

# How to Drastically Improve Your F&I Income

*F&I should be a profit powerhouse for your dealership, but is there room for improvement? These practical strategies can help your business maximize its F&I revenue and create a win-win scenario for you and your customers.*

Let's assume you have a thriving dealership selling hundreds of RVs every year, lining up financing for your customers, selling a few protections, and turning a profit. All is good on the surface, but maybe there are serious blind spots, and the results of your efforts are unclear. Or, what if you are a similar dealership, but your focus is primarily on selling RVs, with F&I as an afterthought? Maybe the task is handed over to a service company with no understanding of what F&I should be worth.

There are several approaches to address financing for your customers, and there are also many ways to diminish what it should be producing. What if right now you are generating half the income you are capable of, and the way to improve is easier than what you are doing now? Sounds unlikely, but the point is to look closely and compare the right information.

When considering any approach, how important is it to place competitive loans for your customers? Clearly, it's a big deal, and your company is riding on this! Now how important is it that you capture the rest of what F&I can offer you and your customer? Selling RVs below wholesale is probably not a viable and long-term strategy, but that may be how your F&I department is acting. What if there is a better way to address the opportunity?

## **F&I Is More Than Compliance, Paperwork and Occasional Product Sales**

If your department acts like a closing agent with rate markup and a random protection sold every now and then, that is not F&I. To determine whether your F&I department is maximizing its potential, ask these questions:

- Are interest rates optimized?
- Do you have a full suite of backend products?
- Do you actively offer and explain their benefits?
- Do you evaluate the net profitability of your efforts?

A "no" or "maybe not" answer to any of these questions should prompt, at the least, an evaluation of what is being produced, as you may be winning or you may be losing. With this perspective, you will understand either what your F&I department may

be costing you to continue with your current setup or just how well you are doing with it.

F&I should be a profit powerhouse. Nothing new here, and most dealers know this, but many dealers miss the mark on what F&I is and what it's worth. It should be highly profitable—great, now what? That statement is about as useful as telling someone they can be a great golfer. Knowing how to get there is the key.

Setting up an F&I department will not make it profitable any more than opening a dealership guarantees that RVs will sell themselves profitably. F&I, just like any profit center, must be set up to win. That may sound easy, but there are multiple ways to miss the mark. To succeed, first you must have the appetite and ability to capture financing for every type of buyer. That begins with lenders who want to write loans in each credit category paired with a patient but hungry business manager who will diligently chase the tough deals. Loan approvals are not difficult with the right setup; putting a challenged customer into a competitive loan takes skill and a winning system. Subprime and near-prime lending brings low conversion, higher interest rates, more work, and lower profit opportunities. However, if you don't pursue these deals, a large portion of your customers could get shrugged off and sent to local banks. The result is that you will sell fewer RVs, and your customers may end up buying at other dealerships.

The next step to building a profitable F&I center is offering and selling a full array of protections to your customers. This step involves more than selling extended warranties. There are multiple F&I protections that bring RV owners tremendous value but have setup, licensing, and maintenance complications. Many dealers shy away from offering a full suite of protections based on these difficulties along with the impact to the customer. Professional F&I is not about imposing coverages on people who don't want them. It is about quickly explaining the benefits, what they cost, and why they are worth the investment. Neglect to offer and explain any one of these protections, and you won't sell them very often. The benefits of protections are real, and your customers will pay for them. If the customer de-



## **Jeff Wyatt**

**J**eff Wyatt is a principal at DLR Financial and has owned and operated multiple firms with focuses on financial services and fundamental business management. For more than 20 years, he also served as CFO for some of the country's largest corporations in the construction and F&I industries. Jeff has worked with RV and marine dealers nationwide for several years.

**800.447.2946 ext. 800**  
**jwyatt@dlrfinancial.com**



clines a protection, no sweat; you move on and finalize the loan with a courteous and comfortable approach.

Now, let's think in terms of your dealership and how to size up what is working well and what might not be.

#### Standard Benchmarks Can Be Useless

Most F&I benchmarks are a "one size fits all" national average for specific-sized dealers. For example: On average,  $x$  percent of your customers will finance; total F&I profit should be  $x$  percent of net sales; you should pay only  $x$  percent for payroll; you should sell  $x$  percent warranty sales; you should have  $x$  number of people processing at your office; and don't outsource if your revenue is over  $x$  million dollars in sales.

These benchmarks are utilized without a full understanding of the specifics and demographics of your unique dealership. People and service companies get replaced routinely when these vague standards are not captured. Great news: Generic benchmarks are most likely irrelevant to you. They will also cause frustration when you can't hit them, or they will make you satisfied when you shouldn't be.

The answer here is not an easy one. Maximizing F&I takes an understanding of F&I as a profit center. Ask these questions, seek advice, and come up with your most accurate answers to them:

- What percentage of your customers are poor credit—under a 650 credit score?
- What percentage of those customers can you finance?
- What percentage of customers with credit score over 650 do you think will finance?
- What kind of rate markup can you get with the lenders you use?

- Are there better, more profitable lenders out there?
- What product protections do you want to offer?
- What are those protections worth in dollars, and how often will you sell them?
- What will you spend in payroll and processing to produce it all?

If you skip or ignore any piece, you will misunderstand the F&I opportunity and may be unsuccessful. If it takes a long week or so to figure these pieces out—including phone calls to dealers, service companies and/or consultants to form your position—it is well worth it. Again, you would be focusing on possibly your most profitable revenue stream.

When you have this information, you are armed with a customized expectation of what F&I should net to your business. Next, look at your net F&I and decide if your best efforts can be outproduced by a service company. There are no "one size fits all" benchmarks here. Understand the

details, size up the opportunity, and focus on maximizing it.

As I'm sure you can see, the answers to these questions will drastically vary dealer by dealer based on revenue, product lines, location, number of locations, staff limitations, etc. To make a productive improvement, take the time to gain the right perspective.

#### Subprime Customers Will Affect Your Totals

These customers are important to your business, and moving units tied to credit challenges can be a difficult task. Assuming you are set up to convert these customers, they can drastically skew your F&I performance if not understood. For example, delivery rates (i.e., how often a customer takes the loan and buys the RV) of a subprime customer are drastically lower than those of a prime customer. It's sort of common sense, but if a large

**Generic benchmarks are most likely irrelevant to you. They will also cause frustration when you can't hit them, or they will make you satisfied when you shouldn't be.**

portion of your customers are subprime, you will fall significantly short of a generic benchmark, even if your F&I performance is better than the benchmark. This shortfall will become clear when you size up your own numbers. Come up with your own understanding of the credit breakdown of your customers and define what you can capture for rate markup and delivery rates for prime and then separately for subprime. Now roll it up, get an opinion, and you will have your own customized expectation of what to gain from finance reserve. Use this information to guide your staff or to decide what to expect from your service company if you are outsourcing.

### **Managing Rate Markup Defines Your Deliveries**

Rate markup should be optimized. Sounds simple. Now what? How rate sensitive is the deal you are working, and how many chances do you get to adjust with a customer? Sometimes you can adjust, but many times your customer will disappear and find another way to get a loan. Will maxing the F&I help deliver the sale?

The focus of any F&I department should be to put out a compliant and competitive loan with added protections. Maxing every deal is not optimal F&I any more than selling every RV at full MSRP. That could cost you sales and is probably not good business. Additional finance reserve and processing fees also add no value to your customer. What does your customer get? A higher rate and a fee. Optimizing the rate and supplementing with protections is a way to offer tangible benefits in addition to a competitive loan.

### **Selling Back-End Products Is Worth More Than You Think**

Your setup defines your success, and back-end protections should be plural. Selling extended warranties is fundamentally good for your entire dealership, but so are most of the other available protections. Getting fully educated on the costs, benefits to the customer, and financial impact to your dealership will change the negative perception of these products.

After deciding which protections you will sell, the function of how often and for how much has to be determined. The protections won't sell themselves, and you will have to impose expectations and consistently manage whoever is handling the task. Using generic benchmarks without sizing up the specifics is a mistake and will mislead you. Estimate how often you will sell each product and what profit you think you can achieve on each sale. Roll the revenue up and compare it to what is generated from finance reserve. Is most of your revenue coming from rate markup? If yes, that's not optimal F&I, and your customers are losing out on the benefits of protections. Plus, your dealership is missing significant profit opportunities.

### **Size Up Your Numbers**

Get a second opinion and decide what you want and expect financially from your F&I department. With the totals derived from finance reserve and back-end products, take an honest look at the department and how the bottom line stacks up. Whether the F&I net is \$10,000 or \$500,000, you must gain perspective on what your location can and should produce.

Understand and estimate your payroll burden and processing costs and spend time on the net F&I profit. Evaluate your alternatives and maximize the opportunity. If any one of the sections I discuss earlier in this article are not set up to succeed, you are losing something. Get advice and second opinions from someone other than the person producing your F&I. External, unbiased perspective is essential. If you were building a house, would you entertain only one builder? Then would you ask that builder how the process is going, whether it's taking too long, whether it's underbudget, and whether the quality is good? That person's job is to keep you happy, not expose their own shortcomings.

### **Transparency and Reporting**

Whatever path you are on, whether F&I is outsourced or processed in house, how well do you understand whether you are winning or not and to what extent? Without perspective, what's the purpose? If I watch my favorite football team play every week and ignore the score and their record, what's the point of watching? Most people size the team up, compare stats and records and decide whether the team is any good or if it stinks. That's only a game, but we usually take the time to know where our team stands.

The F&I profit center should be reviewed at least four times a year, steering it to be your most profitable revenue stream. If you can't size up your totals and relative costs, then you're going to get what it wants to give you. Simple recaps will let you see what your department is producing and whether you should be happy with it or not. If the information shows the output is not good enough, you are armed with perspective on what is wrong and can create changes to make it better.

### **Make F&I a Win-Win**

F&I should not be a scary mess of compliance and paperwork that dealers avoid or even slightly neglect. When handled professionally, it is also a pleasurable and helpful experience for your customer. Are there risks and complications? Undeniably yes, but the profit is game changing. Are floorplan debt and inventory costs enough to negate selling RVs? No, they are productive and relative expenses if managed properly.

Professional F&I requires patience, managing key variables, and working with people who may not want what you want. Why do you sell RVs? Because it is a win for you and a win for your customer. I've never heard a dealer say, "I don't want to impose the sale of an RV on a customer." The late Steve Jobs of Apple Inc. famously said it's not the consumers' job to know what they want. That philosophy relates to any product in any business. Customers are unaware of what they don't know. When F&I is handled well, its benefits to your customers and to you are massive.

**RVN**