

## A More Transparent F&I

**At this year's Industry Summit, F&I product providers discussed everything from the CFPB to CPO. They also weighed in on the future of the F&I office.**

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by Editorial Staff

Executives from five F&I product providers and administrators convened at the 2013 F&I Conference and Expo to provide their perspective on a host of topics, from the Consumer Financial Protection Bureau (CFPB) to technologies equipping today's vehicle models.

Moderated by *F&I and Showroom* Editorial Director Gregory Arroyo, the session, "From the Boardroom: Executive Outlook," included Dave Duncan, president of SafeGuard Products International; Scott Karchunas, president of Protective Asset Protection; Tim Brugh, president of American Auto Guardian Inc. (AAGI); Jimmy Atkinson, COO of AUL Corp.; and Steve Amos, president of GSFSGroup. Below is an excerpt of the discussion.



*F&I and Showroom's Gregory Arroyo (center) moderates a panel discussion between executives from five F&I product providers. Among the topics covered was how the Internet is testing current F&I processes.*

**Arroyo:** The industry's argument against eliminating rate participation is F&I managers will no longer be incentivized to secure the best rate for their customers. Instead, under a flat-fee system, they'll direct buyers to the source offering the best compensation. What are your thoughts?

**Brugh:** The curious thing is, who's going to pay for the flat? Lenders might increase the portfolio, but how are they going to do that? Today, they come in and they drop their rate, extend their term or try to buy market share. If they're all operating on flats, where's that going to go? Is it going to increase the flat? Who's going to pay for that? Consumers?

**Arroyo: How will the industry respond if and when the CFPB begins scrutinizing F&I products pricing?**

**Amos:** We've got to have a real industry effort to pull this off with what's going on right now. We have to educate these folks as to who we are and what are products are. I've met with them a couple of times on a trip to D.C. They don't know. I also think there's going to come a day when the best practice will be to have all of our products priced from a retail perspective. We work with several large dealer groups that retail price every F&I product, including a publicly traded group that's been doing that for 15 years. And the code within these operations is the F&I department cannot discount any of the pricing, which eliminates pricing disparities. It's worked well for them because their penetrations are very strong.

One of the things we're in intense debates about within our company is how do we take retail pricing to the dealer and say, "We recommend that you use this pricing." But there's some very difficult areas in there in how you price it. Do you use percentages, a flat dollar amount? Do you use it for all your dealer customers? We're leaning toward the dealer groups.



Steve Amos says F&I product providers need to come together to educate the CFPB on how the industry functions.

**Duncan:** Steve, your example, I think that works in a perfect world, but I think a majority of dealers will have a tough time adhering to that discipline. I think the most important thing is to have a max retail to eliminate price gouging. You're in a position sometimes ... because of a condition or the customer can't pay any more than \$399.99, where you may need to discount the product.

**Arroyo: Jimmy, can you update us on the used-vehicle market?**

to, so I think the used-car market is going to stay strong. Certified pre-owned has been terrific for most of us, because whether it's a manufacturer CPO or some of our other programs, it really sets up the F&I department to have a conversation about protecting vehicles. It just automatically rolls into the sale of a vehicle service contract.

**Atkinson:** Half the people in the country can't buy a new car even if they wanted

**Arroyo: All statistics and reports indicate leasing has come back with a vengeance. How should F&I professionals be dealing with this news?**

**Brugh:** Don't look at leasing as if you can't sell products, because there are bundled products with tire-and-wheel and prepaid maintenance that can keep profitability on these deals up. Remember, leasing is a retention product, and dealers are getting pressure from manufacturers to keep customers. But that allows us to tell customers why prepaid maintenance is so important when leasing.

**Arroyo:** We saw this year General Motors and Ford open their future infotainment systems to app builders. We also saw software makers demonstrate a working Facebook app for the Jeep Wrangler. Are these innovations and others changing the way you look at what's possible in this market?

**Karchunas:** Yes, they are. What's happening is the relationship between consumers and their cars is changing. First it was transportation, but now it's infotainment. So car owners will have a different relationship with their vehicle.

General Motors said in 2015 that people will be influenced to buy based on that. And the vehicles will be driving around and extracting information from businesses. The relationship is continuing to evolve, and, as product developers, there will be new needs and new ways to think about the car ownership experience.



**Tim Brugh** believes many F&I departments are understaffed. He says dealers need to start thinking about adding more people.

**Arroyo:** What impact will these innovations have on the protection you offer? Will they raise costs?

**Amos:** It could, but we don't know. It's like when the hybrid cars came out 15 years ago and we had no idea what to expect on those cars. We'll just have to measure it on all of our service contracts and price accordingly. Hopefully the quality will sustain the prices.

**Brugh:** There's a lot of technology out there and the problem is getting the dealerships to be able to handle all of it. So no matter how good the technology is, it's difficult to have the dealerships participate in it and know these infotainment systems.

**Arroyo: What other forces are challenging the F&I office?**

**Brugh:** Dealers need to think about adding more people in their F&I departments so customers get genuine presentations, and so F&I managers can simply do their job. Sometimes we get so involved and try to cram so much through F&I that we are actually hurting ourselves.

**Karchunas:** I remember when the Internet came out and the smart dealers realized that people still need to come in the store and drive the vehicle. Those people were right, but they're not right anymore. People used to give as little information online so customers were forced to visit the store, but now you give as much information as possible.

Customers want transparency, information. The day is coming when we are going to help our dealers market F&I before customers make a decision to come to the dealership. We all need to start thinking about what's best for the process.

**Amos:** The information is out there for Internet customers; they know about our products and they're reading articles that say service contracts are a waste of money. So we have to counter that through store training and getting our associates and agents to work with dealers on their process. Most stores have Internet managers now who are taking calls. Where does F&I fit in there? It has to fit in there.

I read an article about a dealership that sells 300 to 400 cars through the Internet per month; they have 15 people dedicated to the Internet department because it's that real in their store. We have to have 100 percent turn and we still want that for the people who are showing up, but we need to sort through the Internet cycle. The answers are varied, but it's going to come from sitting down with the dealer and F&I office and saying, "What process can we put in place to get our products in front of them."

**Atkinson:** I think F&I managers have to be willing to engage [offsite customers]. It's difficult to field every call, and sometimes you're going to ignore the ones you think you have a low chance on. So many customers don't even get a phone call, an e-mail, a presentation. If you just contacted the customer, presented it over the phone, send them a PDF brochure, something — somebody will buy something. But I think that's getting missed today. ... If we don't want to give the information out and still want to keep it behind the current in F&I, it's just not an effective way to do business. It just doesn't work anymore.