
# PAY PLANS REVISITED

Far too many compensation plans are a patchwork of fixes that, in the end, make the plans more confusing and less impactful. The magazine's F&I expert has the answer, a plan that accounts for a new market dynamic. **By Rick McCormick**

Having trained F&I managers in more than 30 states, I have found that every one of them knows one thing for certain: Their pay plan is their job description. A good pay plan will drive an F&I manager to produce profits, while a great pay plan will drive them to excel, work to grow their skills and provide customers with a great buying experience. So which describes your store's F&I pay plan? And does your pay plan reflect today's market dynamics?

Take last month's announcement by BMO Harris Bank. The finance source eliminated dealer discretion in the setting of interest rates on retail installment sales contracts, a move that could become more frequent given the pressure the Consumer Financial Protection Bureau is putting on the auto finance industry.

And with finance reserve under attack, the ability to sell product in the F&I office is at a premium. The good news is both customers and dealers win when the F&I office puts more emphasis on product sales vs. finance reserve. However, the desire to have a higher percentage of overall F&I profit coming from product sales demands that we reevaluate and create compensation plans that will reflect current market conditions.

## Patchwork of Fixes

Folks, the F&I profession is in a period of transition, which means F&I pros must sharpen their skills for uncovering customer needs, matching those needs to the products offered, and overcoming customer objections in such a way that the customer self-discovers his or her needs for the products. Compensating F&I managers accordingly will continue to drive those skills and assure they are able to excel in this ever-changing environment. Problem is, far too many compensation plans are a patchwork of fixes that, in the end, make the plans more confusing and less impactful.

An effective performance-based pay plan that is simple enough for every F&I manager to verbalize and direct enough so everyone knows what is expected will drive production and customer satisfaction. And isn't that what we all want? Now let's look at two common pay-plan structures that, based on my experience, tend to lead to undesired outcomes and high chargeback levels:

**1. The Basic Pay Plan:** This type of plan concentrates entirely on total

F&I income, not F&I income per retail unit. It also doesn't factor in product penetrations. This type of plan also relies heavily on the sales volume of the store, not the skill of the F&I manager. So it tends to reward poor-performing F&I managers when volume is up. Conversely, it punishes F&I managers who do a great job when volume is down. Yes, the compensation definitely lays out the F&I pro's job description, but it certainly does little to motivate managers to improve their skills.

**2. Graduated Scale Pay Plan:** This type of compensation plan pays an increasing percentage of total profits based on total F&I income per retail unit or total income. So a $900 to $1,000 per-copy average might pay 11%, while achieving a profit-per-retail-unit average of $1,001 to $1,100 might pay 12%. The problem with this plan is it can lead to an F&I manager taking the path of least resistance and excluding products the customer really needs. This negates the purpose of a menu, and, more importantly, the needs-based process that leads to the sale of more products.

This type of compensation plan can also lead to extreme levels of profit markups. And we all know what happens when a VIN etch policy is sold at $3,000. That's right. Chargebacks begin to roll in. So, this type of job description may be monetarily beneficial to the F&I manager, but it's definitely not beneficial to the customer or the dealership.

## Performance Driver

So what is the best way to compensate a top-performing F&I manager? And what components will ensure a great customer experience and provide the motivation producers need to consistently grow their skills? From my experience, the best model for compensating F&I managers is based on penetration percentages.

The best part of this model is it allows you to create a composite index using the sum of penetration percentages for every product, including finance reserve. And what that provides is a nice snapshot of how skilled the F&I manager is at selling products. For example, if an F&I manager had a 200% composite index, the total compensation would be 14% of total F&I income. The compensation percentage could then increase by 1% for every 10% increase in the overall composite index. This approach will ensure that the customer's needs are being addressed and that a menu is being used effectively to offer/sell all the products available.

Once we are committed to this type of compensation model, we must look at other components that drive top-performing F&I professionals. Let's start with training, because, as we know, consistent practice is what distinguishes the best from the rest. So every F&I professional should be expected to practice his or her skills. And the best way to make that happen is by creating a training calendar. Not only does it set expectations, it provides a plan of what is necessary on a daily basis for F&I managers to improve their skill levels. In fact, a training component should be included in an F&I manager's compensation plan.

Another consideration is the addition of a CSI component to an F&I pay plan. Every talented F&I pro takes pride in his or her numbers and in having a low chargeback rate. So why not reward them for maintaining high levels of CSI? Conversely, F&I managers should be penalized for low levels of CSI and a high chargeback rate. Remember, part of their job is to provide a great customer experience that will help facilitate repeat business.

### Growth Facilitator

Growth is the byproduct of consistently practicing one's skills. It's also the result of a driving desire to improve. An effective pay plan fosters both. It sets profit expectations, which motivate F&I managers to work daily to improve their skills and to provide a great customer experience.

One of the most rewarding activities I lead every January is the "Write Yourself a Check" challenge. In dealerships with well-defined and effective pay plans, F&I professionals are driven to produce profits, increase product acceptance rates and deliver high CSI. So, at the outset of each year, I ask each of my trainees to write themselves a check for the income level they hope to be at in the year ahead. We then determine the production levels needed to reach that income goal.

When a well-developed compensation plan is in place, F&I managers can commit to a regular practice schedule to increase their skills, set individual goals and track their progress month by month. And in order to keep gifted F&I managers, dealers must lay out their expectations in a well-defined job description, otherwise known as a pay plan. You then have to compensate those individuals effectively and reward great performance.

We have turned a corner in the F&I profession. Focusing compensation on finance reserve is a thing of the past. Today, product income must account for 65% to 70% of total income. Having a performance-based compensation plan will ensure you get there! ■

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