



Building A **STRONG** F&I Department

The finance and insurance department should be a tool that helps you sell more trucks.

While getting an order from a customer is cause for excitement, the deal is not done until the vehicle has been paid for. How that vehicle is paid for can impact not only your bottom line, but also repeat sales.

A strong, well-run finance and insurance (F&I) department not only brings more cash into the dealership, but more importantly improves customer loyalty.

All dealers have an F&I department, but what makes some successful while others seem to languish? **Successful Dealer** spoke to several experts to find out what characteristics are needed for a good F&I department, what products and services should be sold, who should be hired to work in the department as well as

how the F&I department should interact with other dealership departments so that the entire dealership benefits.

Important Characteristics

According to Rod Owens, president, DFS Executive Resources, Inc., a well-run and successful F&I department has the following characteristics.

- ✓ Proactive,
- ✓ Noticeable,
- ✓ High penetration rate,
- ✓ Professional,
- ✓ Access/availability and
- ✓ High customer turnover rates.

“The F&I department has to see itself as an assistant to the salespeople,” Owens said. “If a customer is not yet convinced that he wants to buy a particular truck, the salesperson should be able to use the finance person as a tool to help move the customer toward a sale.”

This means that the F&I manager is brought into the sales equation fairly early in the sales process. “Too often F&I is brought in at the back end of the sale, which means it is more reactive than proactive.”

And while bringing the F&I department in near the end of the sale works well enough to secure financing, according to Owens, it leaves many opportunities still sitting on the table.

Larry Ginsberg, director of business development, CAG Truck Capital, said, “The F&I departments with the highest penetration rates typically are brought to the selling event right up front. They have up-front, at-bat opportunities as opposed to being merely an afterthought.”

He explained that at dealerships where the F&I department gets brought in early, finance penetration reaches 50% to 60%.

The penetration rate—the number of trucks the dealership actually finances compared to the number of trucks the dealership sells—is one way to measure the effectiveness of the F&I department. However, Owens urged dealers to use what he calls retail sales—small- to medium-sized customers with under \$5 million in sales per year—as the basis for this comparison because larger deals will not be financed by the dealership.

Make sure the salesperson and the F&I manager reach 100% of your customers, 100% of the time with 100% of your products.

In addition, as a rule of thumb, 15% to 20% of customers are not going to feel comfortable financing their vehicles inside the dealership. If you keep those factors in mind, you will be able to properly evaluate whether your F&I department is performing at a high level.

Clark too believes that finance penetration rates need to be monitored, but he also believes that those rates need to be measured by customer segment.

"When you start getting into sales with the medium and large fleets, the chance of the F&I department completely controlling the deal is lessened."

He sees owner/operators—those customers with one to five trucks—as one customer group and those customers who have five to 25 or 30 trucks as another group that should be measured.

"Obviously with owner/operator customers, the penetration rate ought to be substantially higher," he said.

One thing that influences the penetration rate is the customer turnover rate, which is defined as the number of customers the salespeople send to the F&I department compared to the number of customers they are talking to seriously about a vehicle purchase.

"If you have a salesperson who is selling seven trucks a month, for example, he likely will be turning over 15 to 20 customers to the F&I department, which will close seven deals," Owens said.

One suggestion for improving the F&I department's effectiveness is to make sure all department personnel are available anytime that the customers need them. "Most trucking customers don't work on an 8 a.m. to 5 p.m. schedule," Owens said.

"If you bookend yourself into bankers' hours, you are going to lose financing business. One thing we know for sure is that independent loan brokers will talk to a customer at eight o'clock at night or on Saturday morning." Dealers need to do the same if they expect to be considered seriously for a customer's finance business.

According to Paul Erwin, vice president, commercial segment, Key

Equipment Finance, a successful F&I department has to be sales oriented and knowledgeable about the full range of leasing, finance and insurance products available from a variety of lending sources and insurance companies.

"It needs to be fully supported by the dealer principal and held accountable for providing specific results on a monthly and annual basis," he said.

Ron Galloway, vice president, sales and marketing, CAG Truck Capital, said successful F&I departments control the deal. "If you do not control the deal, you don't control the delivery date and you don't control the other sellable items."

He added, "If a customer walks in with a check for \$100,000 to cover the cost of the truck, what chance do you have of selling an extended warranty or gap insurance or a maintenance contract?"

He explained that if you are working on a financing deal where the customer has a truck payment of \$1500 a month, you may be able to add a maintenance program and increase the payment to \$1600 a month. "If it is only an additional \$100 a month for something that the customer knows normally would cost him more, he is more likely to consider it."

What To Offer

Erwin listed the products he believes an F&I department needs to offer. "They have to offer a full range of finance and leasing products for new and used trucks and trailers as well as physical damage insurance, accidental death and dismemberment insurance, life insurance and gap insurance."

He added, "They also need a working knowledge of the extended warranty options provided by the dealership and they have to be aware of any in-house add ons that the dealership might sell."

This includes programs and services like maintenance programs, in-house leasing company alternatives, rental vehicles, etc.

Dan Clark, general manager, Equipment Finance Group, GE Capital Solutions, said, "Obviously F&I departments need finance packages, but they also must have lease packages. They need to take a consultative role especially with small fleets and owner/operator customers."

He added, "The F&I person is not just a salesperson; he also is a consultant who discerns the customer's problem and then solves it. By virtue of solving the problem he maximizes the income of the F&I department while also maximizing the savings to the customer."

According to Owens, there are four basic products that the F&I department has to sell—finance products, protection products, service products and accessories.

When it comes to finance products, both rates and terms and conditions are important to customers.

For example, a farmer who gets paid once a year when he sells his crops may want to make only one vehicle payment a year. For him, the terms and conditions of the deal are much more important than the specific finance rate.

There are two types of protection products available. One type focuses on the owner or driver and includes such things as life insurance and disability insurance. The other focuses on the asset itself and includes things like physical damage and down payment insurance.

When it comes to insurance products, it is important to make sure your staff is properly licensed to sell all the products you offer. In addition, Owens advised dealers to perform due diligence on the insurance companies they are going to rep-

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resent to determine if their products have value and to see how they honor claims.

Service products include things like maintenance contracts and can range from the very basic kind, which covers little more than an oil change and a check of belts and hoses, to a contract that includes roadside service.

Accessory products include luxury items such as satellite radio and global positioning systems.

Staffing Requirements

Once you have a full portfolio of products available, you need to find the proper people to staff the department. Ginsberg said you need people with well-rounded knowledge of dealership operations.

“You need an individual who understands the profit mechanism within the dealership, which covers six areas: New truck sales, used truck sales, parts, service, collision repair and F&I.”

In addition, he needs to understand trucking operations and be able to identify the differences between the needs of a long-haul owner/operator and those of a vocational dump truck buyer.

Erwin summed up the attributes of the F&I staffers this way, “They should possess strong sales aptitude and people skills as well as have complete knowledge of the variety of finance, leasing and insurance products that are available.

“They also need to be properly licensed to sell insurance products and they need to be able to develop strong relationships with lenders and insurance companies that provide the products and services.”

Owens believes that a good attitude is the most important characteristic to look for in an F&I manager. “The sales staff’s perception of the this person is very important,” he said.

“If the salespeople perceive the F&I manager as having value, the dealership will win. However, if the sales staff perceives the F&I department in a negative way, there can be serious financial consequences to the dealership as a whole.”

According to Owens, if one salesperson

# Financed Retail Deliveries	F&I Manager	Assistant F&I Manager
15 to 20	1	0
20 to 30	1	1
30 to 40	2	0
40 to 50	2	1
50 to 60	3	0

Table 1. From a practical standpoint, a good commercial F&I manager has the capacity to finance 20 customers a month. This table outlines how many managers your F&I department should have based on the number of retail deliveries.

decides not to refer one customer a month to the F&I department, that would result in a potential loss of roughly \$5000 to \$6000 a month, or up to \$72,000 year.

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Interacting With Other Departments

A successful F&I department should not operate in a vacuum. According to Erwin, the F&I manager should be as knowledgeable as possible about the products and services that the other departments within the dealership have to offer, as well as know the key staff members of those departments.

“He should be promoting and cross selling the dealership’s other products and services. That kind of activity should be second nature to him,” he said.

Owens explained that the F&I department obviously needs to interact with the accounting department, but also must have a good working relationship with the parts and service departments.

Clark said that many people believe that F&I affects only the sales department, but its influence actually crosses over to other departments at the dealership.

However, the F&I manager and the salespeople do need to work together.

As Clark explained, “They should be holding hands. They need to understand each other and have a common objective. It should be a marriage where they are working together to maximize the experience for the customer, along with the profitability of the dealership.”

He said when they work together, everyone wins. The customer is happy, the dealership is able to sell the truck at the largest profit level and the F&I department is able to maximize ancillary income.

But the F&I department also can assist other dealership departments. “The F&I department has a unique relationship with the customer because it knows a lot of personal information about the customer that the salesperson or parts manager does not know.”

Clark said that the F&I manager should be able to leverage that knowledge not only in reference to a specific truck or trailer but also for any needs his customer may have from other departments.

Points Not To Overlook

Clark cautioned dealers not to look at F&I as a place for short-term gains. He said that the F&I department should not focus just on the lowest possible rate or best terms available at the moment. Rather it needs to determine if a lender is going to stick with a customer during the inevitable trucking industry downturn

during which the customer may run into some financial problems.

He also said that the F&I department needs to be involved in the dealership. "A lot of times the F&I department has a tendency to be so income focused that it overlooks the customer service side and how its relationship with the customer affects his overall satisfaction.

In addition, Clark believes it is very important to bring the F&I manager into the sales process early because he then can determine what level of financing the customer qualifies for.

"There is nothing worse than for a salesperson to work with a potential buyer to sell him the most expensive

truck with all the bells and whistles and then find out the buyer will be approved only for a truck in the \$80,000 range."

This creates problems not only for the customer, who will be disappointed because he could not get the truck he wanted, but also for the salesperson who has spent a great deal of time trying to sell a truck the customer can't afford.

Owens suggested that dealers remember that F&I is a process. "It involves the sales manager, the salesperson, the dealer principal and the F&I manager."

Another area where dealers sometimes go astray is in performance tracking. According to Owens, dealers may see that the F&I department is making \$1 million so

will think it is performing well. However, they fail to ask themselves if the department has the potential to make \$5 million.

"If they are financing only 40% of the doable deals while making \$1 million, if they finance 100% of the deals, they would make \$2.5 million."

Galloway concurred and added that dealers will say they have a 65% finance penetration rate. "But what they don't tell you about is the 35% lost opportunity," he said.

That is where the dealer principal should be focused. He should be counting the missed opportunities.

The way to ensure there are few missed opportunities, according to Galloway, is to "make sure the salesperson and F&I manager reach 100% of your customers, 100% of the time, with 100% of your products."

What To Do With The Customer Who Is Tough To Finance

One way to improve not only the finance penetration rate, but also the profitability of your finance and insurance (F&I) department is to find financing for customers other than those who have the top credit ratings.

According to Larry Ginsberg, director of business development, CAG Truck Capital, "Although these individuals may be tougher to get into a deal, if you stay at it a little longer and find them financing, they often pay as agreed.

"And they come back in a repeat buying cycle. They want parts, service and more trucks." He explained that customers who are tough to finance (sometimes known as situational customers) are looking for someone to help them. "It can be the first-time truck buyer or an individual who had a situation occur and now wants someone to help get him back into the truck."

Ginsberg explained what is meant by a situational customer. "Bad things happen to good people. In this segment we are helping individuals improve their quality of life by helping them get back into a truck or get into a truck for the first time."

According to Ron Galloway, vice president, sales and marketing, CAG Truck Capital, a large portion of these situational customers rehabilitate, get their financial situation straightened out and then find that they are able to buy a later model used truck or they may even be able to purchase a new truck.

"They pay their bills as agreed so AB lenders once again will look at them, because for the past 18 to 24 months (which may be the term of the loan) they have paid as agreed and have improved their creditworthiness."

John Cosgrove, chief operating officer, CAG Truck Capital, explained that the AB customer can buy anywhere he wants. "If he wants he can drive 400 miles to save \$3000, and dealers are beating themselves up to get those customers.

"Instead they should look at the rehabilitative situations. These are guys who go back home if they don't get financed. They go back to work at a meat processing plant for example. They do not enter the trucking industry sales funnel."

He added, "We are telling truck dealers that these types of buyers are additional value inputs into the sales funnel."

Ginsberg said that the key to success is the F&I department's ability is to control and touch every single potential buyer. "It's no different with situational customers. They both can help increase your truck sales and can help fill the parts bucket and service bucket as well."

Advice

Erwin urged dealers to benchmark the financial performance of the department properly against other dealerships and to pay close attention to the actual realistic potential of the department.

"If it is not measuring up, steps must be taken to change that and if it seems to be performing well, the dealer can be assured that the department is getting close to maximum productivity."

Owens said that it is important that dealers monitor the activities of the F&I department. "There has to be a balance between making a reasonable profit and where you are trying to make too much money on one customer. There needs to be management control to balance that."

John Gosgrove, chief operating officer, CAG Truck Capital, said that the F&I department needs to touch every deal and have a passion for every deal.

"To be successful, you must have an appetite to touch every deal a second and a third time. You need to have the process and staff in place to ensure that you convert as many sales to truck deliveries as possible."

If you keep that in mind, your F&I department and your entire dealership will see increased profit.