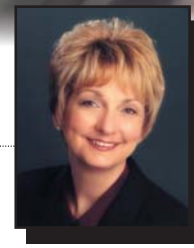
# Getting Down to Basics: The F&I Audit Trail



by Jan Kelly

One of the F&I basics entails tracking who writes what, where it goes, who handles it, who is accountable for it, and where you can find it. At a recent industry convention, a dealer confided to me that a long-term, trusted F&I manager pocketed $25K in cash transactions when policies were not turned into the accounting office. Now please do not stop reading. I do not think all F&I managers steal. An extreme minority commits some infractions of trust, and when these occur, it is typically because there is no audit trail to create accountability.

## Policy principles

Most of the policies used in F&I are numbered. As such they are viewed as controlled documents. Who tracks the policies by the number in the dealership? It should be someone in the accounting office. These policies are as good as legal tender. A customer who holds a completed policy has coverage whether or not the dealership has made payment to the policy company.

What happens if the customer pays cash for the policy, receives a copy of the policy from the producer, and neither the policy nor the monies are turned into the accounting office for payment? Might there be an opportunity for theft?

When the deal is turned into the office, it is critical that the person who processes the paper also verifies all the documentation. For example, if the purchase order or installment contract shows a charge for a policy, the charge can be matched up with an actual policy. If the policy is missing, it is necessary to notify the F&I manager and ask for a copy of the printed policy.

A properly executed audit trail will include a copy of each policy filed numerically, a second copy filed with the payables, and a third copy of the policy filed in the individual deal jacket. Yes, this will require making copies of the policy. Yes, the accounting office will need to be the keeper of the forms and hand the pack of forms to the F&I manager. And yes, this procedure will require the F&I manager to sign for the documents. For those of you reading this far, please understand that while I am not lobbying for increased bureaucracy, I am advocating an audit trail that dictates accountability for monies receipted in and for policies written.

## Receipt rules

The best deterrent for theft is having and using an audit trail. Check and balances usually include two separate sources verifying the results. Receipt books are a case in point. The person who writes the receipts should not be the person who generates the bank deposit. Use drop safes in the sales/F&I department. During business hours receipt all monies in the accounting office. After hours, use a night receipt book. Make sure all receipts are numbered. Use only one receipt book at a time. Each receipt should have three-part NCR paper. The original receipt goes to the customer. The pink copy is attached to the envelope that contains the cash/check/combination thereof. The yellow copy remains in the book. The receipt should show the customer's name, deal number, what the monies are for, date, and name of person writing the receipt. Place the monies in an envelope with the pink receipt copy attached to the envelope. Then ensure that two people watch the envelope go into the drop safe and use a ruler to make certain the envelope has dropped. If the deposit is more than one envelope, then note on the envelope "one of two," "two of three" or whatever numbers may apply.

Just as two pairs of eyes watch the envelopes go into the safe, two pairs of eyes should watch as the safe is opened. The two people who remove the deposits from the safe do so with the night receipt book in hand in order to verify by signature that they are in receipt of the funds. The funds are then taken into the accounting office where the funds are receipted into the main receipt book. The original copies of the "main" receipt are then given to the F&I manager to attach on the yellow copy in the night receipt book.

## Better business basics

For those who have made it to the end of this audit trail detail, congratulations! You have reviewed what it takes to track money, policies, titles and returned parts. You have reinforced that when it comes to handling money, everyone in the custody chain must be above reproach. You have joined the ranks of those who know when it gets right down to it there is no substitute for taking care of the basics of your business.

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# Making the Most of the F&I Opportunity

## *Your key to a better bottom line with F&I*

by Craig Armstrong

The car dealer industry has seen some major adjustments over the last several years – from zero percent financing to the most competitive sales environment in years. Shifting tides within the business is the name of the game – and those who can see the trends coming and react fastest are likely to stay ahead.

With increased pressure on profits with each sale, the role of every source of dealer revenue has come into the spotlight, in particular the F&I department of your dealership.

### The bottom line of F&I

The role of the F&I department has certainly evolved over the last few years, and "buyers are becoming more sophisticated and much more aware of a wider variety of products on the market," notes Grant DeMarsh, general manager of Don Valley North Lexus Toyota, Ontario.



With that in mind, some statistics are useful to put the increasingly important role of F&I departments into perspective.

*F&I Management and Technology Magazine* notes that in 2003, F&I departments accounted for 43 percent of dealer profit, a full 15 percent more than in 1990. In addition, F&I profit contribution stands a full 10 percent above S&P (service and parts), the next most profitable contributor according to the most recent statistics. These figures are especially interesting when considering that the average customer spends only about 17 percent of their time in a dealership with the F&I department, as opposed to about 50 percent with the sales department. With as little as 24 minutes in the F&I office to account for 43 percent of the bottom line, it is imperative that F&I managers make the most of that time.

Another interesting factor is customer acceptance rates for the average dealership. While finance still reigns supreme at over 75 percent of new vehicle sales, other options are making an impact. Theft deterrents, for example, have as high an acceptance rate as items such as prepaid maintenance packages or extended service contracts.

### Closing – and maximizing – the sale

**Understanding your customer**

Selling extras like rust proofing or parts etching might save time to closing a sale, but understanding each person sitting across the F&I desk is the key to maximizing both the bottom line and the customer experience. What are their major concerns? Are they aware of issues like resale value? Do they think about the possibility and consequences of theft and how those could affect their ownership experience later on? What are the real cost benefits of an alarm system versus a tracking system? Paint-chip protection versus rust proofing? Understanding how your customer will use and depend on their vehicle should dictate how you position value-added features to offer.

**Tools, tricks and training**

The world of available options can be overwhelming. Constantly polishing F&I presentations to the customer and perfecting knowledge about the benefits of each available option is key to success.

Salespeople always sell more of what they know, and the more they know the more empowered a person is to bring up and sell a product or service. "F&I managers have to believe in what they are selling in order to be convincing to a client," confirms DeMarsh.

Some available third party options come only with a one-page spec sheet, leaving little room for feedback or questions. Others offer dedicated sales representatives and regular visits, sales tools and support sheets, making the sale easier and training an ongoing benefit.

## The 6-second package

Even armed with all of this knowledge, the average F&I manager has about six seconds to position his sale – and the approach to that six-second window has changed. Creating bundles and packages of various options in tune with customers' needs is the key to making those six seconds as profitable as possible. "Depending on a client's needs, lifestyle and expectations, you can position a softer sell of various types," comments DeMarsh. Pairing an extended warranty with a tracking device might appeal to one client, while a no charge maintenance package and paint protection might appeal to another. Positioning similar options in this way can quickly and easily increase the value of the deal.

## Adding opportunity to your mix

Wondering how to bring up available options? Menu selling is becoming an increasingly popular method, offering clients a menu-style of packages, offering the client different levels of care and taking into account individual preferences and priorities. For example, a '*Worry Free*' grouping of options to ensure hassle free maintenance, or a '*Peace of Mind*' package including a tracking device or replacement insurance.

Other F&I managers take the initiative to have a waiver sheet for the client to sign, assuring that the F&I mentions not only warranties and insurance details, but items like paint protection and tracking device options. That not only ensures a great additional six second window of sales opportunity for these incremental profitable items, but also gives a client the feeling that they are making an informed choice about the slew of options available for their new vehicle. A simple checklist positions items in a non-threatening, consultative way, "offering clients the superior level of service that today's market demands," DeMarsh notes.

## Putting it all together

With the increasingly important role of the F&I department, from both a client satisfaction and profitability standpoint, every F&I manager should work to optimize their sales methods, making sure that this golden opportunity translates to the bottom line – and making the most of the F&I opportunity.

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