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Industry Trends for 2016

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Experts from the agency and product provider segments offer their predictions for the year ahead.
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The New Year offers a perfect opportunity to consider anew the driving forces that will set the course for the automotive industry in 2016. *Agent Entrepreneur* reached out to agents, agency heads and executives from the F&I product provider segment to find out what 2016 will bring for the economy as a whole and the industry in particular, as well as what new trends agents should look for.

The Economy

On Dec. 16, the Federal Reserve announced an increase in short-term interest rates for the first time since 2006. Fed Chairwoman Janet Yellen described the move as a vote of confidence for the ongoing economic recovery and said rates would only continue to rise, gradually, if the economy continues to move in the right direction.

Although the Fed's announcement came after most of our sources had submitted their responses, interest rates led the discussion of the economy and how it will serve the automotive industry in the year ahead.

Interest Rates

William Gorra, president and CEO of Simoniz, listed interest rates among a number or economic indicators, including gas and energy prices, that he expects to remain low in 2016. These factors should help keep new-car sales increasing at the same pace, he said, which means F&I will continue to grow at a steady rate as well. "World events notwithstanding, I expect the economy in 2016 to be very similar to 2015," he said.

Mark Mishler, CEO of Interstate National Corp., was one of several executives who predicted the interest-rate hike. He expects the trend to continue in 2016. "This could have an impact on consumer credit availability, but it appears that rate increases will be small, so there should be minor disruption to credit availability," Mishler said. "However, I do believe that this will have a minor impact on retail sales in 2016."

Glen Tuscan, president of Dealer Commitment Services, noted that, while higher interest rates would increase the cost of doing business, it is unlikely that it would put much of a damper on the recent wave of mergers and acquisitions in the dealer space.

“Auto retailers have been the beneficiaries of the attractive business environment that low rates have been providing these past years,” Tuscan said. “Should the increased cost of doing business look to be less attractive, I believe some large family groups of dealers will seek the 10 times-plus earnings that the acquisition market is offering and exercise the exit strategy they have been looking for.”

New-Vehicle Sales

By December, experts were predicting that U.S. dealers would sell 17.3 million new vehicles by the end of 2015, an increase of about 800,000 units over the prior year.

“Last year, the consensus predictions were above 16 million [vehicles sold], but nowhere near the 17.3 million it appears we will hit in 2015,” noted Jim Smith, CEO, SouthwestRe Inc. “Given the low gas prices and continuing favorable loan financing, there is no reason to believe that the number will fall in 2016, therefore we should reach or exceed the 17.3 million number.”

Randy Crisorio, president and CEO of United Development Systems Inc. (UDS), expects 2016 to be a “very good year,” but said dealers should expect competition among manufacturers to heat up in response to increasing sales. “That could have an impact on F&I, considering the tools deployed often concern interest rates, warranties and leasing,” he warned.

Robert Steenbergh, CEO of US Equity Advantage, predicted growth of around 2% to 3% over the 2015 tally. He also predicted that oil prices will remain low, which will keep home heating costs down and, hopefully, allow car buyers to spend more in the spring. He expects the “torrid pace” of sales to keep up and that “the march toward 18 million per year will continue.”

As Steven Rosenvall, Alpha Warranty Services Inc.’s CEO, pointed out, sales haven’t reached that pace since 2007, immediately before the global economic crisis. He also predicted that a widening trade deficit will spur sales even further. “Every time that happens, the dollar gets stronger. Every time the dollar gets stronger, so does household buying power.”

“All the forecasters are predicting an excellent car selling year for 2016, and I tend to agree,” said Steve Amos, president of GSFSGroup. “If we are able to avoid a major event that affects the world economy, we should be good.” Amos also noted that, while falling oil prices benefit car sales and the economy as a whole, cheap gas also brings negative consequences, particularly in his home state. “Here in Texas and in other states across the country, the price of oil affects employment and spending.”

Although Garret Lacour, CEO of RoadVantage, predicts economic growth will slow in 2016, he believes factory incentives will continue to drive volume. “There will also be more pressure on new-vehicle sales due to the record number of used vehicles that will be entering the market from lease programs,” he added.

Leasing is of interest to Tuscan as well. He believes the rate of leasing at dealerships will increase from 27 percent in 2015 to 30 percent in 2016. He also noted that dealers should be prepared for a glut of late-model used units as four straight years of growing sales comes full circle.

“I am confident that the industry will see increased pressure on pre-owned vehicle values,” Tuscan said. “The past four years of strong new-vehicle sales will result in increased supply of these vehicles, requiring dealers to prepare for the onslaught.”

Unemployment

Agents will keep a close eye on unemployment rates in 2016. More full-time workers means more flexibility in spending and more opportunities to invest in the newer vehicles they want and the F&I products they need to protect them. Dave Duncan, president of Safe-Guard Products International, noted that the employment landscape is improving with every report that comes out, an indication that the economy as a whole is on the right track.

Brett Hutchinson, PermaPlate’s CFO, also sees the continuing decrease of unemployment rates as a good sign for the overall health of the economy for 2016. He noted that a strong workforce, along with low oil prices and interest rates, will push the seasonally adjusted annual sales rate (SAAR) to an all-time high. “We believe that 2016 will also be a great year for the automotive industry,” he said.

Presidential Election

“Traditionally, during national election years, the economy has shown a history of growth and promise,” said John Vecchioni, national sales director for United Car Care. “If history holds true, this should be a very good year again for the automotive industry.”

AAGI’s president, Tim Brugh, fears the elections could have the opposite effect. While elections do tend to boost the economy, he pointed out, it is also true that the economy can suffer during the last year of a two-term president’s tenure. 2016 could very much be a rollercoaster ride, he said, noting that he does believe that, when the dust settles, sales will be slightly higher than in 2015.

NAE/NWAN’s president, Kelly Price, agreed with Brugh. And because she believes the presidential election could hurt rather than help the economy in 2016, she believes a flat finish is the best one can hope for.

“Consumers seem to be anxious, and this year’s election will be very intense,” Price said. “I am just looking at it from a forecasting perspective as a flat year, equal to 2015, which would be a win for all of us. A decline would certainly be disappointing and would catch many dealers and administrative partners off-guard.”

Crisorio agreed, saying that “world unrest” and a “crazed political landscape” at home could cause credit availability to tighten, slowing sales of vehicle and F&I products.

“The good news for the automotive industry is that a major driver of the economic growth will be the continued rise in consumer spending,” said Bob Pruitt, president of Cal-Tex Protective Coatings Inc. “The industry should sustain sales levels of 17 million-plus in cars and light trucks for 2016. Bolstering this level of optimism are several factors, including continued lower interest rates, access to credit, gradual increase in employment numbers and steadily lowering of oil prices. All of these factors continue to positively impact consumer confidence."

The Industry

Within the industry, our experts pointed to an increasingly hostile regulatory climate and the proliferation of new technology as the key drivers of change in 2016.

The CFPB

The Consumer Financial Protection Bureau (CFPB) has dominated industry news headlines for the past several years and is not expected to lower its profile in 2016.

"The CFPB will continue to focus on rate and try to minimize the variance from one customer to the next. On the surface, that sounds fair. Of course, it is not that easy," said Duncan, noting that flat rates will actually end up costing some consumers more: Those with excellent credit will have to pay the same higher rates as those who have had credit challenges. Educating the public and the regulatory agencies on how the system works (and why) will be paramount in 2016.

"I don't think we'll see any new rules or regulations within F&I this coming year, but it's possible we'll see something related to finance reserve caps, and eventually product markups," said Lacour. "More immediately, because of the CFPB's continued presence in the automotive industry, transparency is more crucial than ever, and dealerships that are taking strides to be transparent will ultimately fare better in the long run." He noted that having a comprehensive compliance program in place is a crucial part of that transparency. Dealers who take steps to protect not only themselves but their customers will fare far better, no matter what direction the regulatory winds blow.

Jimmy Atkinson, COO of AUL Corp., agreed, noting that he has been keeping a close watch on Congress, particularly regarding a recent CFPB restructuring bill that passed the House of Representatives but faces an uphill battle in the Senate and the White House. "It will be interesting to see if the CFPB reform that cleared the House of Representatives recently makes it through the Senate. My thought is that the anticipation of continued penalties from the CFPB will drive the lenders to continue moving toward a flat rather than markup in APR."

Self-Regulation

Atkinson agreed with Lacour that the current environment calls for absolute product compliance and transparency. Gorra added that agents have an opportunity to ward off the "watchful eye" of federal regulators who may wish to establish new rules for the sale of F&I products. "I think it is important that we all 'self-regulate' and challenge ourselves and our providers so we can deliver the most credible services to the consumer."

To truly promote transparency and production in the finance office, agents and dealers must properly vet potential partners and only do business with those that have track records of proven success, said Bob Corbin, president and CEO of IAS.

“Do they know how to optimize profits without finance reserve? Are they experts at creating multiple streams of income from products and services that provide customers genuine value?” Corbin asked. “The dealers who put their customers’ best interests first are going to be the ones who will come out of an unpredictable 2016 the best.”

Crisorio believes dealers have begun to realize that adapting to a compliant culture is a recipe for increased F&I production. For most dealers, he said, “The ‘Wild West’ era has been over for a long time.”

F&I Technology

An increasingly digitized automotive marketplace has brought an influx of new technology to the F&I office, a trend our experts expect will continue into 2016 and beyond.

“The way F&I is being handled in the majority of dealerships is simply outdated and in desperate need of an update,” said Corbin.

“Eventually the automotive world catches up with the real world, and that should really start to escalate in 2016. For F&I, that means doing things online,” said Steenbergh, noting that consumers’ growing reliance on peer reviews and analytical buying suggestions cannot be ignored. “Making the F&I buying process more like what consumers are accustomed to will lead to less friction and more sales.”

Pruitt noted that the increasing access to data, pricing and reviews of products and services sold in the F&I office will give consumers unprecedented bargaining power. Along with the increasing regulatory situation, F&I providers, agents and dealers will need to be able to very clearly articulate the value of these products, and be able to back up their claims — and they will have to do so quickly.

“Consumers increasingly desire a seamless car-buying experience that is faster and more efficient,” Pruitt said. “Innovations in the F&I office and at the supplier level that speed up and streamline the buying transaction will be well-rewarded.”

To that end, Gorra predicted that electronic contracting will play an increasing role, evolving into a complete, intelligence-building platform that will allow consumers to access and sign contracts on tablets and smartphones.

Lacour agreed, noting that “econtracting will continue to gain traction as consumers across all demographics become more comfortable with paperless transactions in their everyday lives.”

“We will continue to see more dealerships switching to econtracting, though we believe the big push is still a few years out,” said Hutchinson.

“I think technology will continue to revolutionize the way that dealers interact with finance companies, the consumer and their product providers. Dealers need to continue to look at ways to streamline their operations with the goal to have a fully automated front to back system in their dealership,” said Mishler. He noted that these systems will need to include everything from the DMS to F&I menus to contracting for the vehicle and every F&I product. It will all continue to move toward a single, unified, seamless system, instead of multiple islands of information that have difficulty sharing data.

New technology can be a rather frightening prospect, noted Brugh, because it represents the unknown, and the idea of abandoning proven processes is an unsettling one. However, he noted, the hesitation is diminishing as more dealerships integrate with more administrators. This makes dealers more likely to look for ways in which technology can augment existing processes, rather than replacing them completely. "In 2016 it will be about educating the dealership's management team about the overall time saving, and the simplicity of electronic transactions," he said.

But given all of the changes, Vecchioni noted, F&I professionals shouldn't lose sight of the real goals. "Technology will continue to drive the retail automotive business. Processes will and should remain the same, they should just be followed much more religiously. The words or questions might change but the discovery and building of value never should."

"Technology will continue to evolve into 2016, but it does not mean that it requires re-invention of the proven methods that are currently in the marketplace," agreed Tuscan. "What I do believe it means is a more transparent interactive enhancement even to the best processes in F&I departments today."

The Evolving F&I Process

Duncan believes that another change coming to the F&I office is the introduction of products much earlier in the sales cycle. As of now, F&I is typically broached at the end of the transaction, leaving car buyers with few opportunities to properly digest the information. As consumers continue to make more purchasing decisions online, "They will one day be demanding a finalized pricing exercise before they even come into the store," Duncan said. "Some are already."

Eric Fifield, vice president of agency services for EFG Companies, agreed, noting that younger buyers' purchasing power will continue to increase in 2016. "Dealers are coming to the conclusion that their sales processes need to change, starting with their communication with online consumers," he said, noting that F&I will need to find a way to provide more details and information to the online consumer. He predicted that will have the added benefit of speeding up the process once they do arrive at the dealership.

"Through online contracting and system integration, we see the F&I industry taking more steps toward a complete, online vehicle purchase experience," said Matt Croak, president of Wise F&I. He agreed that the F&I portion will need to be moved to much earlier in the process, and will need to be available online. In particular, he agreed with Duncan that consumers will ultimately wish to complete the entire purchase online, and F&I will need to find new ways to present and sell products.

Croak said that, while such a change will require a huge shift, the end result will benefit everyone in the cycle. Consumers will get a faster, more streamlined and more transparent buying process, and dealers and their supporting partners will see greater sales and fewer chargebacks from buyers who later change their minds.

"Clearly F&I processes are evolving and changing, and we embrace the change," Amos said. "We believe this evolvement of selling and financing is good for our business and the future of the F&I department." He added that GSFSGroup has "changed and revamped" its approach to F&I training in response to those trends, a sentiment echoed by Crisorio.

“Training will remain critical for those looking to maximize profitability in both sales and F&I while setting the stage for stability in the coming years,” Crisorio said. “We all remain in the people business.”

Smith pointed out that social media has permanently altered individual buying habits, and its appeal is not limited to Millennials. “Social media is a focus that all companies with a consumer presence, or even companies once removed from consumers, should understand and emphasize.”

The way the dealership and F&I follow up with leads is also going to be affected more and more by technology. Atkinson noted that outdated technology can be overlooked if the office is following up using text messaging and email, and providing information to consumers on their smartphones when and where they want it. “With customers utilizing smartphones to gather information, responsiveness with transparent, accurate information is paramount,” he stressed.

Finally, Price predicted the evolution of the hybrid sales and F&I manager will continue into 2016, although, she noted, that is not a change that will happen overnight, or even within the next 12 months. However, she does believe that, with the pace at which technology is evolving, within the next five years, providers, agents and dealers should be prepared for that shift.

“Although I don’t have a formal opinion on which process is better or worse, it will be interesting to see how it affects F&I penetrations in general,” Price said.

Trends to Look for

So with all of the above taken into account, which trends will our experts be keeping their eyes on in 2016? Their answers ran the gamut from leasing to new products to the dealership experience.

Leasing

Gorra noted that increasing numbers of off-lease vehicles will offer “a whole new challenge and a whole new opportunity for F&I professionals.” Vecchioni agreed, saying that he suspects leasing incentives will continue to play a much greater role in 2016 as OEMs continue to court customers who find that a lease structure is far more attractive than financing.

“Leasing has grown quite a bit in the automotive industry over the last three years, so I will be watching for the effect of lease returns on the used-car market,” said Brugh. The increase of leasing — and of used lease vehicles flooding the market — will continue to put pressure on used car prices, which will make it harder for F&I to secure consumer loans that include product sales.

Adding to the pressure, consumers trading in leases will bring little to no equity to their next transaction, which means F&I professionals will have to work harder on every level. This will also snowball into products like GAP, which, Brugh noted, will be directly affected in terms of both losses and by the lower prices and longer loan terms needed to get consumers approved.

Consolidation

Steenbergh predicted that the recent trend toward consolidation will continue in the New Year, and not just among dealerships. DMS and other software providers could be affected as well. “There is a lot of private equity money looking at deals on both sides, and I expect that a couple of big ones will occur next year," Steenbergh said.

Smith said the purchase of the Van Tuyl Group by Berkshire Hathaway, which was finalized in early 2015, could prove to be a major turning point. "They have the ability to transcend all revenue-producing facets of car sales, especially in the F&I area," he said. "This includes all F&I revenue streams, from the dealer's F&I income to the insurance company income and everything in between, including the agent, the trainers, the administrators and peripheral service providers.

"It will be interesting to see how this plays out not only from their organizational structure, but for other organizations that might consider expansion into other revenue-producing areas."

The Customer Experience

The time customers spend at the dealership and the level of service they receive is another area our experts believe will require close consideration in 2016.

"The changing face of retail will require a shift in dealer priorities," Corbin said, adding that dealers will need to invest in technologies that make the entire car-buying process faster. He noted that consumers will demand a more seamless, streamlined experience that extends from the initial agreement to buy to the F&I product presentation.

To rise to that challenge, Corbin said, F&I will need to evolve. The change will come both in the form of new technologies designed to speed up the process and make it more transparent to the end consumer, but it will also involve investing in more training to help F&I managers adapt their skills to the needs of the modern consumer.

"Proper disclosure, answering all consumer questions as well as a respectful attitude has been and will always be the road to follow," said Amos. He and his colleagues believe strongly in the value of their products, he said, adding, "They just need to be sold."

Customer Retention

Fifield agreed, noting that customer retention and brand enhancement will be critical for dealers who want to maintain market share in 2016. Dealers will increasingly look to third-party agencies to help them increase their opportunities and improve their processes, including helping them implement more comprehensive retention marketing campaigns and develop and better advertise their points of differentiation in their markets.

Dan Brancaccio, national sales manager for NitroFill, predicted that more dealers will invest in well-designed, well-executed service retention programs.

"With vehicles requiring less scheduled maintenance and warranty work at an all-time low, service drive traffic will continue to become a focus and key growth opportunity," Brancaccio said, listing prepaid maintenance and "tires for life" as examples of programs that could become more popular in 2016.

Transparency

It is impossible to look at the big-picture trends without touching on the CFPB and the increasing need for transparency across every department in the dealership. Price said she will be closely watching to see what steps the CFPB takes in the new year, but she also cautioned that the industry needs to pay attention to regulations in general, and not just on the CFPB.

"This is an area that I would hesitate to comment on, as the CFPB and attorneys general seem to be enamored with the F&I space in general," Price said. "It is hard to predict the changes, but be sure of this: There will be some!"

"Things don't change because the calendar flips to 2016. This is a long process," added Duncan, who predicts that econtracting and transparent menu presentations will continue to gain ground in 2016 and beyond. "Customers today are well-informed, short on time and patience, and seek significant value not only in the vehicle they choose, but also in the store they select," he said.

That much is evident in the fact that, today, the average consumer only visits one dealership before making a purchase decision, compared to as many as five 20 years ago. Consumers are walking onto the lots already knowing everything they need to about the dealership itself, the vehicle they want to purchase and the experience they want to have.

"It's no longer about just meeting their expectations," Duncan said. "That was 10 years ago. Today, it is all about getting a 'Wow!'"

Lacour agreed, noting that consumers have made it very clear that they want to fully understand the value of the F&I products they are purchasing. They don't just want a slick presentation, they want to understand exactly what the product is, how it works and how it would apply to them specifically. He said that F&I menu presentations, for that reason, will only continue to gain in popularity, and he also believes more dealers will begin to feature F&I products and their benefits on their websites, so consumers have a chance to understand their value propositions before walking through the door.

These presentations won't replace F&I managers, Lacour stressed, but they will help to take down the wall that goes up when consumers feel like they're being taken by surprise with items they weren't expecting, making F&I product sales a smoother and faster process.

"Dealers, on the whole, are embracing a move toward transparency across the dealership," said Atkinson. "That is beginning to happen in F&I, as you see dealer websites adapting to present F&I products in an inviting way by utilizing video as well as providing basic information."

F&I Products

We asked our experts to predict which F&I products will be the biggest sellers in 2016. First on the list for many were protection products, which "will always be the biggest opportunity to help customers," according to Vecchioni.

"Since the length of time a consumer keeps his or her new vehicle continues to rise, F&I products that protect the consumer's investment will increase in popularity," Pruitt said.

Corbin noted that, because of those factors, maintenance protection plans and wear-and-tear coverage — for finance and lease deals, respectively — will be hot sellers in 2016. He also noted that F&I products focused on the increasing technology in vehicles will continue to do very well as consumers look to protect themselves from the wide range of glitches that could happen in those systems.

As leasing continues to expand, Duncan said, F&I product sales will follow. "The focus will be on tire-and-wheel, excess wear and tear, planned maintenance, paintless dent repair, precision care and others."

"Many F&I managers have looked at [protection products] as a one-or-the-other type of sale. I see them as a combo sale, so the customer is protected both during the leasing term and at lease turn-in," Brugh said. "Remember that the customer doesn't usually get a bill for excess wear and tear until they have already leased their next car."

Amos predicted that higher loan-to-value ratios and a slight drop in used-car sales will boost GAP sales. He also believes prepaid maintenance will continue to penetrate at higher rates as dealers realize how effective they are at retaining service business.

But vehicle service contracts will still be the leader in the F&I office for the foreseeable future, Duncan said, despite the fact that the combination of 36-month leases and four-year factory warranties make VSCs a hard sell. "Used vehicles will offer a great opportunity to make up for any loss of VSC sales on new vehicles. We will see a tremendous influx of off-lease inventory that will fall into a sweet spot for VSC sales."

Tuscan predicted that pre-owned vehicle service contracts will be the biggest sellers in 2016. Atkinson pointed out that "Service contracts continue to have the highest profitability in the product space and are recognized as high value for the consumer," adding that the VSC market will have to adapt as more car buyers invest in hybrid and fully electric vehicles.

Another factor driving VSC sales, said Price, is the number of recalls and other troubles manufacturers faced in 2015, and which are still fresh in the minds of consumers going into 2016. "With the many TSBs, recalls and mechanical issues the manufacturers are dealing with, VSC penetrations are higher than they have been in the past, and we see that continuing."

"I am a firm believer that extended service contracts will continue to be the main product sold in the F&I department," said Mishler. "Peace of mind for the consumer will always be the main focus and having the contracts financed in the loan makes it affordable."

Prepaid maintenance is another product that will do well in both the finance and lease deals. Fifield reiterated that customer retention is key here: The goal for F&I will be to sell products that keep consumers returning multiple times throughout their ownership cycle. "Prepaid maintenance plans that offer consumers a large discount on maintenance up front will be in high demand, as well as updated debt-protection programs that are more aligned with consumer needs."

"Dealers continue to try to differentiate themselves from other dealers, and loyalty programs and products are a definite ingredient for differentiation," Smith added. To that end, he expects more requests for private-labeled products that will help to reinforce the dealership's brand, rather than that of the product provider.

Finally, Lacour said, bundled products could gain in popularity as more dealers realize the competitive advantage that comes with selling value. "These products will be successful because they offer a distinct, robust value proposition," noted Lacour.

Steenbergh agreed, noting, "I think the trend toward bundled products and services will continue as providers look to strengthen their value propositions."

Considering all the driving forces at work in the automotive industry, it's clear agents will have numerous opportunities to do just that in the year ahead. Sales are on the incline, but neither regulatory threats nor the pressure to digitize the buying process and demonstrate the value of dealer-arranged financing and F&I products are likely to abate anytime soon. The ability to shepherd dealers through a series of sweeping changes to the way they do business will undoubtedly separate the good agents from the great ones in 2016 and beyond.