

Service Provider Cost Index

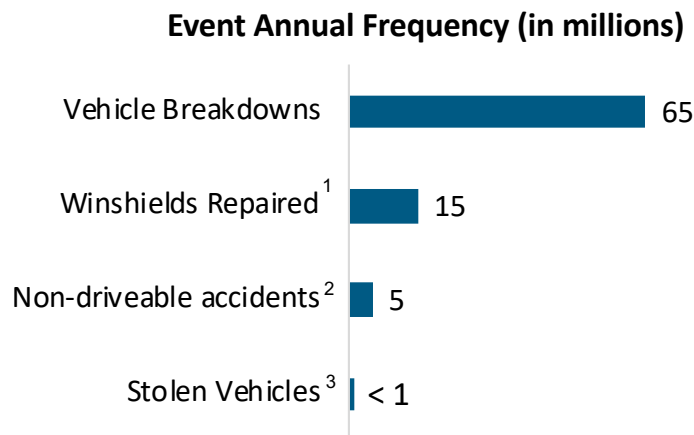
A Measure of Towing and Road Industry Cost Inflation

May 2019



Introduction

Approximately 65 million drivers in the United States breakdown each year. That's equivalent to 1 in 3 drivers or over 4X more than windshield repairs:



A breakdown can happen to anyone, anytime, anywhere. These stranded drivers turn to a variety of roadside programs for support and assistance. The service provider (SP) is the face of these services and has a significant impact to the driver experience. Service providers are towing and roadside service companies.

Roadside program sponsors, such as Automotive manufacturers, Insurers, Credit Card Issuers, Wireless Carriers, and Motor-clubs, understand that positive driver experience is an opportunity to build brand

loyalty. In fact, 57% of consumers report that, other than price, their roadside assistance experience is one of the most important factors they consider when they consider renewing or switching their auto insurance policy. The single most important determinant of a positive roadside experience is the performance of the tow or road services provider.

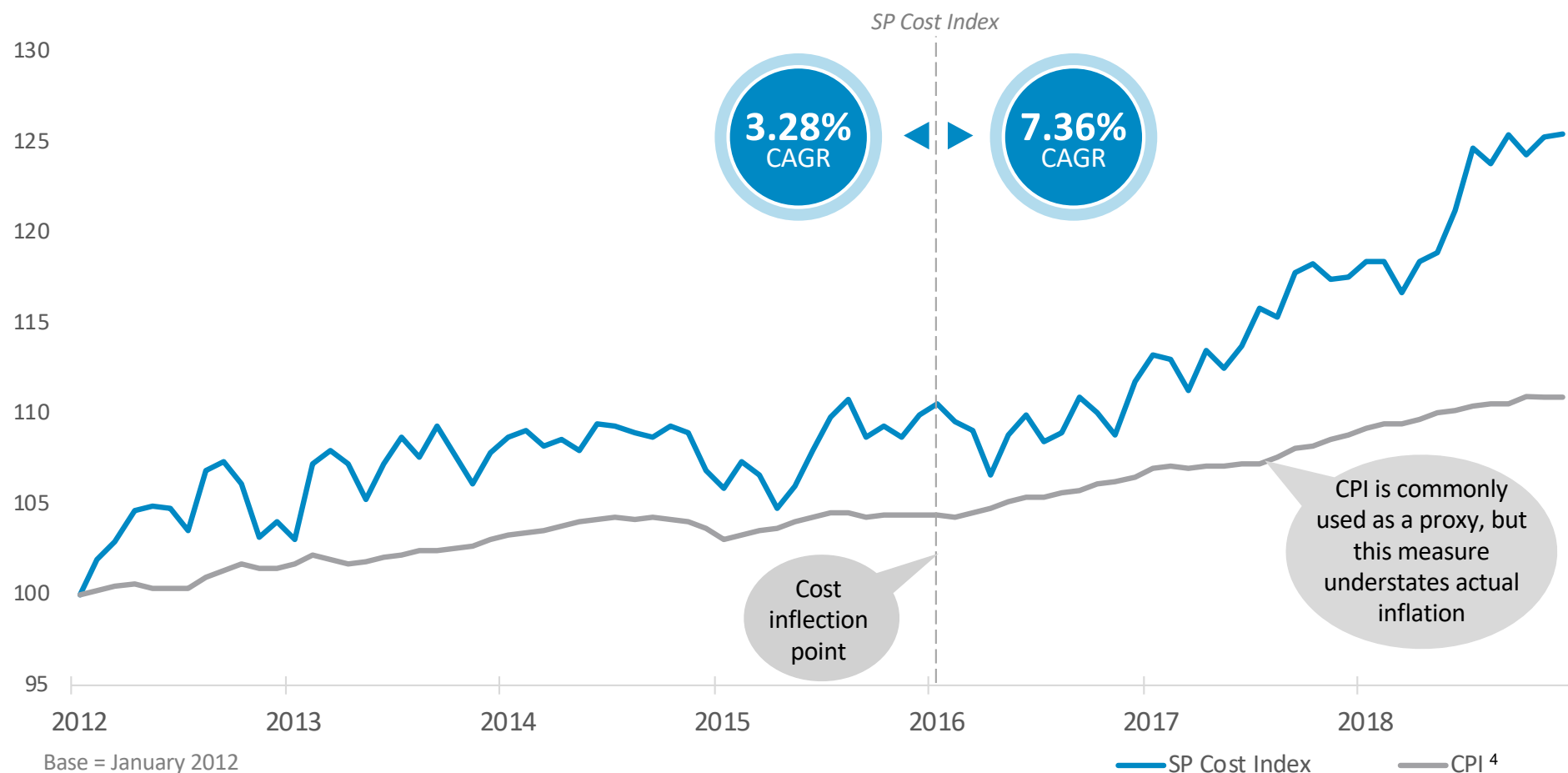
These providers range widely in experience, knowledge, equipment and quality. According to Agero research, a service provider has the potential to impact Net Promoter Score (NPS) by as much as 60 points when they miss the Estimated Time of Arrival (ETA) to the disablement site.

Given their importance to the roadside experience, and the potential impact they can have on brand loyalty, it is critical for every company involved in delivering roadside assistance to understand the underlying economic forces that influence how the service provider community operates their business.

The purpose of this whitepaper is to put forth an open and public framework and quantitative analysis, to inform all stakeholders of the cost dynamics and pressures facing the service provider community.

SERVICE PROVIDER COST INDEX

measures the underlying costs of running a roadside / towing business by using Federal government data



The accelerated growth observed during the past 3 years echoes concerns shared by providers about cost increases.

SERVICE PROVIDER COST INDEX

DEVELOPMENT METHODOLOGY:

- 1 Selected credible public data sourced from Federal government agencies
- 2 Identified index components using the typical cost structure of a roadside / towing provider
- 3 Evaluated the rationale and limitations of each data set to finalize the list

RESULT

A 100% transparent index that predicts fluctuations in inflation for the roadside / towing provider industry

PUBLIC DATA

Data from the Federal government's Bureau of Labor Statistics⁵ was used as the primary source to construct the index.

THE BUREAU OF LABOR STATISTICS of the Department of Labor

About half of BLS'
2,400 employees
are economists
and statisticians⁶

Principal fact-finding federal agency charged with measuring economic conditions by collecting, analyzing, and sharing essential statistical information.^{6, 7}

BENEFITS OF USING BLS DATA⁶

- Fully independent statistical agency.
- Rigorous information quality standards.
- Committed to accurate, objective, relevant, timely, and accessible products & services.
- Invested in improving the quality of current methodology and outputs.

VETTED WEIGHTS

Provider profit & loss statements provide the structuring framework, grounding the Index in real economics

IBISWorld ⁸	% of Cost	Service Provider Profit & Loss Statements ⁹	% of Cost	Index Weights
Wages	39.6%	Labor Cost per Unit	39%	40%
Labor costs		Workman's Comp	2.0%	2.1%
Purchases	37.5%	Trucks	22%	20%
Vehicle/equipment leasing, GPS systems, tires, licenses, fees		Fuel	14.9%	15%
Rent & Utilities	6.9%	Uniforms	0.46%	0.5%
Other	8.7%	Rent	3%	3%
Insurance, Repairs & maintenance		Phone	0.47%	0.5%
Depreciation	6.0%	Office Supplies / Electricity	0.2%	0.2%
Marketing	1.3%	Internet	0.2%	0.2%
	100%	Commercial Insurance	11%	11%
		Truck Repairs & Maintenance	5%	5%
		Damages	2%	2%
		Other	0.4%	0.5%
			100%	100%

Vetted service provider profit & loss statements with an external 3rd party report from IBISWorld. Used the more detailed PnLs to define the list of cost components and weights for the Index.

The Service Provider Cost Index is an aggregate of the following cost components

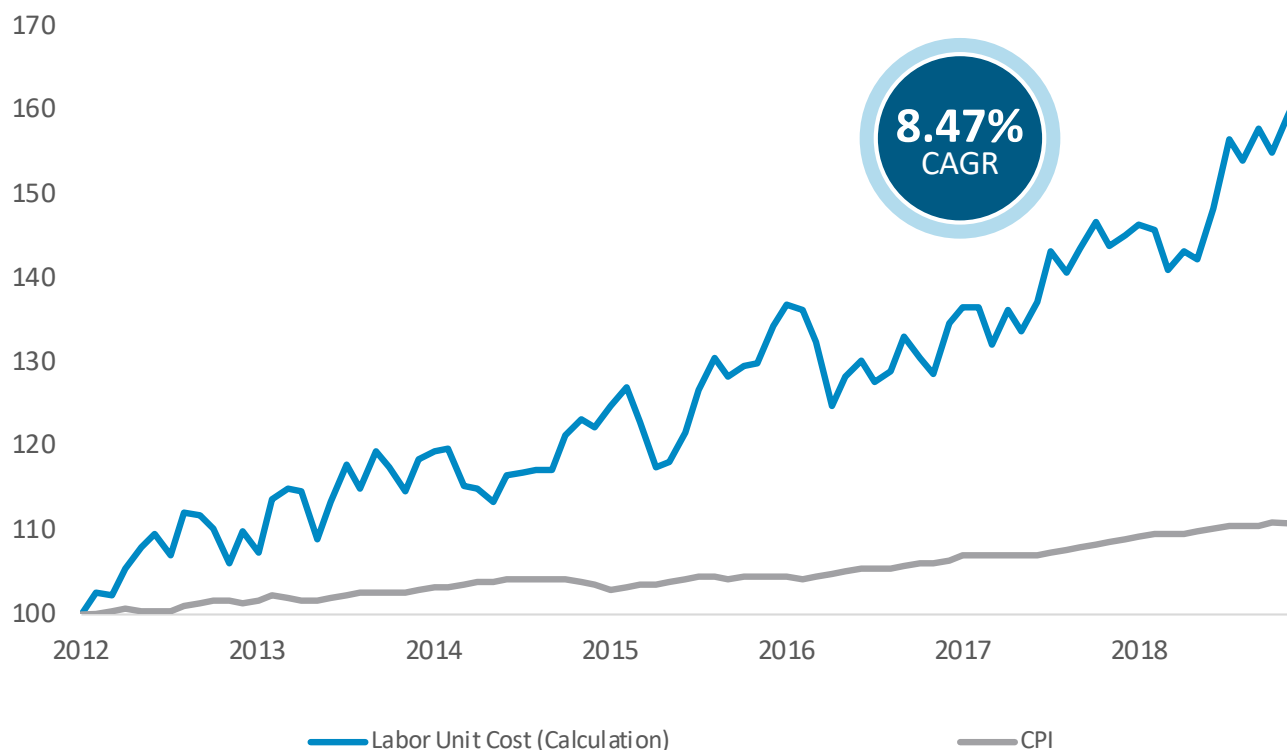
COST ITEM	WEIGHT	DATA USED	C A G R	
			Jan'12 - Dec'15	Jan'16 - Sep'18
Labor Cost per Unit	40.0%	Total weekly payroll for all motor vehicle towing employees per 1,000 vehicle miles traveled	10.32%	9.12%
Trucks	20.0%	Industry PPI for motor vehicle body and trailer manufacturing	2.00%	3.81%
Fuel	15.0%	US Diesel sales price in dollars per gallon	-15.53%	20.72%
Commercial Insurance	11.0%	PPI for commercial auto insurance premiums	0.24%	1.79%*
Truck Repairs & Maintenance	5.0%	Commodity PPI for motor vehicle repair and maintenance services	3.42%	3.25%
Rent	3.0%	Industry PPI for lessors of nonresidential buildings	2.36%	3.86%
Workers' Comp	2.1%	Workers' compensation cost per hour paid by employers with fewer than 50 workers	4.66%	-4.35%
Damages	2.0%	CPI for motor vehicle repair and maintenance in U.S. cities across all urban consumers	2.11%	3.00%
Phone	0.5%	Industry PPI for wireless telecommunications services	-5.99%	-7.45%
Uniforms	0.5%	Commodity PPI for men's and boy's cut and sew apparel manufacturing such as uniforms	1.90%	3.28%
Internet	0.2%	Industry PPI for providers of wired internet access services for businesses	-0.27%	0.30%
Electricity / Office Supplies	0.2%	Industry PPI for utility service providers	0.64%	7.30%
Other	0.5%	Defaulted to a 0% growth over time since contents aren't clear	0%	0%
TOTAL	100%	All components	3.28%	7.36%

INDEX BUILDOUT

LABOR COST PER UNIT

40%
of Index
weight

LABOR COST IS THE LARGEST EXPENSE FOR PROVIDERS AND THUS CRITICAL TO THEIR PROFITABILITY. ROADSIDE / TOWING PROVIDERS HAVE EXPERIENCED **STEADILY RISING LABOR COSTS PER UNIT SINCE 2012**



DEFINITION OF SELECTED INDICES

Combines two indexes to appropriately measure (1) employer labor costs on (2) a per roadside event basis.

‘Payroll’ measures total cost of labor paid by employers for full and part-time employees.

To control for changes in consumer demand for roadside, ‘Payroll’ is divided by Vehicle Miles Traveled to get cost per event.

RATIONALE

- The Payroll index is specific to the motor vehicle towing industry.
- VMT is used as the proxy for roadside event volume because it's a key driver of breakdown volume and correlates with event volume.* It ignores how many hours each job takes to control for shifts in event type (e.g. towing vs. jump start)

LIMITATIONS

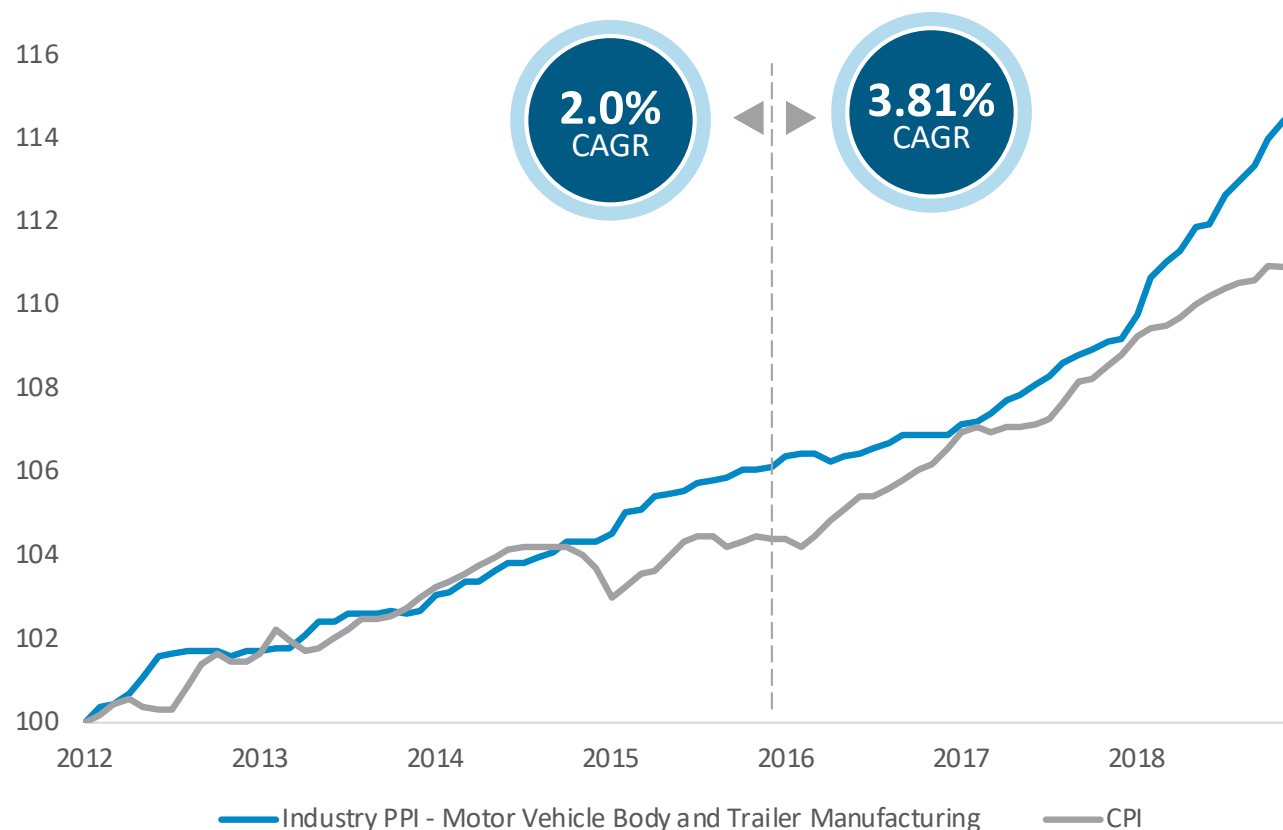
Excludes health care costs or reimbursements and other irregularly earned benefits.

9 ⁹ * Note: See slide 23 for the correlation between VMT and roadside event volume.

TRUCKS

20%
of Index
weight

PRICES FOR NEW TRUCKS HAVE **RECENTLY OUTPACED CPI, PUTTING ADDITIONAL COST BURDEN** ON PROVIDERS LOOKING TO EXPAND OR UPGRADE EQUIPMENT



DEFINITION OF SELECTED INDEX

Measures price fluctuations for an industry comprised of establishments primarily engaged in manufacturing truck, automobile and bus bodies as well as cabs.

The products may be sold separately or may be assembled on a purchased chassis and sold as complete vehicles.¹⁰

RATIONALE

- A small number of established participants serve the overall towing market. Two companies, Miller Industries and Jerr-Dan Corp., dominate the North American market and are classified within this index.^{11,12}
- Industry also manufactures truck/bus bodies and cabs for use outside of towing, so market price reflects competitive pricing from non-towing demand.

LIMITATIONS

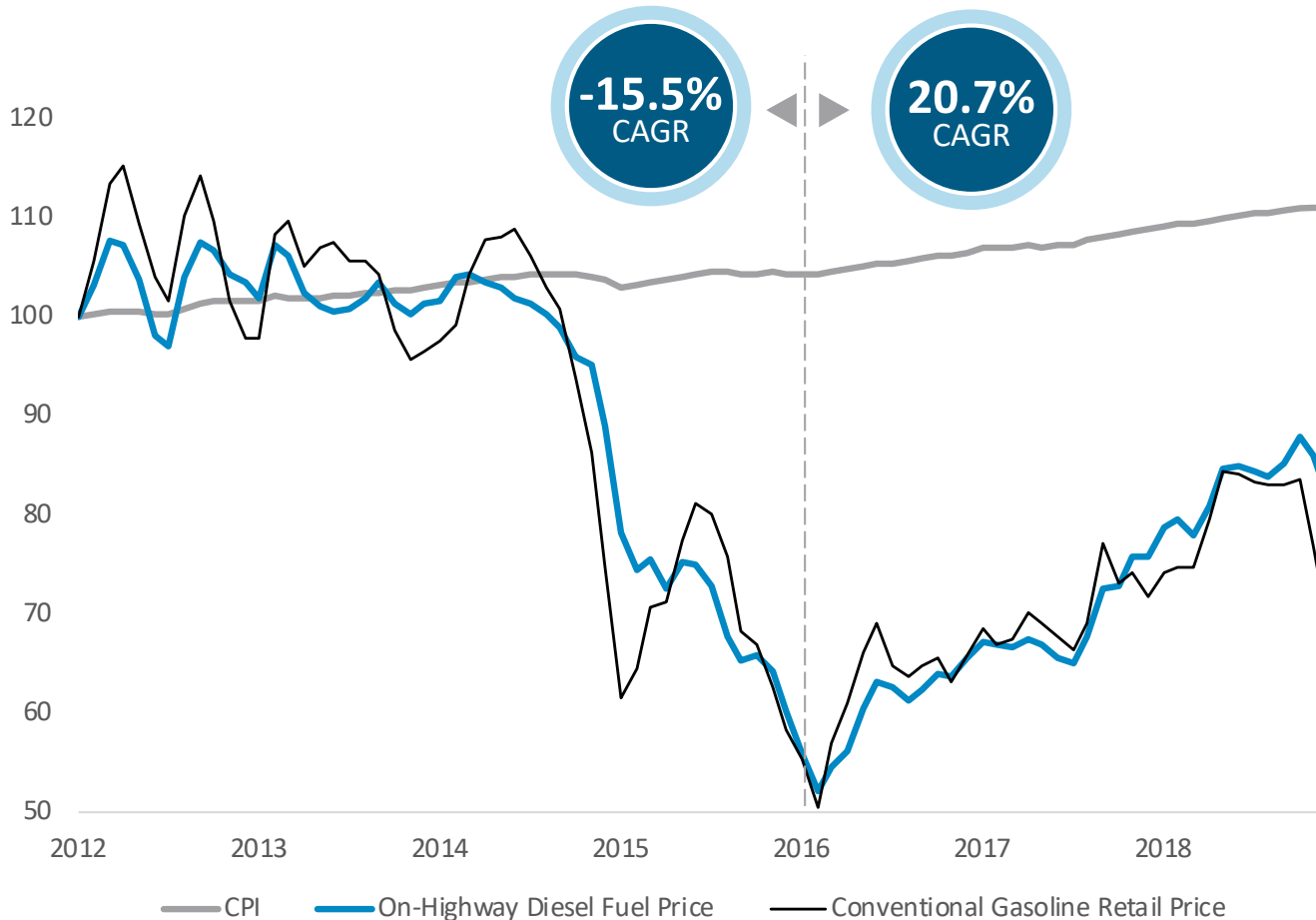
The breakdown in truck costs at a more granular detail could not be obtained therefore this analysis does not include the following costs: recovery apparatus and towing devices, leasing or financing terms, or impact of increasing depreciation.

¹⁰ A typical tow truck has four main parts: Truck cab and chassis, Recovery apparatus (i.e. booms and winches), Body structures, and Towing devices (ex. tow bars, wheel lifts and under lifts and truck hitches)¹³

FUEL

15%
of Index
weight

FUEL PRICES HAS BEEN RISING SINCE 2016, MAKING IT MORE EXPENSIVE FOR SERVICE PROVIDERS TO PERFORM EACH JOB



DEFINITION OF SELECTED INDEX

This index measures change in on-highway diesel fuel prices (dollars per gallon, including taxes) and is not seasonally adjusted.

RATIONALE

Providers primarily pay retail prices for both diesel and conventional gas. Diesel is used for larger trucks, such as Wreckers and conventional gas is used for smaller vehicles serving road events.

LIMITATIONS

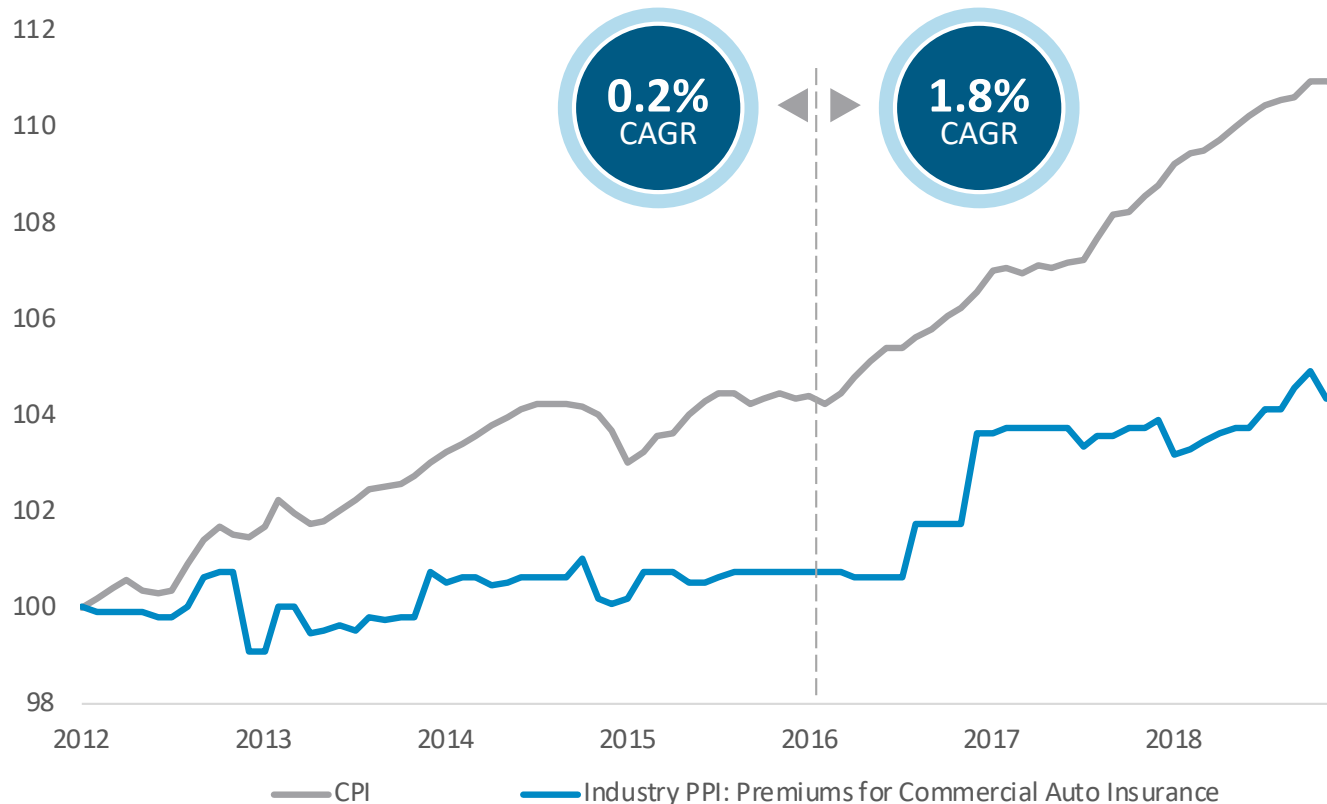
Includes only diesel in the Index:

- Actual usage between diesel and gas is unknown
- Conventional gas and diesel indexes are correlated¹⁴

COMMERCIAL INSURANCE

11%
of Index
weight

MEASURES THE **CHANGE IN THE TOTAL INSURANCE PREMIUM FOR ALL COMMERCIAL COVERAGE**. IT IS NOT FOCUSED ON SP COMMERCIAL INSURANCE.



DEFINITION OF SELECTED INDEX

Commercial auto insurance includes commercial automotive combinations of business auto, garage, truckers and/or other commercial automotive.

RATIONALE

This index measures the change in the total premium paid to insurers for the SP-relevant commercial automotive coverage^{15,16} and excludes return on the invested portion of the premium.¹⁷

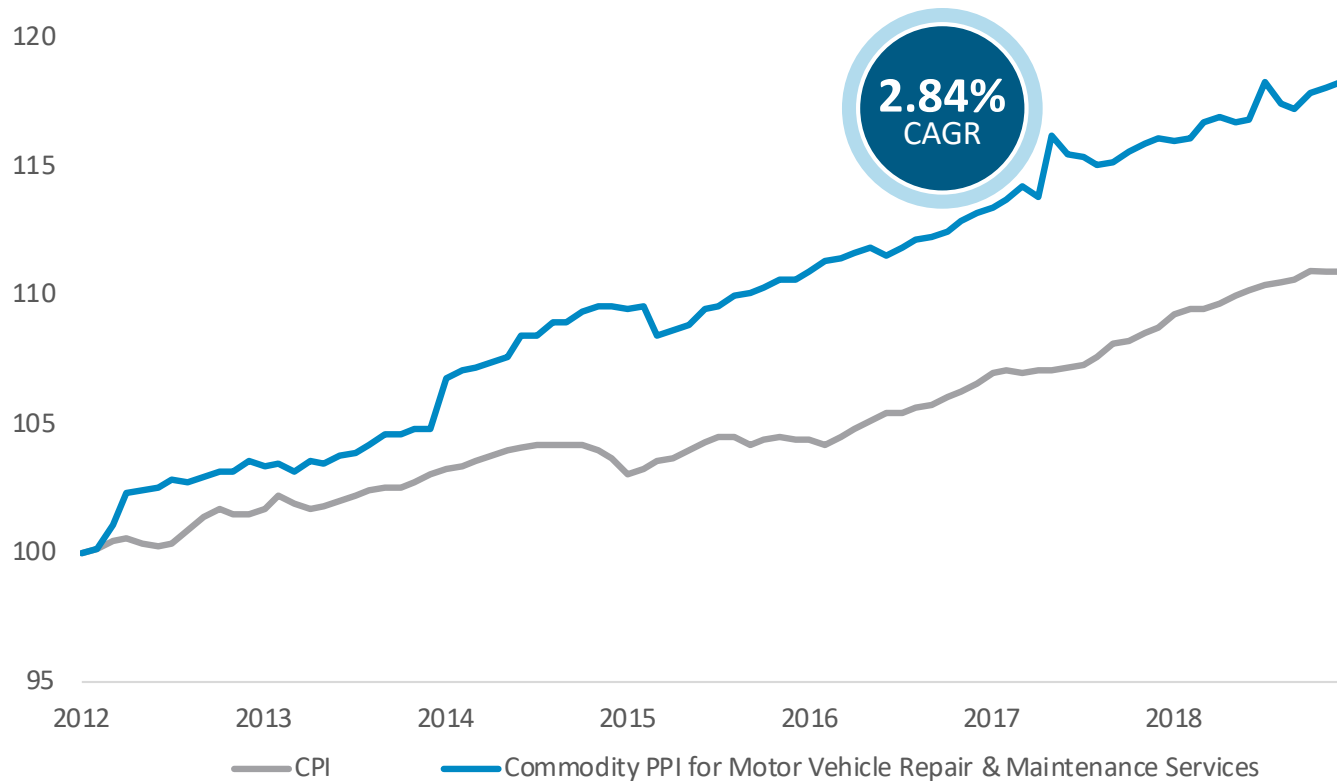
LIMITATIONS

This index is not specific to policies for Service Providers and, due to BLS methodology¹⁸, is insensitive to the large impact that exogenous risk fluctuations (e.g. increased weather incidents) have on the road and tow industry.

TRUCK REPAIRS & MAINTENANCE

5%
of Index
weight

INPUTS INTO MOTOR VEHICLE REPAIR AND MAINTENANCE SERVICES
HAVE RISEN STEADILY AT 2.84%.



DEFINITION OF SELECTED INDEX

Reflects cost of inputs into
motor vehicle repair and
maintenance services.

RATIONALE

The commodity classification structure of the PPI organizes products by similarity of end use or material composition, regardless of their industry of origin. The downstream impact of rising costs would impact providers regardless of whether they service repairs and maintenance in house or pay a third party.

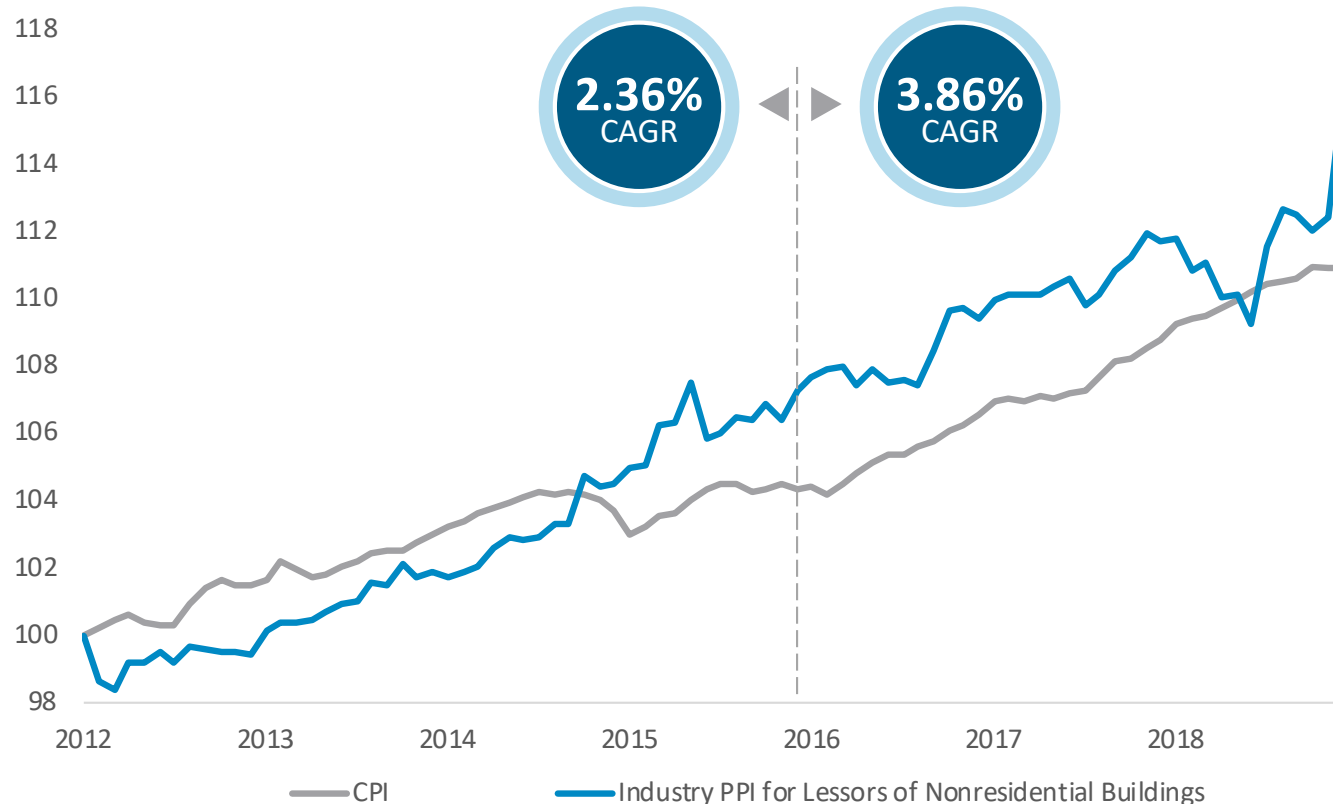
LIMITATIONS

PPI does not cover 100% of service industries; “partial” commodity indexes indicate that <80% of anticipated related industries are covered¹⁹. This index does not include motor vehicle mechanical and electrical repair and body/paint/interior repair.

RENT

3%
of Index
weight

NON-RESIDENTIAL RENT HAS RISEN SINCE 2012 AND INCREASED THE PAST FEW YEARS



DEFINITION OF SELECTED INDEX

This index comprises establishments primarily engaged in leasing buildings (excluding mini warehouses and self-storage units) that are not used as residences or dwellings.

This includes lease or service contracts, and property may be self-managed or managed by a third party.

RATIONALE

Establishments in this industry rent buildings/real estate to companies, and PPI represents what they are paid.

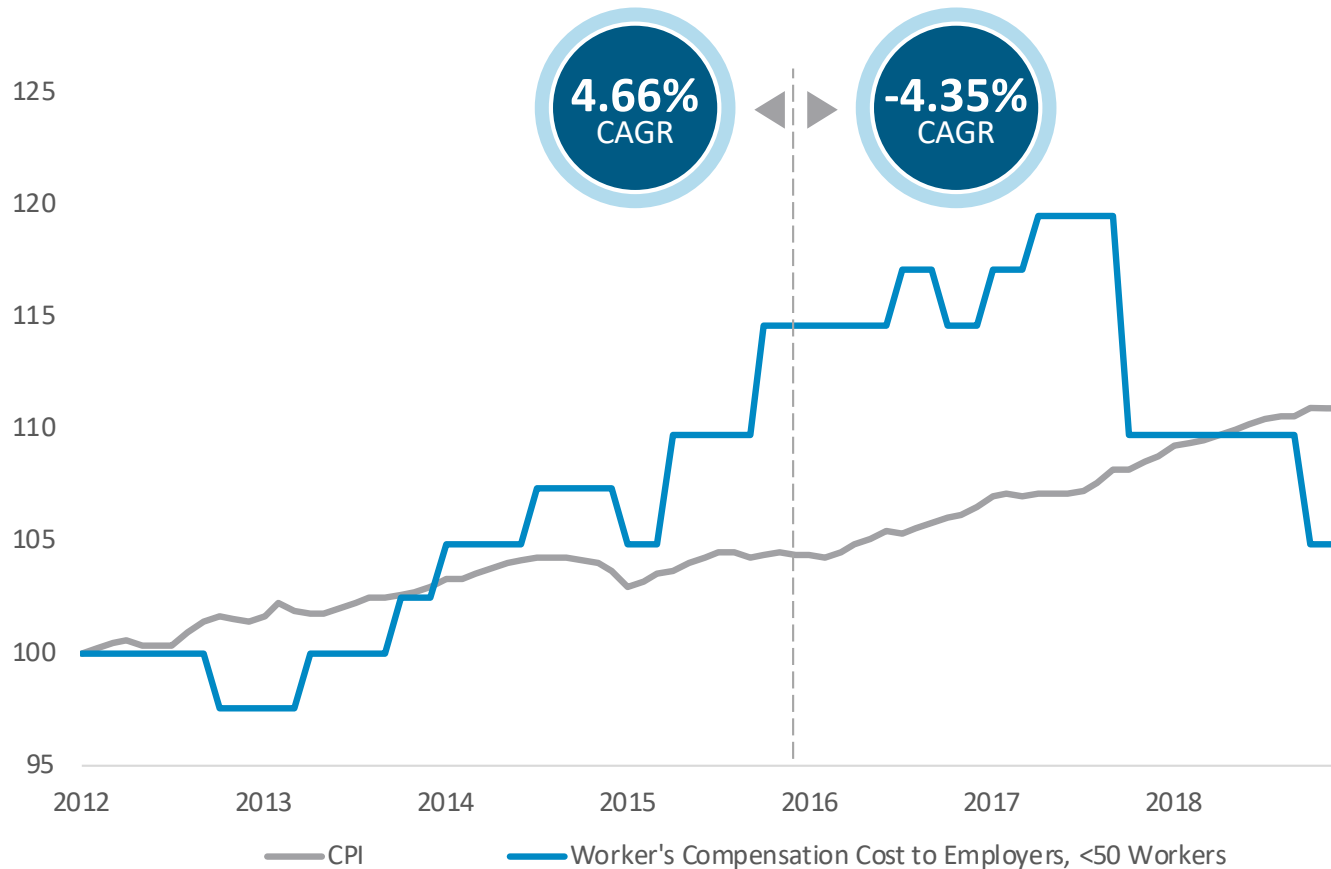
LIMITATIONS

n/a

WORKERS' COMPENSATION

2.1%
of Index
weight

RECENT DECLINE AFTER POSITIVE GROWTH RATE BETWEEN 2012-2015



DEFINITION OF SELECTED INDEX

Measures the employer cost, per working hour, of providing worker's compensation, independent of employee contributions.

Includes private industry establishments with less than 50 workers in the private nonfarm economy. Excludes the public sector and the Federal government.

RATIONALE

Most SPs have fewer than 50 workers.²⁰

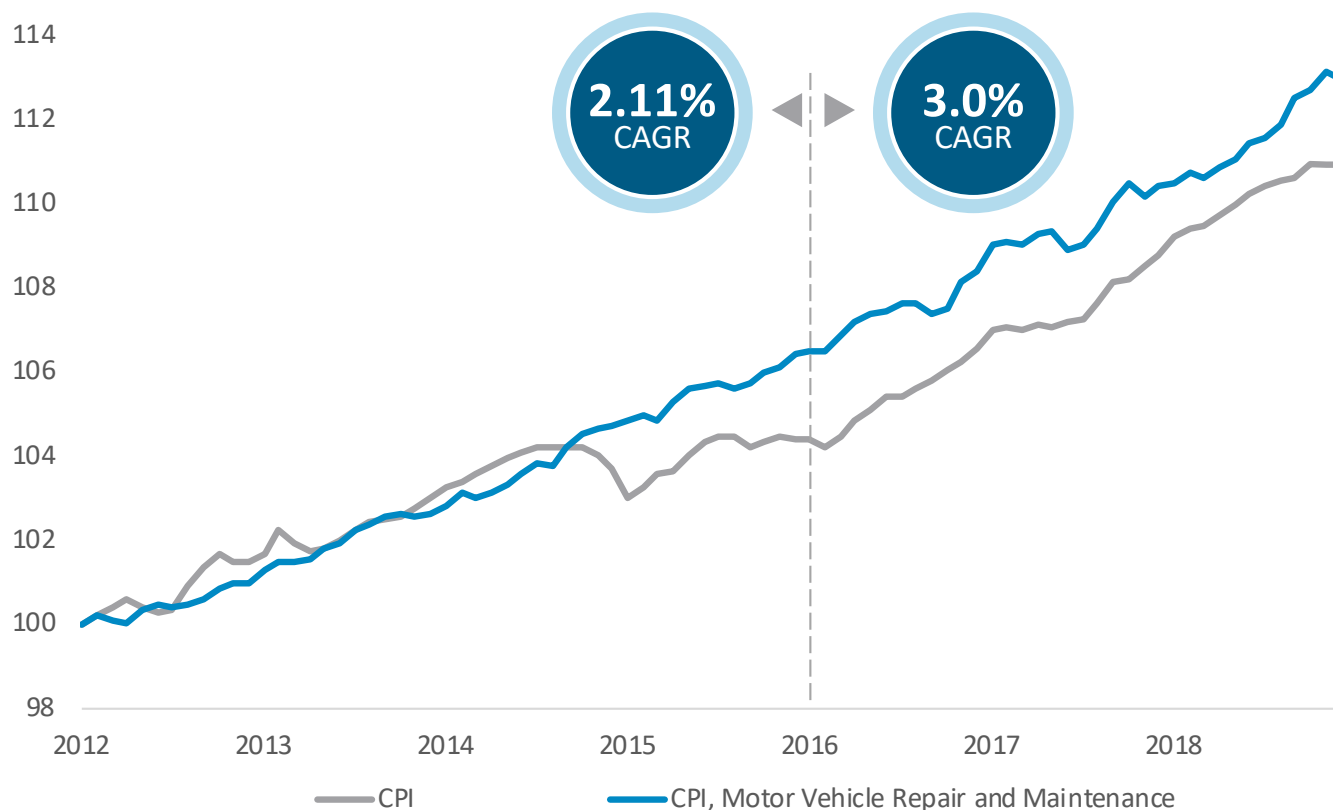
LIMITATIONS

n/a

DAMAGES

2%
of Index
weight

GROWTH RATE INCREASED FROM 2.11% TO 3% SINCE 2016



DEFINITION OF SELECTED INDEX

Measures the prices paid by consumers for motor vehicle repair and maintenance products and services.

Motor vehicle repair covers electrical, front end, motor vehicle brake systems, motors, exhaust systems, transmission, etc. Maintenance, inspection and towing includes front end services, tire repair, crash repair, etc.

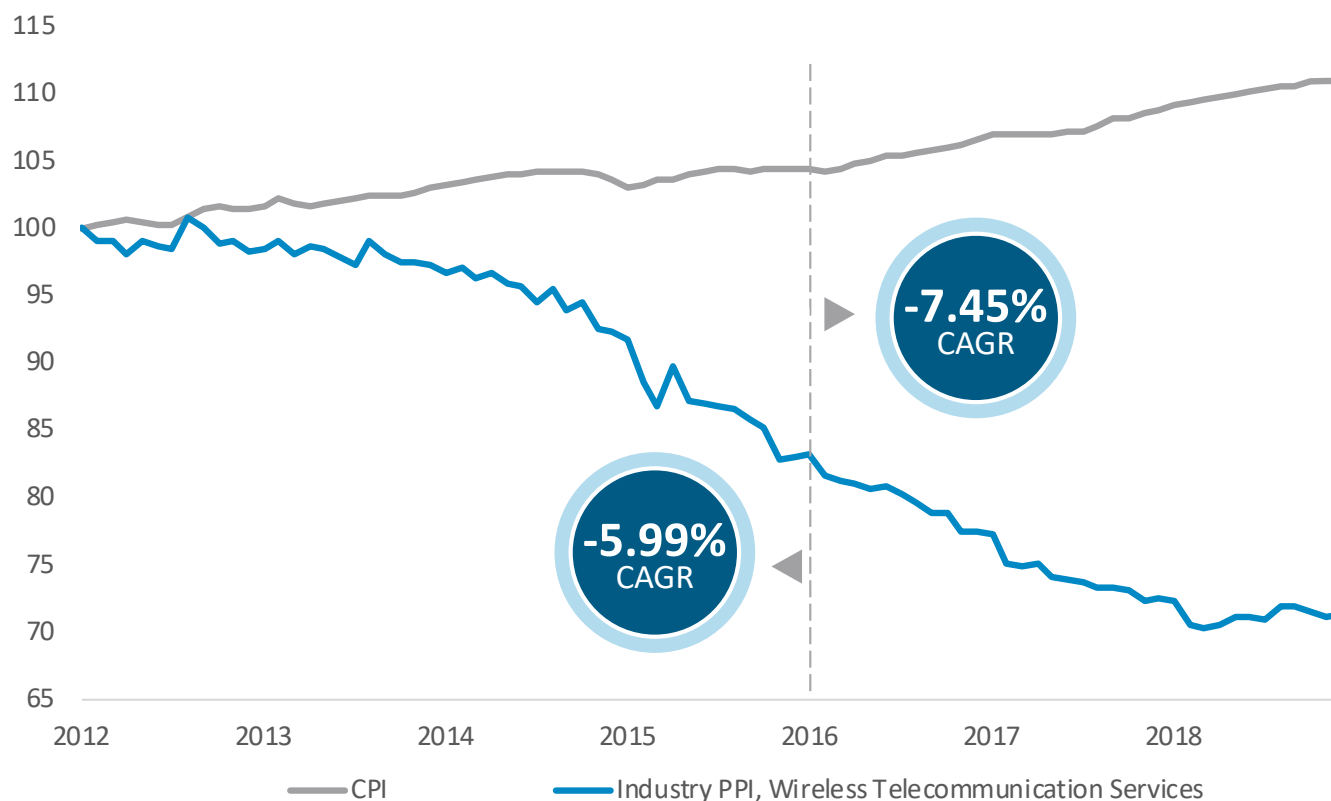
RATIONALE

Using this CPI version of MV Repaired & Maintenance because CPI for Urban Consumers represents ~93% of the total U.S. population, and BLS recommends that users adopt the U.S. City Average for use in escalator clauses when using CPI.

LIMITATIONS

Assumes that any damages caused during a roadside or towing event would be paid by Service Providers in consumer prices.

COST OF WIRELESS TELECOMMUNICATIONS HAS BEEN FALLING SINCE 2012



DEFINITION OF SELECTED INDEX

Reflects changes in price received by telecommunications establishments that provide wireless phone services to both consumers and businesses.

Includes cellular phone services and wireless internet access, which is required to communicate with dispatching software.

RATIONALE

Drivers use wireless phones (when available) to communicate with office, motor clubs, consumers

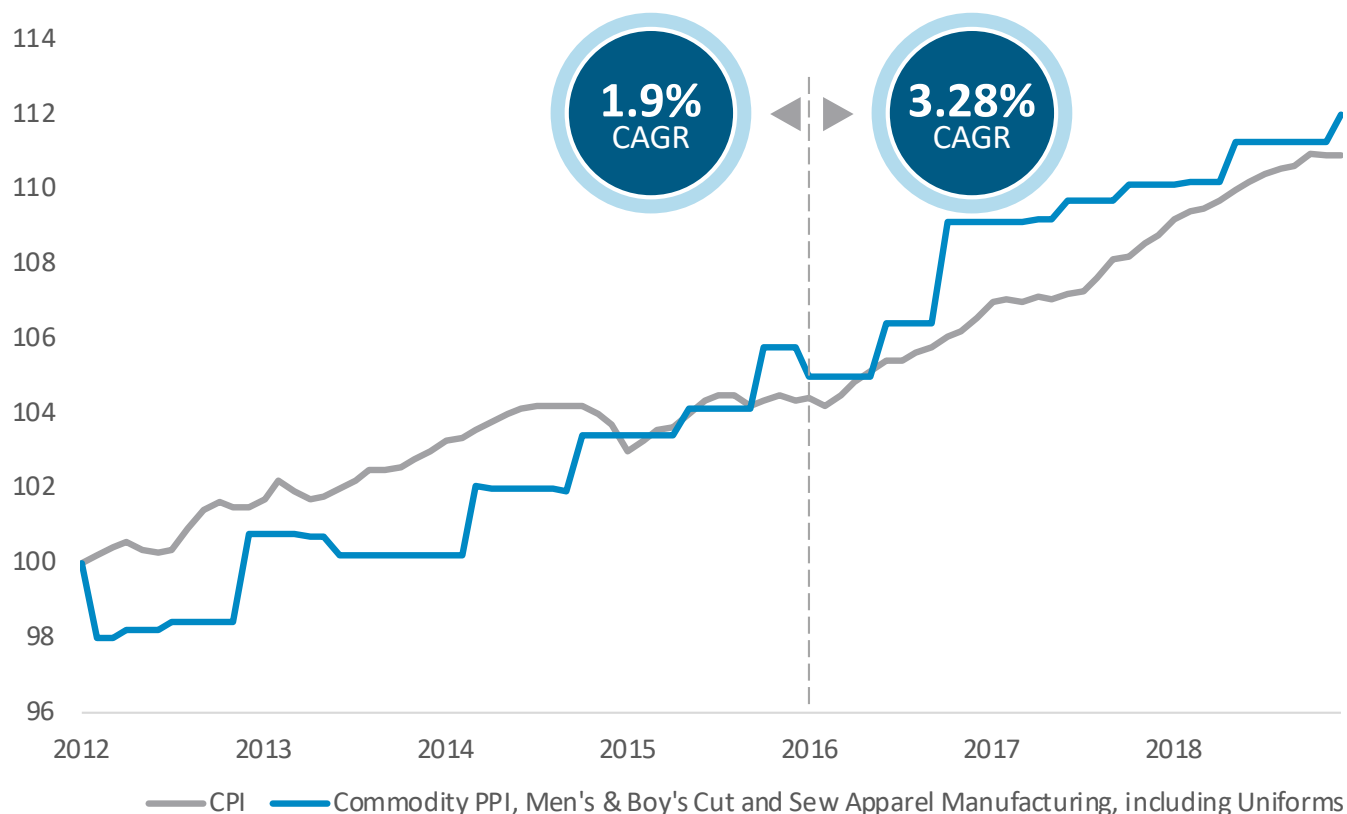
LIMITATIONS

Service Providers are small business with few employees so unknown whether the wireless penetration growth rate trends with broader market
Excludes cost of device²¹

UNIFORMS

0.5%
of Index
weight

COST OF UNIFORMS HAS INCREASED AT A FASTER PACE THAN CPI SINCE 2015



DEFINITION OF SELECTED INDEX

This industry includes establishments primarily engaged in manufacturing cut and sew apparel from purchased fabric.

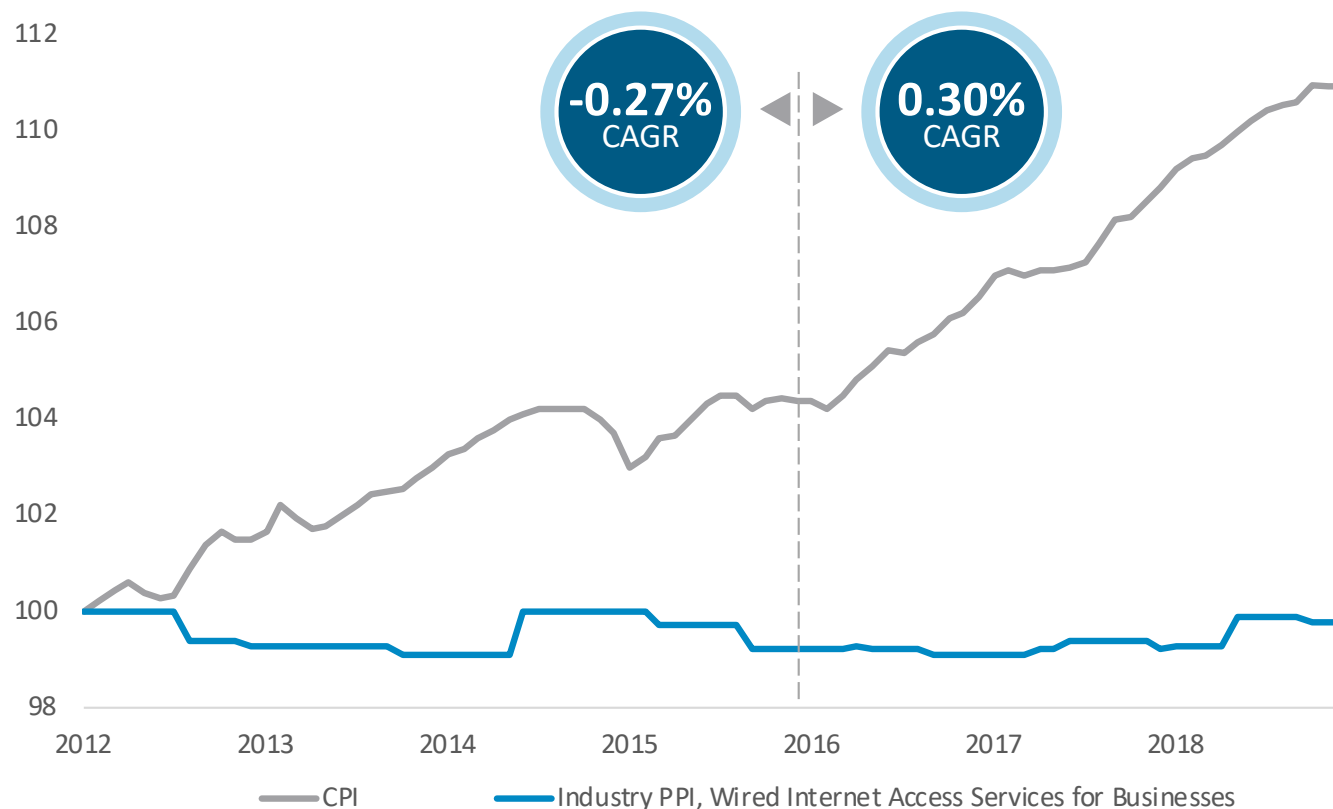
RATIONALE

Reflects cost of inputs (e.g. material) into, and production of, men's apparel – specifically team or working uniforms – which reflects changing cost of inputs into service provider employee uniforms.

LIMITATIONS

n/a

WIRED BUSINESS INTERNET ACCESS HAS REMAINED RELATIVELY STEADY



DEFINITION OF SELECTED INDEX

Establishments in this industry are primarily engaged in using wired telecommunication network facilities in order to provide wired telephone services, including VoIP, and wired broadband internet services to businesses.²¹

RATIONALE

Reflects changes in the price received by establishments that provide internet access to businesses.

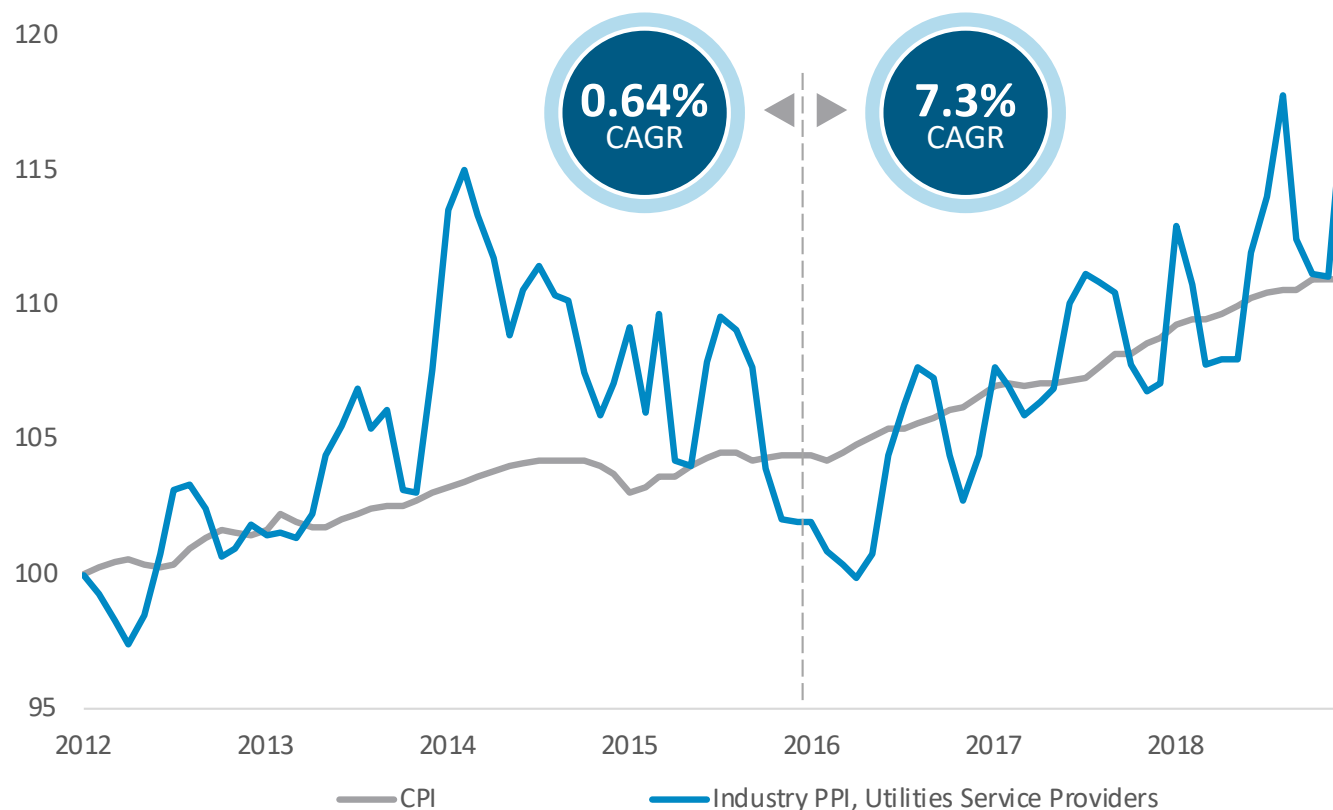
LIMITATIONS

n/a

ELECTRICITY / OFFICE SUPPLIES

0.2%
of Index
weight

UTILITIES COST HAVE RISEN SIGNIFICANTLY SINCE 2016



DEFINITION OF SELECTED INDEX

The chosen index reflects utilities costs, only.

The utilities sector comprises establishments engaged in the provision of utility services, including electric power, natural gas, steam supply, water supply, and sewage removal.

RATIONALE

Reflects changes in the price received by establishments that provide utilities services.

LIMITATIONS

The Utilities index was selected over the Office Supplies in the Composite Index because data is not available at the desired granularity to distribute across two indexes.

Conclusion

Based on an impartial analysis of publicly available cost data, it is clear that service providers' costs have steadily risen over and above inflation rates since 2016. The primary drivers behind these cost increases are labor, fuel and commercial insurance costs.

The per event compensation rates to service providers have not increased proportionately with these costs increases, resulting in lower margins on average. This is highly likely to impact the quality of life and job satisfaction for service providers.

Given that service providers are the customer face of roadside programs, it is critical for the stakeholders to consider this impact and define opportunities to improve the service provider's financial outcomes. It is also important to continue to monitor these economics on a regular basis in order to ensure the value chain for roadside services is robust.

Agero is committed to this mission and looks forward to partnering with the industry including program sponsors and other motor clubs. Please contact us and share your feedback.

APPENDIX

INDEX LIMITATIONS

The Index covers all major known provider costs but has a few gaps mostly due to lack of data

LIMITATIONS

	IMPACT ON INDEX	KEY TAKEAWAYS FOR USERS
Commercial Insurance is not specific to the Roadside/Towing industry	Due to BLS methodology, the index measures price changes and does not include changes in exogenous risk (e.g., increase incidence in theft). As a result, the index is understated when risk is high (e.g. provider industry).	Agero's Index is likely more conservative than reality. Based on an Agero 2017-2018 Survey, 19% of providers have experienced rising premiums.
Cost of Financing not included in Truck costs due to unknown distribution	Does not include impacts from changing leasing or financing terms or depreciation.	As truck prices rise, so does the demand for a leasing solutions. Index likely understates cost pressures on providers.
Ignores employer cost of irregular bonuses and labor benefits such as Health Insurance.	Health Insurance is the biggest component of benefits when offered. Some SPs may provide health benefits but most do not.	Health Insurance has remained relatively stable at 5-6% of total compensation since 2008 for establishments employing less than 50 workers. Trends with total compensation but should be monitored.

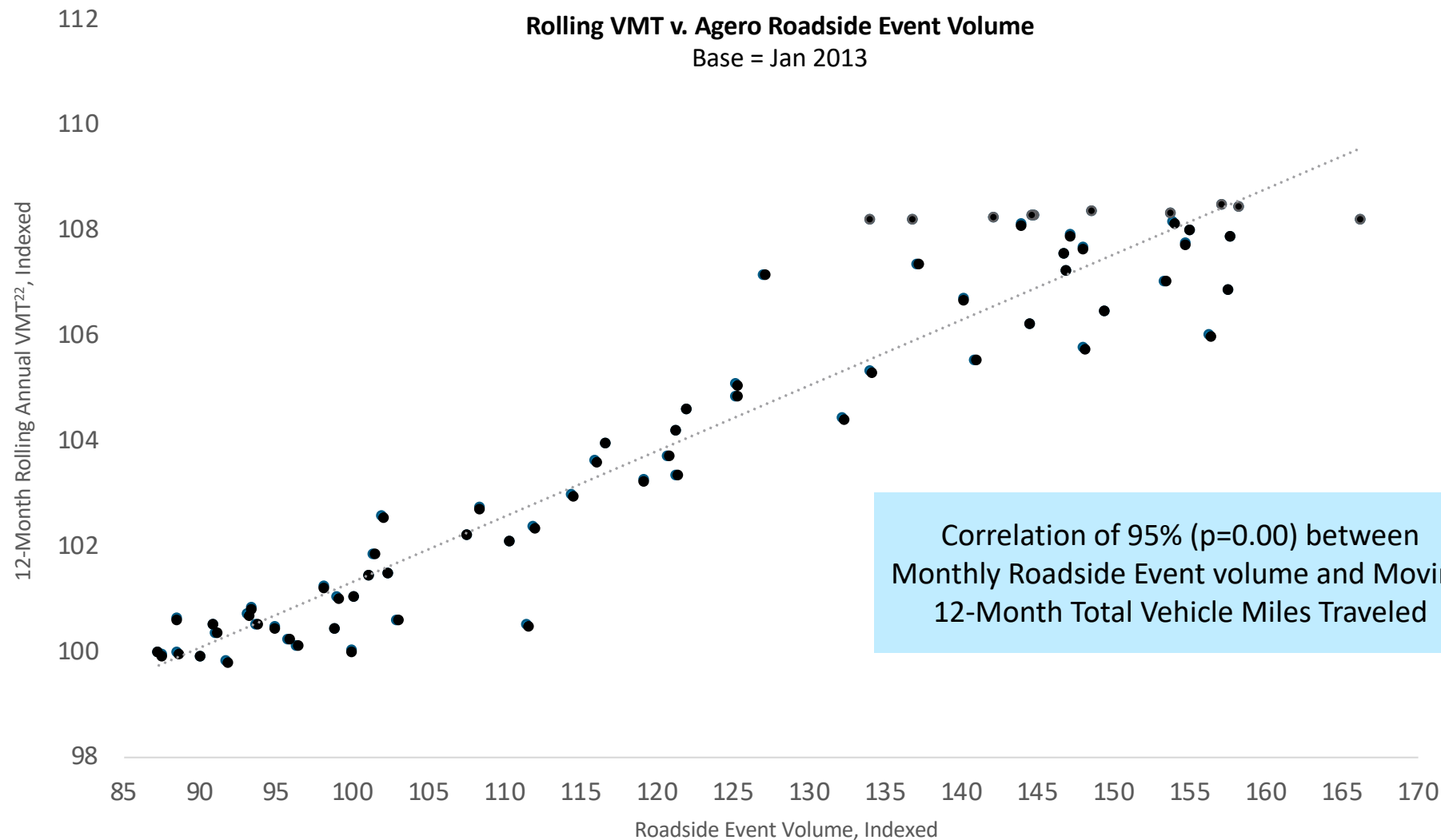
OTHER CONSIDERATIONS

	KEY TAKEAWAYS
Truck costs exclude cost of purchasing recovery apparatus and towing devices attached to trucks	Unknown distribution in total cost of owning a tow truck prevented inclusion in Index, especially as these accessories aren't required for roadside events.
Truck Repair costs exclude mechanical, electrical, and body / paint / interior repair.	The downstream impact of rising costs should impact a provider regardless of whether the establishment performs its own repair and maintenance services or pays a third party.
PPI only includes prices paid to domestic producers	Prices should still reflect competitive pressures from overseas producer pricing. More research required on how fluctuations in share of imports vs. domestic producers impacts Index.
'Other' category	Unable to identify an index since the composition of 'Other' is unknown, so this cost bucket has a 0% growth rate in the composite Index.

Lays groundwork for future opportunities to investigate alternate data sources or improve data availability

EVENT VOLUME

Rolling 12-Month Vehicle Miles Traveled is correlated with Agero monthly Roadside Event volume



BLS INDEX SERIES ID

COST ITEM	INDIVIDUAL INDEX	INDEX SERIES IDENTIFIER	NAICS CODE
Labor Cost per Unit	Calculation: Aggregate Weekly Payroll / Rolling 12-Month Annual VMT Where: Aggregate Weekly Payroll = No. of employees in towing x avg. weekly hours x avg. hourly wage	CEU4348841001 CEU4348841003 CEU4348841057_mVMT	# of employees = https://beta.bls.gov/dataViewer/view/timeseries/CEU4348841001 weekly hours = https://beta.bls.gov/dataViewer/view/timeseries/CEU4348841002 hourly wage = https://beta.bls.gov/dataViewer/view/timeseries/CEU4348841003 VMT = https://fred.stlouisfed.org/series/M12MTVUSM227NFWA
Trucks	PPI industry data for Motor vehicle body and trailer manufacturing, not seasonally adjusted	PCU33621-33621-	https://beta.bls.gov/dataViewer/view/timeseries/PCU33621-33621-
Fuel	US Diesel Sales Price, Dollars per Gallon, Monthly, Not Seasonally Adjusted	N/A	https://www.eia.gov/dnav/pet/pet_pri_gnd_dcus_nus_m.htm
Commercial Insurance	PPI industry data for Premiums for property and casualty insurance-Premiums for commercial auto insurance, not seasonally adjusted	PCU9241269241263	https://beta.bls.gov/dataViewer/view/timeseries/PCU9241269241263
Truck Repairs & Maintenances	PPI Commodity data for Repair and maintenance services (partial)-Motor vehicle repair and maintenance (partial), seasonally adjusted	WPS5521	https://beta.bls.gov/dataViewer/view/timeseries/WPS5521
Rent	PPI industry data for Lessors of nonresidential buildings, not seasonally adjusted	PCU531120531120	https://beta.bls.gov/dataViewer/view/timeseries/PCU531120531120
Workman's Comp	Private Industry Workers' compensation for Establishments with 1-49 workers; Cost per hour worked	CMU2270000000111D	https://beta.bls.gov/dataViewer/view/timeseries/CMU2270000000111D
Damages	Motor vehicle repair and maintenance in U.S. city average, all urban consumers, not seasonally adjusted	CUUR0000SETD	https://beta.bls.gov/dataViewer/view/timeseries/CUUR0000SETD
Phone	PPI industry data for Wireless telecommunications carriers-Wireless telecommunications services, not seasonally adjusted	PCU5173125173121	https://beta.bls.gov/dataViewer/view/timeseries/PCU5173125173121
Uniforms	Producer Price Index by Commodity for Textile Products and Apparel: Men's and Boys' Team Sport Uniforms	WPU0381044111	https://beta.bls.gov/dataViewer/view/timeseries/WPU0381044111
Internet	PPI industry data for Wired telecommunications carriers-Business Internet access services, not seasonally adjusted	PCU517311517311602	https://beta.bls.gov/dataViewer/view/timeseries/PCU517311517311602
Office Supplies / Electricity	PPI industry sub-sector data for Utilities, not seasonally adjusted	PCU221---221---	https://beta.bls.gov/dataViewer/view/timeseries/PCU221---221---

GLOSSARY OF KEY TERMS

TERM	DEFINITION	SOURCE
Base Period	A point in time used as a reference point for comparison with some later period.	25
Series Report	A form-based application that uses BLS time series identifiers as input in extracting data from each survey-specific database according to a specified set of date ranges and output options.	25
Inflation	Inflation has been defined as a process of continuously rising prices, or equivalently, of a continuously falling value of money.	25
Not seasonally adjusted	This term is used to describe data series that have not been subjected to the seasonal adjustment process. In other words, the effects of regular or seasonal patterns have not been removed from these series.	25
Industry	Refers to the types of businesses where people work. BLS uses the North American Industry Classification System to code business establishments into industries based on what they produce or sell. This also is the standard used by federal agencies to classify business establishments into industries.	25
North American Industry Classification System (NAICS)	The successor to the Standard Industrial Classification (SIC) system; this system of classifying business establishments is being adopted by the United States, Canada, and Mexico. More information	25
Occupation	Refers to what people do and the jobs people have. BLS uses the Standard Occupational Classification system to code workers into more than 800 different occupations based on their job duties. This system is the standard used by federal agencies to classify workers into occupations.	25
Employer Costs for Employee Compensation (National Compensation Survey)	The Employer Costs for Employee Compensation (ECEC) series shows employer costs per hour worked for wages and salaries and individual benefits. Cost data are presented in both dollar amounts and as percentages of compensation.	25
Employment Cost Index (National Compensation Survey)	The Employment Cost Index (ECI) is a measure of the change in the cost of labor, free from the influence of employment shifts among occupations and industries. The series measures changes in compensation costs (wages and salaries and employer costs for employee benefits).	25
Payroll employment (Current Employment Statistics)	Employment is the total number of persons on establishment payrolls employed full or part time who received pay for any part of the pay period which includes the 12th day of the month. Temporary and intermittent employees are included, as are any workers who are on paid sick leave, on paid holiday, or who work during only part of the specified pay period. A striking worker who only works a small portion of the survey period, and is paid, would be included as employed,	25
Payroll	IBISWORLD: Gross total wages and salaries, including cost of benefits. CES: Dollars paid before deductions across all working hours (including paid leave/holidays/vacation); Excludes benefits.	8, 25
Employment	IBISWORLD: Permanent, part-time, temporary and seasonal employees, working proprietors, partners, managers and executives. CES: Persons on established payrolls. Excludes those who were laid off, on unpaid leave, or haven't reported wages.	8, 25

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