

# The Foundation For F&I Profit

*Vision, Infrastructure, Process*  
*The Three-Legged Stool Of Profit*

A White Paper



**MARINE DEALER**  
**CONFERENCE & EXPO 2016**



**Produced by First Approval Source**

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## 1. A Stable Base For F&I Profit

Without going all mathematical, it is provable that a three legged stool will not wobble.



It will be stable and reliable. Remove a leg, and it will almost certainly fall over. Add a leg and, unless you are either very skilled or very lucky (or both), you have certainly introduced a level of instability.

It is this metaphor that supports the foundation for F&I profit.

As the leader, it is up to you to provide the three legs which provide the stability for your store drive exceptional F&I profit. With the three legs in place, your stable platform will engender the best practices throughout your F&I operation.

The three legs are:

- Vision – A clearly articulated, consistent view of the roles, goals, targets and organization supporting F&I
- Infrastructure – The tools and environment needed to make your team successful
- Process – F&I presentation, training, intra-departmental coordination and integration and passionate selling

Once your legs are in place you have rock solid platform on which to build your successful operation.

The balance of this White Paper will focus on each one of those legs.

9/23/2016

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## 2. What Is Your Vision?

There are three aspects to your vision which need to be clarified, presented and institutionalized.

First, is your F&I operation a profit center or simply a sales support function?

This is a critical distinction and the answer can absolutely cap your profit and success. If the role of F&I is simply to move units and make sure that unit sales are the hero, you have positioned F&I to have a very limited profit impact in your store.

Clearly, F&I should never cost you sales...and done right, it never will. That said, F&I can and should represent 50% or more of your stores Net Profit. Your vision statement should include a clear image of F&I (more appropriately and usefully presented as your Delivery Office) as a fully functioning and independent, yet cross-department coordinated Profit Center.

Once you have established that F&I is there to drive profit, you need to define clear goals and targets.

Our recommendation for these goals is:

- Customers Introduced to your Finance or Delivery Department – 100%
  - Every customer at your store should be introduced to a Delivery Specialist, who is independent of the sales person, who can walk through financing options as well as backend products
- F&I Penetration – 57% of all deals
  - Calculate this by taking the number of units sold and dividing that into the number of units that were financed
- Service Contracts – 47% of all deals
  - Calculate this by taking the number of units sold and dividing that into the number of units on which extended service or other backend products were sold
- F&I Gross Profit as a Percent of Store Sales – 5.5%
  - Calculate this by taking new and used unit sales dollar volume and dividing that into the total F&I sales volume minus the dealer cost of any backend products
- F&I Net Profit as a Percent of Store Sales – 4.3%
  - Calculate this by taking new and used unit sales dollar volume and dividing that into the total F&I sales volume minus the dealer cost of any backend products and the real costs of F&I including salary, commission, credit pulls, compliance, etc.
- F&I Cost as a Percent of Gross F&I Profit – 21%
  - Calculate this by taking the real costs of F&I including salary, commission, credit pulls, compliance, etc. and dividing that by the total F&I sales volume minus the dealer cost of any backend products
- F&I Net Profit as a Percent of Store Net Profit – 50%+
  - Calculate this by taking the F&I Net Profit and dividing by your Total Store Net Profit

While it may take some time and practice, these are fully achievable objectives. Make them visible to your team and track them publically, visibly and update them at least monthly!

Finally, you must codify your concept of intra-departmental interaction and support and alignment. Sales, service and F&I must work together, cooperatively to achieve all your goals. The picture you must paint is that of a smoothly functioning and highly supportive organization, where each department supports the others. This support includes:

- A Delivery Coordinator (F&I Manager) who can be trusted to add to sales and not lose them
- Sales people who introduce backend product concepts without spoiling the sale
- A Service team who understand the value of warranty and protective products and who help ensure that your customers appreciate the value of their purchase

Once your team shares your vision, you are well on your way to extraordinary success.

### 3. The Tools To Succeed

Without the right vision, nothing else matters much. You now have the vision. You have to make sure that your team has the tools to succeed. F&I success tools fundamentally fall into four categories:

- Lender relationships (and knowledge)
- Backend Products (and knowledge)
- Physical infrastructure and compliance
- Software; application processing; menu selling; contract generation

Failure to have sufficient lenders will significantly handicap your team – too many lenders can be confusing and counter-productive.

Every lender has a very specific credit/customer profile that must be met or exceeded in order to obtain an approval. You should build a comprehensive table that shows, for each lender, the following criteria:

- Min Credit Score
- Max Debt to Income
- Max Loan to Income
- Max Payment to Income
- Max Loan to Value
- Min Income
- Min Credit History (Mths)
- Co-Apps/C-Signers Ok?

- Min Down Payment
- Min Loan Amount
- Max Loan Amount
- Bankruptcies OK
- Child Support Collections OK
- Any Collections OK
- Credit App Submission by Fax
- Credit App Submission by App One
- Credit App Submission by Dealer Track

For some of these criteria the lender will have a System Decline (meaning the application will automatically be Declined if the item falls above or below a certain number). You should never submit a Credit Application if it falls into a System Decline category – although it is always okay to talk to an underwriter if you think that there are clear mitigating circumstances

An ideal lender portfolio will have two – three Prime lenders (those who only take applications with Credit Scores of 680 or higher and have other criteria). None of these should have nearly identical criteria beyond the Credit Score.

You should have two – three mid-tier lenders (630 – 700). Local credit unions with indirect lending programs and some local or regional banks may satisfy this tier.

Finally you need two – three non-prime lenders (550 – 650).

With this a a minimum portfolio, and with a full understanding of what lenders care or don't care about, your team will be well equipped to service all credit profiles.

Once you have your lender portfolio, you need to equip your team with a full suite of backend products. If you want to sell backend at least 47% of the time, you need products to meet the situational requirements of each type of boat and each type of buyer.

The minimum suite will include:

- Extended warranty – both engine and accessory
- Environmental protection products
- Tire and wheel (sometimes called Tire Road Hazard)
- GAP Waiver
- Pre-Paid Maintenance (this is not actually a Backend product, but it is sold at the same time and in the same way)

Typically you will have several extended warranty products, some by the manufacturers and some third party.

Extended warranties are good on virtually every sale, as are environmental protection products. Tire and wheel is appropriate when the customer will be trailering their boat. GAP Waiver should be presented every time the customer is putting down 20% or less.

Each lender will have slightly different rules for backend product allowances, so you will want that information to be part of your lender detail.

With these products, your team will be well equipped to sell backend effectively.

Physical infrastructure and compliance are the necessary evils of offering F&I.

The first rule for the Physical Infrastructure is that while it must be a lockable, private setting with locking filing cabinets and shredders, you want to make it warm and inviting, like a Delivery Office and not like a car showroom F&I Office. You want lots of "happy customer taking delivery" photos and you want to hide the obvious negative items of F&I, like contracts and credit applications.

You will need your Red Flag manual and the capability to deliver Red Flag training.

Finally, you must provide the software, tools and systems to facilitate all the F&I functions.

First and foremost, you need the ability to obtain credit bureau pulls from the three major providers: Experian, Equifax and TransUnion (different lenders have different requirements about which bureau they accept.) You have the option of working directly with these providers, or going through credit agencies like Credco, 700Credit, CreditMiner and others. Often the agencies provide additional tools and analytics that make reviewing the bureau easier. Some also offer tools for Rapid Rescore, which can be useful in improving credit for certain customers.

You need to offer both online and printed Credit Applications...and your team needs an easy and efficient way to get those applications in front of the lenders – based on the lender, your choices will generally be: fax/email; DealerTrack; AppOne. Some lenders have their own online application – which is highly responsive for that lender, but is not conducive to multiple submissions.

When you get approvals, you then need to be able to generate contracts. You have a variety of options here as well. Supreme Software offers DealershipTracker (which also integrates with the WinBoats, DMS, DealerTrack and AppOne.) DealerShipTracker has a contract version for every lender. AppOne and DealerTrack also provide contract creation capabilities, but only for integrated lenders.

The last system you will need is a Menu Selling System for presenting and selling Backend Products at the appropriate time. DealerTrack and DealerShipTracker do have menu selling systems integrated. There are several other menu selling tools and systems available.

With your vision and infrastructure solidly in place, there is just one more leg to completing your stable platform for success.

## 4. Tying It All Together

The third leg of the stool, merging vision with infrastructure to produce results, is process.

Process encapsulates many things...fundamentally it is about the things you do to ensure that your crystal-clear vision leverages your comprehensive infrastructure to turn vision into reality. There are four major elements in a complete process:

- Making F&I capability visible to your customers
- Training your Delivery Coordinators (aka F&I Managers)
- Aligning Sales and Finance
- F&I Philosophy (how hard you push for reserve and backend sales)

While customers expect car dealers to provide finance options, that is not true for boat buyers. Many will be already working with their local bank or credit union before they even show up at your store. Even those who walk in without previous lender contact, may well not be expecting that you can help them.

You need to advertise your Finance capabilities early and often. Make sure that Finance is more than a Credit Application on your website. Have a tab that highlights the fact that you provide competitive financing. Let people get pre-approved for finance with a soft-pull credit form which does not require a social security number and does not impact their credit score. This provides not just leads, but locks customers into your store while giving you credit scores and bureau files.

Never assume that buyers know that you can take care of their financing. Put signs in your store. Put messages on your website. Teach your sales team to tell customers that you can help them get low monthly payments for the boat that they love.

Outstanding Delivery Coordinators are made not born. The training is your responsibility. Training must also be coordinated with your Sales team. Key training points are:

- Never discuss backend product prices until you know finance rate...and always discuss backend in terms of payment not rate
- Sell payment all the time
- Stories sell...never talk about product or loan features, sell value and sell by telling stories
- Make sure your Delivery Coordinators know how to present the contract finance rate
- Your Delivery Coordinator must understand the value story for every backend product
- Teach the Menu Selling Process..."Would you rather have small, medium or large, with just this few dollars difference?" is compelling..."Would you like this product?" is not

Sales and Finance must be fully aligned. Some of this is training, but it goes beyond that. Aligning Sales and Finance means that Sales must be compensated for Finance success, so that



they are motivated to assist in Finance success. Compensation is the key. Sales must share in F&I success. Sales introduces backend products without talking about price. They encourage the conversation with the Delivery Coordinator. Sales gets a piece of the Finance profit. This piece will range from 1% of profit to 5% of profit based on F&I Profit as a percentage of total deal profit. Big deals with big backends reward everyone...smaller deals with smaller backends still reward everyone...alignment is the key.

Finally, and perhaps this is training, maybe it is philosophy...how does your Delivery Coordinator approach the F&I sales process? This can range from "just don't lose the unit sale" to "maximize profit at all cost". You are responsible to teach the balance that says, "Always be aggressive and go for the Gold; be sensitive to the deal and be gracious in retreat...always ask for the most and settle for the sale, but not without a friendly conversation." Customers, in a friendly and supportive environment will almost always take well-meaning guidance. Teach your Delivery Coordinators to offer gentle, friendly and constructive guidance as to why the deal from the bank is right and why the products offered are of true value.

One note on this point...this guidance cannot be gratuitous. Your Delivery Coordinators must be working in your customer's best interest. If they don't believe in what they are saying, then you have done a bad job teaching the value in what they are offering. Your sales must always be in the customer's best interest.

## **5. The Stable Three-Legged Stool Is Built**

Vision, infrastructure and process...you have put it all together.

Congratulations! You have a clear a documented objective for F&I along with specific goals and targets and store-wide alignment.

You have the lenders, the backend products and the compliance and physical infrastructure elements that you need.

You are doing the advertising and providing the visibility that F&I needs. Training is in place and is comprehensive. F&I and Sales are fully aligned. Your F&I team are aggressive and graceful in retreat.

You have everything in place! Keep it there and the profits are sure to follow.

## **6. The First Approval Source Difference**

For years, First Approval Source has been helping dealers increase their profits while satisfying the financing requirements of their customers. The leader in customer service and customer satisfaction, the First Approval Source team is known among its dealer community as the quickest, most flexible, most responsive and most focused outsourced F&I provider in the industry. With a broad variety lenders to work with and years of experience in the marine and recreational vehicle industry, First Approval Source is often able to succeed in obtaining financing where others fail.

First Approval Source is your profit services company. Unlike the narrow view taken by traditional financial services providers, First Approval Source starts by recognizing that more and better qualified leads results in more unit sales. Once we have helped drive the increase in unit sales, then our attention turns to helping deliver more profit per unit.

Unlike any other provider in the industry, First Approval Source starts with doubling highly qualified finance leads. It then serves as a comprehensive financial service resource for all F&I issues and requirements. Through its unique dealer website offering, First Approval Source is also able to assist dealers in gaining more, finance ready, highly qualified leads.

When you think [First Approval Source](#), think:

- The **best** customer service in the industry – rated 10 out of 10 by our customers
- **Best** available rates based on the customer’s situation
- **Unique fee structures** that offer you the opportunity to truly maximize profits starting with an 80% split for at least the first year
- Consumer credit improvement services
- The only provider to enable dealers to capture more, high quality leads using the only **real time soft credit pull** technology
- Unique First Glance reporting which provides the dealer a snapshot of the customer's credit profile and likely finance outcome within 30 minutes of credit application submission
- **Dealership Management** technology
- Website **development and improvement** programs
- **Reputation** Management
- New and exciting **Social Media** campaigns
- Customer/loan approval rates **in excess of 80%**
- **Credit Improvement** programs
- **Complete** electronic transaction processing
- **24/7 access** to the status of your transactions

The dealer’s partner in all things F&I, First Approval Source continuously strives to maintain and improve on its “best in the industry” reputation. Originally founded by a team with over 30 years of dealership experience, First Approval Source knows what it takes to make you successful.