

Pay-Plan Breakdown

When it comes to F&I pay plans, don't be surprised by what you get. Compliance auditor breaks down eight commonly used pay-plan objectives and provides his take on how they impact a dealership's goals. **BY JOE BARTOLONE**

How F&I managers are compensated has been an ongoing debate. Dealers often view a pay plan as a reflection of the goals they want to achieve. F&I managers, however, argue that sometimes these goals can lead a dealership down the road of noncompliance. Regardless of who's right, a pay plan is an F&I manager's job description.

As a compliance auditor and consultant, my expertise is not in designing pay plans. However, by following an audit I can usually tell if a dealership has a well-balanced pay plan or whether the pay plan is driving undesired behaviors and results. That's why it's important that dealers review the performance objectives of a F&I pay plan to determine if they're achieving the profit, administrative, compliance and behavior goals for which they hope. Now let's take a look at eight commonly used pay-plan objectives to see how they impact performance.

Objective 1: High CSI Ratings

★ F&I MANAGER'S INTERPRETATION: I need to get the customer through the F&I process as quickly as possible.

★ AUDITOR'S TAKE: Unless a customer has been stuck in a marathon close in the sales department, he or she is usually open to a professional presentation in the F&I department. They appreciate your attention to detail and when you review

the terms they agreed to in sales. They like it when you take the time to understand their needs and offer products that satisfy those needs. They also take note when you offer to assist them after the delivery.

★ COMPLIANCE ALERTS:

- A high percentage of recontracting, which is commonly referred to as yo-yo transactions.
- No initials at the top of the menu indicating agreed-to terms and disclosure of the base payment.
- Based on the time stamp, short interval between first and final menu.
- No acknowledgement page on menu to confirm accepted and declined products.
- Near-term payoffs and product cancellations.
- Low customer satisfaction index (CSI) scores.

Objective 2: High Product Penetration

★ F&I MANAGER'S INTERPRETATION: No matter what, every customer is going to buy something.

★ AUDITOR'S TAKE: Some pay plans

set a baseline for product penetration and pay a bonus if the product penetration exceeds a higher level. An example would be requiring an average of one product per retail deal, with a bonus paid if the average is 1.4 products per retail.

★ COMPLIANCE ALERTS:

- **Product Bundling:** This occurs when two or more products are sold and disclosed as one product on the buyer's order, retail installment sales contract (RISC) and product enrollment form (typically service and maintenance). The customer does not see the products separated during the deal recap. This is typically done by reducing the price of the product that was disclosed, and allocating a sum of money to a second or third product.
- **Product Stuffing:** This practice is different from bundling in that the allocation to pay for the undisclosed product comes from gross, not from a second product.
- **Trading Rate for Product:** Lowering a customer's agreed-to annual percentage rate to facilitate a product sale can be viewed as a deceptive practice in the eyes of attorneys general.
- **Payment Packing:** This occurs when undisclosed and uninvited F&I products are added to payment quotes in the sales department. It is inappropriate to quote payments on a short undisclosed term in sales, then rolling the payment out in F&I to include products while the payments remain the same. It



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is also inappropriate to quote payments in sales using an artificially high and undisclosed interest rate, and then lowering the rate in F&I to include products while keeping the payments the same. Typical signs of payment packing are higher product penetration than market averages, unfiled menus, or poorly executed menus.

Objective 3: Mixed Product Penetration

★ F&I MANAGER'S INTERPRETATION:

Sell products in packages regardless of the customer's needs.

★ **AUDITOR'S TAKE:** Some F&I managers will sell product packages instead of individual products by offering a discount, but only if the customer buys the package.

★ COMPLIANCE ALERTS:

- Recap sheets will show unusually low profit margins on one or more products.
- GAP sold to customers with a loan-to-value ratio of less than 70 percent.
- A clear sign of this type of pay plan are higher product penetrations than market averages.

Objective 4: High Profit Per Vehicle Average

★ F&I MANAGER'S INTERPRETATION:

Sell at whatever price the market will bear.

★ **AUDITOR'S TAKE:** Most play plans are based on one simple concept — the more profit the manager generates per deal provides for a higher percentage of the profit. While profit is not a bad thing, it may lead to undesired results.

★ COMPLIANCE ALERTS:

- Price gouging.
- Excessive Finance Reserve: Although only regulated in two states, most finance sources have capped finance reserve at 250 to 300 basis points, but finance reserve should still be monitored.

Objective 5: Fast Funding

★ F&I MANAGER'S INTERPRETATION:

Send the deal to the finance source

even if I don't meet all the funding requirements.

★ **AUDITOR'S TAKE:** If the administrative office isn't doing the funding, then it is very prudent to have an F&I assistant to help with the funding process. Although this position is starting to be eliminated under the current market conditions, keep in mind that F&I assistants provide a significant benefit when it comes to controlling contracts in transit objectives and overall F&I compliance.

★ COMPLIANCE ALERTS:

- Excessive recontracting.
- Contract buy-backs.
- Backdating recontracted deals.
- Excessive DMV fees for missing titling time limitations.

Objective 6: Protecting Front-End Profit

★ F&I MANAGER'S INTERPRETATION:

Who says the front-end gross is the most important gross in the house?

★ **AUDITOR'S TAKE:** I understand that in some cases you may be maxed out on the front-end gross, but in most cases, why would you send a customer to F&I with a \$20 to \$60 packed payment when you could have made more front-end gross or improved the agreed-to trade value?

★ COMPLIANCE ALERTS:

- No manager's sales worksheet in the deal file.
- Payment packing.

Objective 7: Legal Compliance Procedures and Full Disclosure

★ F&I MANAGER'S INTERPRETATION:

The auditor won't be back for another year.

★ **AUDITOR'S TAKE:** Legal compliance in the car business is a relative term. Ask 10 people in the industry what legal compliance means and you'll get 10 different answers. The other misconception with compliance and full disclosure is that a lot of sales and F&I managers believe compliance and profitability are mutually exclusive. This is the furthest

from the truth. Dealerships which have embraced compliance and full disclosure are experiencing higher profits per vehicle retailed, and they sleep better at night, too.

★ COMPLIANCE ALERTS:

- Dealership has not conducted a compliance risk assessment.
- Dealership does not have a published policy and procedure manual for sales and F&I.
- Dealership has not conducted a legal forms review in the last two years.
- Dealership does not regularly monitor physical, administrative, and electronic controls to safeguard the customer's non-public information.
- Dealership's F&I personnel are not industry certified.
- Dealership does not have an effective process to detect, identify and mitigate identity theft.
- Dealership cannot demonstrate a logical flow of the deal terms from first pencil to the RISC.
- Dealership does not require management to review deal files on a regular basis.

Objective 8: Efficient and Accurate Paperwork

★ F&I MANAGER'S INTERPRETATION:

I need more time to sell, let the office worry about the paperwork

★ **AUDITOR'S TAKE:** When you signed on to be the F&I manager, you also agreed to be the gatekeeper. The office should not be the compliance cop in the dealership. Once the customer leaves, it's 10 times more difficult to deal with paperwork issues.

★ COMPLIANCE ALERTS:

- No checklist in the deal file.
- Checklist is not properly completed.
- Kick-back notices in deal file.
- High amount of recontracted deals.
- Rejected funding packages. ■

Joe Bartolone is an associate with gvo3 & Associates, a nationally recognized compliance consulting company. He can be reached at joe.bartolone@bobit.com.