



# Creating the **ULTIMATE** F&I **PAY PLAN**

By Ronald J. Reahard

*F&I managers should know what is expected of them based on their pay plans. Emphasize percentages and CSI rather than just total dollars.*

**H**aving trained thousands of F&I managers from dealerships all over the country, one thing I know for a fact: Your pay plan is your job description.

A good F&I pay plan compensates an F&I manager based on productivity. A great F&I pay plan motivates managers to excel, reinforces a dealer's commitment to customer satisfaction, and ensures continuous improvement in F&I productivity and profits. A poor pay plan guarantees lots of turnover, turmoil and Tums®.

Today's F&I manager is responsible for selling a wide range of products, including dealership financing, vehicle service contracts, GAP and credit insurance, tire & wheel protection, environmental protection and various theft deterrent products. An F&I manager's pay plan needs to reflect his or her performance in these areas, the total profit generated, as well as customer satisfaction with the financial services process.

There are as many F&I pay plans as there are dealers, but the best pay plans all have three things in common. First, they are simple. If you have to write it out to explain it, your pay plan is too complicated. Second, the more money the F&I manager generates for the dealership, the more money the F&I manager makes. And finally, the pay plan reinforces the dealership commitment to the products being offered in the F&I office and ensures customer satisfaction with the financial services process.

How can a dealer best motivate the F&I manager at the least possible cost? As a rule of thumb, the amount paid in total F&I commissions should not exceed 20 percent of the F&I department's income from finance reserve and product sales. Included in that 20 percent would be any F&I incentives paid to the sales force and/or the F&I director.

Naturally, this percentage can vary considerably, depending on the size of the dealership. A large, high-volume dealership with multiple managers will usually

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pay out a lower percentage of F&I income in commission. A small dealership, on the other hand, may need to pay out a higher percentage, especially if the F&I manager has other responsibilities.

No matter how big or small the dealership, an F&I manager's income should depend primarily on the amount of income he or she generates. The percentage of compensation should always increase or decrease according to performance, and today, that performance must include customer satisfaction with the F&I process. This increase or decrease can be based on the F&I manager's penetration percentages, income per retail unit, or strictly on total dollars generated in F&I income.

When determining total dollars in F&I income, a dealer must first determine how much emphasis to place on finance reserve, and whether to base compensation on gross income or net income after chargebacks. With subsidized rates by the manufacturer on new vehicles, and interest rates and monthly payments quoted by the desk as part of the sale, F&I managers often have little to no control over finance reserve income.

#### **AVOID EXCESSIVE MARKUPS**

Since finance reserve is 100 percent profit, an F&I manager should certainly attempt to make reserve income whenever possible. However, since a customer receives no benefit from finance reserve, it is critical the markup be consistent and not excessive. Excessive finance reserve generates excessive chargebacks, and chargebacks reduce net income and adversely affect CSI. Excessive finance reserve can also expose a dealer to potential



litigation, especially if it tends to occur within a particular race or ethnic group.

In most dealerships, finance reserve continues to fall, accounting for less than 40 percent of F&I income. In addition, since the desk is often quoting the monthly payment and interest rate during the sales process in an effort to sell the vehicle, any finance reserve income has actually been generated by the sales department, not by the F&I department or the F&I manager.

One way to ensure an F&I manager maximizes product sales versus just marking up the rate is to separate reserve income from other income, and pay a reduced or minimal commission on reserve income. This puts the emphasis where it belongs, on those sources of income the F&I manager does control, F&I product sales, while maintaining an incentive to generate (or retain) as much reserve income as possible.

Some dealers still utilize a basic pay plan that concentrates entirely on total F&I income, not F&I income per retail unit, or a pay plan that varies compensation based on penetration percentages. The F&I manager simply receives a straight percentage of F&I income, say 15 percent. If the department makes \$60,000, the F&I manager receives

**EXAMPLE OF A GRADUATED PAY PLAN**

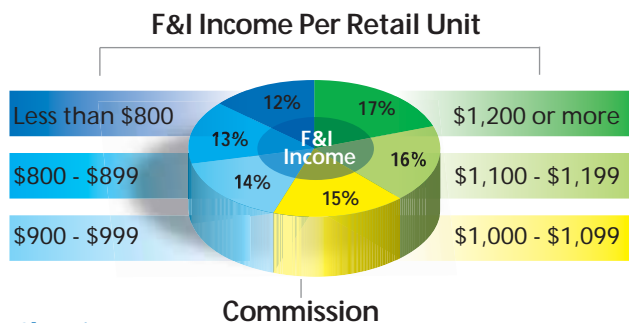


Chart A

\$9,000. While it's clean and simple, it does not put much of a carrot in front of the F&I manager. Plus, when vehicle sales are up, even the worst F&I manager can make good money with this type of pay plan. Poor performance is actually rewarded if the dealership sells enough units, and outstanding performance is penalized when sales are down.

Many dealers utilize a graduated pay plan, based on total income or F&I income per retail unit, such as the one shown in Chart A. This type of pay plan can increase performance and will help motivate an F&I manager. Typically, F&I income per retail unit tier levels and commission percentages vary depending on the size of the dealership, whether finance reserve is included and whether F&I income is gross or net.

The problem with this pay plan is that the emphasis is still on dollars. With a pay plan like this, F&I managers will tend to concentrate on one area at the expense of all others. "Where can I make the most money the easiest possible way?"

Every good F&I manager knows how to work his or her pay plan. Without some restrictions, this type of pay plan is a recipe for disaster. Dealers soon find they have a huge percentage of F&I income from finance reserve, with \$2,000 VIN etch policies, \$2,500 car alarms and chargebacks off the charts. This type of pay plan also undermines the whole idea behind the use of a menu, which is to offer every product to every customer

every time. You should sell products based on the customer's needs, not on how much money you make. One hundred hits is a great job if you

**USE PERCENTAGES, NOT TOTALS**

Penetration percentages are still the best way to judge (and compensate) an F&I manager's performance. That's why in

**EXAMPLE OF PERCENTAGE-BASED COMPENSATION**

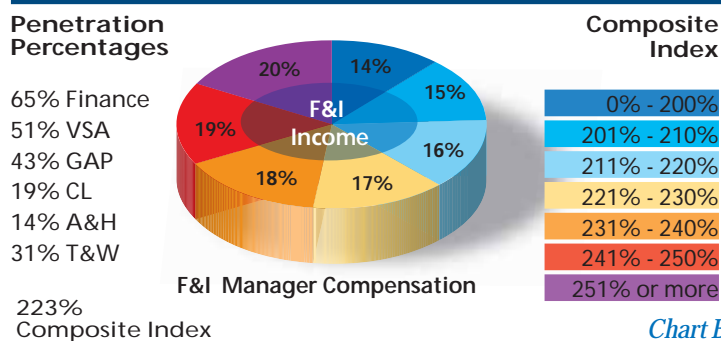


Chart B

baseball a hitter is judged by his batting average, not the total number of hits. One hundred hits is a great job if you

have 300 at bats. It's a lousy job if you have 1,000 at bats. Varying the compensation percentage based upon product penetration percentages is critical to the success of a menu-based approach in F&I. An example is shown in Chart B.

By including penetration percentages in the F&I pay plan, and then varying the percentage of manager commission according to those percentages, the emphasis can still be on gross profit, but an F&I manager is forced to concentrate on all products to receive the maximum commission. For example, an F&I manager who makes all his money in finance reserve (Manager #3 in the F&I Pay Plan Worksheet illustration on page 30) versus product sales won't receive nearly as much commission, since he is not generating nearly as much income through the sale of products. This manager is basically making the majority of income in finance

reserve, and his composite index reflects his poor performance in product sales. His compensation should also reflect his poor performance.

**INCLUDE DEPARTMENTAL COMPENSATION**

In a dealership with more than one F&I manager, the pay plan should also include departmental compensation in addition to individual compensation. Paying a small percentage of the entire department's profits ensures every manager is concerned about the team's performance, not just his or her own.

If there is an F&I director, or one manager is designated as the "lead" manager, her percentage of departmental income can then be adjusted to compensate for her additional duties and responsibilities. While each individual manager must be compensated primarily according to his or her contribution to total departmental income, paying a commission on total departmental income keeps all F&I managers working together as a team. Paying a small percentage on departmental income also helps generate excitement (not just envy) when another manager has a nice deal.

**PLACE VALUE IN CSI**

Since most manufacturers now include the customer's F&I experience in their CSI surveys, another key area that every dealer must include in his compensation plan today is customer satisfaction with the F&I process. Above-average customer satisfaction with the F&I process should be rewarded, while below-average customer satisfaction should be penalized. Incorporating the F&I manager's CSI score can help ensure that every customer has a pleasant experience in the F&I office. In a store with multiple F&I managers, an example is shown in Chart C on page 30.

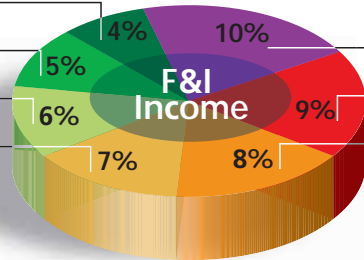
Again, percentages will vary, depending on the size of the dealership, whether reserve income is included and the number

**INCORPORATING DEPARTMENT PROFITS AND CSI**

Departmental Compensation: 1% of total department income  
 Base Compensation: 4% of individual manager income  
 Composite Bonus: 4% - 10% based on individual manager index  
 CSI Bonus: +1% over national average, -1% below national average

**Composite Index**

0% - 200%  
 201% - 210%  
 211% - 220%  
 221% - 230%



251% or more  
 241% - 250%  
 231% - 240%

**F&I Manager Compensation**

*Chart C*

of products being sold in the F&I office. The F&I Pay Plan Worksheet shown below allows you to plug in your dealer-

ship's numbers (the bold numbers in white), and then see how changing compensation percentages in specific areas

will affect individual and departmental compensation. In this illustration, F&I Manager #1 receives the largest percentage of income, because she is doing the best job overall. F&I Manager #3, while technically generating the most income, receives the lowest percentage of that income, because he is doing the poorest job overall. He is making all his income in finance reserve, not by selling products, and his CSI is below average. ■

*Ron Reahard is president of Reahard & Associates Inc. Reahard & Associates provides customized in-dealership F&I training for dealerships throughout the U.S. and Canada. If you would like a copy of the F&I Pay Plan Worksheet (available in Microsoft Excel) shown in the illustration, contact Ron at (866) REAHARD, or e-mail him at [www.ron@go-reahard.com](mailto:www.ron@go-reahard.com).*

NOVEMBER 2005	YOUR DEALERSHIP F&I PAY PLAN WORKSHEET			
	Manager #1	Manager #2	Manager #3	Total
Retail Units	54	59	65	178
# Financed	46	40	49	135
Finance Penetration	85%	8%	75%	76%
# Vehicle Service Contracts	28	37	20	85
VSA Penetration	52%	63%	31%	48%
# GAP	23	21	19	63
GAP Penetration	50%	53%	39%	47%
# CL	4	0	0	4
CL Penetration	9%	0%	0%	3%
# A&H	1	0	0	1
A&H Penetration	2%	0%	0%	1%
# T&W Road Hazard	7	9	14	30
T&W Penetration	13%	15%	22%	17%
# Alarm	22	23	26	71
Alarm Penetration	41%	39%	40%	40%
Composite Index	252%	237%	206%	231%
F&I Gross Profit	\$55,468.00	\$51,407.00	\$71,281.00	\$178,156.00
Income Per Retail	\$1,027.19	\$871.31	\$1,096.63	\$1,000.88
Dept. Compensation	\$1,781.56	\$1,781.56	\$1,781.56	\$5,344.68
% of Dept. Income	1%	1%	1%	3.00%
<b>Base Compensation</b>	\$2,218.72	\$2,056.28	\$2,851.24	\$7,126.24
% of Individual Income	4%	4%	4%	4.00%
<b>Composite Bonus</b>	\$5,546.80	\$4,112.56	\$3,564.05	\$13,223.41
Composite Bonus %	10%	8%	5%	7.42%
<b>CSI Bonus</b>	\$554.68	\$514.07	\$(712.81)	\$355.94
CSI Bonus %	1%	1%	-1%	0.20%
<b>Total Compensation</b>	\$10,101.76	\$8,464.47	\$7,484.04	\$26,050.27
<b>Total Compensation %</b>	18.21%	16.47%	10.50%	14.62%