



**Finance**  
Gil Van Over

## Pricing Guidelines for Fun and Profit

A friend of mine bought a vacuum cleaner and was proudly touting the features and benefits over a beverage the other night. To hear him talk, it was the mac daddy of all vacuum cleaners. I think it even discards the junk it collects by itself.

His enthusiasm was quickly squelched when a stranger who had been eavesdropping on our conversation asked how much he paid for this. It seems the price he paid was ten times what the wholesale cost of the cleaner was to the store. The stranger knew because he was a manufacturer's rep and was familiar with the wholesale pricing.

Now my friend felt betrayed by the store and the salesperson. The vacuum cleaner lost most of its luster. Even though he gladly paid the price he did, and was ecstatic about its performance, now he was seriously thinking about how he could return the cleaner and get his money back. He couldn't get past the perceived betrayal.

You could be facing the same perceived betrayal by your customers based on the pricing of your F&I products.

### Background

Dealers have a variety of product offerings in the F&I office, including vehicle service contracts, gap insurance, window etching, maintenance, chemicals, GPS devices, tire coverage, credit life and accident and health – just to name a few.

Few dealers offer all of these products; many dealers offer a combination of four to six products. Some of these products have filed rates with the state, such as credit life and accident and health everywhere to gap in Michigan, Texas and Nevada, vehicle service contracts and etch in Florida. The product must be sold for the filed or regulated price.

Most product pricing in most states are self-regulated. Someone at the dealership sets the price at which the products are sold. Sometimes that someone is the owner, sometimes it is the F&I manager. Depending upon who is making the pricing decision may determine the dealer's

potential liability for price gouging or discriminatory pricing claims.

maximum profit for each product, such as \$xxx over cost or two times cost. This works best

### **Depending upon who is making the pricing decision may determine the dealer's potential liability for price gouging or discriminatory pricing claims.**

#### Best practices

Many dealers have F&I per vehicle retail numbers in the four figure range, ranging from \$1,000 to around \$1,500. These are healthy numbers.

I am aware of many dealers who carry this type of F&I PVR who do so in a transparent, compliant fashion. Because of the processes, discipline and procedures in place, these dealers sell a lot of products and experience a lower than normal chargeback amount.

All of these dealers have realistic pricing caps in place for all of the self-regulated products they sell.

#### Pricing caps

You should consider including pricing guidelines and maximum selling prices on all of the products that are sold in your F&I office. Be aggressive, but realistic so it is defensible.

For example, having a guideline for gap pricing that suggests that your F&I manager can price gap at the lender's guideline is aggressive, realistic and defensible. The basis for your guideline has been established by a third party and is applied to all dealers that do business with that lender. It is defensible because it has been established by a third party and is applied to all dealers that do business with that lender.

Your guideline on self-regulated products can either be a retail price maximum, such as etch for \$xxx. This approach works well when the cost is constant.

The other approach is to establish a

when the cost varies depending on coverage, such as maintenance or tire and wheel policies.

#### Establishing guidelines

Be careful not to enter into potentially collusive discussions. Rather, ask your compliance consultant or F&I product provider for guidance on pricing that is aggressive, realistic and defensible. Once you've established your guidelines, communicate them to the F&I managers and the accounting office staff who will be monitoring pricing for compliance. Finally, review your menu offering so that none of the products are being presented to the customer at prices that exceed your guidelines.

Then adhere to the guidelines.

It might just help to keep those pesky price gouging or discriminatory pricing claims at bay.

Call me if I can help. Good luck and good selling. 🐼

*Gil Van Over is the president of gvo3 & Associates, a nationally recognized dealer compliance consulting firm. He assists dealers with F&I and sales compliance. gvo3 & Associates specializes in F&I, sales, Red Flags and Safeguards compliance and training.*

**If you wish to discuss this article with other dealers, or with the author, please go to the "Discussion Forums" at [www.Dealer-communications.com](http://www.Dealer-communications.com) and enter the "F&I" forum or e-mail him at [gvanover@Dealer-communications.com](mailto:gvanover@Dealer-communications.com).**