The F&I Disconnect

by: Herm (Brock) Brocksmith

Proof F&I Strategy is Devastating Auto Dealership Customer Retention

End Your Transfer of Wealth to the Aftermarket while simultaneously Dominating Customer Retention

INTRODUCTION

FRANCHISED AUTOMOBILE DEALERS, YOU NEED TO READ THIS… NOW!

Millions of Dollars! Your dealership is engaged in a huge transfer of wealth away from you and your dealership shifting wealth to the aftermarket, and I can prove it. If you were forced to act right now to save your dealership from serious financial hardship, causing your dealership to churn and chase your customers to the aftermarket, would you stop it? You would act immediately, right?

Your F&I strategy is devastating your dealership customer retention; provable as well! Your customers defect at an alarming rate every day. You have a huge opportunity in your dealership and in your PMA (Primary Market Area) to retain the customers that are currently defecting. An opportunity you probably are not even aware of how massive it truly is. In this book you will learn how you can stop the wealth transfer carnage and how to bring millions to your bottom line.

In the following pages, I will identify the big problem you have, how to stop it, and how to set a course to massive profitability thru customer retention without spending a penny attracting new customers. Now is the time to act and to **act boldly to future-proof your business**.

"You may choose to look the other way but you can never say again that you did not know"
-William Wilberforce

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Guide to Creating Market Dominating Customer Retention

Written By ***Herm (Brock) Brocksmith***

Chapter 1

The Customer Defection Dilemma

Question for all Franchised dealers: Do you know how many large national competitors, regional chain stores, and small independent repair shops are located across your dealership's PMA and more convenient to where your customers live? It is a huge number to say the least probably 50:1, 60:1 or 70:1. Fifty to seventy competitors that want your customer and are currently servicing them. If you want to retain your customers and enjoy customer retention in your service department for years and years to come, you must pivot to a sustainable business model now.

You know what the biggest problem you have with your business? It's not the competition, lack of or wrong inventory, the wrong employees, the tech shortage, or even bad processes. No! It's Customer Defection!

CUSTOMER DEFECTION (noun)

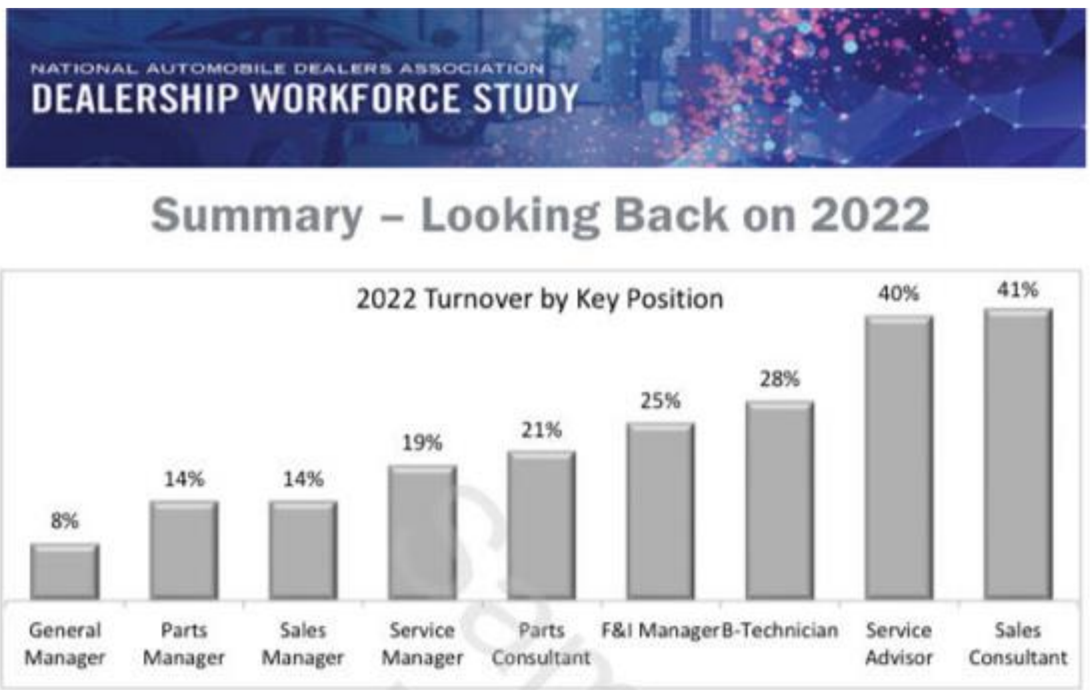
"the loss of users or consumers or customers (churn / attrition) or the decrease in purchases by them, with the following impact on reducing the Company's business."
IPSOS Encyclopedia

Why do the majority of customers new vehicle dealerships sell, defect to the aftermarket for their repairs and maintenance work? The simple answer is that we do not do the right things to keep defection from happening. Perhaps, one of the biggest reasons is employee turnover because most service advisors don't stick around long enough to build relationships.

In the 2022 NADA Workforce Study, 1-year employee turnover for Service Advisors was 40%[1] with 3-Year Service Advisor turnover at 55%[2]. Relationships between the consumer and dealership for service retention,

[1] Source: NADA 2022 Dealership Workforce Study
[2] Source: NADA 2022 Dealership Workforce Study

begin and end with the Service Advisor. Sure, the dealership's Service BDC makes phone calls, sends emails and text messages, but the face-to-face relationship with the consumer is the service advisor. Whether to return for ongoing service maintenance and repair work is based largely upon the relationship with the service advisor. On a much bigger scale, dealerships need to foster the customer relationship WITH THE DEALERSHIP for services to be performed and to end customer defection.



Why is Customer Retention so difficult? It doesn't have to be this way. Yet, franchised new vehicle dealers struggle with customer retention and customer defection to aftermarket repair facilities. You can see it every day in dealership service drives across the country. Over half of the customers in your service department are customers that did not purchase their vehicle from you. Where did customer loyalty go? For some of you, mass customer defection has always been the norm. Customer defection gained enormous strength with mass adoption and usage of the internet. It is easy to perform a search and find the "closest auto service facility near me" when my maintenance light comes on. The time to pivot has come for dealers and dealers must increase customer loyalty, increase customer retention, and decrease customer defection sooner rather than later. Now that your dealership sells electric vehicles and EV volume is increasing, urgency is upon you.

Customer Defection is a huge problem for franchised new vehicle dealers and the OEMs dealers represent. It speaks to the much larger issue of lackluster, if not really poor, efforts driving long-lasting Customer Retention through no fault of your own or your management team. Customer Defection has plagued new vehicle dealers for decades in an industry that prides itself on sharing best practices, sharing information, and sharing solutions to problems and issues. 20 Groups, NADA and state dealer associations are networks that bond dealers like no other industry. Yet, even with this extensive network, the issue of strong Customer Retention is overshadowed by the much greater issue of Customer Defection to the aftermarket. Customer Defection costs dealers millions of dollars!

Customer Retention and Customer Defection have nothing to do with your facilities. You spend millions of dollars on your facility as do all of the other franchised automobile dealers but all dealers suffer from customer defection. You have the latest equipment, factory-trained technicians, and a clean waiting area with free coffee and snacks. If facilities had anything to do with customer retention, those dealers with the biggest, most expensive facilities would dominate in customer retention, right? That's simply not the case.

When it comes to standardized industry practices, franchised automobile dealerships are generally the same as most other peer dealers. For example, in the Service Drive, service advisors meet & greet the customer, walk-around the vehicle, check the mileage, and write up the repair order. In the F&I office, F&I producers meet & greet the customer, present a finance menu, and produce documents for customer signature to deliver the vehicle completing the transaction. Each dealer has their own processes and uniqueness to the intricate details, but the standardized industry practices are basically the same. However, when it comes to Customer Retention and preventing Customer Defection, there are NO standardized industry practices. Dealers are left to fight the fight by themselves against formidable competition (small, medium, and large, independent maintenance & repair shops and tire dealers) that all want your customer and in large numbers are servicing customers your dealership sold in the last several years.

My career in retail automotive has spanned several decades. I have experienced customer defection just like you and every other automobile dealer experiences. After trying dozens upon dozens of customer retention tools and spending tens of thousands of dollars with vendors, I came to the realization that the OEMs, vendors, and my fellow dealers had not figured out how to stop mass customer defection. Then, I discovered the connection between F&I and customer defection. Once I saw the light, and after much trial & error and tweaking systems and processes, I was able to finally craft a program to stop mass customer defection and increase profitable customer retention for many, many years, substantially increasing Customer Pay Repair Order count, Warranty Repair Order count, Tire Sales, Alignments, Suspension, and other highly profitable service work.

Every dealer is in business to sell cars & trucks. Few do it with the result of servicing their customers for as long as the buyer owns the vehicle, and then sell the customer their next vehicle and repeat the cycle of true customer retention all over again.

Sadly, with few exceptions, dealers do not implement the necessary protocols to service customers for the life of vehicle ownership. Dealers spend tens of thousands upon thousands of dollars with vendors with the hope to increase customer loyalty and improve customer retention. While some programs can increase retention marginally, most programs fail. When you read between the lines, those programs claim the loyal customers you kept anyway. Dealers can see thru vague customer attribution claims customer retention vendors make. Additionally, these programs do not address the long-term defection dealers experience. In fact, once the new vehicle warranty expires, one of the two primary defection points, 70% of your customers will go somewhere else for maintenance and repairs[3].

"As the movement for Right to Repair Legislation picks up steam, new vehicle dealers must take steps to ensure fixed operations long-term viability."

Think about this: If OEM warranty work was open to aftermarket and independent repair shops, what affects would that have on your parts and service department? Customers would defect sooner! As the movement for "Right to Repair" legislation picks up steam, new vehicle dealers must take steps to ensure fixed operations long-term viability.

[3] Source: Wards Auto

After the new vehicle warranty expires, 70% of your customers will go somewhere else for maintenance and repair work.

You may not have known that over half of the customers in service were not sold by your dealership but you should care about it as it is a harbinger of customer defection. Hence, the endless cycle of customer churn that dealerships experience across the country. The worst part…customer defection happens before the customer enters the most profitable phase of servicing… maintenance and repair. These are the customers you want. These are the customers you need. These are the customers that spend most of their maintenance dollars at aftermarket repair shops.

BEVs (Battery Electric Vehicles) will only exacerbate the problem as maintenance intervals are substantially longer than ICE (Internal Combustion Engine) vehicle maintenance intervals. Electric Vehicles wear tires 20% faster. Electric Vehicles are substantially heavier, maintenance intervals stretch well over 12 months, and "Acceleration Addiction" is a real thing with electric vehicles causing increased tire wear. As BEV sales increase to 15%, 20%, 30%+ of your new vehicle sales volume, the detrimental effect on your Fixed Operations will be apparent with lower RO Counts, lower RO Maintenance Revenue & lower Gross Profit, lower CSI[4] and increased customer defection.

"Acceleration Addiction is a real thing with electric vehicles causing increased Tire Wear."

Where do dealership customers go? This is where dealership customers are choosing to service: Discount Tire, Big O Tires, Jiffy Lube, Midas, Brakes Plus, Grease Monkey, Pep Boys, Les Schwab, Christian Brothers, Walmart, Sam's, Costco, Valvoline Instant Oil Change, and thousands upon thousands of large national competitors, regional chain stores and small independent repair shops that are located across your dealership's PMA and more convenient to where your customers live. Make no mistake, the aftermarket repair industry lives off dealer defection.

[4] Source: JD Power

"You don't want to compete for your customers with the Aftermarket; You Want to Dominate Your Aftermarket Competition!"

You only need to drive through the parking lot of any of these competitors and you will see vehicles that you want to service; you need to service but are not. When I was managing my franchised import dealership, the OEM shared with me an Urban Science report detailing the locations of some 65 non-OEM service competitors in my PMA. 65 repair shops, advertising aggressively in and around their zip code location, all after the customer that I originally sold. Your dealership has a big number of competitive repair shops in your PMA similar to my number. This should set off alarm sirens throughout your dealership's fixed operations departments. Your OEM does not have the answer to stop customer defection or you would have heard about it and already be implementing the solution. More importantly, this should trigger urgency with the General Manager and Dealer Principal as they alone could stop supplying the aftermarket with high quality customers needing maintenance and repair work for years to come. High quality customers your dealership should be servicing.

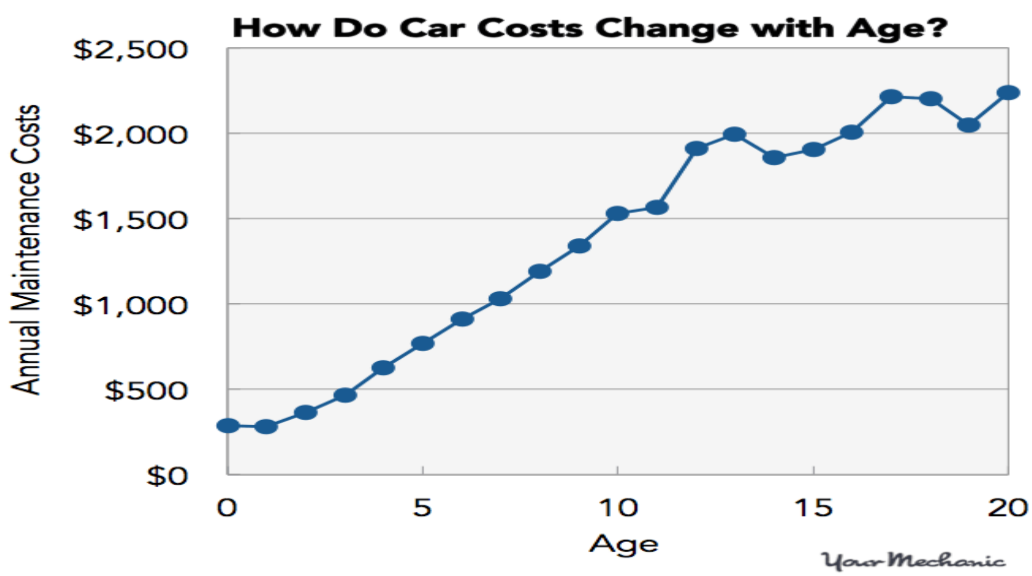
"Customer Defection happens before the Customer enters the Most Profitable Phase of Servicing… Maintenance and Repair."

Understanding Force and Inertia, which are physics terms, come into play here. Unless you make a dominating, positive management, and accountability change (Force), the momentum (Inertia) of customer defection will intensify as EVs become a larger percentage of your new vehicle sales.

Think of a freight train rolling downhill towards a steep, steep incline. The conductor is awake but not aware of what is happening. As the intensity increases, the vehicle picks up speed and it becomes more difficult to control the freight train. The freight train will maintain its state of motion unless acted upon by an external force. Unless a positive, opposing force is exerted, the inertia will continue and the situation will become untenable resulting in a horrific accident. Customer Defection is no different than the freight train in this analogy. Dealership customers will continue to defect and the momentum will intensify with EVs until the situation becomes untenable. As a dealer, you have the power to apply the positive force of change and stop the inertia of customer defection. You just need to know what to do to make it happen.

The issue of customer retention and the F&I Disconnect starts and ends with the F&I Department and curbing the disconnect that exists. The F&I Disconnect is a very real issue! If you manage a franchised automobile dealership you probably were not even aware this phenomenon even exists or the connection between F&I and service defection because no one is talking about it and very few people have identified the issue. However, the F&I Disconnect is real and impacting your dealership on an immense scale every car deal, every day, every week, every month, every year.

Annual Maintenance Costs increase as the vehicle ages. Below is a chart showing Annual Maintenance Costs[5]:



If your customers are defecting around the three-year mark, they will spend approximately $3,600-$5,900 over the next 5 years of ownership ($60-$99/Month) in maintenance & repairs[6]. That's A Lot of Money! Your customers spend it somewhere…shouldn't it be with you?

In the next chapter, we will dive into the issue of the F&I Disconnect… what it is, why it exists and how to stop it and turn your dealership into a dynamic, hugely profitable customer retention dynamo with recession proof, predictable Fixed Operations revenue, and profitability.

[5] Source: Your Mechanic
[6] Source: AAA, NerdWallet, CarInsurance.org, Consumer Reports

CHAPTER RECAP

- Fifty to seventy aftermarket competitors want your customer. If you want to retain your customers and enjoy customer retention in your service department for years and years to come, you must pivot to a sustainable business model now. Act Boldly!

- Once the new vehicle warranty expires, one of the two primary defection points, 70% of your customers will go somewhere else for maintenance and repairs.

YOUR TURN — CHAPTER RECAP

- Take a short drive. Name the 10 closest aftermarket competitors near your dealership: ____
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- Notes: ____
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Chapter 2

The F&I Disconnect

What is the F&I Disconnect? Very simply, what your F&I department sells is not aligned with what your customer needs and what drives business to your service department quickly, profitably, routinely and for six to eight years after the original purchase for both new vehicle sales and used vehicle sales.

Yes, I said both new vehicles and used vehicles including high-mileage used vehicles. Used Vehicle retention is typically less than 17% and virtually zero (0%) retention for High-Mileage Used Vehicles. Why? Your prices for basic maintenance items are competitive, right? It doesn't make any sense that used vehicle customers choose to not have maintenance performed at new car franchises, does it? The F&I Disconnect devastates dealership customer retention and if you are not willing to make some small changes in your operations, it will continue forever. The key to Fixed Operations customer retention begins with what the customer purchases in F&I. No doubt about it…that's where it begins!

When was the last time you and your complete management team, including members from Fixed Operations, reviewed all the F&I products you sell at your dealership and the impact those products have on customer retention and Repair Order count? When have you performed this review by yourself? Probably never! The products you currently offer in the finance office are those provided by your F&I vendor. They have been providing these products for decades with little change. Sure, you probably added a Key Replacement product a few years back when laser cut keys with remotes cost a few hundred dollars to replace, but that product is sold at a very low penetration and does not affect your customer retention, customer defection, and Fixed Overhead Coverage, does it? F&I is a sales function, right? Wrong! F&I, properly functioning, bridges the gap between the vehicle sale and long-term service customer retention.

"F&I, properly functioning, bridges the gap between the Vehicle Sale and Long-Term Service Customer Retention."

You have obviously heard the term, "think outside the box," haven't you? Forget that mindset! What I challenge you to do is to "Think INSIDE the Box!" Here's what I'm speaking about. The box is your dealership. You naturally have department flow. When a vehicle is sold, the customer is turned to F&I where an F&I producer handles the paperwork. That is the natural flow. After the sale, you may or may not see the customer for routine maintenance or repairs. Thinking inside the box, how can you flow customers you just sold into your service department every six months without spending a penny to attract these customers? Furthermore, how can you keep them for years and years into the future? We will answer those questions in later chapters.

Do these F&I product penetrations look familiar? Your Numbers Here:

• Tire & Wheel 8%	Tire & Wheel:___________
• GAP 13%	GAP:_________________
• Etch 8%	Etch:_________________
• Key Replacement 6%	Key Replacement:_______
• Road Hazard 2%	Road Hazard:___________
• Windshield Replacement 3%	Windshield:___________
• Paint & Interior Protection 7%	Paint & Interior:__________
• Dent & Ding 2%	Dent & Ding:___________

Low product penetrations indicate the product does not have mass appeal and does not present a value to your customers.

CHAPTER RECAP

- The F&I Disconnect: What your F&I department sells is not aligned with what your customer needs and what drives business to your service department quickly, profitably, routinely and for six to eight years after the original purchase for both new vehicle sales and used vehicle sales.
- How many of your F&I products are sold at a single-digit penetration? These products do not have mass appeal to your customers.
- F&I, properly functioning, bridges the gap between the vehicle sale and long-term, service customer retention.

YOUR TURN — CHAPTER RECAP

- Why is Your Dealership offering Low-Penetration F&I Products?
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- Notes: ____________________________________
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Chapter 3

Why Does the F&I Disconnect Exist?

Why does the F&I Disconnect exist? There are several reasons why the F&I Disconnect exists in dealerships. At the core of the matter is F&I, as F&I stands for "Finance & Insurance." Most products offered in F&I are still primarily insurance-based products (or insurance lookalike products) along with the actual financing of the vehicle whether that is a Finance Contract, Lease Contract or Cash Transaction. Not surprisingly, most dealerships have the same reasons for F&I Disconnect in common.

<u>The most common reasons of F&I Disconnect</u>:

1. Thought Connection, or lack thereof, between dealership departments.
2. F&I Producers sell what they are comfortable selling.
3. Too many Low Penetration F&I products.
4. Poor reporting metrics.
5. Average Dealer Mentality.

Examining the reasons of F&I Disconnect:

<u>Thought Connection, or lack thereof, between Dealership Departments</u>

The products your F&I Department is currently selling have probably never been properly vetted between all dealership departments. This might seem odd to include Fixed Ops until you realize and view that the F&I Department is the lynchpin to customer retention and customer defection either by selling the right products that produce strong, lasting customer retention, or by not selling the right products continuing the cycle of customer churn and low customer retention.

Quite frankly, there is no process at most dealerships that involves the vetting of F&I products that will produce outstanding Fixed Operations guaranteed revenue, upsell opportunity and customer retention. Therefore, the products you sell are not properly aligned with dealership goals and objectives which is to make as much money as you possibly can, unless of course, your goal is to continue to be a pipeline of customers for large national competitors, regional chain stores and small independent repair shops across your dealership's PMA. I don't think you want to do that; in fact, I'm sure you don't.

Why does F&I sell the products they currently sell? The most common answer is that the F&I products are Dealer mandated or provided by only one F&I Provider. Perhaps the F&I products are reinsured. The fact of the matter is the existing products sold in F&I are not producing the needed customer retention results and long-term fixed operations profitability dealers must have. And, if you look at each product as a customer retention link, you will see what I am speaking about. Need proof? Ask yourself this question: Why do 70% of my customers I sold vehicles to defect for maintenance and repairs after the warranty period expires? The answer provides the basis of what Thought Connection and the right F&I products mean to true customer retention that keeps your customers from defecting to the aftermarket for maintenance and repairs and keeps your customers coming back for services for years and years.

"Shouldn't ALL F&I products your dealership sells bring customers back to your Service Department in a consistent, predictable manner?"

Nationally, a customer will buy 1.6 products per F&I transaction[7]. Aside from the fact that those are really bad numbers, but if that is the situation, shouldn't all F&I products you sell bring customers back to the service department in a consistent, predictable manner? If those products don't bring customers back, why sell it? Your dealership receives a short-term profit (IRG-Immediate Revenue Gratification) versus losing a long-term customer who defects to another repair shop missing out on the most profitable years of service (the Long-Term Gain, or LTG) with maintenance and repair work. Immediate Revenue Gratification (IRG) is in direct competition with Long-Term Gain (LTG). The customer you lost thru customer defection represents a LOT more revenue and profits than the short-term profit you made in F&I. Oh, and by the way, about 20% of those F&I products sold for short-term gain will become a dealership chargeback. IRG vs. LTG…which would you prefer to have? What if you could have

[7] Source: F&I and Showroom Digital

both…Immediate Revenue and Long-Term Gain? The answer is clear! You would choose to have both! And, you can!

F&I Producers Sell what they are comfortable selling

Sales people talk about and sell what they are comfortable selling and your F&I producers are no different. When I was a General Sales Manager, I analyzed everything. I wanted to know what the numbers were, what the numbers meant and why the numbers were the numbers, in other words the story behind the numbers and what my managers and I could do to improve results. Let me explain: some sales people were really good at selling new cars with a high conversion to a sale (closing percentage), yet the same sales person had a low conversion when selling used vehicles. Conversely, some sales people can sell used vehicles with high conversions but had low new vehicle conversion rates. The reason was the same between the sales people; they were comfortable selling one product over another. The sales person that excelled in new vehicle sales enjoyed product knowledge, statistics, safety features, etc, and could tell that story over and over. Whereas, the sales person that excelled in used vehicle sales embraced the one-of-a-kind nature of the used car and could craft a sales story to overcome objections for life experiences (scratches & wear) the vehicle had endured. The same phenomena are present in your F&I offices. One F&I person is comfortable selling Extended Warranties while another is comfortable selling GAP Protection and their conversion percentages reflect this. This can be corrected with a pay plan that focuses on the products and profits you want to achieve.

Here is an action item: Tomorrow morning, when your F&I people arrive, have them individually go through a complete finance menu presenting to you as if you were a customer buying a vehicle. Perform this with all your F&I people individually. This is a true eye-opening experience.

Too Many Low Penetration F&I Products

The F&I office has a robust product offering that is somewhat overwhelming to a customer. The more the merrier is not the case when it comes to F&I products. Fewer is better! Fewer F&I products with high customer acceptance, high usage and high penetration is the winning F&I office formula. Many dealers have 10, 11, 12 or more products in their F&I product offering when they should have no more than 4 or 5 core products sold in big volume with high penetration and low chargebacks. Your dealership is competing with a customer's overall automotive budget. Only products that have high intrinsic value will ultimately be purchased by your customer.

Most F&I products are sold below ten percent penetration because they do not inherently have enough intrinsic value for the customer to say, "Yes." That being the case, clearly, the product does not have mass appeal or there is not enough value to justify the price of the product. Having low-penetration products on your F&I menu virtually guarantees a "NO" Response 9-out-of-10 times when presented to customers. The customer develops the mindset that F&I is trying to "sell me something I don't need" because it has low or no value to me. Too many choices, especially "NO" Response product choices, on an F&I Menu reduces overall product penetration. We want the customer's head bobbing up-and-down in agreement, not side-to-side in disagreement. The Law of Choice states that when faced with three or less choices, a customer will choose "what's best for me" versus four or more choices where the choice becomes confusing and the impulse to flee the situation as quickly as possible kicks in. When it comes to selling product: Mass Usage = Mass Adoption = Mass Opportunity = Mass Profitability. Get the picture here? Let your customer choose what they will utilize, they need, and receive the value they are buying.

If you offer the best product for your customers, you have an ethical obligation to make sure each of your customers has the opportunity to buy it and use it. Everyone who could use it must be offered it. If you have an unfair advantage, then you must exploit the advantage. If the customer is yours first…keep them! Provide a great product that keeps your customer coming back to your dealership where they can enjoy your great facilities, amenities, and customer satisfaction. Don't let the aftermarket have an opportunity to take your customers!

Most F&I products are insurance-based products. Consumers generally view insurance products as a necessary evil. If it is perceived as necessary (ex: health insurance) where not having the insurance would cause a potential catastrophic financial event, then the customer probably will not buy the insurance.

(Speaking of Low Penetration F&I Products, I was talking with a friend of mine who runs a large dealership. Here are his most recent penetrations: Extended Warranty (VSC) 60% New / 74% Used; Lease Wear 'n Tear 44%; GAP 13%; Dent & Ding 2%; Windshield Replacement 3%; Road Hazard 2%; Tire & Wheel 8%; OEM Prepaid Maintenance 38% New Only (making $75/contract); Key Replacement 6%; Paint & Interior Protection 7%; Etch 8% and Chargebacks were 18%.)

Poor Reporting Metrics

$PVR (Dollars Per Vehicle Retailed) is the metric just about every front-end, variable manager can recite. Heck, it is the first question asked by sales management after the F&I producer is finished with the customer, "What'd you make on that last deal?"

$PVR is Immediate Revenue Gratification (known as IRG) and gets the car over the curb but does little for curbing customer defection and promoting customer retention. These same $PVR metrics are industry standards; more proof the industry does not know how to stop customer defection. They appear on your financial statement, 20 Group Comparisons and on your Daily DOC. Did anyone at your last 20 Group Meeting ask about customer defection? No! Yet, F&I $PVR was discussed and ranked on a page in the comparison guide, right? Which page in the 20 Group comparison is customer retention or customer defection ranked? What is missing is your True Customer Retention metric that is tracked via Customer Pay Repair Orders for both New Vehicles Sold and Used Vehicles Sold long after the Warranty Period. After all, True Customer Retention numbers are your predictable future Fixed Operations revenue and financial results or Net Profits.

An important KPI, not reviewed often enough, is Fixed Coverage (also known as: Fixed Overhead Absorption, Fixed Overhead Coverage). It is a metric that is improved by increasing Fixed Revenue & Fixed Gross Profit at a pace greater than the increase in your Total Dealership Expenses. With high inflation, soaring interest rates, higher utilities, rising facilities insurance, and payroll costs rising at unprecedented levels, this is a daunting task. Increasing Fixed Revenue and Fixed Gross cannot be accomplished by simply raising prices or managing expenses, nor can you effectively advertise to move the needle substantially higher. It must include substantial increased RO counts in profitable Customer Pay (CP) work to existing customers with guaranteed revenue streams so you do not have to advertise to get new customers.

The most profitable dealers are those that continually improve and increase their Fixed Coverage percentage. The number one component of increasing Fixed Coverage is increasing customer retention and lowering the customer defection rate as these metrics have the greatest impact on gross profit.

<u>Average Dealer Mentality</u>

Most dealers are average! That may be tough to hear but it is the truth! For example: take a look at 20 Group reports. The "average line" draws attention to top performers, and everybody else is around the average line, either above or below it. I belonged to many 20 Groups over the years with many different manufacturers. Out of the 20 dealers in each of the groups I was a member, 3 or 4 were really, really high-performing dealers in just about every category. Conversely, 3 or 4 were really, really low-performing dealers, again, in just about every category. That left the remainder of dealers that were in the middle which made them pretty average dealers. The average group of dealers may perform well in one area but poor in another area. Overall, their financial results were average.

AVERAGE **(noun)**

"an intermediate scale value regarded as normal or usual"
Vocabulary .com

"Their performance was Average"

If you want more than average, you must think bigger and you must take more action and never ever give up the pursuit for better results. Average dealers just don't do this. Average dealers, like many of us, fall into comfort zones and this is the case in many dealers F&I departments. Great things never came from comfort zones! Make the changes you must make to ensure business viability into the future.

Businesses that dominate their competition have an advantage over their competition. That's what you must have whether it be a product you sell, a technology you exploit, or some other advantage. Why does Chick-fil-A have a line around their restaurant? If you research a product, why do you go to Google? When you buy something, why do you use Amazon?

Chick-fil-A, Google and Amazon dominate their competition. Average just doesn't get the job done.

Whether realized on not, average people are content with being average. The average mentality permeates dealership customer retention efforts and results.

You can have
Results or Excuses
NOT BOTH
-Arnold Schwarzenegger

You must be willing to do what other dealers and the aftermarket competition cannot do or will not do. If you want to dominate the competition, look at what others are doing and then do what they cannot do and/or will not do. You can go where they will not go or cannot go. You can take actions in your market and achieve results that others cannot understand and are impossible to imitate. "Your end goal needs to be to create customer advocates," says Mike Vogel, of ASMC. Look at Chick-fil-A, Google, and Amazon. If you want to achieve extraordinary success, then get after it!

"Your End Goal needs to be to Create Customer Advocates."
Mike Vogel, ASMC

You are competitive by your nature or you would not be in business. I would bet that when there is a sales competition offered by your OEM, you want to win it, right?

Then, win the battle for customer retention, stop transferring wealth to the aftermarket, and laugh all the way to your bank!

Which do You Choose?

❑ RESULTS ❑ EXCUSES

CHAPTER RECAP

- Why The F&I Disconnect Exists… The most common reasons of F&I Disconnect:
  1. Thought Connection, or lack thereof, between dealership departments.
  2. F&I Producers sell what they are comfortable selling.
  3. Too many Low Penetration F&I products.
  4. Poor reporting metrics.
  5. Average Dealer Mentality.
- Action Item: Have each of your F&I producers perform a menu presentation to you acting as the customer.

YOUR TURN — CHAPTER RECAP

- What is your dealership Fixed Overhead Coverage and what are you doing to increase it?

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- Notes: ____

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Chapter 4

The F&I Product Vetting Process Review

A Dealership Wide Thought Connection Exercise

The F&I Vetting Process is really a dealership-wide Thought Connection exercise looking at every F&I product through a new set of criteria.

When it comes to all of the products you sell in the F&I department, ask yourself this question: What is ultimately best for the customer, and the long-term health & prosperity of my dealership?

The goal is to eliminate Low Penetration products that people do not purchase in volume and products that do not promote Customer Retention for all vehicle classes (N, U, L, High Mileage). Customer Value goes hand-in-hand with Customer Retention and both short-term and long-term dealership profitability. Analyze each F&I product on this basis. When you vet all your F&I products, it is an eye-opening experience well worth the time and effort providing a new perspective on the finance product you offer.

"What is Ultimately Best for the Customer, and The Long-Term Health & Prosperity of my Dealership?"

On the next page, you can find the F&I Product Vetting & Departmental Thought Connection worksheet to analyze all your dealership F&I products.

Wayne Dyer

F & I Product Vetting & Departmental Thought Connection

Mass Usage = Mass Adoption = Mass Opportunity = Mass Profitability

F&I Product:____

Projected Penetrations: New______%; Used______%; Lease______%; High Mileage Used:_____%

Vendor:____

Promotes Strong CSI Engagement: ❑ Yes; ❑ No; How?______________________________

Promotes Long-Term Service Retention? ❑ New; ❑ Used; How?_______________________

Type of Product: ❑ Insurance or "Like" Insurance; ❑ Maintenance; ❑ Aftermarket; ❑ Hazard Repair; ❑ Major Repair; ❑ Other:_________________________

Is Product "Subject to Chargeback?" ❑ Yes; ❑ No; ❑ Long-Term Gain (LTG) or ❑ Immediate Revenue Gratification (IRG-Short Term Gain)

What Does it Do? (Unique Technology?)_____________________________________

Qualifying Vehicles: ❑ New; ❑ Used; ❑ Lease; ❑ High Mileage Used

Who Benefits: ❑ Customer; ❑ Fixed Operations; ❑ F&I; ❑ Other:_______________________

When is it Utilized by the Customer?_______________________________________

Customer Benefits:____

____

Customer Benefits When? ❑ Now (within 6 months); ❑ On-Going (Every 6 Months); ❑ Maybe Never (insurance)

What are the Short-Term Effects on the Dealership?___________________________

❑ Financial____

❑ Other____

What are the Long-Term Effects on the Dealership?____________________________

❑ Financial____

❑ Other____

Comments:____

____

Completed by:___________________________________ Date:__________________

CHAPTER RECAP

- The F&I Vetting Process is really a dealership-wide Thought Connection exercise looking at every F&I product through a new set of criteria.
- “When you change the way you look at things, the things you look at change.” How do you view your F&I products?

YOUR TURN — CHAPTER RECAP

- List ALL the Products your Dealership Sells in F&I:

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- Notes: ________________________________

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Chapter 5

The Two Primary Points of Customer Defection

The Two Primary Points of Customer Defection

Ignoring a huge problem does not make the problem go away.

I am specifically speaking about Customer Defection. Customer Defection is a weakness for virtually every franchised new vehicle dealer. In 2019, the average age of cars on the road was 11.8 years[8]. The estimate for year end 2022 was 12.2 years and for 2023 the estimate is 12.3 years[9]. Americans own their cars for an average of about 8 years[10]. Yet, dealership customer defection occurs between 27-36 months. As Jim Ziegler, dealer industry advocate, says, "Dealers…Cover your weaknesses!" Dealers are not getting the customer retention for the most profitable services… maintenance and repairs because of the two primary points of customer defection.

"Dealers…Cover Your Weaknesses!"
-Jim Ziegler, ZiegleronDemand

There exist two primary points of customer defection for new vehicles that the aftermarket knows and dealers have ignored for decades. This is where the largest transfer of wealth from dealer to aftermarket occurs.

Understandably so, dealers rely on their OEM for retention data and OEM programs. Most of the metrics and data the OEM shares with dealers are short-sided and missing key criteria. If the OEM does not understand customer defection, how can the individual dealer?

The first defection point is the expiration of the OEM Factory Warranty where 70% of your customers will defect for their maintenance and repair needs. The second defection point is when the vehicle needs replacement

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[8] Source: Hedges & Company
[9] Source: Kelley Blue Book; S&P Global Mobility Reports
[10] Source: The Zebra

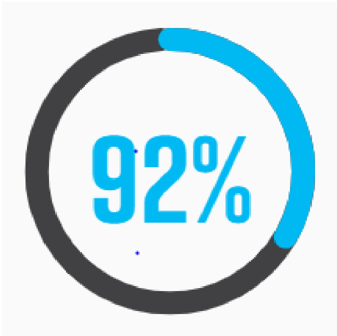
tires. 92% of your customers will defect away from your dealership to purchase tires elsewhere[11].

Most new vehicle dealers say they want to sell tires and sell them in volume, but their actual results do not reflect volume tire selling. Merely having a large tire inventory will not fix the problem of not selling tires in volume. There is more to it if your goal is to sell tires in volume, such as: motivating pay plans for advisors, proper presentation software, competitive pricing, training the difference in OEM vs. aftermarket tires, etc. Look, the fact is, tires are not a big gross profit item for your Parts Department or your Service Department compared to your other repair and maintenance work. However, selling tires keeps your customers coming back and leads to Alignments, Suspension Work, Brake Work, and other around the wheel repairs that are highly profitable. Tires can also be installed by "C" Techs which improves dealer gross profit margins.

"Customer frequency in your service department builds customer loyalty and customer retention while providing value and creating relationships with your customers."

However, the fact remains that dealerships only sell 11% of replacement tires while the aftermarket tire shops, Sam's, Costco, etc, in your PMA, sell the remainder of the tires to your former customers. And, I say former customers because when those customers are gone…they are gone for good with only a small percentage returning to your dealership.

[11] Source: TraXtion

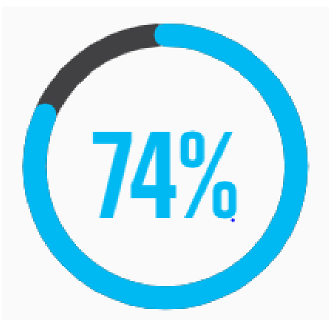


92% of your Customers will defect away from your dealership to buy tires elsewhere.

Why is it important to understand the reasons why your customers defect? Without this knowledge and the perspective knowledge provides, you cannot prevent defection by creating the necessary protocols to retain your customers.

"Customer Defection is the single biggest Threat Franchised Dealers face!"
David Boyle, CEO TraXtion

Customer frequency in your service department builds customer loyalty and customer retention while providing value and creating relationships with your customers. By retaining the customer for long-term servicing, we have the opportunity to sell the customer another vehicle when the customer decides to purchase. In fact, customers who visit your dealership's service department in the last 12 months are 74% more likely to buy another vehicle from you when the time comes to replace their current vehicle[12]!



Fact: Customers who Visit your dealership service department are 74% more likely to buy another vehicle from you!

So, how do you reduce defection and increase customer retention at these defection points? Offer the right products in your F&I process that promote customer retention and eliminate the low penetration products that offer very little benefit and implement technology in your service department to curb tire defection.

[12] Source: TraXtion

CHAPTER RECAP

- Ignoring a Problem doesn't make it go away…Defection is real!
- The Average Age of Vehicles on the Road Today is 12.3 Years. Do these vehicles service from you?
- The two primary defection points are: when the new vehicle warranty expires, and the first set of replacement tires. What is your strategy to keep these customers?

YOUR TURN — CHAPTER RECAP

- What are the benefits of Selling Tires in Volume and Think How Your Parts & Service Ops can benefit?

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- Notes: ____
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Chapter 6

The Solution…
Increase the Positive; Diminish the Negative
Dramatically Increase Profitability

The Solution to Customer Retention and Huge Profitability

The good news, in fact it's great news, is that there is a solution to increase customer retention, diminish customer defection, and increase profitability dramatically.

The solution that solves the need is a product your customer chooses in the F&I office that produces sustainable maintenance work with a contract term lasting long after the expiration of the OEM warranty featuring regular service intervals, seeing the customer twice per year, covering the most common maintenance items, and an AI (Artificial Intelligence) technology that can predict your customers' tire replacement needs in advance, all coupled with consistent, automatically-generated, customer email and text notifications driving appointments. The product should also be non-chargebackable. Sounds impossible, but it's not! Please read further…

Dealer's Choice Prepaid Maintenance with Artificial Intelligence.
A Highly Profitable, Customer Retention Tool that Checks ALL the Boxes!

☑ Profitability thru Dealer-Owned Prepaid Maintenance
☑ All Services Performed at Your Dealership
☑ Ties Your Customer to Your Dealership for up to 6-8 Years
☑ Dealer Controls Pricing of Maintenance Plans Maintaining GP Level
☑ Dealer Performs Maintenance Services Normally Lost to Aftermarket
☑ Upfront Cash Flow as Dealer Holds Funds
☑ No Chargebacks (unless dealer chooses to offer)
☑ Dealer Keeps All Spoilage (Expired Contract Services Not Used)
☑ Customer Retention for New, Used, High-Mileage Vehicles
☑ Huge Increase in Tire Sales and Around-the-Wheel Repairs

☑ **Keeps EV and ICE Customers Visiting Service Department Every 6 Months for the Contract Term (Contract Terms from 2 years to 8 years)**
☑ **Improved CSI Scores**
☑ **Customer Relationship is with the Dealership**
☑ **Can be Sold in F&I Department and on the Service Drive**
☑ **Profitability**

There really is such a product! Developed by a dealer…for dealers' financial health, customer retention, and prosperity. This is not one of the same old business solutions you have been pitched previously.

Dealer's Choice Prepaid Maintenance is truly a one-of-a-kind product delivering exceptional results and a significant competitive advantage increasing customer retention, lowering defection, and increasing Fixed Overhead Coverage. Our expertise and in-depth knowledge of Variable Operations, Fixed Operations and customer behavioral intention enables our company to deliver powerful results for dealers.

Big Profits! Terms from 2 years to 8 years. All services performed at the selling dealer. Dealer controls pricing and gross profit. 100% upfront cash flow…dealer holds the reserves. Dealer keeps spoilage on services not used. All vehicles qualify. Huge increase in tire sales and around the wheel repairs. Improved CSI scores. Are you up for the challenge to end customer defection? The power of Dealer's Choice PPM is real.

Let's look at an example…

<u>Example Assumptions and Projections</u>

Your Fixed Operations Pricing:

Alignment Price	$159.95
Oil Change	$75.00
Tire Rotation	$30.00
Cabin Air Filter Avg	$40.00
Engine Air Filter Avg	$40.00
Windshield Wiper Avg	$40.00

Continued on next page…

Your Monthly Sales Numbers:

New Vehicles Sold	100
Used Vehicles Sold	60
Electric Vehicles Sold	20
High-Mileage Used	20
Total Vehicle Volume	200

F&I Numbers:

Penetration = 50% (Top Producers will achieve higher penetration)
5 Year Average Contract PPM Plan
Discounting Services 20%

Sales & Profitability Projections

Monthly	ICE Contracts Sold	ICE Average Sale Price	BEV Contracts Sold	BEV Average Sale Price	Revenue	Sale Gross Profit	Avg Contract GP	Total Profit	Sale Gross Profit %	
Avg Month	90	$2,119.80	10	$1,359.80	$204,380.00	$111,457.25	$1,114.57	$111,457.25	55%	

Annually	ICE Contracts Sold	ICE Average Sale Price	BEV Contracts Sold	BEV Average Sale Price	Revenue	Sale Gross Profit	Spoilage Profit	Total Profit	Sale Gross Profit %	GP+Spoilage %
Year 1	1,080	$2,119.80	120	$1,359.80	$2,452,560.00	$1,337,487.00	$0.00	$1,337,487.00	55%	
Year 2	1,080	$2,119.80	120	$1,359.80	$2,452,560.00	$1,337,487.00	$0.00	$1,337,487.00	55%	
Year 3	1,080	$2,119.80	120	$1,359.80	$2,452,560.00	$1,337,487.00	$0.00	$1,337,487.00	55%	
Year 4	1,080	$2,119.80	120	$1,359.80	$2,452,560.00	$1,337,487.00	$0.00	$1,337,487.00	55%	
Year 5	1,080	$2,119.80	120	$1,359.80	$2,452,560.00	$1,337,487.00	$0.00	$1,337,487.00	55%	
Year 6	1,080	$2,119.80	120	$1,359.80	$2,452,560.00	$1,337,487.00	$0.00	$1,337,487.00	55%	
Year 7	1,080	$2,119.80	120	$1,359.80	$2,452,560.00	$1,337,487.00	$735,768.00	$2,073,255.00	55%	
Year 8	1,080	$2,119.80	120	$1,359.80	$2,452,560.00	$1,337,487.00	$735,768.00	$2,073,255.00	55%	
Year 9	1,080	$2,119.80	120	$1,359.80	$2,452,560.00	$1,337,487.00	$735,768.00	$2,073,255.00	55%	
Year 10	1,080	$2,119.80	120	$1,359.80	$2,452,560.00	$1,337,487.00	$735,768.00	$2,073,255.00	55%	
Totals	10,800	$2,119.80	1,200	$1,359.80	$24,525,600.00	$13,374,870.00	$2,943,072.00	$16,317,942.00	55%	67%

Projections are for illustrative purposes only. Actual projections will be completed upon meeting with the individual dealer.

Is the above example a big enough reason for you to stop transferring your wealth to the aftermarket? Only you can decide.

For more information, I am happy to share details how Dealer's Choice PPM can revolutionize your dealership's customer retention and profitability.

I promise to not try and sell you this program! You will have substantial questions and with the knowledge you gain with the answers to your questions, you will either see the opportunity or you will not.

Please reach out via email, text, or call…email: brock@dealersppm.com; cell: 303-944-3456

CHAPTER RECAP

- The Power of Dealer's Choice PPM is real.
- Call, Text, or Email today for your complimentary Assumptions and Projections spreadsheet to review your profitability.

YOUR TURN — CHAPTER RECAP

- List Your Dealership Pricing on Maintenance Items:________________
  Alignment Price $____
  Oil Change Price $____
  Tire Rotation Price $____
  Cabin Air Filter Average Price $______________________________
  Engine Air Filter Average Price $_____________________________
  Windshield Wiper Inserts Average Price $______________________

- Notes: ____

Chapter 7

Putting it All Together

We are here to help you implement the process. Below is the Defection / Retention Action Grid for your planning process.

Defection / Retention Action Grid			
Phase	**Choice**	**Action**	**Result**
1	Stop Defection and Increase Retention	Review F&I Products Individually & Team	Elimnate Low Penetration Products
2	Identify & Plan Dealer's Choice PPM Zoom Accountability Meetings	Involve Key Stakeholders Financial Projections Competitive Advantages Pay Plans-GM, F&I Pricing & Processes Process Design	TBD On the Right Track
3	Create & Initiate Initial Plan Value Proposition	Pre-Launch Strategy Training-All Depts Training-F&I Presentation Accounting Responsibility Fixed Ops-Training Tell, Show, Do	Build Excitement with Team Members
4	Launch Date:__________ Implement & Launch	Review Accountability Adhere to Plans Monitor Results Daily	Immediate Success
5	Tweak & Fine Tune Duplicate	Integrate & Launch Revised Strategy & Tactics Kaizen	Maximum Success Dominate Aftermarket Increased Retention Guaranteed Profits thru Dealer's Choice PPM

CHAPTER RECAP

- Review F&I Products-Individually & Jointly with the Team
- Review Products & Financial Projections
- List Competitive Advantages and Value Proposition
- Review Pay Plans and Pricing of PPM
- Create & Initiate Initial Plan

YOUR TURN — CHAPTER RECAP

- List reasons why you *would not want* to do this program?________________________
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- List reason why you *would want* to do this program? _______________
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- Notes: ____
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F & I Product Vetting & Departmental Thought Connection

Mass Usage = Mass Adoption = Mass Opportunity = Mass Profitability

F&I Product: **Dealer's Choice Prepaid Maintenance with TraXtion AI Integration**

Projected Penetrations: **New 60%; Used 60%; Lease 60%; High Mileage Used: 60%**

Vendor: **Dealer's Choice / TraXtion**

Promotes Strong CSI Engagement: ☑ **Yes**; ❑No; How? **Relationship Building thru Visit Frequency**

Promotes Long-Term Service Retention? ☑ **New**; ☑ **Used**; How? **Term Exceeds Warranty Period**

Type of Product: ❑ Insurance or "Like" Insurance; ☑ **Maintenance**; ❑ Aftermarket; ❑ Hazard Repair; ❑ Major Repair; ❑ Other:_______________________________

Is Product "Subject to Chargeback?" ❑ Yes; ☑ **No**; ☑ **Long-Term Gain (LTG)** or ❑ Immediate Revenue Gratification (IRG-Short Term Gain)

What Does it Do? (Unique Technology?) **Prepaid Maintenance with Most Common Items & Predictive Tire Analytics for Tire Replacement**

Qualifying Vehicles: ☑ **New**; ☑ **Used**; ☑ **Lease**; ☑ **High Mileage Used**

Who Benefits: ☑ **Customer**; ☑ **Fixed Operations**; ☑ **F&I**; ❑ Other:_____________________

When is it Utilized by the Customer? **6 Month Intervals for Contract Term**

Customer Benefits: **Helps Ensure Optimal Vehicle Operation, Reliability & Safety, Improves Tire Life, Improves Resale/Trade Value, Prevents Unexpected Failures due to Lack of Maintenance, Keeps Vehicle Driving Properly, Locks Today's Pricing, Includes Common Maintenance in Monthly Payment for Easy Budgeting**

Customer Benefits When? ☑ **Now** (within 6 months); ☑ **On-Going** (Every 6 Months); ❑ Maybe Never (insurance)

What are the Short-Term Effects on the Dealership?

☑ **Financial-Cash Flow, Dealer Controls Pricing & Gross Profit**

☑ **Other-All Services Performed at Selling Dealer**

What are the Long-Term Effects on the Dealership?

☑ **Financial-100% Cash Flow, Long-Term Profitability, Dealer Keeps All Spoilage, Improves Fixed Overhead Absorption, 70%+ Profitability**

☑ **Other-Long-Term Customer Retention, Dealer Performs Services Lost to Independents, Huge Increase in Tire Sales & Alignments, EV & ICE Vehicle Service Frequency Every 6 Months, Improves CSI**

Comments: **No Other Product Like this combining Prepaid Maintenance and AI Predictive Tire Replacement Technology**

Completed by:____ Date:______________________

F & I Product Vetting & Departmental Thought Connection

Mass Usage = Mass Adoption = Mass Opportunity = Mass Profitability

F&I Product:____

Projected Penetrations: New______%; Used______%; Lease______%; High Mileage Used:_____%

Vendor:____

Promotes Strong CSI Engagement: ❑ Yes; ❑ No; How?______________________________

Promotes Long-Term Service Retention? ❑ New; ❑ Used; How?_________________________

Type of Product: ❑ Insurance or "Like" Insurance; ❑ Maintenance; ❑ Aftermarket;
❑ Hazard Repair; ❑ Major Repair; ❑ Other:_____________________________

Is Product "Subject to Chargeback?" ❑ Yes; ❑ No; ❑ Long-Term Gain (LTG) or ❑ Immediate Revenue Gratification (IRG-Short Term Gain)

What Does it Do? (Unique Technology?)____

Qualifying Vehicles: ❑ New; ❑ Used; ❑ Lease; ❑ High Mileage Used

Who Benefits: ❑ Customer; ❑ Fixed Operations; ❑ F&I; ❑ Other:___________________________

When is it Utilized by the Customer?____

Customer Benefits:____

____

Customer Benefits When? ❑ Now (within 6 months); ❑ On-Going (Every 6 Months); ❑ Maybe Never (insurance)

What are the Short-Term Effects on the Dealership?______________________________________

❑ Financial____

❑ Other____

What are the Long-Term Effects on the Dealership?_______________________________________

❑ Financial____

❑ Other____

Comments:____

____

Completed by:____ Date:______________________

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Library of Congress Control Number: 12345678910

Printed in the United States of America

Industry Insiders Endorsements…

"WOW! The F&I Disconnect proves that Herm Brocksmith is more than passionate about the car business ... he is obsessed with it! He shares how your dealership is engaged in a huge transfer of wealth away from you and your dealership and is shifting wealth to the aftermarket, and he can prove it.

Herm's insight and vision have helped many dealerships weather the storms of change and remain in business through challenging times. He has consulted with countless clients, highlighting their strengths and weaknesses, and helping them develop a sustainable plan for the future.

When you work in the retail auto industry, many fascinating people cross your path and you will learn various lessons from all of them. The really great people will challenge the way you think. Herm Brocksmith is one of those great minds.

Herm is a clever, insightful, and talented individual whose abilities and insights go far beyond the car industry. Enjoy the book! It's great reading!"

Ted Ings, Fixed Ops Roundtable, Founder and President

The F&I disconnect

Proof F&I Strategy is Devastating Auto Dealership Customer Retention

End Your Transfer of Wealth to the Aftermarket while simultaneously Dominating Customer Retention

HERM BROCKSMITH