



Insurance Auto Auctions & ADESA

KAR Auction Services

Growing the Business: The Power of Lasting Relationships
(Part 1 of 2)

Featured Case Study

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Growing the Business: The Power of Lasting Relationships

The Situation Insurance Auto Auctions (IAA) offers salvage auctions and related services to facilitate the re-marketing of total-loss vehicles by insurance companies. Although IAA now operates 160+ locations across the US and Canada, it had earlier operated a national network of 60 salvage centers and cooperative agreements. To its thousands of suppliers/buyers, the company was known for innovative methods in streamlining the total-loss vehicle process to save customers money and improve returns.

Although IAA was profitable, leadership recognized that significant additional value could be created with standardized processes and consistency in operations. IAA was at a critical juncture: in order to keep its market leading position, it needed to become more process oriented to keep from losing its customer base. However, it lacked the internal expertise to ensure successful implementation.

The Initial Engagement Initial introduction between Insurance Auto Auction and Synergetics occurred in early 2002 by way of ValueAct Capital, majority owner of IAA and board member. They introduced Synergetics to Tom O'Brien, IAA President & CEO. He engaged Synergetics in an extensive business assessment that would look to re-engineer IAA's business processes. IAA was fielding numerous customer complaints across the company re: disparate site practices, as their acquired business units were not standardized in service delivery. The focus would be to improve operational efficiencies, standardize processes, and implement tools to benchmark site performance.

The Business Analysis Beginning in Spring 2002, working with executive management and utilizing cross-functional teams from across the company, Synergetics developed a value stream map that identified staffing, productivity, process, and consolidation opportunities company-wide. Teams looked for ways to improve workflow efficiencies and eliminate redundancies in all areas. Areas to capture procurement and SG&A savings were also recognized. Based on these findings and recommendations,

Insurance Auto Auctions (IAA) and **ADESA Auctions** are two of the three core business units that comprise **KAR Auction Services, Inc.** Along with Automotive Finance Corp, KAR operates a complete auto auction solution across North America. Based in Carmel, IN, this \$2.1B company (2013) has a footprint which spans the US and Canada.

These core business units are further complemented by other companies within the KAR Auction Services family: OPENLANE, PAR North America, AutoVIN, AuctionTrac, LiveBlock Auctions International, High Tech Locksmiths, and Dent Demon. This diverse group allows KAR to provide a full range of services — from whole car and salvage, to inspection, repair, technology, re-marketing, transport, and finance.

KAR Auction Services was renamed from KAR Holdings, Inc. in 2009, which itself formed in 2007. It was at this time private equity firm ValueAct Capital sold its controlling interest of IAA to Kelso, who with ValueAct also partnered with Parthenon and Goldman Sachs to bring all companies under one umbrella: IAA, ADESA, AFC, AutoVIN, and PAR. Although additional acquisitions round out the current company, the 2 main units were IAA and ADESA.



“The defining reason we chose Synergetics was their level of understanding of IAA’s fundamentals. Synergetics really got down to field level to work with our people.

“Synergetics is a major player in the development and implementation of our business process re-engineering project. Together with our employees, they have developed and implemented new standards and best practices aimed at improving IAA’s operational efficiency, standardizing our processes, and measuring performance.

“The results of this project surpassed our expectations. I will be a referral for Synergetics, anytime.”

Tom O’Brien
President & CEO, IAA



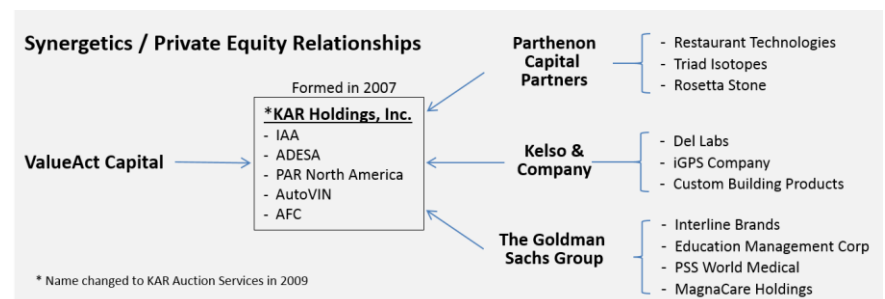
leadership immediately transitioned to the implementation phase.

The Implementation Project Acting on its analysis findings, Synergetics immediately focused on ways to improve business practices, reduce costs to improve EBITDA, and evaluate capacity requirements. With full management support, work streams were directed to:

- Develop and install effective performance metrics across the company (productivity, cycle times, inventory turns, cost/unit, etc.)
- Standardize key processes across all sites, to also include facility layouts & flow control, along with extensive management training
- Develop and install staffing models for direct work and support functions, rationalizing “span of control” at management levels
- Consolidate several facilities that had geographic overlap
- Centralize procurement functions to leverage specific commodity and services volumes over fewer vendors to optimize pricing

Leadership was impressed with the implementation process results IAA experienced. **By instituting Lean methodologies along with corporate oversight, cycle times of key processes were reduced 40%, as productivity improved by 30%.** Several facilities were consolidated, and by putting in place sets of standardized controls, a foundation was created to allow for a +\$10M ERP system implementation to go forward. **Initial cost savings exceeded \$15M annually.**

Building Relationships With the formation of KAR Holdings, Inc. in 2007 through a partnership involving four private equity companies, Synergetics’ relationship with these firms was further solidified. After Kelso & Company’s majority purchase of IAA from ValueAct, and after just having completed successful projects with Kelso at Del Labs and with ValueAct at IAA, Synergetics was approached by Kelso to help integrate IAA’s salvage/auction business with that of ADESA’s. These relationships would prove beneficial to all businesses going forward.



Business Integration As merging the strengths of two similar businesses made perfect sense from a strategic vantage, Synergetics consultants partnered with the KAR management team to assist in the development and rollout of an integration plan for business consolidation and standardization. As IAA was to the salvage auction business, ADESA was to the used/whole car auction services sector, meeting the

redistribution needs of both its institutional and dealer customers. And with its 60+ autonomous sites in the US, Canada and Mexico, it too had minimal operational standards, having grown to its current size both organically and through acquisitions.

Synergetics had previously performed a business assessment at ADESA, but the former management team at that time chose not to go forward with implementation. But once onsite and after having validated its earlier findings, Synergetics moved directly into a modeling phase. As previously done at IAA, the team went through a similar rollout of initiatives. These centered on standardization, performance and productivity/staffing measures, leveraging procurement functions, and developing a work order management system to track units and associated work streams, from inspection to points of sale.

The Results With specific work efforts associated with ADESA's integration and standardization/efficiencies initiatives, **initial project results over a 3-year period exceeded targets and realized over \$90M in savings on revenues of \$3.3B, or 2.7%**. Because of its initial engagement success and building a relationship with ValueAct/IAA, and subsequently being able to add value to ADESA and KAR Holdings, **Synergetics continues to work with KAR Auction Services, a relationship that now spans over 13 years.**

The Impact As a result of the savings, cost reductions, and increased revenues captured over the years through its business re-engineering initiatives and calculated business decisions, KAR Auction Services continues to be the current market leader. **Collective savings for IAA/ADESA related projects from 2007-2012 is an impressive \$106.8M, approximating 2% of these business units' total revenues.** And for 2012 alone, of the 3.3M vehicles sold, total revenue was \$1.96B. With an adjusted EBITDA of \$500M, its margin was 25.5%. KAR Auction Services' future outlook remains strong as leadership continues to grow its business and strengthen its position.

Synergetics is a privately held New England-based Management Consulting firm established in 1975. With two office locations in the US and UK, Synergetics operates internationally and employs over 150 professionals as analysts, consultants, project managers, and subject matter experts. As one of the largest "Implementing Consulting" organizations, we have completed over 1,300 business process implementations for a diverse client portfolio made up of leading industrial and service corporations. As such, we partner with Private Equity Firms, Small and Medium Enterprises, and Fortune 500 Companies across all market sectors. We build bottom line profitability and improve overall operating efficiencies.

Based upon our specific service offerings, Synergetics performs detailed management, financial, and operational assessments, from which we then develop specific cost savings and revenue enhancement initiatives.

"Synergetics was precisely what we needed: an implementation company. We've had many consulting companies making all kinds of recommendations. Their analysis, development and implementation processes involving our people first hand created a level of credibility that made the whole project painless.

"I can probably be Synergetics' best referral. We could not have done it in the time frame and as smoothly without you guys. Thanks!"

David Montgomery
COO, IAA

For more information

E-mail us at:
info@synergeticsww.com

Visit us on the web at:
www.synergeticsww.com

Call us:
+1-603-433-8940

Mail us:
75 Congress Street,
Suite 201
Portsmouth, NH 03801
USA

