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Experts say F&I becoming a dealer gravy train

By Lindsey Savin/Staff Writer

Waterford, Wis., 1969. Ollie DeHart, young marine enthusiast with an entrepreneurial spirit, decides to operate a boat dealership out of his garage. In the early years he peddles everything from canoes and small fishing boats to wood stoves — anything capable of turning a profit.

The last thing on Ollie's mind, says his wife, Della DeHart, was offering customers finance and insurance options on their purchases.

"Financing wasn't really an issue back then," she says.

But the times, they are a changin'.

Today a chorus of dealers, lending institutions and manufacturers contends those who aren't jumping on the F&I gravy train are getting left behind — missing out on an extremely viable profit center.

"I think each dealership needs to look at the possibility of F&I and analyze if it's a fit," says James A. Coburn, senior vice president of National Recreation Finance in Traverse City, Mich. "Not doing so," he warns, "could mean passing up profit opportunities."

"Dealers who don't have F&I departments are now realizing that hundreds of thousands of dollars are slipping through their fingers every year," says T. Darrin Abel. Abel is F&I development manager for Integrated Dealer Systems in Raleigh, N.C., and has more than 10 years of experience in retail finance.

Lisa Gladstone agrees. "This is money they've been leaving on the table," says Gladstone, founder and president of Priority One Financial, a leading marine F&I outsource company based in St. Petersburg, Fla.

"[A dealer] can sell as many boats as [he or she] likes, but if it doesn't get approved and delivered, you're just spinning your wheels."

A sales builder

Within the last 10 to 15 years, DeHart says, F&I has become a "pretty big deal" at Woodland Pier 1, the dealership she and her husband own. "It's increased our boat sales tremendously," she maintains.

DeHart estimates Woodland Pier 1's bottom line has jumped nearly 20 percent since they hired Priority One to handle F&I functions three years ago.

But Gladstone says fewer than 15 percent of boat dealers today employ a professionally trained F&I manager — either in-house or through an outsource company like her Priority One.

"Many dealers don't generate enough volume to have their own F&I department or just don't understand the importance at the back end," explains William H. Kelly of Navvis Solutions. Kelly is director of financial services for the Minnetonka, Minn.-based company which, like Priority One, provides F&I outsource services.

Navvis is a relatively new player in marine F&I. It is owned and operated by Protective Life Insurance Co. of Birmingham, Ala., which Kelly maintains is a "large player"—grossing \$21.9 billion in 2002.

Extending the profits

While Kelly estimates the number of U.S. dealerships taking advantage of F&I profits is in the neighborhood 25 percent, he says it's "staggering" to see how many are not.

"You can't overlook your profit centers," Kelly warns. "When dealers tell me they don't feel comfortable making money on the back end and just want to service the customer well, I ask them, 'Do you want to be around to sell [that customer] another boat in the future?'"

Abel says the question is a valid one.

"There is so much competition between dealers for qualified buyers," he says. "Not every dealer can expect to see exponential sales growth every year. Therefore, the only way for the dealer to make more money is to make more on the sales he already has."

In today's economy, dealers are slowly beginning to embrace F&I, says Abel.

"More and more dealers are realizing that F&I can and should be the most profitable square footage in the entire dealership," he explains. "It is the department with the lowest overhead and the greatest potential for profit."

'Almost a must'

For new boat dealers just entering the business, having an F&I department is "almost a must," says Peggy Bodenreider, president of the National Marine Bankers Association. "Everyone should really be looking at it. It can be a big profit center, especially when business is a little light."

Probably the biggest advantage to having F&I, says Texas dealer Dave Foulkrod, is the ability to see a customer through the entire boat buying process — from start to finish.

"You control the sale," says Foulkrod, owner of Ship and Sail Inc. in Kemah, Texas. If you don't have the option of offering a customer financing, he or she will leave and head down the street to a local bank. Meanwhile, he says, the final sale remains in limbo until the bank determines the loan application's fate.

"The whole deal kind of floats until you get an approval," Foulkrod explains.

"A dealer should never send his customer to someone else for financing or insurance," says Abel. "By doing so, he is placing his sale at risk."

‘Across the board’

F&I fever is catching on with a vast array of boat dealers, says Kelly — everyone from mom-and-pop operations to retail giants.

"I hire and train financial managers to work with dealerships that sell as few as 50 boats a year to those with six or seven store chains," he maintains. "It's across the board."

Ship and Sail was fortunate to catch the F&I bug early, says Foulkrod. The dealership opened its doors back in 1982, selling small brokerage boats. By the middle of the decade, however, it had picked up the Carver Yachts line and has never looked back.

Today, Foulkrod is in what he calls the "yacht business," selling all nontrailerable vessels, both power and sail, 28 feet and above. Currently, he carries the Carver, Cruisers, Ocean Yachts and Hunter lines.

Once he started with Carver, Foulkrod says he realized the need for in-house financing options for customers.

At that time, he explains, "If you knocked on a bank's door and wanted to talk indirect lending, they'd laugh at you."

But Foulkrod didn't give up. In the F&I game almost 20 years now, he insists its value as an additional profit center can't be understated — especially in a tight economy.

"Dealers need to look for ways to maximize revenue," he says.

500 clients

Every day boat dealers are juggling "a million different things," says Priority One's Gladstone — particularly during the busy summer months.

"They fax us a copy of the purchase agreement and credit application, and we take it from there," Gladstone says. The service "lets them go out and sell another boat," she says.

The pieces of Priority One first came together in 1988, with "me, a phone, a fax machine and a loan from my parents," recalls Gladstone.

At that time, she explains, the idea of an outsource company handling F&I functions for marine dealers was virtually unheard of.

"We've kind-of grown this business without a road map," Gladstone maintains.

Today, she says, Priority One services more than 500 dealers in 41 states.

It can be ‘scary’

Gladstone says the idea of setting up an F&I department can be somewhat unsettling for a dealer. "We know it's scary and an aspect of their business they're not used to handling," she says.

"For a small marina like us, it's also hard to afford," says DeHart.

DeHart estimates Woodland Pier 1 does about \$3 million in sales a year. During the busy season, she says the dealership employs 9 or 10 people. Ollie works mainly on the sales side, says DeHart, while she takes care of the books.

"He runs the show and I count the beans," she jokes.

To hire a full-time, in-house F&I professional at Woodland Pier 1, DeHart says, would cost the dealership \$50,000 to \$60,00 annually. And that figure doesn't include the associated costs — such as medical and dental benefits, workers compensation and unemployment.

"If you have to pay someone \$50,000 plus some bennies, you've got to sell a lot of boats," she says.

The insurance part

Performing F&I functions at a dealership also makes it easier for dealers to sell consumers on the idea of extended warranty coverage and insurance policies, says Gladstone.

"It's harder for a dealer to sell customers service contracts because it seems like they're digging into their customer's pockets a little more [at the time of the sale]," she explains.

When that responsibility is laid at the feet of a dealership's F&I manager, however, National City's Coburn says the buyer often feels more comfortable and is more likely to purchase additional warranty protection.

"By selling retail financing packages, warranties and ancillary products, a good F&I manager provides more opportunity for greater profits," he maintains.

"Back-end products, such as warranties and insurance, allow the dealer to make a nice but fair profit on each deal," agrees Abel.

A 30-percent gain

Having someone who truly understands F&I on hand to assist a dealership with consumer loans has the potential to increase boat sales by almost 30 percent, estimates Kelly.

Oftentimes, he says, dealerships can "make more money using [a service] like us than they would doing it on their own."

Performing F&I functions without a designated professional manager is extraordinarily time consuming, maintains DeHart.

"The time involved in administering F&I is phenomenal. I've only got so many hands."

"A lot of dealers just don't know what to look for on a credit application," Kelly adds. "They just don't have the experience. Our tools are being sharpened everyday. That's the advantage to using an outsource company."

Not costly

To initially get an F&I department set up, dealers and lenders assure the out-of-pocket costs are minimal to non-existent.

"There wasn't any money involved to sign up and get started [with Priority One]," says DeHart.

"We've covered expenses and made a profit ever since we've done it," echoes Foulkrod, who handles F&I in-house.

"It is not at all expensive to set up a department that easily and quickly pays for itself," Abel insists. "A savvy dealer will make a limited but worthwhile investment in technology that will enable his F&I department to function effectively."

In the days of multi-sheet carbon paperwork, a contract was a tedious process, says Foulkrod. "Now, it's just a matter of hitting a button," he says.

Covering the costs

The only "real ongoing expense" involved with establishing an F&I department, Abel explains, is hiring the personnel to run it.

"Whether the dealer pays his F&I manager salary plus commission or straight commission, the F&I manager should easily cover his own expense."

And, says Gladstone, a professional F&I manager is "worth their weight in gold."

"Not every dealer has to hire an individual to get into the finance business," says Foulkrod. If you can find someone in-house with the time and experience, "That can work, too," he explains.

But, says Abel, "Whether it is a dedicated, full-time F&I manager, a sales manager, salesperson or title clerk, whomever the customer sees as the F&I person must receive professional training."

Otherwise, he says, the results could be disastrous — both for the customer and dealer.

"To turn an untrained individual loose on the customer is a disservice to the buyer and a tremendous liability to the dealer," warns Abel.

Better terms

Offering customers the option to finance through the dealership also allows dealers more flexibility with lenders to negotiate better terms on behalf of their clients, says Foulkrod.

Foulkrod recalls a Ship and Sail customer in late July looking to purchase a 56-foot boat. The buyer submitted his application for financing through the dealership, but was turned down.

However, being involved in the finance transaction and playing middleman between customer and bank allowed Foulkrod to work out other favorable terms both the lender and dealer could agree on.

"Had I not been involved in the process, it would have been a no, and down they road they'd go."

Longer terms

"Most local lenders only offer short-term financing," says Able, "which makes monthly boat loan payments significantly higher."

In general, DeHart explains banks typically offer consumers five-year terms on a \$25,000 to \$30,000 boat loan, which amounts to what she calls "a pretty stiff [monthly] payment."

But offering consumers some type of F&I allows a dealer to provide long-term financing, which Abel says "helps to make the payment more affordable, which translates into more sales."

"Stretching a loan out to 10 or 12 years really helps get a lower payment for the customer," echoes DeHart. "It makes a big difference."

Time savings

With in-house F&I, customers avoid the hassle and time of shopping for a loan on their own. "F&I can make you a seamless, easy business to do business with," says Foulkrod.

Then, there's always the comfort factor.

Often, customers prefer discussing their private credit and financial information with someone other than the dealer, maintains Gladstone — especially the ones with not-so-perfect reports.

Speaking with a professional F&I manager — in the case of Priority One and Navvis, over the telephone — allows the consumer to feel "a little more disconnected" and facilitates discussion of past credit faux pas more easily, she explains.

"It's just like we're in the [dealer's] office, only we're in St. Petersburg," she says.

Handling rejections

Dealing directly with an F&I professional can also help keep dealerships in the good graces of its customers, says DeHart — in particular if a loan application is rejected.

"If there's any boo-boos [that occur during the application process], it's not us," she says. Having an outsource company handle the dealership's F&I responsibilities, "keeps us the good guys who give the customers the toys they want to play with."

Ironically, however, Foulkrod says offering consumers financing options through the dealership can produce the opposite effect as well.

One of the few challenges to establishing F&I departments at marine dealerships, he explains, is the possibility a bank's boat loan rejection may reflect back negatively on the dealer.

"Consumers think we own the bank and should be able to get this done for them," he explains. "But that's not true. I can't make the banks do something that doesn't fit."

At the end of the day, says Foulkrod, "Lenders out there don't do consumers with credit problems."

Lender credibility

Not only does having an F&I department work to the dealers' and consumers' advantage, says Abel, but it also helps dealerships earn respect and credibility from lenders as well.

"A dealer who has a professional F&I department is letting everyone know that he understands the importance of F&I to his business," he explains. "Lenders prefer working with dealers who have a dedicated F&I staff because they know they are more likely to receive a steady volume of loans from the dealer."

"A proper and solid relationship between a bank and a dealer is very important," echoes Coburn. "It must be a good fit for both sides. We, as banks, don't want to frustrate a dealer with policies that do not fit what they are trying to do."

And forming good relationships with lenders often opens the door for discussion between dealers and banks regarding boat show pricing specials on new product, Foulkrod says.

"Dealers not involved in F&I," he explains, "get left out of that game."

The same type of added credibility holds true with boat manufacturers, Abel adds.

"Manufacturers recognize that a dealer with an F&I department will lose fewer deals to financing and thus sell more inventory. It's truly a win-win situation for everyone involved."

Industry resources

Foulkrod suggests dealers interested in learning more about establishing F&I departments get involved with their state marine trades associations, or consider joining the Marine Retailers Association of America.

These organizations, he says, "can help [a dealer] network and get this done."

Getting involved in F&I is "kind of like climbing stairs," Foulkrod explains.

"You don't have to get to the top right away, but you should really start to think about taking some steps."