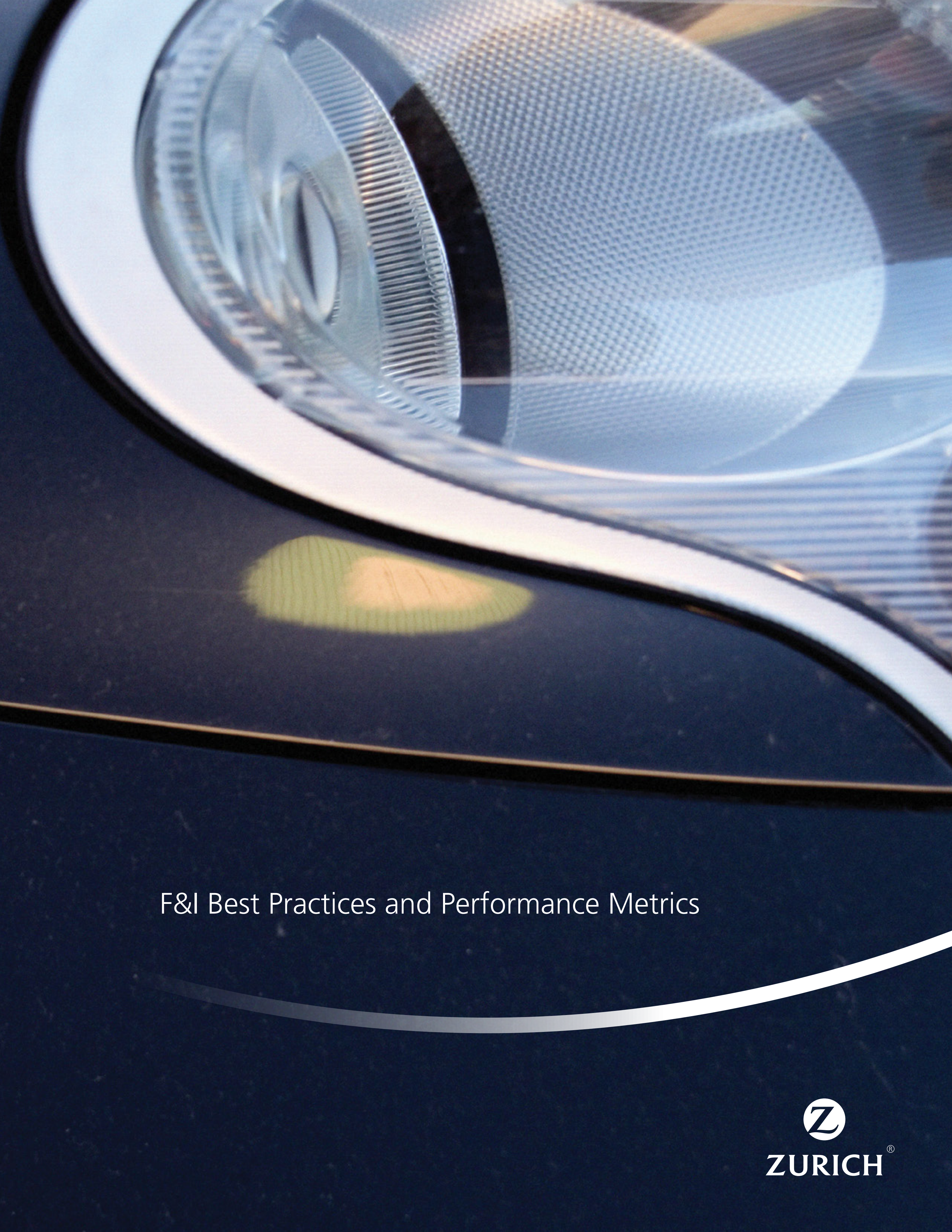

F&I Best Practices and Performance Metrics

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F&I Best Practices and Performance Metrics

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Introduction

The roles and responsibilities of F&I managers are evolving at an increasingly rapid rate. Driven by technology, legislation, regulatory scrutiny and changing customer expectations, both the F&I process and the measures of success are materially different today than was the case only a decade ago. F&I managers are challenged not only to stay on top of the changes, but to harness them to produce superior performance.

To thrive in a rapidly changing environment, F&I managers need to understand the drivers of change, and how they translate into best practices. By adhering to a comparatively small number of essential best practices, even good-performing F&I departments can expect to see improvements, and underperforming departments should experience material positive changes in both the top and bottom lines, as well as in customer satisfaction and compliance.

The F&I Environment

The F&I department can have a powerful impact on a customer's attitude about the sales experience and the credibility of a dealership as a whole. For many customers, however, the experience is less than pleasant. Typical customer complaints include feeling pressured to buy products, long waits and unnecessary processing and product presentation times. Customers also dislike having to deal with more than one person during the sales process. For these reasons, some in the industry have suggested eliminating F&I departments altogether as a way to improve customer satisfaction and increase retention.[1]

Fortunately for F&I professionals, closing the F&I department is highly unlikely for the vast majority of dealers. In fact, most dealers seek to increase the contribution of the F&I department to the gross margin. However, increasing penetration rates may seem at odds with enhancing customer satisfaction: How can an F&I manager sell a customer more products while at the same time decrease the perceived pressure and reduce the time spent on the F&I process? Add the ever-growing compliance burden to the equation, and F&I managers are faced with an enormous challenge – satisfying several stakeholders with seemingly conflicting demands.

Fortunately, the demands of dealer profitability, customer satisfaction and regulatory compliance are far less at odds with one another than they may seem at first glance. F&I departments may need to re-engineer certain processes to become more efficient and customer-friendly, but improvements in customer satisfaction are worth the effort: Dealers that focus on customer satisfaction in the F&I process are far more likely to increase sales, have return customers, and therefore increase pressure on their competitors while lowering employee turnover and marketing costs.[2] Regulatory compliance is simply a fact of life in F&I departments, but it doesn't have to be an obstacle to either the sales process or customer satisfaction. In a well-run F&I department, compliance is seamlessly built into the processes. To the extent customers are even aware of compliance activities, they typically appreciate the safeguards they offer.

One way to assure top performance in all the F&I areas of accountability – product penetration, profitability, customer satisfaction and compliance – is to adopt and adhere to industry best practices.

Best Practices

"Best practices" is a phrase commonly used in conjunction with F&I performance. F&I managers are keenly aware that their role is essential to the success of their dealerships, and senior management is always looking to fine tune the performance of the F&I department. By following best practices, it is assumed that F&I departments will maximize profitability, increase customer satisfaction and loyalty, and achieve full compliance with the many laws governing automobile transactions. But what are best practices?

Best practices are a set of processes or procedures which will lead to improved performance. Typically these superior processes and procedures are gleaned from the activities of top-performing organizations in a field, and frequently are tied to the concept of benchmarking – using objective metrics to gauge performance against a peer group, or against the best performing organizations.

Best practices for F&I managers reflect the need to fulfill a complex set of priorities. Best practices not only should lead to growth in sales of the most profitable products, they also should enhance customer satisfaction and contribute to legal compliance. F&I experts don't always agree about specific best practices, but a review of the literature of F&I best practices – including articles written by, and interviews with, high-performing F&I managers; interviews with executives of supporting organizations; and surveys of F&I departments – reveals a number of practices that most concur are essential for top performance.[3]

Use Menus

Every expert referenced for this report agreed that menus are essential.[4] Menus assure that every customer is presented every product in a consistent manner in the shortest period of time. A menu not only helps customers make informed decisions about a dealership's products and services, it also makes it easier to monitor and track an F&I manager's performance, and it is an important compliance tool.

While the menu has proved to be an enormously valuable tool, many F&I experts warn against overloading it.[5] Presenting too many options can confuse and annoy the customer. Products that have consistently been poor sellers should be removed.

Use Evidence Manuals, Visual Aids and Other Sales Tools to Help Explain the Value of Products

Research reports, statistics, customer testimonials and other forms of independent confirmation of the benefits of various F&I products can be powerful sales tools.[6] Additionally, graphs, pictures and physical props can help customers to better grasp the benefits of F&I products.

Use Checklists

A single deal can involve a number of processes and can result in an enormous amount of paperwork. A checklist helps to ensure standardization and compliance. The F&I checklist should be completed by both the F&I manager and the billing clerk, and is an integral element of the F&I overall review (see below).

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Conduct Regular Training

Most dealerships recognize the need for more F&I training – about sixty percent of respondents to an informal online Automotive News survey question last year said they have increased F&I training during the past five years[7] – but many experts agree that more can be done to develop and implement effective training programs.[8] F&I departments should take advantage of training offered by lenders and F&I product vendors. Weekly internal training sessions, including role-playing exercises, are an opportunity to focus on correcting specific weaknesses. Training also should have a significant compliance component. Some experts note that, going forward, a more holistic approach involving the sales, service and F&I departments should be taken when designing and facilitating training.[9]

Focus on Customer Satisfaction

NADA's most recent *State of the Industry Report* concludes "A greater emphasis on customer understanding and satisfaction in F&I yielded better business performance in 2011."[10] F&I experts agree that key elements of customer satisfaction include: (1) customers thoroughly understand the value of the F&I products they are offered, and (2) the sense that they are being dealt with openly and honestly.[11] Customers need to feel that they are being presented with options rather than being "sold."[12] F&I managers also need to be respectful of customers' time – delays are one of the most common customer complaints. Processes should be re-engineered to make them more efficient. This includes reducing the time between the front-end close and the initiation of the F&I process.

Leverage Technology

Many F&I experts concur that effective use of technology is essential just to keep even with the competition, and the best performing F&I departments will be those that excel in using technology to facilitate transactions and to deliver value to the customer.[13] Additionally, a growing number of customers are "digital learners," and are most comfortable with information presented on a computer screen. F&I departments should be prepared to accommodate this increasingly common learning style.

Menu programs are increasingly being used by F&I managers. If used effectively, they are more flexible than the traditional four column paper menu, and can speed up the F&I process, leading to higher customer satisfaction. Many menu programs also provide productivity reports to identify gaps in F&I manager behavior and results.

Maintain a Relentless Focus on Compliance

The complexity of all the various state and federal regulations, taken in their entirety, can be overwhelming. Despite the challenges, compliance should permeate every aspect of the F&I process, especially since penalties for noncompliance can be catastrophic. Many dealerships now have an in-house compliance officer with an understanding of the relevant rules and regulations, who can guide the development of an F&I compliance solution that encompasses credit reports, credit application submission, menu presentations, and document storage.

Review the F&I Department Regularly

Reviewing assures that customers receive what they agreed to, provides input into performance measurement, and is essential for ensuring that transactions are compliant with all relevant rules and regulations. Some experts recommend a multi-tier audit process: A daily review by the billing clerk; a monthly, more detailed review by the office manager; and a quarterly review by an outside set of eyes, such as the dealer's attorney or accountant, or a compliance expert.[14]

Performance Metrics

Most F&I departments strive to improve performance, but what does being a top performer actually mean to the top line? The average F&I profit per retail unit is less than $800,[15] but top performers average more than $1,100 per retail unit.[16] A dealer with average sales but with a superior F&I department can bring in nearly half a million dollars in profit per year as compared to a comparable dealership with an average F&I department.[17] Dealerships with above average sales can produce a great deal more F&I profit.

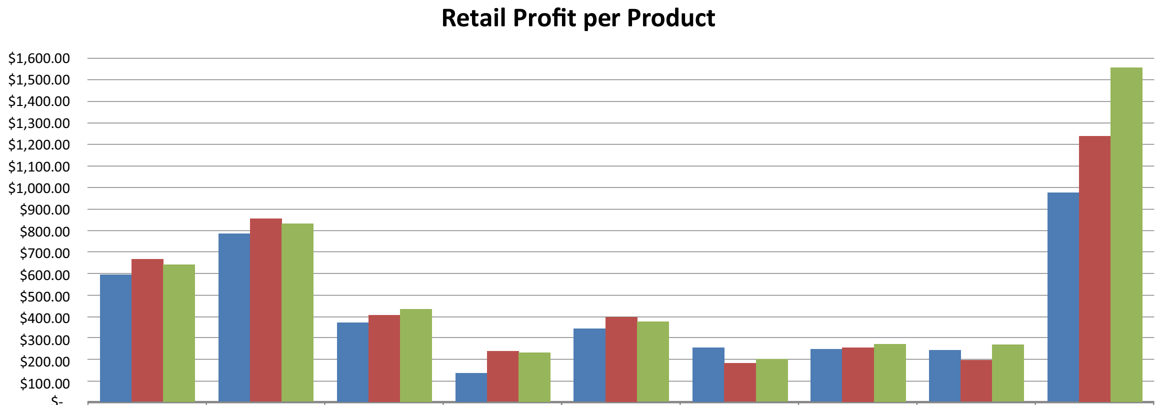
Viewed at the individual product level, the penetration rate for GAP is about 37 percent, according to *F&I and Showroom* magazine's benchmarking study (2010),[18] but data compiled by Zurich in North America ("Zurich") show that the very best F&I departments have GAP penetration rates in excess of 50 percent.[19] Service contracts average about 38 percent for all dealers, according to NADA data,[20] but elite F&I departments have a penetration rate of 54 percent, according to Zurich. Zurich data also shows that the very best F&I departments generate more income from service contracts and GAP, and far less from finance as compared to average F&I departments. [21]

Benchmarking Performance

Benchmarking is not a new concept for F&I departments, but it is an important practice for any department seeking to improve performance. Benchmark data such as the Zurich Elite Performance™ Account Benchmarks provide an objective basis for active oversight and assessment of performance, and are an important tool for maintaining focus on continuous improvement and growth.

Exhibit 1 shows Zurich Elite Performance™ Account gross profit by account and Exhibit 2 shows penetration by account.

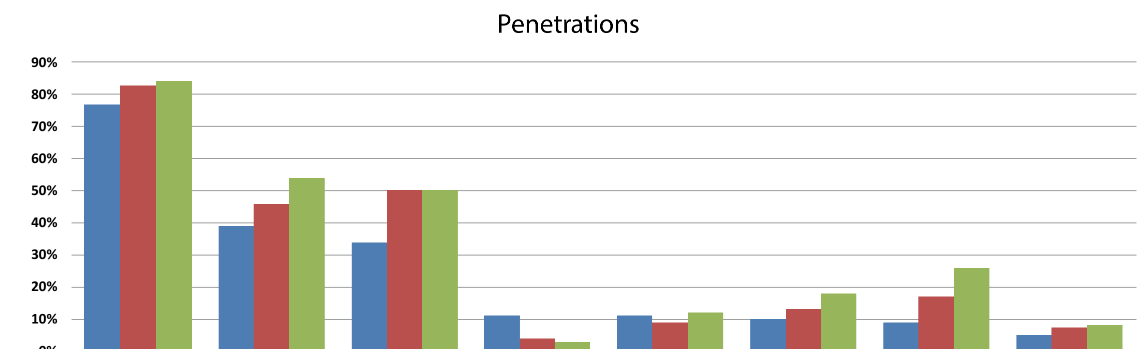
Exhibit 1



	Finance	Vehicle Service Contract	GAP	Universal Security Guard	EPP	Tire & Wheel	Maintence	PDR and/or Windshield	PVR
EPA Avg	$596.38	$785.41	$373.40	$139.22	$342.69	$253.38	$248.61	$242.35	$976.12
Top 20%	$663.93	$855.97	$406.74	$241.05	$399.56	$181.71	$254.34	$194.97	$1,239.72
Top 10%	$641.74	$832.96	$432.84	$234.80	$379.34	$198.34	$269.30	$266.51	$1,556.57

EPA Avg Top 20% Top 10%

Exhibit 2



	Finance	Vehicle Service Contract	GAP	Universal Security Guard	EPP	Tire & Wheel	Maintence	PDR and/or Windshield
EPA Avg	77%	39%	34%	11%	11%	10%	9%	5%
Top 20%	83%	46%	50%	4%	9%	13%	17%	7%
Top 10%	84%	54%	50%	3%	12%	18%	26%	8%

EPA Avg Top 20% Top 10%

Conclusion

Gross margins were down marginally in 2011, 14.4 percent as compared to 14.5 percent in 2010,[22] making it all the more imperative that dealerships maximize the contribution of the F&I department. At the same time, compliance pressures grow and increased oversight from the U.S. Federal Trade Commission remains a looming threat. F&I managers have rarely faced a more challenging environment.

Improving F&I performance across all measures – penetration, profit, customer satisfaction and compliance – is critical for many dealers. By focusing on a handful of best practices, most dealers are likely to see a material improvement in the performance of their F&I departments. Performance metrics, such as Zurich Elite Performance™ Account Benchmarks, can provide an objective basis for measuring performance and can be the basis of setting performance goals.

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