

The Critical Role Of Today's F&I Department

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I have been operating under the assumption that every dealership's F&I office aggressively pursues aftermarket product business, but apparently I was wrong.

Jan Kelly, an F&I trainer and consultant, says she is perplexed about why dealers' aren't better leveraging F&I's power to add profit to the backend of a deal and she is not alone. "Dealers need to realize that F&I is the fastest way to get cash in the door," she says.

"Whenever sales are down, dealers need a way to maximize F&I opportunity, but some dealers don't have a good way to do that," notes Glenn Roberts, a training and business development manager for Zurich North America Commercial's programs and direct markets unit and a guest instructor for the NADA Dealer Academy.

Kelly says this is often because dealers fail to build and shape their staff's F&I skills, particularly with regard to how to increase aftermarket product sales such as service contracts and GAP. Weak F&I skills tend to reveal themselves in a weak market. "But those are the facts of every downturn and it is holding true this time as well," she explains.

Weak F&I presentation skills can be costly. David Trinder, senior vice president of Lender Network Solutions for DealerTrack, says F&I offices should generate from \$900 to \$1,400 in gross profit per vehicle from aftermarket product sales.

If your store isn't realizing these grosses from its F&I office (60 percent of your grosses should be from aftermarket sales, the balance from finance markup) you might want to give F&I training a second look.

Training should approach the subject from two fronts—training on specific product features, benefits, and sales strategies, and F&I management training from a holistic perspective.

"As important as training is to improving a dealership's F&I experience, it is just as important that the F&I manager has intuitive and effective tools to quickly access and present the right information to customers," asserts Trinder.

Holistic F&I training, Kelly points out, will help a store to do the following:

- Establish and maintain good relationships with aftermarket product vendors and lenders; you'll want to leverage them during difficult times.
- Help your staff match customers and lenders better, so you create more opportunities to get that customer sold.
- Polish menu selling skills so the aftermarket products you represent are presented to every eligible customer every time; present your products as solutions to the customer's needs and you'll be surprised how many customers buy.
- Be compliant to F&I disclosure laws, which protects the dealership from potentially costly liability and always troubling bad public relations.

Zurich's Roberts is a proponent of the systems and processes approach to the F&I office, all geared to creating a more satisfied customer who leaves the office with new keys in hand.

"This system, similar to the showroom selling process, will optimize the profit opportunity on every customer with appropriate legal disclosure and with improved CSI, so customers flow through the F&I office faster," Roberts explains.

"The biggest reason people don't make as much money as they could in F&I is they don't have the technology, such as a computerized menu for instance, but they also don't have a system that is able to present a number of products at once. That is what a menu is supposed to be able to do, but most dealers don't use a menu as a system. It ends up being just a sheet of paper that lists the products they offer, which the customer may not want or may not hear about," he continues.

F&I today

Major lenders are squeezed; captive funders are pulling back from leasing or pulling out entirely. Credit scores have tumbled as the real estate market continues to struggle. Fewer cars are selling overall, so the volume through the F&I office is less. So when a "live one is on the hook," not only is the unit sale at risk, but any financing margin, and where the lender will allow, the sale of service agreements, GAP, theft-deterrent devices, and other aftermarket products are too.

Focus on driving increased F&I sales using a structured process within the boundaries of acceptable and required compliance. A structure keeps your dealership out of trouble, as well. "Without a process and without monitoring of F&I processes, if a dealer wants productivity and doesn't care how that is accomplished, the dealership will make money in F&I and increase the dealership's legal liability as well," Kelly warns.

"Without [a process]," adds Roberts, "F&I people tend to approach every customer differently. They guess, based on assumptions they make about the customer and those guesses are often wrong. The right process is to approach every customer as if they were a prime credit customer and then present to everybody the same way."

A process keeps the F&I phase of the sale moving too. Roberts advises that while customers often spend two or more hours in a dealership working a deal, when they step away from the salesperson's desk and into the F&I office, they click a figurative stop watch. The sooner you can move the customer through F&I, while still doing the proper F&I presentation job, the more satisfied the customer will be.

Roberts advocates the following process to ensure more successful F&I sales:

1. **Meet and greet**—Leave the F&I office and greet the customer while he or she is still at the salesperson's desk and the deal is in progress. Greeting the customer in this manner eliminates 10 minutes of the traditional warm-up time. "After 30 minutes in the F&I office customer complaints increase," Roberts advises. This is one way to reduce the amount of time customers are required to spend at the F&I desk.
2. **Qualify the customer**—Qualify the customer for F&I products when the F&I manager is at the salesperson's desk for the

greeting. This step of the process ensures that the right F&I products are presented and it shortens the customer's wait in the F&I office. The customer has time to think about aftermarket products as well and should be given a brochure to help in the decision making.

3. **Demo the product**—The big secret for improving F&I income is to show the products you sell in your F&I department and present aftermarket products using a menu system, which ensures that every eligible product is presented to every customer every time. A multimedia presentation of F&I products shown to the customer in the F&I office or just prior to entering, will further help shave minutes from the F&I office presentation and increase product penetration.

4. **Close the deal**— Stop selling! Let customers choose what F&I products they want to buy. Focus on closing the car sale and not on which aftermarket products pay the most commission.

Sell finance earlier

Kelly recommends that the F&I manager also get the customer's authorization to pull a credit bureau when they first meet the customer at the salesperson's desk. "That initial interview can help head off credit-related problems so the F&I manager isn't caught by surprise and has time to put alternative strategies in place," she asserts. "Because you've done your relationship building with lenders, you'll have the right one lined up to handle this customer's challenges."

"I recently worked with a small independent dealer's F&I manager and, by helping them understand how to better control the financing side of the deal by better matching buyer to lender, this manager added \$15,000 to the dealer's bottom line from F&I he wasn't getting before. Plus the store was able to sell four more deals that they wouldn't have otherwise," Kelly reports.

"Franchised dealers have the same issues...it's almost a full-time job keeping relationships in good working order between their dealership and their lenders. You have to pay attention to look-to-book ratio with your lenders. Currently, the lenders I speak with are looking for a 40 percent ratio of deals funded versus applications submitted. Those dealers who continue to shop a plethora of lenders must stop such shot gunning," she adds.

In addition, Roberts asserts, "The sales manager has to be brought into the equation, so F&I has the customer properly qualified and so the F&I manager can make a deal the bank will take and still have F&I products in it. That's when the dealership wins, with good front and good backend profit in the deal. Dealers who aren't paying attention to the deal structure and how to capture these opportunities in F&I are struggling."

Selling finance faster should also include getting the paper bought faster as well. Electronic contracting (eContracting) was created to streamline and speed-up this process. Companies like DealerTrack and RouteOne have built their business model on making F&I more streamlined and efficient.

"The most important contributions of electronic contracting to dealers are improved cash flow, higher CSIs, reduced costs for overnight shipping of documents, and the practical elimination of returned contracts due to simple mistakes such as missing signatures," explains DealerTrack's Trinder.

"Customers appreciate the speed and efficiency of electronic contracting. It also helps drive up CSI scores by eliminating last minute misunderstandings. Also, every page of the deal jacket that can be transferred from paper to an electronic document can lead to a faster, more convenient process for the customer," he continues.

Arzu Algan, dean of education for the Automotive Dealership Institute agrees, writing in a recent issue of the Institute's View from the Top eZine: "eContracting enables dealers to greatly reduce, and in many cases nearly eliminate, contracts in transit (CIT). Fewer CITs means better cash flow."

"The process is accomplished electronically, safely and securely, and with lightning speed," she writes. "Increased efficiency and productivity have a direct correlation to cost reduction, which translates into greater profitability."

Her article mentions the following additional benefits of eContracting:

- Deals close quicker and with fewer mistakes.
- Necessary documentation is bundled into one package, which assures that only complete, properly compiled loan packages are sent off.
- No waiting for approvals to arrive by fax, no more overnight packages leaving the dealership, no more unhappy customers returning to the finance office to re-sign paperwork.

Trinder adds, "With eContracting, contract errors and missing signatures can be caught and fixed before the contract leaves the dealership. This allows the lender to drive costs down with a cleaner and faster process that reduces paperwork, phone calls, and paper fax clutter to their institution. In addition, eContracting enables dealers to cut re-contracting, eliminate expensive overnight shipping, increase CSI, and accelerate their funding."

As for leasing, while some captive and other major lenders have pulled out of, or back from leasing, leasing is still available and will remain a powerful tool. Much of the slack created by the withdrawal of these funders will be absorbed by independent leasing companies, according to the National Vehicle Leasing Association. Going forward, the association says, leasing, regardless of the underwriter, will be used more judiciously, mostly for consumers for whom the lease option makes the most economic sense. Shorter leases, which will also emerge, will help re-establish shorter buy cycles and that benefits all dealers.

"In the end," says NVLA's Elaine Litwer, "the big winner is going to be the consumer." She notes that while consumers at first will feel the absence of leases that easily put them into more vehicle than perhaps they should have—for long terms—more prudent leases written for shorter terms will help consumers recover from their history of upside-down deals and put them back in the showroom sooner.

Selling products

Selling aftermarket products can add substantial dollars to the backend of the deal. Zurich's Roberts notes that typical vehicle sales yield a dealership \$400 in finance margin and \$600 in product sales. For a number of years now, the F&I menu has made sure more

customers are presented the entirety of the aftermarket products you sell, which has resulted in increases in aftermarket sales as well as better regulatory compliance.

“Menu selling ensures that every eligible product is presented, every time, to every customer,” Roberts explains, “which also helps move customers through the F&I office quicker—no more than 30 minutes, with full disclosure.”

According to NADA F&I data, aftermarket income—combined finance and product—has increased slightly in recent years “partly from a renewed focus on F&I, resulting in higher finance penetration rates for both new and used cars and a greater emphasis on customer understanding and satisfaction in F&I.”

While traditional aftermarket products are a dealership’s F&I products bread and butter, some dealerships are finding it profitable to also sell through F&I hard adds. One such hard add F&I product is from Guidepoint Systems, a GPS-based vehicle recovery system.

“The challenge for dealers is that low cost, high gross paper F&I products can be cancelled by the customer, but lenders consider products like the Guidepoint System a hard asset and therefore not cancelable,” warns Rich Zeichner, vice president of dealer sales, for Guidepoint Systems, “and it can be a challenge to get a deal bought with these products added into the deal. A 650 credit score may be B- or C-level paper and then if you add a lot of F&I product into the deal, how do you then get that bought as well?”

“We fit nicely here because if the customer is considered a risk and the bank won’t buy that paper, the dealer can suggest that if the lender advances on the vehicle recovery product too they have the ability to send payment notification, or if the buyer defaults, know where to go to repo the vehicle. In other words, a product like this can be sold as a profit maker for the F&I department or if the customer is a risk, added to the vehicle, with disclosure, to assure the lender, and get the deal done,” he asserts.

“Dealers selling the Guidepoint System,” he continues, “on average enjoy a 30 percent product penetration with a \$600 to \$800 profit per unit.”

The role of the F&I office has never been more vital to the financial health of the dealership than it is today. With vehicle sales down, every sale you can conclude offers opportunity to add additional gross through the sale of eligible aftermarket products. Faster contracting can improve cash flow. Choosing to pursue the needs of credit-challenged consumers can open new avenues for increasing vehicle sales. The role of F&I is critical today for the financial wellbeing of the dealership, but only if you make it a priority to sharpen your staff’s ability to sell F&I more profitably.