F&I, Service Contracts

AFTER FALLING from 1998 to 2003, gross margin on the sale of new units fell again in 2004, edging down to 5.2 percent. The decline was largely the result of an extremely competitive marketplace, which makes the profits generated by finance, insurance, and service contracts increasingly important to the new-vehicle department.

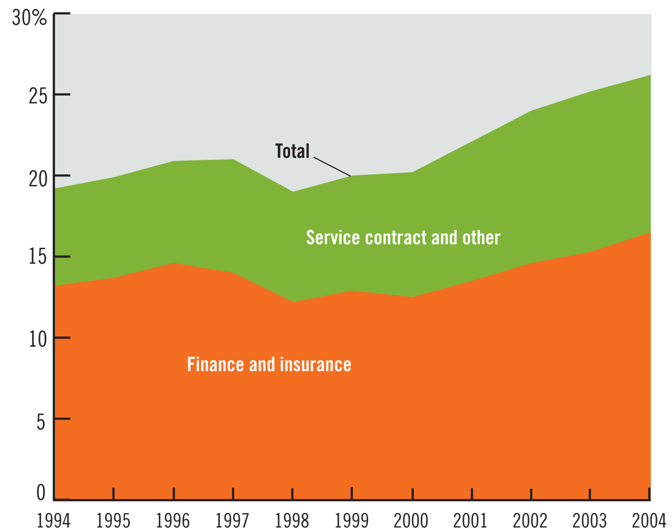
Aftermarket income (combined gross from F&I and service contracts) was 26.2 percent of new- and used-vehicle department gross in 2004—up from 25.2 percent in 2003. This stemmed partly from more attention being paid to F&I by public groups and consolidators, higher finance penetration rates for both new and used cars, and a greater emphasis on customer satisfaction in F&I.

Improvement in vehicle quality helped to bring a drop in service contract penetration from a high of 35.0 percent in 1986 to 20.1 percent in 1998. Nevertheless, it jumped in 2004 to 34.1 percent—the highest level since 1988.

The increase was aided by a relatively low leasing rate during the year, innovative service plans, and the increased attention to F&I.

Aftermarket income

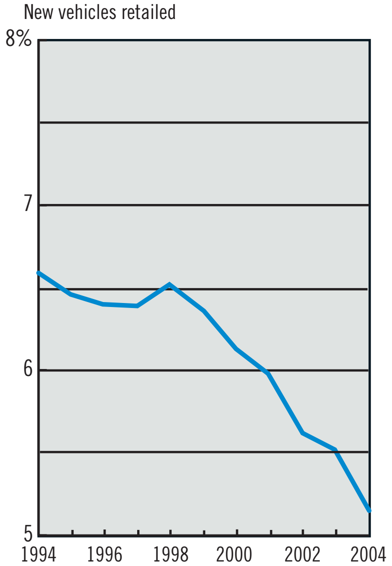
As % of new- and used-vehicle department gross profit



Source: NADA Industry Analysis Division

Gross as percentage of selling price

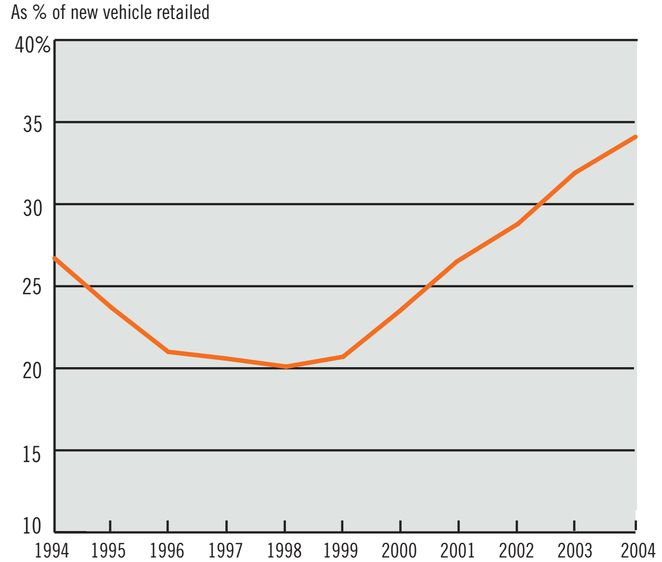
New vehicles retailed



Source: NADA Industry Analysis Division

Service contract penetration rates

As % of new vehicle retailed



Source: NADA Industry Analysis Division