New Strategies and the Future of F&I

BY JASON GARNER
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As most in the U.S. automotive industry can attest, the past year and a half has been anything but predictable.

Start with a worldwide pandemic that prevented in-person auto sales. Then throw in an unexpected microchip shortage that cut deeply into the auto supply chain.

Surely the industry must have been brought to its knees, with manufacturers, dealers and financiers closing up shop in record numbers. Right?

Absolutely not. In fact, the industry is doing remarkably well, especially in the used car space.

Demand for used vehicles is as strong as ever, with average sales prices at all-time highs – some in excess of their original MSRP.

Appropriately, then, the F&I sector continues to generate increased profits across the board, with consumers looking to protect their increasingly expensive assets.

F&I departments are having to come up with new strategies to adjust to an ever-changing industry and evolving consumer needs.

One new strategy that's paying dividends is growing your certified pre-owned and newer model inventories.

As available inventory in the new vehicle market remains tight (a big understatement), a healthy fleet of CPO offerings provides an opportunity to transition traditional new car buyers to late model low mileage used vehicles.

Dealers are reporting increased demand for certified programs – one of the contributing factors to today's record high prices.

There is also a shift in the type of F&I coverages consumers are looking for – a shift away from the traditional bumper to bumper coverages to more inclusionary and powertrain policies targeted for the specific features of the vehicle being purchased.

Increasingly, new model vehicles are introduced with multi-level amenity and capability packages, so look for F&I products to become more detailed in their coverages.

No longer can one policy properly serve a single make and model when the vehicle might have any of four transmissions, two engines and all manner of amenity packages.

With the amount of available information at an all-time high, customers have the ability to match F&I products to models before ever entering a dealership.

In 2020, I'd have said we were witnessing the rise of digital retailing. As we enter 2022, we're now witnessing the *evolution* of digital retailing and digital F&I.

For some time now, consumers have done the majority of their car buying research online, only to come into the dealership to make the purchase.

The growth of digital F&I is helping cure the excessive time often needed in the dealership to deliver the vehicle. Customers want to go through the F&I process at a speed they're comfortable with, and the online process allows them to take all the time they need to find the policies they want.

Appropriately, all of this up-front research is making the delivery process faster once the customer enters the store, making it increasingly important to introduce digital F&I information earlier in the process, whether online or in person.

Customers want to buy the policies they feel they need – they don't want to be "sold" something the dealer wants to sell. Early introduction of F&I allows them to educate themselves about what they want and makes them more willing to purchase.

Transparency – including pricing – throughout the process keeps customers from ever feeling an "oh, *there's* the catch," moment.

Historically, consumers in dealerships have often brushed aside the need for vehicle service contracts and other F&I policies with responses of, "I have a friend who's a mechanic," or "I don't keep my car that long."

But with Americans holding on to their cars longer than ever and the vehicles themselves becoming increasingly complex with advanced technology systems, those arguments are falling by the wayside.

Further, the supply chain interference we're currently witnessing has opened consumers' eyes to the fragility of pricing the vehicles themselves, and to the pricing and/or availability of parts and labor.

Those factors have increased the need for VSCs significantly – which is why there's been record VSC penetration.

As we look to the future of F&I, there will begin to be software policies in some form.

As advanced technologies and electric vehicles become the norm, they'll increasingly be "fixed" remotely via software updates – until, of course, the manufacturer determines they're too old for the new software, much like today's computers and cellphones.

Automotive software policies will be needed for older vehicles that are no longer supported by the manufacturer, but are perfectly able to continue operating for years to come. ■