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F&I and Showroom

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THE PAST, PRESENT AND SHIFTING FUTURE OF F&I

Finance teams of the future will be staffed with professionals whose goals align with those of the dealer and whose jobs are supported — not replaced — by new and emerging technology.

BY LLOYD TRUSHEL

We are in interesting times. Opportunities that will define the future of F&I are emerging as we speak, and it's more important than ever that we work to preserve this important department.

Your future will be filled with solicitors trying to convince you there is no need for F&I, that they have a method for the sales department to handle the complete transaction, that their electronic solution will do the job of F&I, or that F&I can be replaced with an app or a vending machine. Were this true, I would be writing about technology of the future — but I'm not.

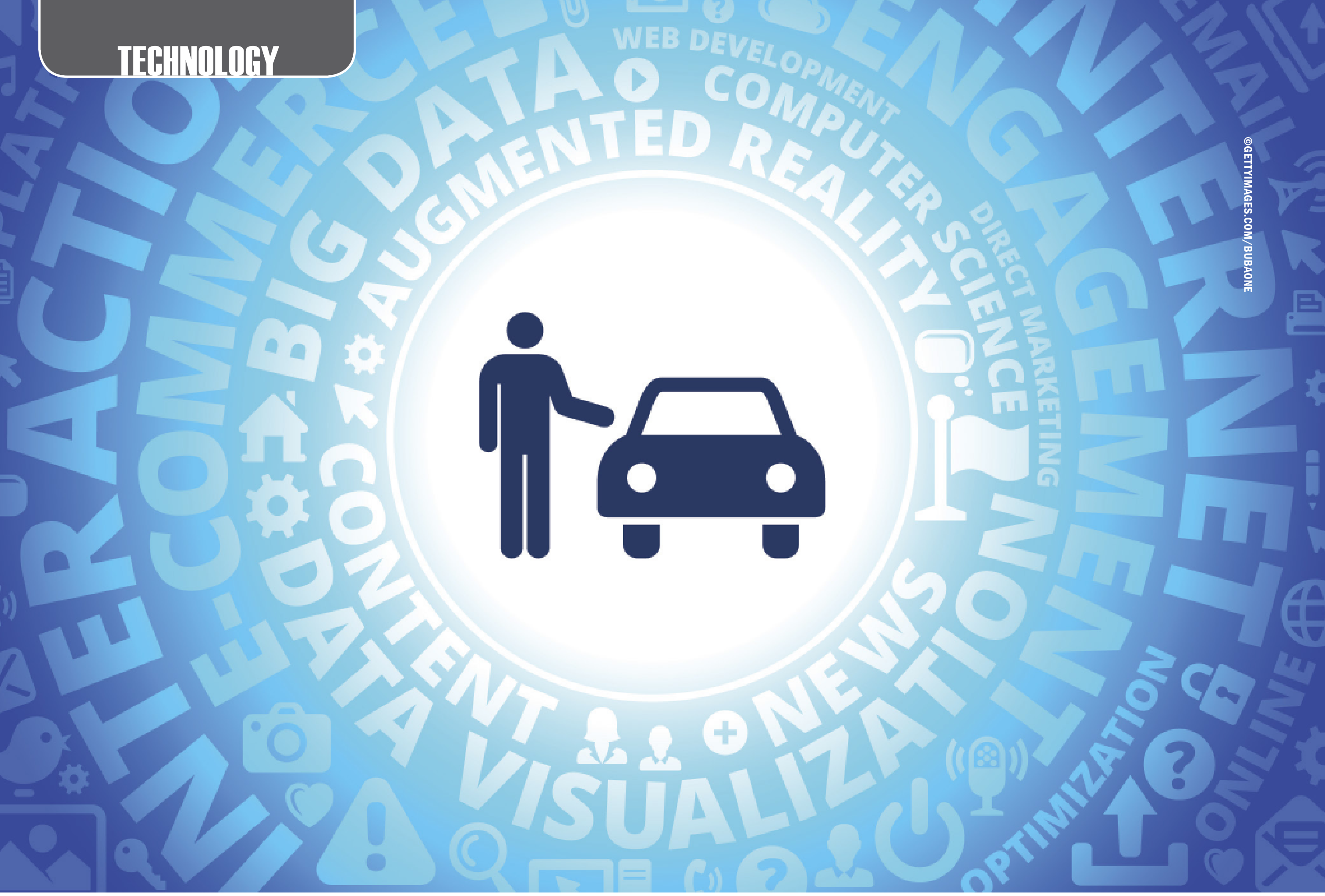
I love tech, but in this case, the predictions are wrong. F&I is imperative to the future of dealership profits.

THE WAY IT WAS

All the way up to 2008, right before the financial collapse, auto finance sources had little direct contact with consumers before the sale. The digital market was small and most customers were payment-focused.

Back then, if a customer wanted to do any level of research, they would have to do it from their home computer, make notes, and do the best they could to remember all the information when they went to the dealership. Most car guys and gals would usually try to move the customer to a different, more profitable unit. If successful, their data would become irrelevant and they would go home to research the new unit — which they just bought.

Today, change is everywhere. Consider *The New York Times*, one of the most prestigious newspapers ever. As the internet developed, it had to scrap its business model and develop a new method just to survive — and auto dealers must likewise adopt a



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new F&I model soon to compete or even survive.

One driving force of our industry has always been technology, for better or worse. This began on the factory floor at Ford with the assembly line, continued to customer's carrying the internet around in their pockets, and will remain a part of our industry and culture indefinitely.

Since 2008, more than 100 million automotive transactions have been influenced in one way or another by the advent of the smartphone. We've seen customers sit across from us and share information about price, equipment, selection, financing, and, of course, payments.

THE WAY IT IS

The finance manager's job has never been more challenging. Sure, desk managers occasionally quote a payment range (not leg) to try to help finance have more opportunity, but many times it proves itself irrelevant because the customer has already done the math on his or her smartphone.

The first objection we hear is often rooted in the customer feeling like the payment should match what's on his or her phone. When it doesn't match, the customer becomes suspicious. This is the moment we begin to lose income and customer loyalty.

Technology is increasingly making the transaction more difficult than ever for F&I managers. Why? Because in F&I school, finance managers focus primarily on how to overcome payment objections rather than relating to the customer, understanding buying habits, finance situations, accurately assessing the vehicle's future use, building value in products and services in a positive light, and simply understanding what they are selling.

Question: Do you think your F&I team understands the products and services they are selling?

Many general managers would be disappointed if they walked into F&I, picked up a contract, and asked logical questions about coverage and claims. I do this often, and I am routinely shocked at the lack of knowledge. This makes a value conversation with the customer impossible.

It has become increasingly higher in priority that our presentations move off a payment and on to value. Staying focused on payment only makes the transaction more difficult, because a "payment mentality" prevents the finance manager from talking about the value in F&I products and the problems they solve. It also keeps the customer focused on the payment instead of being focused on fixing their future problems.

You can recognize when your store has a "payment mentality." You'll notice that your *cash* profit per vehicle retailed is only a tiny percentage of your store's *overall* PVR.

This is creating a serious gap in profits. On one side, dealers have the factory continuously pressuring them to deliver more units. On the other, you have customers working with more information and negotiating more diligently than ever to get the best deal. The risk here is that some key players (finance sources, customers, manufacturers) may follow their own individual interests and pressure dealers to accept unreasonably small delivery fees. Obviously, this is a higher risk on new vehicles, but it is a disturbing trend.

For many dealers, F&I is the most profitable department in the store, based on compensation as a percentage of gross. However, F&I is poised to become the single highest gross profit center in the dealership if current trends continue, but not for all dealers. Many need a better process.

F&I DEFINED

Let's define what F&I is. That may sound elementary, but there is more to F&I than just selling products. F&I, when done properly, should deliver the vehicle, get all the money bought, protect CSI, track contracts in transit, ensure correct deal structure, and complete all the basic documentation — and don't forget to sell products.

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Since the '90s, we have all been hearing "a pay plan is your job description" and "coin-operated." Since then, I have worked with thousands of F&I managers across the United States and Canada and the lesson holds true: F&I managers work their pay plan.

Unfortunately, I've seen too many F&I managers who only care about themselves. They'll ask the customer for extra money down to squash the deal if they will not get products due to loan-to-value or payment-to-income restrictions. This may be undesirable, but their defense is that they are simply protecting their PVR.

In some cases, the dealer says he wants the PVR at a specific number, and that F&I will get there or get bounced. This is actually a problem.

I know this sounds counterintuitive, but there must be some incentive for finance managers to get your customers delivered by getting loans approved, moving products that increase future customer interaction, and by demonstrating behaviors that increase loyalty — not just PVR.

I frequently meet dealers whose finance pay plan is going in the absolute opposite direction of their overall goals. They encourage behaviors in F&I that work against creating long-term loyalty and profits.

Many companies continue to use the same training and compensation models developed in the 1980s. Until about 10 years ago, that training had a certain amount of effectiveness, and then customer behaviors changed. Now those models must be reexamined and modified to encourage overall dealership success.

THE WAY IT WILL BE

Many dealers got crushed in 2008, but dealers with loyal customers didn't. Dealers who want to weather the next storm will need customers who are loyal. So how do we drive long-term loyalty and profits?

Dealers who adopt a "base hit" mentality and stop trying to hit home runs will actually earn more money per vehicle. One home run is never worth as much as four or five base hits. A 10- or 15-year relationship with a customer who brings his or her vehicle back for service, buys his or her next vehicle from you, refers family, and maintains your community reputation is worth much more than a single home run.

Ideally, the customer leaves happy and goes home feeling good about the transaction. A surprising fact is that most customers expect you to profit. They just don't want to get ripped off. There is middle ground here that is profitable for the long term, and it must be harvested.

So where do we go from here? The entire landscape of how customers purchase vehicles and how the dealership operates has changed. The behaviors in the finance department have not, but they must change along with it.

Perhaps dealers will adopt alternatives like trying to complete the transaction electronically or directly with the salesperson. This is evident by the many different buying and selling structures, whether technological or human, that are positioning themselves to replace F&I.

Technology can compete with an undereducated, unethical, and fear-based F&I manager, but let's be real: You're not trying to hire that guy, are you?

As an industry, we're trying to solve the wrong problem. We need not eliminate F&I, our most profitable department. We must improve it. Neither electronic transactions nor hybrid sales departments will ever effectively compete with having an ethical, knowledgeable, and professional finance manager.

This is great news for dealers who are open-minded to new information and willing to adopt new practices. Because the data supports that having a standalone finance department — when performing properly — is only possible when we invest our efforts in developing a finance department in harmony with today's customer.

ABOUT THE AUTHOR

Lloyd Trushel is a key member of a group of associated companies and undertakings that include Consator Group, F&IQ, CAP Warranty, First Choice Warranty, Intelibuy, and others. He previously served as an F&I trainer and account manager for Assurant. Contact him at lloyd.trushel@bobit.com.