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EFG Companies: Retail Vehicle Market Poised for 2022 Upside with Early Supply Chain Impacts

Demand for Units and Financing Bodes Well for Dealer Principals, Agents and Lenders

DALLAS, TX (December 7, 2021) EFG Companies, the innovator behind the award-winning Hyundai Assurance program, foresees several potential market opportunities in 2022 for the retail automotive and F&I industries, tempered by supply chain and inventory issues in the first half of the year. Company leaders encourage dealer principals, agents, and lenders to strategically position themselves for changing sales models, increased financial and regulatory concerns, and a focus on hiring, training, and customer engagement to maximize revenue potential.

According to The Conference Board economic forecast issued October 13, the economic research firm forecasts that the U.S. economy will grow by 3.8 percent year-over-year in 2022, reflecting a slight cooling of the rebounding economy. Year-over-year inflation rates will likely continue to remain high through the end of 2021 and into early 2022 due to sizeable base effects. However, consumer spending is expected to accelerate as supply chain challenges ease, and spending on travel and entertainment increase through the coming months.

"Driven by constrained consumer spending at the peak of the 2020 pandemic, the economy has demonstrated a 'rubber band' effect," said John Pappanastos, President and CEO of EFG Companies. "After a significant pull back, the economy sprang forward in 2021 with such velocity that demand for goods overwhelmed global supply chains. Businesses have also struggled to ramp up in the face of several stops-and-starts, labor concerns, and changing consumer demand. Despite these issues, we believe the forecast for the overall 2022 automotive retailing space is strong with numerous opportunities for revenue generation."

Pappanastos and his executive team at EFG Companies emphasize that while vehicle availability may remain constrained for much of 2022, consumers remain very financially healthy.

"The retail automotive industry has seen first-hand just how financially prepared the average consumer is right now," said Eric Fifield, Chief Revenue Officer of EFG Companies. "Between securing record trade-in amounts for their current vehicles and government stimulus checks from the previous year, demand for vehicles is not only high, but more consumers have more cash to put down on their next purchase. However, with supply constraints continuing into next year, we are counseling our clients to focus on strategic planning, and implementing a realistic approach to pricing, continued focus on customer engagement, and implementation of value-added products and services to increase their market share in the coming months."

Retail Automotive – Scott Kaskocsak, Executive Vice President, Dealer Services

Pent up demand for new vehicles is expected to continue to build. As a result, OEMs have reduced incentives by 45 percent over the past year. Strong consumer financial positions and favorable credit terms spell revenue opportunities for those dealers who know how to manage purchasing. This means selling into their pipeline of inventory, rather than just what's on the showroom floor.

As the global supply chain woes begin to unwind, consumer willingness to pre-order units with flexible financing can mean the difference between a sale or a miss. Additionally, the line between online and instore sales continues to blur. Between vehicle pre-orders and a hybrid sales model, a new road to the sale is emerging. This will require new training models and a different set of skills for sales professionals. Lastly, compliance should remain front and center, as a new CFPB director increases the agency's focus on discriminatory lending and advertising practices.

<u>Agencies – Adam Ouart, Vice President, Agency Services</u>

Increased dealer merger and acquisition activity is expected continue in 2022, prompting agents to put even more emphasis on relationships and support. With dealers historically short on inventory, strategic dealers are pivoting to a service retention model to maximize profit and retain customers. Agencies should mirror that focus, working with clients to boost maintenance marketing options that increase the 'stickiness' of each sale and keep the customer returning to the dealership for service. A good example of this is the use of maintenance programs in the F&I office. Enhanced dealer customer service – from vehicle deliveries, pre-orders, and a hybrid on and offline sales model – provides an opportunity for an agent to guide and advise, providing high-value consultation.

<u>Automotive Lenders – Brien Joyce, Vice President, Lender Services</u>

In response to rising inflation, the Federal Reserve has announced plans to taper off its bond buying and is largely expected to begin raising interest rates as early as next year, a reversal from their plans earlier this year to keep interest rates at near zero until 2023. As rates increase, credit unions need to be creatively competitive to capture auto loan volume. A larger issue looms for credit unions who continue to lose market share to banking and captive loan originators. A research brief issued by TransUnion and the Filene Research Institute, reveals that many credit unions have extremely low delinquency and charge-off rates, signaling that their current lending approach no longer aligns with the true nature of a credit union – to be accessible to all people, regardless of credit profile. An over-reliance on machine-based decisions have prompted credit unions to decline loans that typically would have made good business sense.

To reverse course in 2022, credit unions looking to recapture lost auto loan market share must stay true to the member-first mindset. Credit unions looking to differentiate themselves have discovered that the playing field has moved from competing on APR to competing on value. As credit unions look to return to their roots in serving their community, we recommend that they build value into their auto loans with consumer protection products, like a debt protection product that allows members to walk away from their auto loan. When offered complementary, consumer protection products like vehicle return protection give credit unions a significant value-add to drive traffic and loan application growth.

<u>Powersports Dealers – Glenice Wilder, Vice President, Powersports</u>

2020 and 2021 shaped up to be banner years for powersports dealers, regardless of continuing inventory issues caused by pandemic supply chain bottlenecks. While on-road unit sales continue to decline, off-road and personal watercraft unit sales continue to increase exponentially. For 2022, demand for off-road and personal watercraft vehicles is expected to remain high. Once manufacturers begin producing more units at scale, dealers can expect the 30-point margins enjoyed during the boom years to begin to decline as supply chain issues resolve. The key to a successful 2022 will be based on implementing a consistent sales model at prices the market can bear, with a focus on creating long-term customer relationships. Training for all staff members on financing and protection products will also be key to boosting revenue as the sales process evolves to incorporate more online resources.

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About EFG Companies
EFG Companies drives the industry's highest-reported compliant F&I profitability through its distinct engagement model in which the company operates as an extension of the dealer's management team. EFG addresses total dealership performance, and its client satisfaction Net Promoter score is higher than national corporate leaders such as Nordstrom, Ritz Carlton, and Amazon. Learn more about EFG at: www.efgcompanies.com.