

Creating THE PERFECT F&I PAY PLAN

F&I pay plans should motivate employees to sell more products and have clear compensation guidelines. If you're constantly reworking the pay plan, it's time for a new one.

BY RON MARTIN

Finance managers have, if not the most difficult job in the dealership, certainly one that ranks right near the top. They need to be knowledgeable about many aspects of the dealership and handle a variety of responsibilities each day. Some of these tasks include obtaining financing for the dealership's customers, selling a variety of aftermarket products, helping manage the sales staff and working directly with the office staff.

For this to all be carried out smoothly and productively, a lot goes on behind the scenes. F&I managers must pick appropriate lenders and cultivate these important relationships. They should also have a complete understanding of the aftermarket products offered to customers. This doesn't mean just being good at selling them, but understanding everything that goes into managing that product (i.e. claims, cancellations, benefits, etc.) Of course, you can't forget the many laws and regula-

tions that govern what they do.

I do have a soft spot for the F&I position and acknowledge that I am probably a little biased, but I believe I can back up my comments about the value of these professionals. For instance, telephone switchboard operators at

any dealership in the country will tell you that when the heat is on, the call volume is up and they are unsure who to refer customers to, nine times out of 10, the call will go to the finance manager.

I guarantee that all the F&I managers reading this are nodding their heads in agreement. A finance professional's day-to-day duties involve close contact with the general manager, sales managers, sales staff, service manager

AT A GLANCE

- To create a workable pay plan:
 1. Know the average income for a comparable position in your area.
 2. Define a standard performance.
 3. Determine profit percentage from finance reserve and products.
 4. Decide what percentage of profits you want to pay F&I professionals.
 5. Don't put artificial cap on income.



and advisors, and the office staff. I believe a good — or bad — finance department has as much to do with sales, profit and customer satisfaction as any other department in the dealership.

If this makes sense, then you'll probably agree with the following: Not paying an F&I professional a fair income will lead to poor sales, mediocre F&I results and high employee turnover.

Just as important as paying F&I professionals fairly is structuring a pay plan that will motivate them to sell products.

Anyone can sell interest rate. Here's the close: "Is that the lowest rate you can get?" "Yep." Then, customers sign the agreement

and many times check with another bank. If the rate is significantly more than the market rate, they refinance and arrange to pay off the dealer financing.

Do you think these customers will be excited now about coming back to buy their next car from the offending dealership? How likely is it that they will refer their friends and family?

For a dealer to ensure high profits and high customer satisfaction, the foundation starts with a well written pay plan. It must compensate F&I managers fairly while motivating them to sell products.

In 2004, the average income for an F&I manager in the United States was

\$90,301. That was up from \$85,772 in 2002, according to the National Automobile Dealers Association. As in any profession, the geographical area certainly impacts the average income. Smaller communities with a less expensive standard of living are likely to pay less for an F&I manager than a metropolitan area would.

However, the start to outlining a good F&I pay plan is knowing what the average income is for your community. That will give provide a starting point. The only other number you'll need to know is the average F&I profit per retail unit sold in your make/model category.

PAY A PERCENTAGE OF PRODUCT PENETRATION

The key to a good pay plan, from an F&I manager's perspective, is one that lets him know what he's making on a deal once it's finished. The F&I manager's worst nightmare is getting to the end of the month and, because of an unusual amount of chargebacks, not being able to pay his bills.

What's important to a dealer is that the pay plan doesn't encourage high chargebacks that will cost the dealership later. Usually, when that happens, the F&I manager is not around any longer to share in the expense.

The following pay plan is simple to design and highly effective for the dealer and finance manager.

Step one: To make this pay plan work, the dealer must first decide what an average job should pay. Let's say that number is \$600 per retail unit. Multiply that times the number of average sales per month. That gives you the average gross F&I profit per month.

Step two: Of the total products you offer, what is the percentage that each product consists of? I'd make the assumption that 40 percent of the income would come from finance reserve and the remainder split over the products.

FOR EXAMPLE:

\$600 PRU x Avg. Sales per Month
= Avg. Gross F&I Profit

- 40% Finance Reserve
- 25% VSC
- 15% GAP
- 10% Credit Insurance
- 10% Theft Deterrent

Step three: Once you have come up with this distribution of income, all that is left to do is apply these percentages against the total average F&I income for the month. Then, calculate what percentages of each area will be paid to the F&I person to get that average income.

- 8% of gross finance reserve
- 20% of vehicle service contract gross profit
- 15% of GAP profits
- 10% of credit insurance dealer commissions
- 10% of theft deterrent income

You need to use some trial and error to



come up with the percentages you are going to pay. This isn't a perfect science, but it will get you close to the overall goal. In the end, it is the finance manager's job to make it work by exceeding expectations.

This pay plan works well to minimize chargebacks because you can't achieve high income unless you sell products. Furthermore, you aren't able to rely on excessive finance reserve. The dealer can put the largest percentage paid on the products that are best for the customer and the dealership to make sure those products are sold first. F&I managers will be happy because they can count their money after every deal.

GIVE MULTIPLE MANAGERS A PERCENTAGE OF THE POOL

This pay plan works well for dealerships with multiple F&I people. You can pay all the finance managers out of the same pool, and their percentage is based on their product penetrations.

With this pay plan, the first thing you need to do is come up with the percentage that you want to pay F&I professionals based on a standard performance. You also need to set the standards on which they'll be evaluated. You then add the total of each percentage as a whole number to get your total standard points.

The nice thing about this pay plan for F&I managers is they can accumulate their points in any combination. The dealer gets what he's looking for — low chargebacks — because the pay plan emphasizes prod-

uct sales. The pay plan is also excellent for building a team environment, since everyone is paid on what all are producing, and the best producers make a larger percentage of the income.

STANDARDS	PERCENTAGE
Finance	75%
Life	15%
A&H	15%
VSC	40%
GAP	30%
Etch	30%
Total	205

POINTS	PAYS %
225	7
215	6
205	5 Standard
195	4
185	3

PAY PLANS ARE MADE TO WORK

I often hear the comment: "He or she is just working the pay plan." I hope so; that's the way it's supposed to happen. That's why a well-designed pay plan should only have to be done once. A bad pay plan allows finance managers to make too much money for weak performance, forcing you to change it later and cut their pay.

A mistake I think some dealers make is having an artificial cap placed on the F&I manager's income. They think that an F&I manager is only worth, say \$70,000, and they are always cutting back to keep him at that point. All that does is create complacency on the part of finance professionals. Since they know it's going to be reduced if they earn too much money, they just operate within a particular comfort zone. That ends up costing the dealer and F&I manager money.

An F&I pay plan should motivate and compensate. It should motivate F&I managers to sell products and compensate them fairly for carrying out one of the most important functions in a car dealership. ■

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