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With dealer margins low, F&I can pick up slack

By Gary Beckett

It's a tough business climate, as everybody knows. Many recreational marine dealers and manufacturers are calling this the worst downturn since the depression years of 1991 to 1993. This time it's not a 10-percent luxury tax on boats that's doing the damage, but a combination of factors — including high gas prices, declining home values, and credit market concerns — that are giving potential boat buyers pause.

Does that mean the market has dried up?

Far from it. There are still deals to be done. Boat loans to be financed. Insurance products to be sold.

But all aspects of a dealer's business need to be in synch to not only help close deals but protect the bottom line. That's where a well-run F&I department comes into play.

F&I always has been an important function for any dealership. But it has become even more critical, not only in helping dealers close sales, but also in generating profits in the face of competitive pressures that often force dealers to discount selling prices and trim margins.

Said one Florida-based dealer, who asked not to be identified: "We're still doing a lot of business, but we're sure not selling boats at sticker prices. The margins are thin, which really puts pressure on our F&I operation to generate more business on the back end."

However, many marine dealers need help on the F&I side; especially small operators. That's where Priority One Financial Services says it comes in.

The St. Petersburg, Fla.-based financial services company offers complete F&I systems to dealers selling boats, recreational vehicles and all-terrain vehicles. The company counts just over 600 dealers of those products in its fold, although about 80 percent are on the marine side, said Lisa Gladstone, president of Priority One.

"We operate as the dealer's F&I department," she said.

Dealers use Priority One for everything from approving and booking loans through any of its dozen or more lenders, to selling insurance, extended warranties and other products to boat buyers.

In the current downturn, Gladstone maintains that her company understands the trials dealers face.

"We've been through it and we've seen it," she said. "And this becomes such a critical time in a dealer's life cycle to be able to maximize and capture all of the profit that is available."

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Dealers hand over the entire F&I function, which Gladstone said allows them to focus on the business of cultivating customers and selling boats and accessories. “They don’t have to hire any staff or take their focus away from their core business, which is selling the boats,” Gladstone said.

She dispelled the idea that Priority One works mainly with smaller dealers, who typically don’t have the personnel or experience to focus on F&I.

“We just were at a marine dealer meeting and folks who have F&I managers also are moving to this model,” Gladstone said. “So it’s not just the small mom-and-pop dealers, but we also have some very large dealers.”

However, she said Priority One’s system appeals most to midsized dealers in the \$2 million to \$15 million annual sales range. “It makes more sense for them not to have to hire somebody in-house, send them to F&I training, hope they don’t quit or get sick,” she said.

Priority One also operates its own insurance company, which has become increasingly important to dealers and their boat-buying customers because many insurers have pulled away from covering boats or dramatically increased rates.

“The first part of the problem is actually selling the boat, and having a customer say ‘Yes, I want to give you a bunch of money for that boat,’ ” said Gladstone. “The second part of the equation is finding someone to loan them the money for the boat. But, finally, it is making sure the boat is insured properly with an insurance premium that someone can afford.”

How much does all this cost?

Nothing — up front anyway, according to Gladstone.

Priority One makes its money from commissions, or taking a share of the “participation” and other service fees dealers typically earn on loans booked to lenders and the sales of other services.

“If there is a buy rate of 9 percent and the customer pays a premium on that, we share in the extra profit,” Gladstone said. “And, we share in the extra profit we generate by making sure that the customer has a service contract on their boat and that the boat and motor are protected for seven years.”

The company charges the dealer a commission based on any profits generated from finance reserves, service contract income and payment protection, Gladstone said.

In return, dealers work exclusively with Priority One: No shopping of loan applications (called shotgunning by lenders) to find the best deal.

“When we get a loan application, we review it, we run the credit report, we run a screen on it to decide which lender is going to be most likely to approve it and then we send it there,” Gladstone said. “The last thing we want to do is ruin relationships with lenders based on shotgunning.”

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However, given the growing credit crunch that is forcing lenders to tighten standards on home and other loans — not just those in the sub-prime category — are requirements for marine loans being tightened?

No, Gladstone said. Standards on marine loans always have been a bit stiffer than those on, say, a car or a house.

“We’ve not seen any credit tightening,” she said. “Boats are considered to be a luxury item anyway, so their credit criteria are always a little tighter than on something like a car.”

She also said her company has not experienced any significant increase in loan delinquency or default rates.

The company does work with lenders who work with borrowers who have less-than-perfect credit. But, she said, its lenders don’t work with true sub-prime borrowers.

“We do have some nonprime lenders,” she said. “If you have sketchier credit, we do have lenders that we consider to do nonprime.”

While no one expects the downturn to end soon, dealers still can profit in the current business environment, industry watchers say. But, only if all aspects of their businesses are operating efficiently and profitably.

This is just the beginning of what’s to come.

An expanded dealer portal is scheduled to be offered in the first quarter of 2007.

“We wanted to create a tool that combines the best part of technology, but still allows us to connect in a human way and touch each deal,” Gladstone said.

Priority One, which has been in business since 1987, works with more than 600 dealers throughout the country. “About 90 percent of the company’s business comes from marine dealers,” Gladstone said.

The company provides full finance and insurance services to marine and RV dealers on an outsource basis. Through its subsidiary, Veritas Insurance, Priority One makes boat and RV insurance available to customers of its affiliated dealers.