



Boating Trends: F & I

Dealers look to F&I to keep Profits up when sales are down

By Lisa Gladstone

If human beings didn't tend to have similar reactions to similar situations, there'd be no such thing as human nature. Taking into consideration the unique characteristics of our species that make us all... well... human, no one should be surprised by the following observations of how the marine industry reacts to "good times" and "bad times."

It's the economy

When the economy is booming, everyone naturally becomes a little complacent. In a boat dealership, F&I is often the first thing to slide. Perhaps a dealer has said to himself or herself, "I'm too busy to offer financing to every customer. I may lose a few sales and earn a little less profit on each deal, but who cares? Maybe I'm selling fewer service contracts than I should, but so what? I'm making lots of money."

Yes, it is human nature to cruise through life feeling fat and happy when times are good. But, as they say, all good things must come to an end. Before anyone realizes it, the economy slows down. The marine industry goes through its cyclical downturns, and boat sales decline. Suddenly, human nature pulls dealers in another direction, and they become acutely aware of how much profit they are losing on each sale. When this occurs, boat and motor dealers feel a sense of urgency to close each potential customer who walks through the door. Dealers now realize that money left on the table is nothing short of irresponsible.

Most analysts suggest that the industry has entered a period of economic decline in which boat and motor dealers can no longer afford to be irresponsible. In a sluggish economy, dealers need to step back and ask themselves how much an extra \$1,000 per sale would mean? They need to identify the most effective ways of building additional profit into each sale.

Bank of America estimates that about 65% of all boat sales are financed, according to Dennis Poer, Senior Vice President. Some sources in marine lending believe the percentage of sales financed could be as high as 75%. Based on these figures, dealers can assume that if they aren't financing a vast majority of sales, a certain percentage of customers are financing their boats through sources outside of their dealership, and that amounts to lost profit.

Dealers need to recognize the full profit potential of a financed deal and the impact that additional revenue has on the bottom line. Obtaining a credit application from every customer is imperative—even those who claim to be paying with cash. "When a customer informs you [the dealer] that he/she wants to pay cash for the boat, you need to ask some well-placed questions to determine if the sale is, in fact, an actual cash purchase," Lorraine Mariotti, Vice President of Lending for Priority One in St. Petersburg, Fla., noted. "A customer who is planning to buy his/her boat with a loan from an outside lender will always tell the dealer he/she is paying with cash."

When the ‘cash’ is coming from a lending source, however, the sale is not a cash deal. This presents an opportunity for the dealer to provide the financing on this sale.”

Mariotti suggests that if customers say they’re paying cash, the dealer should ask: *Will the dealership need to place a lien on the title?* If the customer tells the dealer a lien will need to be placed, the sale is not a cash purchase. If the customer says no lien will be necessary, the dealer should ask: *Are you planning to use a home equity line of credit for the purchase?* If the customer says “Yes,” the dealer has another opportunity to gain the financing on this sale. “When a customer understands the benefits of financing his/her boat through the dealership, the dealer takes back control of the sale by keeping the customer away from outside influences that could direct the customer to another dealership or out of the market all together,” Mariotti adds.

The value of financing

Based on the current economic climate, how important is it to convert cash deals to financing and earn as much F&I profit as possible per deal? According to the National Retail Federation (NRF), the world’s largest retail trade association, the U.S. economy may soon experience an extended period of slow growth. According to the NRF, the marine industry could be particularly hard hit because big-ticket purchases, such as boats, will take a back seat to things like apparel and home furnishings.

Faced with a gloomy economic forecast, dealers should think outside the box and look for ways to generate income on more than just the sale of the boat itself. A professionally managed F&I department—whether it’s an in-house finance manager or an F&I outsource company—can earn the necessary profit to keep a dealership financially solid.

Chuck McFarlin, owner of Marine Outlet Center in Sarasota, Fla., views the situation this way, “The difficult and challenging economic environment that we’re facing now will reward the dealers who are smarter about how they do business. One of the keys to being successful is to not waste any opportunities. Our F&I outsource company has helped us enhance our finance profits by increasing our approval ratio.”

Mike McCreight, purchase coordinator for Good Times Power Sports in Lubbock, Texas, is prepared for what may come in 2007 because his F&I is now handled by a professional. “We lost more than 50 sales last year just because we couldn’t get them financed,” says McCreight. “I highly recommend that dealers use an F&I professional. We’ve sold more boats since we began outsourcing our F&I. It really changed our picture, and we had a great year.”

Maximizing F&I profits means selling service contracts. According to Christopher Bernish, Vice President of FPC Sales, the Asset Protection Division of Protective Life Corp., “Service contracts increase profitability for a dealership in two ways. First, the dealer earns commission income on the sale of the service contract. Second, the dealership’s service department generates income when a customer who has purchased a service contract returns for repairs.”

Some dealers fail to recognize the significance of selling service contracts—from the perspective of both profit and customer satisfaction. Bernish notes, “Customers appreciate a dealership that makes them aware of the important protection a service contract provides. A dealership that consistently informs customers of service contracts will generate happy customers and set itself apart from its competitors.”

Of course, F&I profit is only as strong as the people hired to manage this part of the dealer’s business. In the automobile industry, a good F&I manager earns six figures. If boat and motor dealers are paying an in-house person less than that, have they hired the best person for the job? Dealers who can’t afford a six-figure employee or need to reduce overhead when sales are slow often use an F&I outsource company. “I found I didn’t need to have a dedicated F&I person on staff once I started using an F&I outsource company,” says Lee

Haas, owner of Chattanooga Fish and Fun in Hixson, Tenn. “Getting a deal financed now is easier and more convenient, and it helps us deliver more boats. Another great aspect of it is that we don’t have to be tied down to paperwork anymore. We can go out and sell.”

When times get tough in the marine industry, the tough get smart and hire an F&I professional. Sales may be down, but dealers could profit as much or more than before by making a strong commitment to F&I. Dealers will be amazed as the dealership earns more money and delivers more boats. They may even discover that by opening their eyes to the benefits of F&I, entering a lousy economy may be the best thing that ever happened to the dealership. Dealers that make money when sales are slow should be salivating on how they can do when things pick up again. After all, the desire to be rich is just human nature, isn’t it?

Lisa Gladstone is President & CEO of Priority One Financial Services in St. Petersburg, Fla.. Priority One is the marine industry’s only provider of complete financing and insurance services for dealers. Priority One serves dealers with a comprehensive package of F&I outsourcing, an in-house insurance agency, and financing for brokered or consignment boats. Contact Lisa Gladstone by phone at 800/747-6223 or via e-mail at: lgladstone@p1fs.com.