P&A PROVIDERS & ADMINISTRATORS
THE F&I INDUSTRY'S LEADING SOURCE FOR PRODUCT PROVIDERS & ADMINISTRATORS
Thursday, December 4th, 2014

The Future of the Industry for 2014

Posted on January 23, 2014

17 of the industry's top executives weigh in on their thoughts for 2014 and beyond.

By: Jennifer Nebrich

We asked some of industry's top executives to share their vision for the future of both F&I and the automotive industry as a whole for our sister publication AE Magazine. The responses were so great, we decided we had to share some of the highlights with you here as well. The executives discussed their thoughts and predictions about the industry, the economy and technology, and shared their insights on products they will be watching, with an overarching sense of optimism about what the future holds. To read the full article, watch for the print edition of AE Magazine, or catch it online as we share it there over the next several months.

The Economy
Most agreed that the economy has at least stabilized, if not improved significantly, and many see that growth continuing in 2014. A few executives postulated that legislation might have some impact on the industry in 2014, but others don't foresee any major hurdles for the upcoming year. Overall, things seem to be looking up.

Tony Wanderon, CEO, NAC and Family First Dealer Services, felt things had begun to stabilize to a large degree. "Lending has opened up, and customers can come into the dealership and buy cars and we have seen the increase in volume to prove it. I believe we will get into normalized purchase times; there were a lot of customers in 2013 who needed vehicles and that helped us out, but I believe 2014 will be more of a normalized year than the past several. I don't' see a lot of things that will jump up and catch us – no major elections, no financial crisis at this point and everyone has strong balance sheets. I think the economy looks pretty good."

Bob Corbin, president and CEO, IAS attributes the economy's improvement, in part, to the automotive industry. He too, has a positive outlook for 2014. "I think the auto industry is part of the reason the economy is doing better. I don't think the economy is driving automotive as much as automotive is helping the economy. Our industry affects one in five Americans in some way shape or form, and we think everything is very positive. Cars were are up about 8.5% for 2013 year over year, and we see that trend continuing, to somewhere north of 16 million new car units sold in 2014."

While some may not see much change from 2013, many still foresee F&I to be strong, and predict growth within the industry as we head into a new year. As the economy has gradually improved, many people who have kept their cars for longer than historical averages are finally feeling confident enough to enter the dealership looking to buy or lease.

Joel Kansanback, president, Automotive Development Group, said he expected the first half of 2014 to look much the same as 2013. “In our market, car sales have been strong, credit has been loose and dealers have been profitable, but I would expect the results for lenders will deteriorate at some point, in probably the second quarter, and we’ll begin to see tighter credit in dealerships in the third quarter. Dealerships will have more difficulty getting loans, and there will be a big impact on special finance departments. In concert with that, the theme for 2014 will be that the sales will continue to be strong, and F&I will continue to be strong. The wild card, however, is if the major lenders follow direction of CFPB and put restrictions on finance reserve; if that happens, we could have a major shift fast, and that could happen as early as the first quarter.”

“The economy could be unpredictable because of the impact government legislation will have on individuals and companies with the Affordable Care Act,” said John Vecchioni, director of business development, United Car Care Inc. “The industry has benefitted from the down market only because of the limited sales production of the past. People have had to come out and replace vehicles as a result of the 2008 economic calamity. Leasing should become more predominant in 2014 as a result of economics.”

Technology and Products in 2014

The executives we interviewed were eager to talk about the technology and products they will be watching in 2014. The product category most mentioned: eContracting and eSignatures. Appearance protection also made the list, as did the increasing trend toward using mobile technology in a variety of ways.

eContracting and eSignatures

As technology becomes increasingly more available for eContracting and eSignatures, dealers are beginning to utilize this technology in their operations; some more than others. Many of the executives we spoke with believe that 2014 will prove to be a year we will see a great increase in the use of this technology across the board. Some dealers are eager to increase technology and even go paperless, while others remain somewhat resistant.

For product providers, the time to start actively pushing for the use of eContracting and eSignatures is now; even the banks are beginning to take a closer look at the technology, and dealers and agents are beginning to demand the option.

“eContracting is one topic a lot of people will talk about,” said Brent Allen, president, StoneEagle. “And there are all kinds of perspectives on that. A lot of people say it’s stagnant, and some are successful and some are not, but OEMs are pushing it very hard. They are getting the loans in that format, so they are successfully moving that needle forward; I know of one that is pushing 80% eSignatures on the finance side. What we’re seeing is, because of that, the finance side is starting to reach out to get a seamless deal jacket. We have, however, seen a lot more success on eContracting than on eSignatures. There is quite a bit of success on the data, but the signature is the hook. It is the one piece that, for the most part, is not electronic today. Once you can capture that properly, the whole deal can be electronic. It is the lynchpin, and I think that will grow a lot in 2014. There are still things to overcome – how many signatures do you need for example. Can you do it once and apply to all documents? Probably not today; step one would be great if we could figure out how to get all the forms together so they can be delivered from there, so it is a single experience."

Tim Brugh, president, American Auto Guardian Inc., noted that some dealerships are being held back because they lack the infrastructure needed to house the newer technology. "I don't know if it's a trend or not, but while we've had technology forever, it's been rough getting everyone acclimated to using it. The younger generations are used to not touching a piece of paper; they either have everything on computer, or on their phone or iPad. But my generation still likes to touch the paper. We're still trying to get people to accept that change, but once you get dealers and providers past that, we will see them doing everything online. It will get there; it's just a slow process. One of the problems is that a lot of dealerships still don't even have the infrastructure to house the technology in the first place. They don't have fast enough lines, or computers with memory or hard drives to get them where they need to go. It is all part of an education process – it is already changing, and we will see more changes coming, but at the end of the day, it all depends on how much a dealership wants to embrace the change."

"With the numerous recalls and quality issues of many manufacturers, I believe that we will continue to see growth in the VSC arena," said Kelly Price, president, National Automotive Experts. "It is getting harder and harder for people to say 'It's a Honda/Toyota/etc. and it won't break' – especially with all of the electronics comprised in a car these days. But I do see eBusiness solutions as definitely taking hold. We are seeing more and more of our business processed electronically. eSignatures are going to be more of an issue with each state, and whether they are an acceptable form of signature; we will be ready when they are."

Everyone we interviewed seemed to agree that it will be a slow process for dealerships to increase the integration of technology, one that will likely occur over the next several years before eventually becoming mainstream. And the sooner the better; already, there seems to be a correlation between dealers who are pushing eContracting and increased sales volume growth, according to David Trinder, CEO, F&I Administration Solutions LLC.

"All of our customers are eContracting at one level or another," said Trinder, "Some are receiving well above 90% of their contracts electronically, while others are still at the 30% level. It has all been a matter of effort. The more providers push agents to push dealers to eContract, the more successful they have been. It is also interesting that the providers pushing eContracting the most have also seen the greatest sales volume growth. What I am certain of is that in 2014 most providers will feel more push from the other side – the dealers and agents will start insisting on eContracting, so the percentage of eContracting should show a healthy increase in 2014. eSignature is another matter. The requests for it have increased significantly in the past few months, but the demand is not there yet. I expect use of eSignature will grow in 2014, but it will not be mainstream for a year or two at least."

"I see the product offerings as more evolution than revolution," said Jimmy Atkinson, COO, AUL Corp." The way products are presented will change more than the products themselves. Customers will be able to interact with products through tablets or enhanced software at the dealership. I certainly think things on that front are getting faster, but there are still some challenges there. For example, I recently bought a car, and it was going to be a paperless transaction – and it was in that I signed a touchpad. But then there was the biggest printer I'd ever seen, and they printed out reams of paper, so I am laughing at the idea of paperless. We really do still have a ways to go on disclosures and legalities to where it's truly paperless. But I do see the trend to move in that direction accelerating."

Appearance Protection
Although they are not new, last year consumers really seemed to sit up and take notice of appearance protection products. This is a trend our executives expect to continue in 2014; our executives predicted that the appearance protection category will be the biggest seller this year, outside of the product mainstays of VSC and GAP in the F&I office.

"The big three products are always vehicle service contracts (VSC), then GAP, then tire and wheel. I see appearance protection products being resurgent in 2014 however," said Corbin. "They are a great value for a consumer – consumers don't go to Best Buy to take pictures of their new fridge, but they do take pictures of their new car. They love their cars, depend on them and want to have a good-looking car, and that is what providers who provide protection are giving them. I see a resurgence in that product in dealerships in terms of penetration.

Mobile Technologies
While mobile technology is just emerging in many senses, our executives predict its use will continue to become more widespread and diverse in the coming years. Today, you see it in the cars themselves and in the offices where F&I is presented and sold. There are a few dealerships that have already embraced it and are having great success; however, those are few and far between. For the most part, dealers have either not experienced this success or simply have not yet looked at the technology. Mobile technology is definitely a product our experts will be watching in 2014 and beyond.

"It is too early in the game with tablets and mobile devices, but I strongly believe that they will be the trend over the next three years," said Kaizer Siraj, CIO, Safe-Guard Products International LLC. "You can think in terms of point-of-sale – how do you make products more visible? Mobile would allow consumers to evaluate the products, and there is very neat opportunity across the board for that. The second area mobile will impact is the service drive. Take a step back and think about it: the customer comes in with a problem, and we want to make the experience compelling and smooth. Mobile devices and tablets integrate with other back office systems to make that happen. Mobile will play a key role in the future, but the enablers will be about integrating with multiple lenders and multiple partners. So the mobile tablet is in the early stages, but I see that as the direction the industry will ultimately head in."

Leasing, Pricing Options, Combo Products and End-to-End Solutions
There were a few other trends continuing from 2013 – not as vital, but still of interest – that were mentioned by our experts. One product category many predicted will continue to be on the upswing in 2014 is leasing. With more and more products designed to appeal specifically to lease customers, every dealership should be targeting this segment of the market with F&I products that will give customers peace of mind when they turn in their lease, if they aren't already doing so. Appearance protection is expected to grow – already the largest product category for lease customers – with wear and tear following close behind.

"Lease products are going to keep increasing penetration," noted Brugh. "Things like ding and dent, or excess wear and tear. We have seen some nice maintenance programs with a little service contract tied to them. I really think the lease products have seen a lot of growth over the last two years through both OEMs and dealerships. They give the customer a lot of good coverage, so I believe those products will surge forward in the leasing market."

When the economy was at its worst, offering biweekly payments as a pricing option became a popular solution for those who weren't able to make traditional payments. Now, even though the economy has improved, there are still many in the economy's wake with credit problems who need to purchase vehicles. Our experts view this as a trend that will continue in 2014, and feel that dealers need to have these options available. By continuing to offer biweekly pricing options, dealers are given more options to get into cars and consumers are better served, more satisfied customers, who are ultimately, more likely to become return customers.

"I think you're going to see increased interest in biweekly products," said Michael Tuno, president, World Class Dealer Services Inc. "It means the buyer is able to take those longer loan terms and afford a purchase, but be able to pay it off and get back into the trade cycle in a shorter period of time. There is a growing awareness of that product; the seven-year loans rampant in our industry are detrimental to the dealer in getting the customer able to trade their vehicle and get them into another car in a reasonable period of time. Biweekly products keep both the dealers and consumers interests best served."

No one doubts that top selling products will remain the same in 2014, however a number of our executive believe that the trend of bundling several products together – often referred to as combo products – will surge this year as dealers begin to see this an elegant way to increase products on the menu without overwhelming buyers. In addition, by offering several products bundled together, the dealer is able to offer a slightly discounted price, thus further increasing consumer appeal.

"The menu is pretty full right now," noted Steve Amos, president and CEO, GSFS Group. "All of the insurers out there are looking for the next new product we can put in play and gain a lot of revenue, but right now we have to consider the menu – it can't get too big. I think a lot of the jostling for positions is really falling into place; VSC and GAP are big, and the big riser for us in 2013 was prepaid maintenance. I see tire and wheel as a solid product, continuing to increase year after year, and I believe we will see more bundled products next year a well – bundles will be combined with windshield, paintless dent or tire and wheel, all sold in one package at a reduced price. I think in 2014 we will see that become more prevalent, as it has really become mainstream now. Ancillary prods have also become more acceptable, with providers more comfortable with their risk, but as far as what's new, not a lot will go on the menu unless it's a product that will replace something already there."

The systems and software that tie all the processes together in a dealership – tracking a customer from when they walk on the lot until they take delivery – are referred to as end-to end-solutions. While end-to-end solutions are nothing new, they continue to evolve and improve as the technology driving them gains momentum. While our executives don't think this will be a major trend in 2014, our executives believe this is a category most, if not all, providers will be working to implement in the upcoming years.

"I think we'll see the emergence of more desking tools in 2014," said Charlie Robinson, president and COO, Resource Automotive Group. "They are out there now, but I believe they will continue to gain popularity. They will put F&I and the front sales team more in concert; the dealership wants to watch how deals are negotiated, to make sure they're done correctly. Some of them will print out reports that will show managers the deals, so desking tools that track the way sales are negotiated will become more popular as time goes on. This is all part of an end-to-end solution. Everyone has been promising products for 10 to15 years that allow the CRM to feed into a desking tool, to feed into the back office, etc. I think the industry has been struggling for those seamless systems to evolve and work as they should, and I think we're finally starting to see them take center stage."

Customer Retention

Customer retention will continue to be a hot topic in 2014 and well into the future. Our experts strongly agreed that F&I plays a huge role in getting customers back into the dealership. With products like pre-paid maintenance, the dealership is kept at the forefront of the customer's mind, so when it comes time to purchase a new vehicle, the customer is increasingly more likely to buy from the same dealer. And that is the ultimate goal.

A related trend we began to see at the end of 2013, that some executives expect to continue and increase in 2014, is selling products in the service drive. One hurdle that will have to be crossed is the resistance by service managers to sell products. Providers will need to work closely with agents and dealers to present the right products the right training to overcome this reluctance.

"I think there's an evolution of products right now," noted Glen Tuscan, president, Dealer Commitment Services Inc. "But any dealer not doing their own maintenance plan is missing an opportunity. They are designed for dealers to bring customers back, and then to take that customer and turn them into a client. If dealers are not using something like this, they will always be buying customer business instead of earning it, and planned maintenance is truly one of the best products for building that relationship. And that will help the dealer through the coming year, because now he's got customers committed to his business instead of defecting elsewhere. That, to me, is the number one staple product. That is, essentially, building two departments: the dealer is capturing business in F&I, and then turning them into a customer in the service department. That will reap benefits years down the road."

"We've had conversations with many partners, and one of the trends they are all seeing is the idea of customer retention," said David Pryor, CMO, Safe-Guard Products International LLC. "It is becoming an increasing focus in terms of products in the marketplace. Dealers are looking at providers with higher frequency and opportunity to use F&I products to build relationships with their customers. Thinking about that, it kind of sets it up for things like prepaid maintenance, tire and wheel and service contracts. Things that keep that customer coming back – the ultimate goal is selling them another vehicle when they're ready to trade it in."

What the Future Holds

Our executives shared their insights on what they expect to become prominent and the changes they see coming, both in F&I and the automotive industry as a whole in the near future. The constantly evolving influence of technology and the Internet is a major trend our executives will be watching. As younger generations who grew up with the Internet are now of a car-buying age, their entire idea of purchasing a vehicle is viewed from a different angle than that of their less Internet-savvy parents' generation. Dealers will have to find a way to adapt if they want to corner this coming-of-age market segment. This is where providers will need to step up and make sure they have the right suite of products to entice these consumers. Providers will also need to be more involved in finding better ways to present the products to these consumers; agents, provider and dealers will need to work together to find and implement the best solutions to reach this market – and then continue to adapt as the technology changes. The percentage of buyers looking for this type of buying experience is currently small, but is sure to increase over time, and everyone in the product lifecycle needs to start preparing.

Continued consolidation – both of providers and dealers – is another major trend the executives we interviewed discussed. As we have been seeing in 2013, they predict it will continue to become harder for smaller providers and dealers to compete. Compliance is a major part of that – as providers scale their operations up, the burden of compliance is easier to spread around. Smaller providers will have a much more difficult time with that aspect of the business as time goes on; it won't be impossible for them to compete, but they will need to be nimble and efficient to do it effectively.

"It is imperative that lenders, providers and dealers alike focus on compliance not just on the state level, but also on the federal level," said Matt Croak, president, Wise F&I. "This is evident by the growth in membership of such F&I-related trade associations as GAPA, SCIC and MVAPA. I also think that changes in the vehicles themselves may require a thoughtful look at the benefit coverage options in the F&I products so that they align more closely with the underlying vehicle.

"I think menus will continue to be critical part of the transaction in F&I, and that F&I managers will be much more engaged in the sales process, not just focused on what is happening in F&I," noted Tuno. "It is siloed right now, but I think there will be more integration between the consumer buying the vehicle and everything that happens up until they get it delivered. All that technology is there today, it just isn't too far along in its maturity, but I think there will be a push for an end-to-end solution. The technology will drive a more lean and efficient process, and retailers that have it down are the ones that can eke out the margins. The most efficient might see 5% return as a percentage of gross revenues, but most are going to operate at 2-3% – the 5% are the ones who have the process down from the front door to delivery of the vehicle. Technology will create a much more conducive solution, especially for the younger generation, which is used to communicating less with people in face-to-face environments. There is the whole idea of Internet, and millennials, gen x and ys – they all use it. Even baby boomers like me use the Internet a number of ways when purchasing a vehicle. This generation wants to show up at the dealership much further along in the transaction than in the past, and they don't want to spend more time than necessary in the dealership itself. We already have the groundwork for that kind of business model, and I think we will see more of it in 2014."

While hybrids and electric vehicles are not new to the market, as that technology improves and their prices drop, they are rapidly becoming the choice of more consumers. Our executives predict this will be a continuing trend in the future, which presents an opportunity for providers to look beyond their traditional offerings and come up with F&I products that are especially tailored to fit these unique vehicles.

"At Protective, we are keeping an eye on similar trends that we have been monitoring for the past few years, such as the steady growth of alternative power systems (like hybrids), technology and connectivity," said Scott Karchunas, president, Protective Life Asset Protection Division. "Consumers are bombarded with new forms of technology, and their desire for more efficient vehicles is growing at a steady rate. We are working hard to stay ahead of these trends to develop F&I products that meet these evolving needs both today and well into the future. For F&I specifically, for the past year and a half, we have been keeping an eye on the developments with the CFPB. Even though most auto dealers are not directly subject to CFPB regulation, this has obviously become a hot topic for the auto industry. Over the course of the next year it will be interesting to see how the industry adjusts processes to meet the potential impact of CFPB guidance. At the end of the day, the need to support F&I operations with reliable products, training and administration remains intact, regardless of whether the CFPB takes further action affecting auto sales and financing. Dealers and their F&I staff need products that provide value to their customers and they need to know these products are backed by a financially stable organization that is interested in helping protect their reputation."

This article was written by:

Jennifer Nebrich - has written 21 posts on P&A Magazine.

Jennifer is the senior editor for AE and P&A magazines. She has more than a decade of experience in education, testing and grant writing. Jennifer has worked with nonprofits, museum studies and in trade show marketing for numerous companies.