

Driven

NADA MANAGEMENT SERIES

SL34



A DEALER GUIDE TO

F&I: Selling To All Customers



NATIONAL
AUTOMOBILE
DEALERS
ASSOCIATION

This publication provides general information pertinent to F&I operations and is not intended as legal advice. Contact your attorney to ensure your dealership is in compliance with federal and state law.

The National Automobile Dealers Association has prepared this management guide to assist its dealer members in being as efficient as possible in the operation of their dealerships. The presentation of this information is not intended to encourage concerted action among competitors or any other action on the part of dealers that would in any manner fix or stabilize the price or any element of the price of any good or service.

F&I: Selling To All Customers

F&I and Your Profits

Your Finance & Insurance department is so vital to dealership profitability that F&I income can be the difference between making a profit in your new- and used-vehicle sales departments—and not making a profit.

Your Finance & Insurance department is no less important to your customer, who wants and needs the products and services that F&I provides.

The impact of F&I on both your customer and your bottom line requires that F&I managers and staff act with the highest level of integrity. Dealers need to be scrupulous that every tenet of lawful and ethical business practice is pursued, and that F&I business is conducted with complete professionalism at all times.

What is Professionalism?

Professionalism is adherence to the highest standards of ethical and legal business practices. Focusing on what is best for all parties—the customer, the dealership, and the salesperson—professionalism is good business. Professionalism demands that your F&I managers and employees:

- Treat all customers with respect.
- Present complete and accurate information about finance and insurance products and services to all customers.
- Conduct business honestly and with a caring attitude.
- Obey all applicable federal and state laws.

For a concise but thorough discussion of ethical behavior, see NADA Management Series Guide CR.6, *What Does Ethics Have to Do With Selling Cars?*

Your Customers

You need to treat every retail customer as a prospective lifetime customer, because he or she is exactly that. And what is a lifetime customer?

A lifetime customer is a customer who buys

vehicles, service, parts, and finance and insurance products from your dealership. A lifetime customer also refers family members, neighbors, business associates, and friends to your dealership.

According to Carl Sewell, author with Paul B. Brown of *Customers for Life: How to Turn that Onetime Buyer into a Lifetime Customer*, a lifetime customer is worth \$332,000 to his high-line dealership. That's just *one* customer!

What is a lifetime customer worth to your dealership?

Because every customer could be a lifetime customer, because it costs ten times more to bring in a new customer than it does to retain an old one—and because it is the law and the right thing to do—all dealership employees need to avoid pre-judging or pre-qualifying customers on a “prohibited basis” (see “Other Important Legal Considerations,” below). Look instead to develop the kind of relationships with your customers that keep them coming back. A returning customer is more valuable than a one-time chance for monetary gain.

Customer Relationship Management (CRM) is an approach to selling that recognizes the true value of the customer. CRM is a concept and a strategy for winning new customers, retaining and satisfying current customers, and transforming casual customers into loyal, lifetime customers. For further information and all the how to's, see NADA Management Guide CR.7, *A Dealer Guide to Relationship Management Strategies for Customer-focused Sales*.

Your Products and Services: Vehicle Financing

After a customer is referred from the sales department, F&I generally processes the customer's credit application, negotiates with banks and credit companies to secure vehicle financing, offers additional products and services, and complies with disclosure obligations and other legal requirements. As part of the financing process, the bank or credit company will provide F&I with a wholesale

rate quote at which it will purchase the vehicle loan from the dealer. F&I typically then quotes the retail rate it will offer to the customer. The mark-up between the wholesale and retail rates compensates dealers for expenses involved in arranging financing, and for the risks inherent in the financing process; it also provides a profit for the retail product being sold.

A number of factors may affect the mark-up. These include factors relating to the customer (such as the buyer's credit score); factors relating to the dealer (such as the dealer's desire to move a particular vehicle); and competitive pressures from the marketplace (such as the customer's ability to obtain financing at a more favorable rate from another dealer or directly from a bank or credit union). When assisting customers with arranging financing, it is essential that F&I treat all customers fairly and avoid unlawful discrimination. Prohibited factors such as race, sex, religion and national origin must have absolutely no part in the process.

Your Products and Services Beyond Vehicle Financing: Menu Presentation

Dealers of course offer a variety of optional products and services that are completely separate from vehicle financing. Such products may include, for example, service and maintenance agreements and insurance programs. There are a variety of methods to ensure consistent presentation and pricing of these optional F&I products to each and every customer. Each dealer must make an individual choice, consistent with applicable laws, of the method of presentation. A trend that is currently popular among some dealers and consultants involves a menu-based approach to presenting such non-finance F&I products and services.

Menu presentation is intended to introduce the products and services in a methodical, comprehensive manner, with consistent description and pricing of the products for all customers. A carefully and thoughtfully prepared F&I product menu, when combined with appropriate personnel training, can reduce the chances of misleading product presentation, because it imposes discipline on the selling process.

Although menu presentation methods vary,

the general idea is to describe each product or service separately, following a printed "menu," and to state a price for each product. The customer may then make a well-informed decision about which products to purchase—and order from the menu.

Dealers and F&I managers must understand, though, that F&I menus do not automatically assure legal and ethical compliance. Failure to exercise proper care in preparing the menu and training those who present it can result in significant liability exposure.

Accordingly, any dealership interested in employing a menu-based approach to F&I sales should consult with an attorney knowledgeable about the various consumer protection and finance-related laws applicable to F&I products. Further, although business advisors can be very helpful, dealers should not rely solely on their assurances that a particular menu approach is legally sound.

Dealers should consider the following when adopting menu presentation:

- The menu and related oral presentation must not be deceptive or unfair to the consumer. (Your attorney can help you with application of these legal terms under your state's laws and federal law.)
- The description of products on the menu must be accurate and provide sufficient information for the customer to make an informed choice.
- The customer must be informed that he or she has the ability to purchase each product separately, even if you also offer packages.
- The price of each product must be separately and individually listed; merely listing the total monthly payment or package pricing is insufficient.
- The sale or financing of a vehicle is not contingent upon the purchase of any F&I products. To suggest in any way such a contingency would likely result in a Truth-In-Lending Act violation, and be considered a deceptive practice.
- Legal counsel should review all forms and

waiver statements for compliance with all applicable state and federal laws and regulations.

Other Important Legal Considerations

The considerations listed above relating to menu presentation touch on some, but by no means all laws applicable to F&I practices. Many are addressed in a series of *Driven* guides available at nada.org

Dealers must also ensure they comply with all federal disclosure, reporting, record retention and other requirements when engaging in credit transactions and the sale of F&I products and services. These federal laws and regulations are far too complex for the scope of this guide. Many are, however, individually addressed in a series of NADA publications. Examples include: *A Dealer Guide to the IRS Cash Reporting Rule* (L.28), *A Dealer Guide to Responsibilities under the Equal Credit Opportunity Act and Revised Regulation B* (L.19), and *A Dealer Guide to Consumer Leasing—Regulation M* (L.34), all NADA Management Guides, and NADA Management Series Guide L.40, *Clarification of the Timing Requirements for Truth in Lending Act Disclosures*. NADA Management Guide SL.26, *A Dealer Guide to Successful Finance and Insurance Management*, deals specifically with F&I. These publications may be obtained by contacting NADA's Management Education office at the number on the back page of this guide. Many NADA publications and regulatory guides

are also available online at www.nada.org.

Dealers must also be mindful of compliance with state laws, which may impose requirements or restrictions in addition to federal law. Consult with your attorney or other appropriate local resource for advice on state-law compliance.

Informed Customers are Good Customers

It is also helpful if your customers understand what goes into the buying process. They should be aware, for example, of what affects their credit, what is a mandatory purchase and what is not, and how the dealership vehicle service agreement differs from the factory warranty coverage. They should know what rights they have to cancel contracts they have with your dealership, and what, if any, refunds they are entitled to should they cancel contracts. They also need to know how and with whom to register any complaints they may have against your dealership.

Of course, you want only satisfied customers who will come back to your dealership for their next vehicle and the next, so you should also learn about your customers with the intention of providing them with the best possible buying experience. You should query your customers about their F&I experience as a regular part of your post-sales follow-up calls, and learn from their comments. Finally, you should train and re-train your staff in good business practices. Legal and ethical business is also profitable business.



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