The future of F&I in an age of increasing vehicle quality

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Bill Gates once said "Never before in history has innovation offered the promise of so much, to so many, in so short a time." These words have particular resonance for the automotive industry. Never before have we experienced such rapid advancements in this ever-changing business.

In 2016, we saw the release of two hallmark studies by J.D. Power. The results of the *U.S. Initial Quality Study* released this past June showed an improvement in new-vehicle quality by six per cent, representing the largest jump we'd seen since 2009.

The study examined problems experienced by vehicle owners during the first 90 days of ownership, and reported quality improved across all eight problem categories.

With these positive consumer ratings, product developers have to ask themselves "Will F&I products continue to play a role in vehicle ownership in the future?"

Much of the answer lies in the results of another recent J.D. Power study, the *2016 U.S. Vehicle Dependability Study.* According to the February press release, issues with audio, communication, entertainment and navigation systems now account for 20 per cent of all customer-reported problems. More specifically, usability related to Bluetooth pairing/connectivity and built-in voice recognition, as well as difficulty using navigation systems, topped the list.

Similarly, in 2015, Consumer Reports tracked 740,000 new car owner responses over their first six months or 4,800 km of car ownership.

Three of the top five gripes included power accessories, in-car electronics, and climate systems.

As someone tasked with creating long-term product strategy, I am always thinking about what this kind of consumer feedback really means.

There are two camps of automotive futurists who hold differing views on the impact of technology. On one side, there are those who argue that electric motors and hydrogen vehicles have fewer components and therefore present less opportunity for failing parts within the engine. These people anticipate that cars will eventually be treated as simple (and relatively disposable) appliances that are easy to run and affordable to operate.

On the other side, we have those industry experts who say cars are becoming more and more complicated, filled with technology doodads, software code and electronics that are bound to fail and require sophisticated repair services, or full-out replacement.

From my perspective, both of these viewpoints are valid. Mechanically, cars are indeed becoming much simpler. A hydrogen vehicle that runs on a fuel cell and a chemical reaction does not have as many moving parts that come into contact, causing friction and eventual breakdown.

But, in many ways, the growing simplicity in our motors is counteracted by more technological pain points. Just look at three of the top gripes focused on car electronics.

Vehicles constantly need code refreshes. My car was recalled because the computer did not recognize when someone was not sitting in the passenger seat and the airbag did not automatically de-activate. Obviously, that's a major problem for both the safety of my family, not to mention liability concerns on the part of the OEM.

In June, arguably one of the most reliable OEMs, Lexus, saw its infotainment systems fail – crashing navigation systems.

We now have such sophisticated central consoles that control so many functions, like air conditioning and heating, radar cruise control, driving aids like assisted lane departure, as well as accidents and avoidance features. All of these features require code and programmed computers.

For me, that breadth of technology is the strongest evidence that supports the continued need for F&I products, particularly things like extended warranties as people hold onto their cars longer.

Just think of how many times you've had to restart or repair your home computer since it was first purchased?

In the case of our vehicles, very few of us have the expertise to even attempt to remedy a technological problem on our own. In fact, when it comes to technical software problems, local service technicians today are primarily responsible for searching for clues and describing behaviour that they then relay back to a team of more specialized OEM engineers or service specialists in the home office. That specialized team then tries to replicate the scenario and identify where the code problem exists.

This type of technological breakdown is something we must factor into our F&I product designs in order for them to stay relevant and convince consumers of their value.

The new reality is that a driver visiting a dealership for regularly scheduled maintenance will not only require an oil change, but may also need an unforeseen pricey software update. We must design products to cover these costs. For example, a rear camera – which wasn't a standard feature a few years ago – now averages roughly $500.

So yes, despite steadily increasing vehicle quality, F&I products like extended warranties will continue to play an important role because consumers will always need protection from unexpected costs.

More than anything, the onus is on F&I providers and product designers to match the fast pace of technological advancement and create products that cater to these new-found needs.

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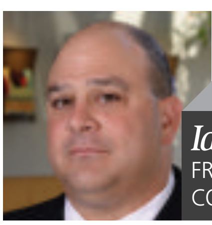
Behind the numbers – Is there a reason to worry?



Ian Reilly
FROM THE
CORNER OFFICE

Vehicle sales in Canada grew six per cent in the first half of the year. Then came July and a sales decline of three per cent from July 2015, a loss of 4,600 vehicles.

Harbinger or aberration?

Most analysts still predict a strong second-half finish. But, behind the forecast, there are worries.

One that continues to gain attention is a growing subprime auto loan bubble.

Analysts continue to warn that Canadians are buying too much car and taking out loans with terms that stretch too long – seven years or more. Analysts also see consumers rolling old auto debt into a new vehicle's financing, compounding their debt burden. At the same time, recent reports also show that auto-loan delinquency rates are rising, especially in oil-rich areas of Canada where unemployment rates have risen due to falling oil prices.

All of which puts more worry behind the numbers.

If and when the subprime lending bubble bursts, it could make enough of an impact that dealers will need to adjust their business strategies to compensate for the loss of these sales.

The best dealers already are. In fact, they're applying lessons learned after the recession and acting now, rather than reacting after a downturn begins.

One of the steps they are taking is to better manage key performance indicators, such as marketing costs and inventory levels.

To do this, they're using newer tools, such as management dashboard reporting technologies that allow dealers and their management teams to keep a pulse on their business in real time.

Newer dashboard tools that pull data directly from the DMS enable dealership managers to spot problems or improvement areas quickly.

Exception reports track performance metrics that fall outside acceptable levels for the dealership. When a potential problem pops up on the report, dealership managers can move swiftly to make the necessary business adjustments and plug profit leaks.

By leveraging technology tools to constantly monitor business performance, dealership managers can focus on areas of the business needing immediate attention. It also affords them more time for things that move the business forward, such as strategic planning and employee training.

It's a great time to be in the automotive industry. It is also a tenuous time. Using newer technologies to constantly monitor business conditions can help dealers ward off the worry behind industry trends and remain successful whether it is boom time or bust.

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