

Product-Centric – the Millennial Way to Pay

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When business slows down, dealerships look at implementing changes to enhance processes or different aspects of their business. These days, most of the changes include adding new technologies to improve such things as monitoring sales effectiveness or compliance, increasing service retention, or enhancing the customer experience. This also leads to a perfect time to implement a new-age F&I compensation plan called, product-centric – the millennial way to pay F&I.

If the [Business Office] has an outdated compensation plan in place, this can hurt the dealership and today's customer. Therefore, it is important to evaluate your current compensation plan and determine if adopting a more millennial way to pay your business managers will have a positive impact for everyone. The number one motivation for your top producers is compensation, so it is imperative that you continually monitor your plan to ensure top numbers!

Before we delve into this any further, let's take a moment to gain a better understanding of what exactly product-centric means, when applied to F&I. The foundation for putting together this type of F&I compensation plan can be simplified into five components.

- Structure – create the right amount of layers to grow and build from
- People – create a culture that F&I can adapt to
- Process – create consistency when using a proven F&I delivery process
- Performance – create a pay scale that rewards for exceeding goals and expectations
- Strategy – create a pay plan that delivers results

A product-centric method provides business managers with the opportunity to maximize their pay through performance. For the dealership, this method provides specific direction for which products are selling well, which also means clear expectations and accountability for their profit margins.

When it comes to compensating today's business manager, the ability to remove them from non-product-centric pay plans may not be as complicated as it may seem. Product-centric is all about products. The compensation plan will be customized for exactly which products are offered at your dealership. However, your plan should always include a balanced mix of core products and Ancillary products. Guidelines on how to create the perfect recipe are:

1. Simplify the base structure and create the right balance between reserve income and product income.

This is where the main structure comes into play. Instead of just targeting one product or more with a much higher percentage of payout, combine all product offerings into a category. Once a percentage has been determined, split it in half and apply it as the base for reserve income. This provides the Business Office with assurance that all revenue streams are accounted for. In addition, there will also be little to no resistance towards this structure, since compensation is based off of all income sources available.

2. Incorporate performance-based incentives on products to be sold.

This is where the "people, process, and performance," or the three Ps, comes into play. It should be noted, that the three Ps are the most critical parts when finalizing the product-centric compensation structure.



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At a minimum, focus must be placed on each product offering with some sort of order, and it is not recommended to incentivize all F&I products equally. You should also make sure that the performance-based rewards offered are truly valuable to your team. You need to put a lot of consideration into how and what performance-based incentives are implemented into your compensation plan, as they should be of value to the [business office, and still be in-line with the dealership's main objectives.

If you establish a minimum acceptable performance level per product upfront, it allows the business manager to place more emphasis and focus on exceeding those minimums. It can also be very helpful to have at least two levels of rewards available per product, with possibly a few caveats. The different levels of rewards can be done as either a percentage or flat dollar amount per product sold. Whichever method is selected, it is important to create an either/or situation when establishing the performance levels. Below is a great example of having two different levels of rewards:

Illustration based on total units sold:

If less than 50 contracts are sold, with 35%-45% penetration = X payout

If more than 50 contracts are sold, with 35%-45% penetration = Y payout

3. Allow room for discretionary bonuses to be applied.

This is where the strategy part comes into play. In some cases, discretionary bonuses may be a permanent fixture in the pay plan. In other cases, it may vary from month to month. In all, this part can be structured in a multitude of ways to best fit your business office's culture. Discretionary bonuses can include per vehicle retailed (PVR)/per rental unit (PRU) achievement, average products per sale, combined penetration indexes, Customer Satisfactory Index (CSI) scores, total products sold, or most improved product category. The important thing to remember is, develop a strategy on how to enhance the pay plan in order to gain maximum return on investment.

At the end of the day, product-centric compensation plans will deliver results. In order to attain these results in an increasingly competitive environment, the plan must be well-designed to motivate today's business managers and mirror the culture of the dealership. Your dealership, as a whole, will see direct results and value with the product-centric compensation plan.

