

What Happens When CARFAX Gets it Wrong?

National TV commercials negatively portraying car dealers that don't use CARFAX amid mounting questions about the Price Calculator formula are causing many dealers to say, "Just show me the alternatives...to CARFAX."

Thanks to a nationwide television campaign targeted at car buyers, consumers are now being conditioned to say, "Just show me the CARFAX" when they walk onto your lot. Consumers are also being told to believe – in the same commercials – that only reputable dealers will offer a CARFAX vehicle history report when asked. Are customers to believe that quality dealers who offer viable vehicle history report alternatives like the Experian AutoCheck or a report from the National Motor Vehicle Title Information System (NMVTIS) are not reputable?

The Board of Directors of the Florida Independent Automobile Dealers Association (FIADA) answers that

question with a resounding, "No! Consumers are not to believe that."

One FIADA board member says that his dealership is now using other vehicle history reports and only giving a CARFAX as a last resort when pressed by the customer. In part, this decision was made because of how dealers are portrayed in their TV ads, but also because the information isn't always accurate. This board member asks, "What happens when a customer comes to the lot and is given a CARFAX with erroneous or conflicting vehicle history data? CARFAX isn't the one selling the car or answering the questions face-to-face. It's my reputation on the line at that point, not CARFAX's." So what happens when

a reputable dealer is cajoled into giving out CARFAX vehicle history data that isn't reputable? They seek other solutions.

In one particular example, this dealer was selling a 2009 Mercedes-Benz SL550 with one owner, 16,760 miles and seven service records that showed two complete sets of new tires. In reality, only one tire had been replaced each time due to small road hazard reasons. Without calling the previous owner for clarifying the erroneous information, a customer could believe there was something wrong with the suspension or alignment. Examples like this are springing up all over and it makes selling cars with a CARFAX harder.

So now dealers and consumers are to believe that CARFAX is now in the business of pricing cars they have never seen or inspected, based on potentially flawed or unconfirmed data?

FIADA Executive Director Steve Jordan has been fielding calls from dealers around the state who are losing patience with the CARFAX position in the marketplace. He said, "FIADA dealers are committed to excellence, integrity and a strict Code of Ethics and are growing more concerned with how they are being portrayed by CARFAX in the media. It would be like Coca-Cola launching TV ads saying that Coke products are only served in restaurants with clean kitchens. Restaurant owners would be furious. They would have customers coming in asking if they served Coke and if not, they'd leave. I'm sure there would be onslaughts of complaints from café owners that serve Pepsi that also have clean kitchens and good food. It's ridiculous, and our dealers are taking note."

In a recent article in the *Used Car News*, Jeffrey Bellant gives an account of a spirited debate that took place at the recent International Automotive Remarketers Alliance conference in Las Vegas where CARFAX was put on the hot-seat. Participants in a breakout session voiced concerns over CARFAX's usage of phrases like "possible frame damage" or "possible odometer rollback." Many participants said the word "possible" should be avoided since the problem either exists or it doesn't.

Gerry Bayer, vice president of data for CARFAX, Inc. said he'll take the feedback from the meeting and

"seriously consider" suggestions about matters...like possible odometer roll-backs. "We are there to give you information to help you make better decisions," Bayer said, "and to help you sell cars faster." Feedback the FIADA is getting from its dealers would suggest otherwise.

However, Bayer also said the company is ultimately creating the product for consumers.

Here we go. CARFAX is now positioning itself as the ultimate consumer advocate? This idea further frustrates dealers who are not only facing erroneous or misleading vehicle history data, but are now having to contend with the CARFAX Price Calculator.

In April 2010, CARFAX introduced a new feature to their vehicle history report called the CARFAX Price Calculator and the CARFAX History Impact. According to their press release, the History Impact works "by analyzing market pricing and millions of used car transactions" to suggest an adjusted retail book value "based on the information in the CARFAX vehicle history reports."

It is common knowledge that the CARFAX vehicle history reports do not always contain accurate or empirical data. So now dealers and consumers are to believe that CARFAX is now in the business of pricing cars they have never seen or

inspected, based on potentially flawed or unconfirmed data?

There now seems to be as many questions about why CARFAX is in the vehicle pricing game as to how their formula works to determine the adjusted retail book value of a car their company has never seen.

CARFAX receives data from more than 34,000 different sources, including motor vehicle agencies in the U.S. and Canada, auto auctions, service facilities, insurance companies and more. CARFAX is dependent upon the accuracy of the data supplied to them by these agencies and sources, and for them to draw conclusions based on these multiple data streams, the entire system would have to work seamlessly and without error.

"How the CARFAX formula works to determine an adjusted book value is a complete mystery," Jordan says. "According to dealers we are talking to, CARFAX either can't or won't disclose how their algorithm works. If they could effectively manage these data sources accurately that would be one thing, but why they are pricing cars in the first place is an even bigger mystery."

One example of how CARFAX is managing data through the History Impact formula came to us from an FIADA member and Florida dealer. This dealer sent in a CARFAX vehicle history report that showed a 2006 Ford F-150 Crew Cab pickup registered as a personal vehicle with one owner, no accident damage and a Title History guaranteed "No Problem" on actual mileage or brands. The last reported odometer reading was 815,293 miles with estimated miles driven per year of 197,860. There are seven vehicle service entries and no issues noted under Additional History.

According to CARFAX the net affect of the vehicle history report for this '06 F-150 is an adjusted retail book value of +\$240. No kidding. If a consumer is to believe CARFAX is their advocate, then they are also to believe they should pay an additional \$240 above retail book for a truck with 815,293 miles. With incidents like this the CARFAX History Impact is frustrating dealers and consumers alike and many are asking, "How is that consumer protection?"

One could say this is an isolated mistake and it's just an error. But isn't that the point? If the data used in this formula is not inherently accurate or the formula somehow doesn't consider excessive mileage of 815,000 miles plus, then how can you suggest a price for a car at all, especially when you've never seen it or inspected it?

Under Florida Statute 501.976, the section of state law that defines unfair and deceptive trade practices for Florida's motor vehicle dealers, a motor vehicle dealer would not be permitted to: represent previous usage or status of a vehicle unless the dealer had correct information regarding the history of the vehicle; represent the quality of care, regularity of servicing, or general condition of a vehicle, unless known to be true and supportable by material fact; or represent orally or in writing that a vehicle has not sustained structural or substantial skin damage unless the statement was made in good faith and the vehicle has been inspected by the dealer or his or her agent to make sure the vehicle has incurred such damage.

So, how is it right that CARFAX can make material representations about the condition of a vehicle, suggest an adjusted retail book value without ever having inspected the vehicle and not be subject to the same unfair and deceptive trade practices applied to

the dealer that is selling the car? The FIADA Board of Directors and a growing group of Florida's dealers argue it is not right.

For a dealer to make the same representation as CARFAX on any car without having inspected it and confirmed the condition would be a violation of the State's unfair and deceptive trade practices and this may need to be a focus of our legislative agenda moving forward with the FIADA legislative committee.

Additionally and more to the point, this is not an isolated incident. Over recent weeks, the FIADA has been sent dozens and dozens of real-time CARFAX vehicle history reports that show multiple and conflicting data and dealers are asking for answers. One dealer who did not want to be named was told by his local CARFAX representative that, "CARFAX has invested too much time and money

into the Price Calculator and they are not going to back down from it now."

Repeated attempts to contact CARFAX in response to the questions raised in this article have gone unanswered at the time of this printing.

So what can we do? The dissemination of information and knowledge within any association provides power. Knowledge is power. But the real power comes from an organized and systematic call to action to express our concerns as reputable dealers committed to excellence who have been cornered into using vehicle history reports that contain unconfirmed data and having to lower prices simply because CARFAX says so.

If you are fired up about this issue, and want to help, here are a few things you can do:

THE CALL TO ACTION

Express your concerns with CARFAX business practices by doing the following three things:

1 Contact CARFAX directly and tell them you do not like the way they are portraying car dealers in their national TV and media campaigns. Ask them to stop this and run different commercials.

Dick Raines, President
(703) 934-2664

Larry Gamache, Communications Director
(703) 934-2664, ext. 4108

2 Contact CARFAX and ask them to remove the CARFAX Pricing Calculator and the History Impact Sections from their vehicle history report. It is our position that CARFAX does not need to engage in sight unseen price adjustments.

Gerry Bayer, VP of Data
(703) 934-2664 ext. 4452

Dave Sutton, Nat'l Director of Data Acquisition
(703) 934-2664 ext. 4250

3 Contact the CARFAX Dealer Hotline to resolve any problems that you have with vehicle history report data accuracy or any questions you may have. Call the CARFAX customer service line at (888) 695-1885.