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IMPACTING DEALER PROFITS & SALES

Automotive Digest.com & Dealer Marketing Magazine

THE Dealer Profit Center



Facing the Need to Change as the Auto Business Changes

As the market shrinks and profits often remain elusive, the need to address the area of a customer-centered, user-oriented process that expresses the wishes of our customer base arises. A new way of thinking based on an evolving culture has brought about some positive change in the industry.

Some new ideas, however, when researched and examined under the harsh light of performance-based evaluation, fail to produce the desired results. The following study reinforces that concept.

The problem:

Customers have expressed a dislike for the process of dealing with more than one person during the buying process. The logical solution to this problem



seemed to be having the salesperson take the customer through the entire sales process. The salesperson would demonstrate and help the customer choose their purchase, set the trade value, do any or all negotiating, and then present the aftermarket and F&I products and complete the financing and final paperwork. The possible benefits to the dealer could be a happier customer, a faster process, and one less manager's salary and percentage of income to pay. Our Package Option™ approach seemed like the perfect method to use to allow the salespeople to easily and quickly present the F&I products. We agreed to adapt our method to fit the one person process, train a select group of salespeople in its proper use, and then measure the results.

The basis of the study:

To conduct a fair and accurate study, we had to first choose top performing salespeople to conduct the test. We then had to provide extensive training for these salespeople in the areas of F&I product knowledge, interest rates, full disclosure, legal issues, and proper presentation of products and options. Then we would measure their results against the results of an effective F&I department operating in the same environment. We measured the results using a set of criteria: 1) Income per retail unit delivered; 2) Penetration levels of products; 3) Balance of income from different products; 4) Customer satisfaction



The Study Showed:

1. Income

Initially, the income that properly trained salespeople were able to produce using the Menu Option method fell in the acceptable range for many dealers (\$300-\$500 per retail unit delivered). This income was around 60% of what the full time F&I managers were able to produce in the identical environment. This level of income, however, tended to drop off dramatically after only a matter of weeks. Re-training and follow up had some positive effect, but a consistent income level was never maintained. Interestingly, changes in pay plan seemed to have little or no effect on this phenomenon. One dealership's salesperson production went from \$480 per unit to \$187 per unit in 12 weeks. The F&I departments, however, showed an actual increase in income over the same period.

2. Penetration Levels

The same type of change occurred in the salespeople's penetration levels. Initially, salesperson penetration levels, while tilted toward service contract sales, were in a reasonably acceptable range. This quickly changed however. Penetration levels tended to drop off quickly and penetration levels of credit life and disability virtually disappeared. Again, additional training tended to have a temporary positive effect but changes in pay plans had little or no effect.

3. Balance of Income

Initially, the balance of income tended to lean towards service contracts. This quickly changed, however, as penetrations dropped and shifted quickly to a dangerously high percentage of finance reserve income. This ultimately led to a problem with chargebacks.

4. Customer Satisfaction

This was interesting and surprising in many ways. Customer satisfaction with the sales process was almost identical with or without an F&I department. We discovered that when customers express dislike for dealing with more than one person, they may be referring to the salesperson-sales manager, back and forth process more than the F&I process.

5. Chargeback Percentage

Salespeople had a lower overall percentage of chargebacks due to the sale of fewer products. As a percentage of product sold,

with the process; 5) Chargeback percentage; 6) Administrative effectiveness; 7) Disclosure.

The End Result:

The F&I department has a very difficult and important function in today's automobile dealership that cannot be replaced by the sales staff. While some success can be achieved by the salespeople, the disadvantages far outweigh the advantages. Those dealers who have tried both methods find that they need the income, protection, and professional handling of their customers that a quality F&I department provides. A good F&I department produces high income from a small investment and provides services and protection the dealer needs. We need to understand the culture of today's consumer, but we also need to study and examine new ideas carefully and make sure they live up to their promises.



however, cancellations of products sold by salespeople was nearly double that of the F&I departments. The biggest reason for these cancellations seemed to be disclosure related.

6. Administrative Effectiveness

This was the area that caused the most frustration for the dealers. Immediate and serious problems developed when the salespeople did the final paperwork. The amount of detail required to properly complete the paperwork involved in a vehicle purchase seemed to overwhelm the sales staff, causing frustration and creating problems with lenders, office staff, and management. More than one dealer resorted to hiring a staff person to complete the paperwork for the salespeople. This, however, just added another salary for the dealer and operated much like an F&I department, minus the income.

7. Disclosure

This was a serious problem. Even well trained, honest, salespeople seemed to have a problem accomplishing a proper, full disclosure. In today's environment, this is unacceptable. Dealers are faced with a myriad of laws and responsibilities and many of these requirements were not met using salespeople to complete the final disclosures. The biggest issue seemed to be time related. After spending the time it takes to sell the car, customers wanted to complete their paperwork quickly. The salesperson, wanting to accommodate the customer's wishes, would move through the final documents too quickly to do a complete, clear disclosure. This kind of exposure is unacceptable and dangerous for the dealer.



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