2016 Automotive Review

Consumer Trends Pulling Auto Manufacture and Sales Into the Future

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DESPITE the rise of ride sharing services, 2015 was a record year for the retail automotive sector.

But the growing economic malaise in the rest of the world, particularly in emerging markets, led to a flat 2016 overall, dampening prospects for global automakers and suppliers.

Further setbacks this year included the Volkswagen diesel scandal and the massive Takata airbag recall and bankruptcy, both of which may manifest further consequences affecting consumer confidence by creating increased scrutiny of the practices of other auto manufacturers and suppliers.

Provided this heightened awareness does not reveal a sector-wide culture of deceit (a very unlikely result), any fallout from these scandals is likely to be limited to the companies responsible for them, trickling down to the distributors and retailers associated with them.

The automobile industry is cyclical and historically has experienced downturns characterized by oversupply and weak demand. Many factors affect the industry, including general economic conditions, consumer confidence, personal discretionary spending levels, interest rates and credit availability. Due to the cyclical nature of the sector, it is logical that the industry will experience sustained periods of decline in vehicle sales in the future. But excluding the relatively self-contained scandals mentioned above, the usual factors influencing that decline are insubstantial. Moreover, as is usually the case with these devastating-at-the-moment scandals, they will likely result in either enhanced self-policing through robust corporate compliance and ethics programs throughout the sector, or additional regulation that, with time, should allow the affected companies to recover their images and set examples for competitors.

Despite all of the negative press arising from deceitful factory executives and safety issues, massive improvements in fuel economy technology and pressure from new entrants from the tech sector are advancing ride-sharing, self-driving capabilities and changes in the very fiber of the franchise model – causing evolutionary leaps for the entire industry.

Factories and tech companies alike are dabbling with new technologies and vehicle concepts that can transform the automobile industry (and transportation more broadly) in perhaps the most dramatic fashion since mass-production. Already we are beginning to see what the connected-car will look like: a fully digitized vehicle with Wi-Fi; advanced infotainment systems and apps; vehicle-to-vehicle technology; GPS systems for determining routes, locations and traffic conditions and networked links to allow remote vehicle diagnostics and repairs. All this as self-driving technology expands to allow self-parking, self-braking, automatic cruise control based on road conditions, accident-avoidance features and others.

In the showroom, retailers and others are developing and implementing software to digitize and enhance the customer experience, from virtual reality and apps designed to reduce the time a customer spends shopping for a vehicle and sitting in the dealership, to extended tests drives, paperless sales and vehicle home delivery. All of this is dragging the auto industry into the 21st century and re-energizing automotive retail. If the industry continues to embrace new technology and change with consumer behavioral trends, it should continue the success of 2015.

Millennials, who fueled the growth and success of ride-sharing companies while the Great Recession stunted their own prosperity, have been slower to purchase cars and homes, choosing instead to squirrel away their money until they leave the nest. However, many Millennials are now buying more cars and homes, and we'll see an uptick in the numbers of car-buying millennials in coming years.

Auto retail sales disrupters have developed platforms to respond to the needs and desires of millennials. These disrupters could hurt future auto dealership sales if they replace the auto dealer. But the success and long-term viability of retail automotive disrupters is hindered by laws and regulations enacted before the advent of the technology or business model at issue. If the regulatory framework does not keep pace with new disrupter business models, auto dealerships shouldn't see these companies impacting their sales volume. But if the framework is amended thoughtfully, with the interest of auto dealers in mind, auto dealers can take advantage of the changes to reach an even greater number of customers.

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Christian Scali and Melanie Joo are with The Scali Law Firm. Recognized as California's top boutique automotive law firm, The Scali Law Firm's clients range from small, family-owned businesses to publicly held global companies and high net worth individuals. Its team of attorneys has decades experience in a number of practice areas, with a high degree of specialization in serving the auto dealer industry. For more information, please visit ScaliLaw.com.