Exploding the 8 Myths of F&I

By Ron Martin

Some of the long-held principles of selling F&I products no longer apply, but F&I managers may still believe these are effective techniques.

There has never been a better time than now to be in the F&I business. It is improving in a variety of ways, from technological advancements that will help you be more efficient to the more central role of compliance in the finance department.

Now is the time to change your paradigm toward selling F&I. You need to let go of stereotypes that limit income and instead, achieve extraordinary results through higher expectations.

Certain concepts are accepted as reality even if things are often not as they appear. This may be due to repetition or because accepting these ideas allows average performance to be rationalized. You need to let go of these myths if you're going to make the transition to a different way of seeing the profession.

Some of the most common fallacies plaguing F&I professionals include complete reliance on the 300 Percent Rule, the belief that offering more products will guarantee more sales and reliance on the menu to achieve full disclosure. Some of my favorite myths are identified here.

300% Rule Guarantees Sales

I've heard many say that presenting 100 percent of the products to 100 percent of the customers, 100 percent of the time ensures success. Does it? Maybe if you add 100 percent enthusiasm. Without enthusiasm, or belief in what you do, the rest is fool's gold.

Many F&I professionals who have mediocre performance say they definitely present all the products, all the time. They even point to the menu or the waiver they placed in the customer's deal jacket as proof. Why were their performances still average? Because they didn't perform the most fundamental ingredient of selling: transfer of enthusiasm.

This requires that finance managers have a core belief in what they are doing and the products they are offering. They should believe it would be a tremendous disservice not to make a genuine presentation of the benefits.

Successful F&I professionals are willing to approach the customer with the conviction of the value of their offer. They believe in the products so much that they actually own the products themselves. When they receive an objection to the product, they have the same level of commitment for their least favorite product as they do their most favorite.

More Products = More Money

It's better to present fewer products that you sincerely believe in than a bunch that you just look at as profit opportunities.

Presenting more products means that you have less time to spend on the products you're already selling. It's difficult to present the value of eight products in the 20-25 minutes you have with each customer. What you end up with is a watered down offer of each, hoping the customer will pick a profitable package.

If you add a product that is a win-win proposition, that's OK. GAP is a perfect example. Not too long ago, this was a new product idea that dealers had to consider offering and it has evolved into the fastest growing F&I product available. Why? It's a win for the dealer in profit and a win for the customer in an excellent benefit at a reasonable price.

Before adding another product to your arsenal, make sure it passes the win-win test. Next, make sure you still have time to present all your products with enthusiasm. You might want to replace a product instead of adding one just for the sake of it.

Menu Selling Is Selling

You've heard it before: Menus don't sell anything; finance professionals do. Now, what does that really mean?

The fallacy is that putting a menu in front of customers and reviewing their options will lead to added F&I profits.

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You would never sell a car like this: "Hello, folks. Welcome to ABC Motors. My name is Ron Martin. Please come over to my desk so I can give you the price and payments on whatever vehicle you're interested in and a description of the automobile."

Instead, you first get customers enthusiastic about whatever automobile they are interested in, and get them comfortable with doing business with you and your dealership. Only then would you sit down and go over the pricing and payment options. Why should F&I be any different? It shouldn't be if you plan on being successful.

The menu is an excellent decision-making tool. It gives the customer a list of options to choose from, but shouldn't be used until the customer has been given a complete benefits presentation. Otherwise, the customer will focus only on the money and not your presentation.

Menus Mean Full Disclosure

Too many dealers believe that using a menu will ensure compliance. They think that menu selling will provide full disclosure to customers simply because it is a menu.

You definitely need to fully disclose products to your customers, but you don't need a menu to do that. There is no more thorough disclosure than the retail installment contract that is governed by Regulation Z (Truth in Lending Act).

Menu selling can actually create disclosure problems for you if not properly used. Here are two examples: 1) The finance person uses an estimated base payment on a handwritten menu and artificially inflates the payment to make it easier to sell the packages. 2) The finance person varies the term of the package options to manipulate the customer into taking a package that is more profitable to the dealership.

Furthermore, I tell dealers that I agree that they need to use a menu and if done properly, it can result in full disclosure. However, the main reason they need to use a menu is to help customers decide on the many options that are available to them after they have been given a benefits presentation.

Payment Packing Starts In F&I

Everyone wants to point the finger at the finance department for packing the payment. The F&I department does have the primary responsibility in ensuring that the customer understands the payment prior to signing the loan or lease agreement; however, if payment packing is occurring, it's probably not originating in the finance office.

Payment packing usually starts either on the sales floor or during the subprime approval. I'll explain in a moment, but first, what is payment packing? It is giving the customer payment information that leads the customer to believe the payment shown is the payment necessary to purchase the automobile.

In this example, the customer is unaware that the payment actually includes other additions that increase the dealership/F&I department's profits. In short, a sales desk quoting a payment to each customer that includes a service contract but not telling him about it would qualify as payment packing.

One way to prevent this is to wait to quote a payment until the customer has given the dealership his credit information. Only then can the dealership personnel quote him an accurate payment. The other recommendation is to begin with a payment range. However, the authenticity of this approach is subject to salespeople's descriptions of how they arrived at the given range.

When giving a range to a customer, it should always be preceded by saying something like, "I am going to get you some pricing and payment options from my sales manager, but before I do, I want to make you aware that the payment I bring back will be in the form of a range. The reason for this is that the lenders have a tiered system of interest rates and until we have your credit information, we don't know for sure what your tier will be. Once you have decided to purchase the automobile and we have your credit application, our business manager will be able to give you an exact payment to the penny. Is that fair?" If they want an exact payment, ask for their credit information and then give it to them.

How does the subprime approval originate payment packing? A subprime lender will typically approve a loan based on two variables: maximum loan balance and maximum payment amount.

This type of approval originates payment packing for unscrupulous F&I managers who add whatever they can to come up with that payment, then disclose it as, "here's how the bank approved your loan."

The F&I manager is given a max term, rate and amount to finance. The deal is then constructed backwards, adding product/rate until the maximum is met. Typically, the customer is not given any options with regard to products. This too qualifies as payment packing, as the consumer rarely is told that there are variables from which to choose. It is usually a "take it or leave" proposition.

GREAT F&I MYTHS	THE FALLACIES	THE REAL FACTS
1 300% Rule guarantees sales	100% of products presented + 100% of customers + 100% of the time = Guaranteed high productivity	Enthusiasm and belief in the products being sold are essential to high performance.
2 My customers are different	Somehow only your customers don't see value in the products you have to offer.	If you expect customers to reject your offer, they probably will. If you expect to succeed, you might.
3 Shotgunning helps approval rates	If you send deals to multiple lenders, someone is bound to buy them.	Shotgunning negatively affects the ratio of applications received to applications approved. This hurts the dealer-lender relationship.
4 Credit insurance is dead	Heavy regulation and fewer insurance underwriters make this a worthless product.	This still has benefits for customers. Also, lenders are receptive to allowing it as a soft add.
5 More products equal more money	The more products offered, the more likely it is that the customer will pick something or a profitable package.	If you offer products that don't have value, it actually hurts F&I profits.
6 Menu selling is selling	Putting a menu in front of a customer is what leads to added F&I profits.	The menu is a decision-making tool that complements an F&I manager's presentation.
7 Menus mean full disclosure	Your dealership uses a menu-selling system, so you are compliant.	A menu can create disclosure problems if not used correctly. A menu is not required for full disclosure.
8 Payment packing starts in F&I	If a customer is misled about the options available, it must be the F&I manager who was deceptive.	Payment packing can start at the sales desk when a quote is given that includes anything beyond the base purchase price of the vehicle.

'My Customers Are Different'

Everyone's customers are different, but buying into the notion that somehow your customers don't see value in the products will only serve to reinforce a negative thought pattern. This process will lead to a failure on your part to provide them with adequate protection for their purchase.

Instead of this thought process, consider the Law of Expectation: Whatever you expect with confidence becomes your own self-fulfilling prophecy. If you expect the customer to reject your offer, he or she probably will. If you expect to succeed in your presentation, you might. Your attitude about your ability to succeed has as much to do with your results as your knowledge of F&I products.

Similar problems will result for F&I managers who buy into the "winging it works" philosophy. The rationalization is that since all customers are different, a specific, planned presentation doesn't work. These people say, "I need to present to the customers what they'll buy and I can feel them out as I go."

Certainly every customer has a different hot button value that he or she places on a product, but picking what you're going to present as you go is a slippery slope. The end result is chronic corner cutting that results in an inefficient use of your time and certain products not being offered or ineffectively being presented.

A planned presentation allows you to have a much better road map to your destination. You plan a process to make sure each product gets presented effectively and efficiently. Just as in any trip, there may be detours in the form of customer objections, but you take the path and hop back on your destination route as soon as you're able. Menu presentations give you the planned presentation you're looking for, but they're not the only way. Come up with a way that you can be enthusiastic about and make sure you stay with your plan.

Shotgunning Helps Approval Rates

A loan officer's job is to follow loan policy. He may override the scoring model that the bank gives, but there must be justification for doing so.

The considerations for deviations from loan policy are things like customer demographic information such as job time, residency status and debt-to-income ratio.

A lender also looks favorably or unfavorably at the ratio of retail contracts received to applications processed or applications received to applications approved. Shotgunning deals (sending every application to several lenders hoping that one will buy it) will certainly impact these ratios negatively and when it's time to make exceptions, you won't get the benefit of the doubt.

Make sure you have at least three lenders to ask for an exception at all times. How you choose those depends on multiple reasons beginning with your dealer's expectations, but also, it needs to include who buys certain types of deals. For example, you may need a bank that allows extended terms; a lender that isn't as concerned with debt-to-income ratios as other banks may be; or a lender that has low interest rates.

Treat your relationships with your banks just like you would your personal bank account. The relationship is a process of deposits and withdrawals. You're not able to withdraw money from your bank account if you haven't put money into it. You're also not likely to get a lender to make an exception to loan policy if you haven't first given a good reason to do so.

Deposits are made in the form of sending your lenders good retail contracts, not wasting their time with numerous applications that you don't plan on giving them.

Each loan officer has only so many exceptions to throw around before he starts getting heat from his superiors. Make sure you position yourself with the proper leverage if you want to be on the receiving end of those favors.

Credit Insurance Is Dead

The prediction that credit life and disability insurance is dead is hasty given its long and successful history in the F&I office. After all, insurance makes up half the name of the department.

The products are highly regulated, which presents advantages and disadvantages. Insurance commissions in some states have made it difficult to sell this insurance because of tight licensing requirements, while on the other hand, lenders are very receptive to allowing it as a soft add.

Recent years have brought a reduction in the maximum premium that an insurance company can charge in many states. The result has been a reduction in the number of insurance companies that want to underwrite the product. Dealers have fewer companies to choose from; however, the value their customers get with credit insurance has never been greater.

Of consumers who purchase credit insurance, 90 percent said they are somewhat or very satisfied with their purchase, according to a study by the Federal Reserve. The study also found that 53 percent said it was never offered and 5 percent said they thought it was a requirement to get the loan.

This data suggests that people who bought credit insurance were happy they did; more people would have purchased it if they were given the chance; and payment packing in only occurring in about 5 percent of deals. ■

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