers, face challenging work and economic conditions and take on enormous personal risk to support consumers in need of help. They meet the often-frazzled consumer everywhere from the side of the road, to the office, to a shopping plaza. The roadside industry is dependent on the skill and capability of this workforce. However, challenging work conditions, and the rise in alternative employment options, is impacting how this service is delivered and thus the general consumer experience on the roads. Given this broad impact, it is incumbent upon the roadside service industry as a whole to fully consider the current service provider landscape and define solutions to keep the roads safe.

Roughly 3 out of 4 motorists rely on a professional to come to their aide when their vehicle is disabled¹. These professionals are typically dispatched through a roadside program, sponsored by a motor club, automotive insurer or even the auto manufacturer. User's satisfaction with roadside support in time of need can build substantial loyalty for the program sponsor. In fact, 57% of consumers report that, other than price, their roadside assistance experience is one of the most important factors they consider when renewing or switching their auto insurance policy. Likewise, poor outcomes can poison the relationship and lead to churn. The primary factors that influence consumer satisfaction with a roadside event are ease of requesting assistance, average time to disablement location and communication throughout the process.

In order to deliver this roadside assistance, program sponsors depend on a network of service providers. Yet these service providers are struggling in current market conditions due to increasing costs, competitive conditions for labor and rising fuel and equipment costs. In fact, 40% of service providers believe that unless the current financial structure changes significantly, many providers will not survive the next five years.

DEAD BATTERY

Jill is the starting center on her high school basketball team. She was running late for the game on Friday night. In her haste, she left her headlights on. After their heartbreaking loss, she walks to her car in the abandoned parking lot only to find that the battery is dead. A bit frazzled, she reaches for her phone to call for help.



OUT OF GAS

Carlos is distracted. It has been a long week at work and all he wants to do is get home. Halfway through his ride home on the highway, his car begins to sputter, and he pulls safely to the side of the road. He then notices that his gas tank is empty, and the nearest exit is five miles away. He takes a deep breath and triggers the roadside app on his phone.



FLAT TIRE

Deepti and her family are on their way to the beach on a beautiful summer day. They pull down the dirt road to park and she fails to notice the large pothole in the road. By the time she pulls the car into a space, it is clear that the driver side tire is damaged. Her eager family heads down to the beach as she stares at the flat tire, wondering how they will get home.



MECHANICAL FAILURE

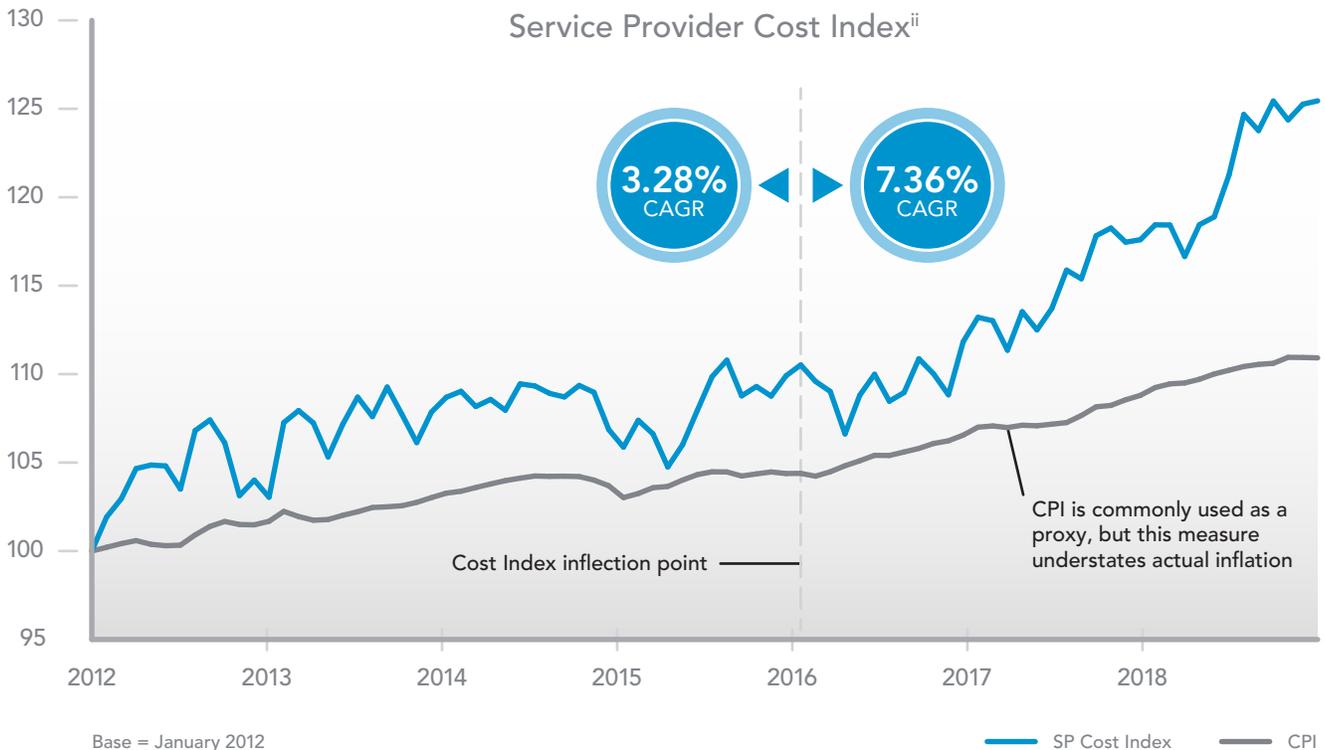
Joe is driving along a country road on an out of state road trip. It is a clear day with few cars on the road. He suddenly hears an unmistakable bang and the car feels heavy and sluggish. He pulls to the side of the road. All the warning lights on the dashboard flash on and then everything goes dark, quiet. Something is really wrong. Joe fishes through his glove compartment for his insurance contact number to get some help.

Were this to come to pass, it would cause a massive ripple effect throughout the industry including substantial cost increases for sponsors and deteriorating service levels and experiences for consumers. To define a sustainable path forward, together with the TRAA, we have developed a deeper analysis of the current challenges and possible solutions.

THE CHALLENGES FACING SERVICE PROVIDERS:

Using insight and data available from the U.S. Bureau of Labor Statistics, Agero started the development of an open source model to help understand the cost pressures felt by the Towing and Roadside services industry. This model was developed by analyzing a sample set of service provider profit and loss statements and comparing the cost indexes for each component. This comparison enables granularity on how the cost structure for service providers has changed over time. This methodology results in the Service Provider Index outlined below.

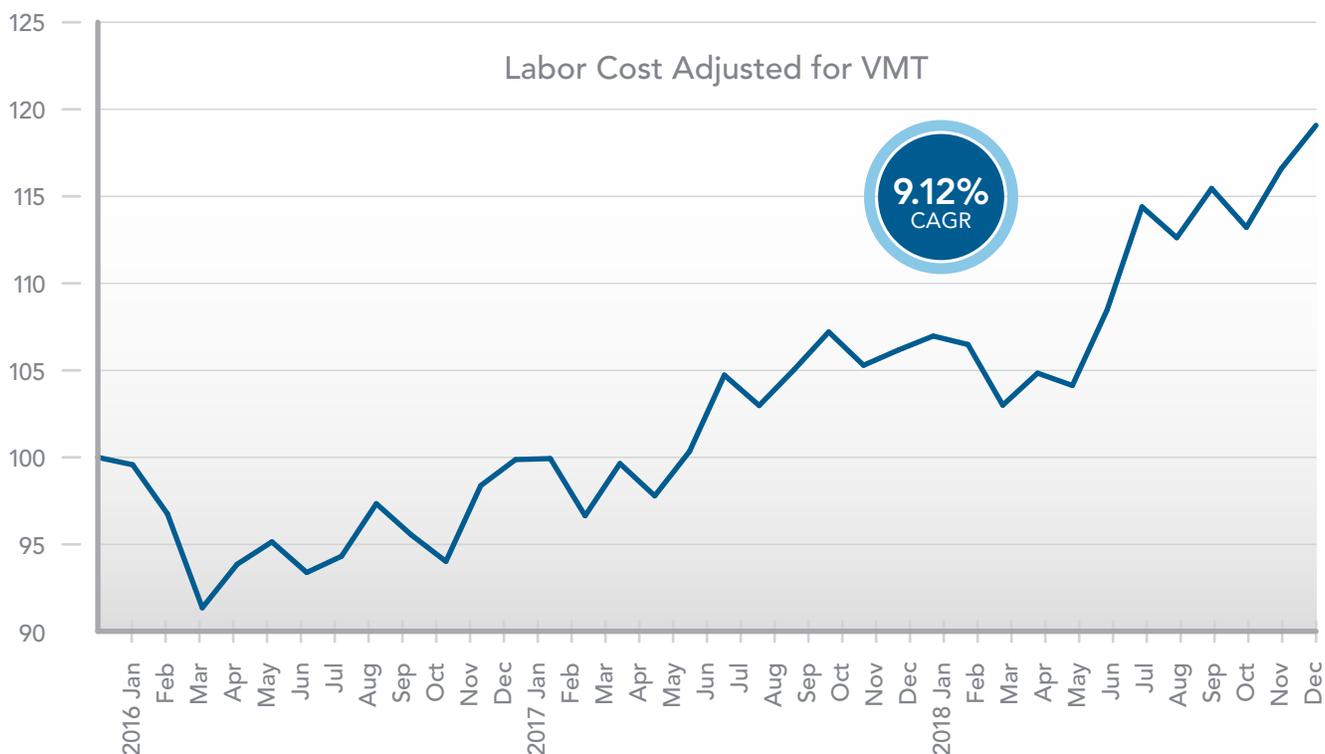
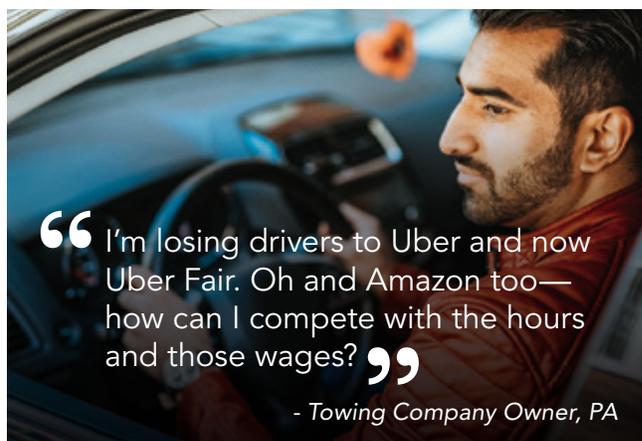
From 2012 through 2015, costs in the service provider market grew at an average of 3.28% per year, comparable to consumer inflation. However, starting in 2016, cost pressures began accelerating at an average of 7.36% per year, or over 2x higher than the pre-2016 rate. The principal drivers of this increase are labor costs, fuel and commercial insurance which account for approximately 66% of an operator’s cost structure.



LABOR

Service providers fixing disabled vehicles on the side of the road put their lives at risk to assist stranded travelers. The International Towing and Recovery Museum estimates that approximately 60 tow-truck operators die every year from being struck outside of their vehicle on the side of the road, which equates to one death every 6 days. These operators provide this service in all weather conditions, all hours and require a great deal of specialized education. In addition to putting their lives on the line, service providers are also expected to manage the emotional state of the motorists they serve in order to deliver an excellent customer experience. Given the risk and stress of this role, as well as the rise of alternatives such as Amazon Prime Now and Uber, it is becoming more and more challenging to retain and recruit light duty tow truck drivers.

According to a market study of Agero providers, employee salaries and benefits account for nearly 40% of a service provider’s cost structure. Meaning even minimal fluctuations in wages can impact a business’ profitability dramatically. Over the past 3 years, payroll for motor vehicle towing has increased an average of 9.12% per annum, more than double the national rate according to the Bureau of Labor Statistics.



The irony of this historic wage growth is that towing companies have still not been able to attract enough new drivers into the industry for capacity to keep pace with demand. Sixty-six percent of service providers surveyed by Agero believe they are receiving significantly less tow truck driver applications than they did 5 years ago. Additionally, according to the American Trucking Association (ATA) the broader truck driver market, which draws from the same pool of applicants, is facing similar challenges. They estimate a shortage of about fifty thousand drivers in 2017, and this is projected to worsen over the next 10 years.ⁱⁱⁱ

Many business owners are finding it difficult to combat the increasing demand for vehicle drivers in rapidly growing industries such as ride sharing (i.e., Uber and Lyft) and delivery services (i.e., Amazon). These resource competitors are offering not only better wages, but also safer working conditions, more flexible hours, and the ability to be your own boss.

WHICH JOB WOULD YOU PICK?

 TOW	 RIDESHARE
AGE 20	AGE State minimum
REQUIREMENTS <ul style="list-style-type: none"> <input checked="" type="checkbox"/> Pass a Motor Vehicle Driving History Check <input checked="" type="checkbox"/> Criminal Background Check <input checked="" type="checkbox"/> Employment Verification <input checked="" type="checkbox"/> Road Exam <input checked="" type="checkbox"/> Drug Screen 	REQUIREMENTS <ul style="list-style-type: none"> <input checked="" type="checkbox"/> Pass a Motor Vehicle Driving History Check <input checked="" type="checkbox"/> Criminal Background Check <input checked="" type="checkbox"/> Have at least 1 year of licensed driving experience in the US (3 years if you are under 23 y/o)
SKILLS & EQUIPMENT 	SKILLS & EQUIPMENT 
PAY \$12.31/Hour	PAY \$13.70–\$24.87/Hour <small>(BEFORE TIP)</small>

How Big Is This Problem?

Through in-person conversations, focus groups, and surveys, Agero gathered in-depth feedback from hundreds of businesses delivering towing and roadside assistance service throughout the United States. Below is a summary of the staggering facts Agero uncovered about the prevalence of the industry’s financial issues.

>70% of Service Providers believe that they need better rates from volume aggregators to keep up with their rising costs.

>40% of Service Providers believe that unless the current financial structure of the industry changes significantly, their business will not survive the next 5 years.

>75% of Service Providers are concerned or extremely concerned about the rise in cost of fleet insurance.

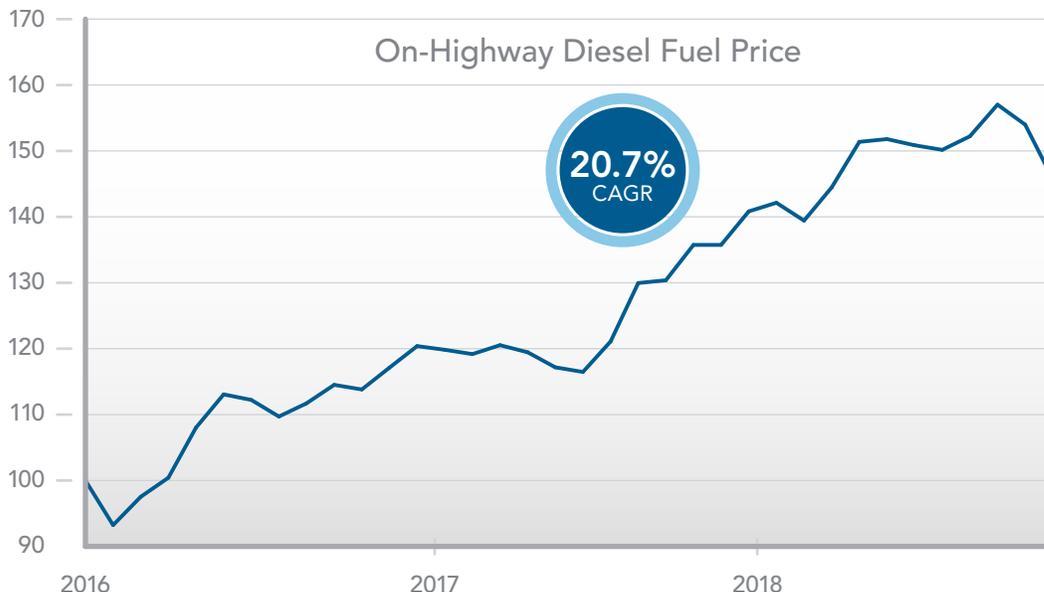
>50% of Service Providers are concerned or extremely concerned about the rise in cost of fuel.

NEARLY 50% of Service Providers believe that tow truck drivers have trouble making ends meet at current wages.

NEARLY 50% of Service Providers believe that light duty tow truck driver recruitment and retention is becoming more challenging because of the increase in alternative options (i.e., Uber, Amazon, Lyft).

FUEL

Since 2016, fuel price increases have hit the U.S. hard. The impact of these increases is exacerbated for service providers because fuel accounts for approximately 15% of their costs. Diesel prices have increased at an average rate of 20.7% per year over the past 3 years.



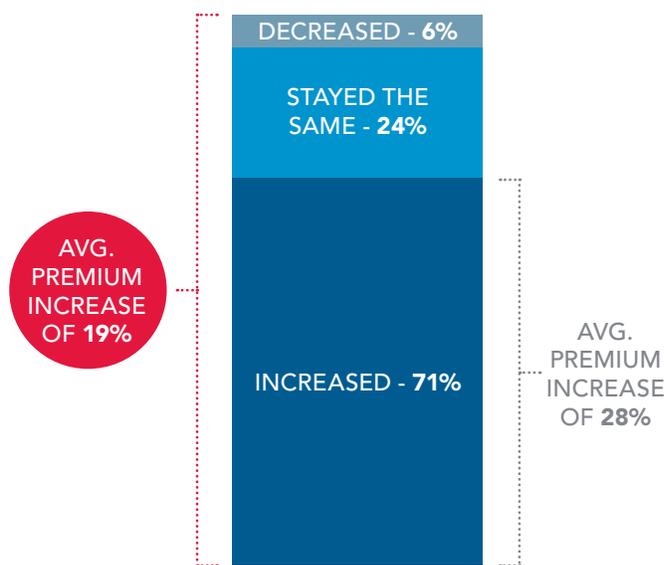
COMMERCIAL INSURANCE

The astronomical increases in insurance premiums have put these hikes at the forefront of many industry conversations. The insurance market for towing and recovery businesses is so challenging that even Chip Thompson, President and CEO of American Transportation Insurance Group (ATIG) commented, *“the current state of the market for tow trucks has been hit very hard and very fast... normally I would think there would be 20 percent or 30 percent increases (in difficult times), but we are seeing 100 percent to 150 percent increases on accounts with no claims.”* Thompson goes on to equate the experience of increased premiums to being *“hit with a sledge hammer.”*^{viii} And that’s exactly how one California business owner described his circumstances:

“I’ve lost approximately 20% of my profit to insurance. In 2015, my premium was \$90k for 35 trucks and now in 2018, it’s \$172k for 42 trucks... and I have to have two policies because I cannot find one company to underwrite all of the risk. And to make matters worse, in February of 2019 one of the companies is leaving the market, so now I have to search for a new carrier.”

Research into cost increases and indexes indicate that commercial insurance rates, which account for nearly 10% of a Service provider’s cost structure, have grown an average of 19% industrywide. The nearly three in four providers that have seen premiums increase have been hit particularly hard, with premiums rising an average of 28%.

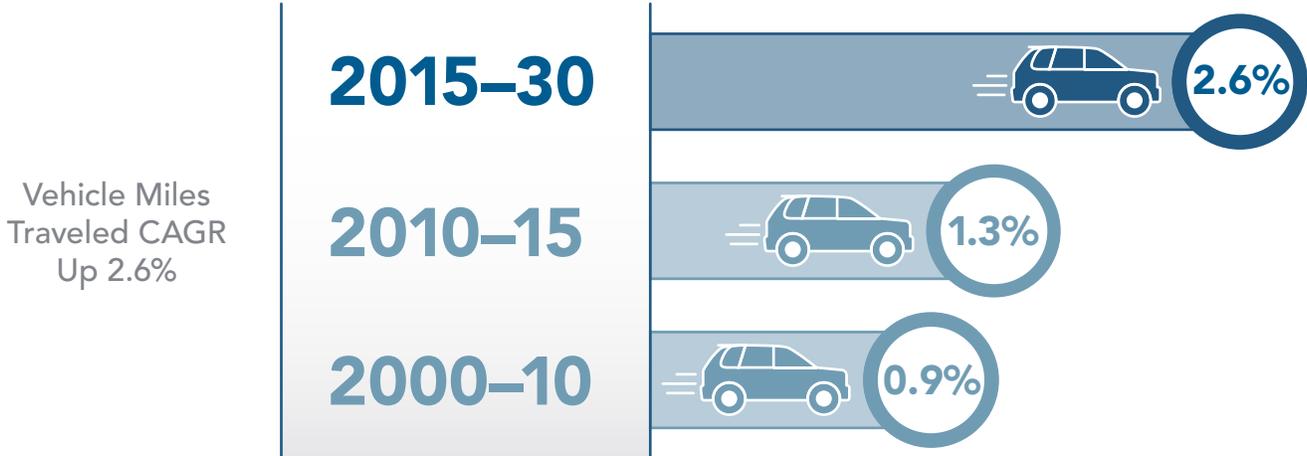
Insurance Premiums Have Risen For Most SPs



Have Premiums Increased?

IMPACT

Demand for roadside services is continuing to rise as both vehicle miles traveled, and average vehicle age climb to all-time highs.



From a business standpoint, a growing number of disablement events *should* sound promising to towing company owners. Yet over the past three years, the service provider community has continued to voice concerns over rising operational costs that are causing significant margin compression across the industry. Increases in critical operational costs such as labor, insurance, and fuel are putting many towing operations at risk, and threatening the industry with a large supply/demand imbalance that would exacerbate the challenge of maintaining customer satisfaction.

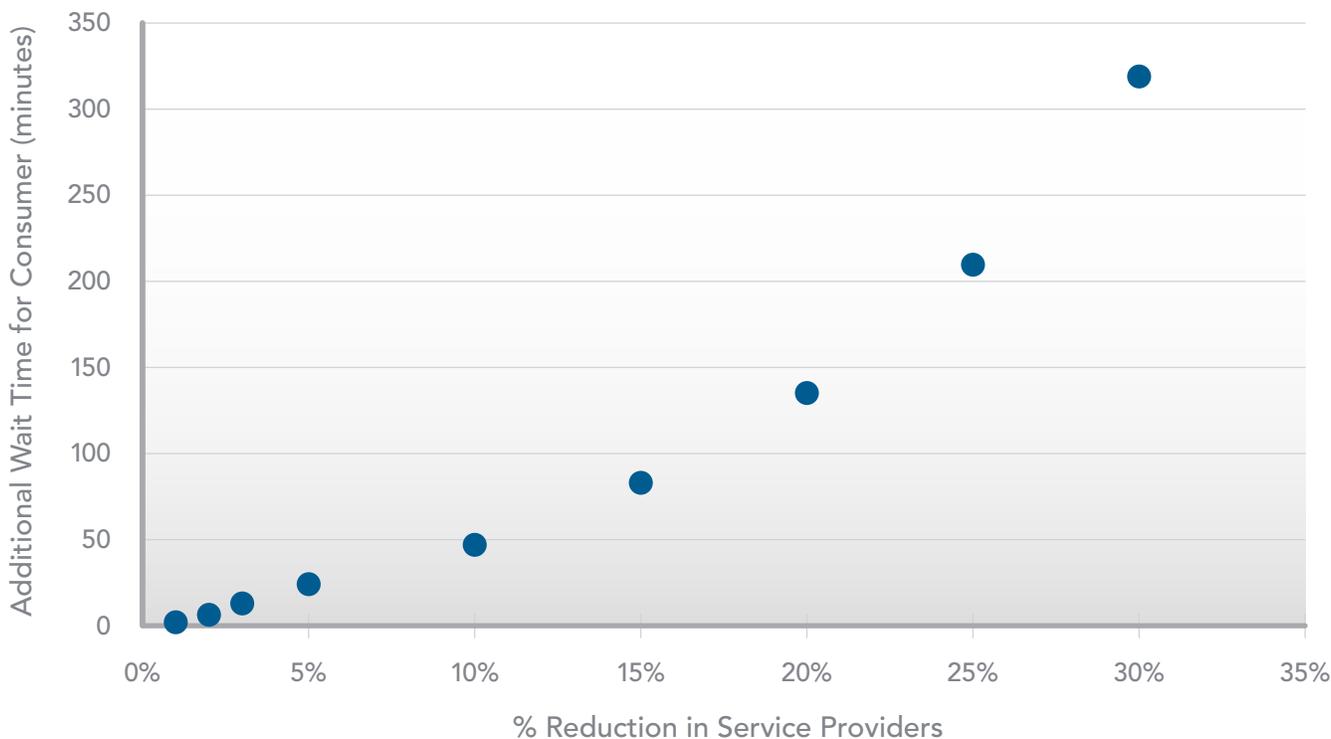
“ My costs increase every year. California is increasing minimum wage from \$11.50 to \$16 over the next few years. That’s roughly a 60% increase in labor rates that I’ll have to absorb. Gas prices increase every year. Insurance rates are spiking. I can’t keep up with my costs if my rates don’t increase more regularly. ”

- Towing Company Owner, CA

Now more than ever, the towing and roadside assistance service provider community needs our attention. The labor dynamics and business model risks could have a dramatic impact on the customer experience to the detriment of program sponsors. Customer satisfaction (as measured by NPS) is closely correlated to wait times less than 60 minutes. Considering the average time to service, tow distance and current travel time, as well as the current ratio of provider hours available today, Agero established a model to

evaluate the impact of even small percentage changes within the service provider workforce. This model helps illustrate the impact on the consumer experience of fluctuations in the service provider workforce. Based on our calculations, a workforce reduction of as little as 3% could correlate to an increased wait time of 13 minutes, pushing an additional 12% of users to a dissatisfactory experience (wait time exceeding 60 minutes). As an industry, we must avoid this.

Impact of Service Provider Workforce Reduction on Consumer Wait Time



PATH FORWARD

We believe that a fundamental shift in economics is necessary to put the industry on a sustainable path. Let's start by understanding the value of the underlying service to consumers and to companies that offer roadside assistance.

Consumers

The benefit of getting professional help is invaluable to consumers in the event of a breakdown. Sixty-six percent of consumers cite peace of mind as the number one benefit of having coverage, yet most consumers woefully underestimate the price of getting that service.

- Consumers believe that on average the out of pocket price of a 10-mile tow is \$96
- Compare that to actual figures, which peg the cost of an equivalent tow between \$150-200 depending on the market
- In short, consumers undervalue the price by 50-100%

Consumers appreciate this benefit, but the economics are not transparent to them. This points to a need to better communicate the value of this service in post-event communications.

In addition, consumers are accustomed to tipping for service. When these tools are simple and straightforward, users are eager to use them. Since the introduction of tipping on the Uber app, 35% of riders consistently tip.^{ix} If tipping was integrated in a clean and consistent manner into the roadside experience in general, and mobile apps in particular, similar results could be expected, improving the bottom line of the driver.

Roadside Assistance Companies

There is a strategic value in providing roadside assistance for many industries. For example, with auto insurers, roadside is a loyalty-building experience that has the potential to lift the Insurer NPS by as much as 45 points when used by the policyholder.

Program sponsors such as insurers and OEMs get significant value from roadside and should consider looking at their program economics, including the price to the customer. For example, stand-alone motor clubs charge as much as 3x more (\$60 vs. \$20) for roadside service

compared to insurance providers. Program pricing should be carefully considered, and this cost better distributed across the value chain to offset service provider economics.

As program facilitators and sponsors, we should also explore avenues to support service providers through commercial insurance, fuel or vehicle discounts.

Industry

Roadside assistance is a valuable service for both consumers and the broader U.S. industry. Service providers are quite literally on the front lines in delivering this assistance, and the better we understand and help address current challenges and economics, the better we'll be able to keep the towing industry healthy and roadways safe. Please consider collaborating with us in the continued refinement of the Service Provider Index which you can download [here](#).

ABOUT TRAA

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ABOUT AGERO

Agero's mission is to safeguard consumers on the road through a unique combination of platform intelligence and human powered solutions, strengthening our clients' relationships with their drivers. Agero is a leading provider of driving solutions, including roadside assistance, accident management, consumer affairs and telematics. The company protects 115 million vehicles in partnership with leading automobile manufacturers, insurance carriers and other diversified clients. Managing one of the largest national networks of service providers, Agero responds to more than 12 million requests annually for assistance. Agero, a member company of [The Cross Country Group](#), is headquartered in Medford, Mass., with operations throughout North America. To learn more, visit www.agero.com and follow on Twitter [@AgeroNews](#).

Sources

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