

Minimizing CIT



The dealer sits down to review this month's reports only to find that the Contracts in Transit, or CIT, have a balance of \$800,000. Not the ideal way to start the morning! High CIT balances mean the dealership does not have sufficient cash flow to pay off vehicles, stock used vehicles, advertise, etc. This ongoing problem can be detrimental to a dealership, but how can it be resolved?

A dealership that experiences high CIT should review their current daily operations to see how efficiencies can be improved. Below are some policies and procedures that can help streamline getting a deal approved and funded. Also, consider enforcing penalties to ensure the policies and procedures are consistently followed. These two steps can be easily implemented to help drastically reduce CIT.

Step One — Implement Policies and Procedures to Reduce CIT

One of the first suggestions to reduce CIT is hold a daily Build-A-Deal Meeting. These meetings should be required and done first thing in the morning for each dealership. It is important that upper management (GMs, GSMs, F&I directors, etc.) and managers are part of these meetings, if they are available. If the meeting is held from 8:00 am–8:30 am, the dealer should have a recap of the meeting by 9:00 am each morning. This will place a priority on moving CITs, as well as following up on unsold opportunities from the previous day.

All deal jackets from the last day of business should be brought to the Build-A-Deal Meeting. These will fall under one of the below categories:

- Customers who did not purchase
- Customers who purchased, but were not contracted
- Customers who were contracted, but not delivered
- Customers who were contracted and delivered

If a deal jacket was not completed and submitted to the accounting department, it should be brought to the Build-A-Deal Meeting. Your F&I development company can help conduct the first Build-A-Deal Meeting, as they should be very familiar with the process. This will provide a great example of how a productive meeting should be run.

Another way to reduce CIT is to move towards 100% E-Contracting. There are many advantages to E-Contracting:

- Funding within 24 hours, which eliminates the dealership from waiting on the money. Most banks and OEMs are already set-up for E-Contracting.
- Reduces overnight shipping expenses since there is no need to mail contracts in via courier service.
- Eliminates re-contracting for missed signatures or incorrect deal structure.
- Streamlines the process, allowing the business office more time to present customers options to protect their investment; thus, increasing PVR and penetrations.
- Customers find E-Contracting to be very user-friendly and more secure.

Let us take a moment and look at the possible cost savings when remitting with E-Contracting compared to mailing in paper contracts:

Example – ABC Motors delivers 100 units a month and has an 85% finance penetration. With that, they will remit 85 contracts.

- Remit via courier service: We will assume the dealership sends a few contracts in the same package to multiple lenders, so 50 courier service charges per month. We will also assume the dealership has a pre-negotiated overnight shipping rate of \$10, instead of the average \$15.
 - TOTAL COST = \$500 (50 contracts X \$10)
- Remit via E-Contracting: We will assume the current pricing for E-Contracting is a flat fee of \$300 per month, for unlimited number of contracts.
 - TOTAL COST = \$300

E-Contracting saves ABC Motors **\$200 each month** based off the above assumptions.

Now, if you take the above example for mailing contracts and multiply by 13 locations, it can be a large, unnecessary expense. Keep in mind, these calculations do not account for any re-signs, which would result in paying two overnight shipping charges and waiting for funding all over again.

As previously stated, E-Contracting is funded within 24 hours. When dealerships mail in their remitted contracts, they have to wait an average of three (3) to four (4) business days to be funded. Furthermore, while

the dealership is waiting to be funded, it is still paying interest on that money. To help put things in perspective, here is a realistic sample funding timeline.

- ABC Motors has a great Saturday of business! The Saturday deals are not packaged in the office until Tuesday and mailed out by the end of the day. **Two (2) business days after the contract was signed.**
- The bank receives the deals on Thursday. **Four (4) business days after the contract was signed.**
- By the time the bank sends funding, it could very well be another five (5) to six (6) business days of CIT for a total of **nine (9) to 10 business days after the contract was originally signed.**
- If stipulations or a re-sign is needed on the deal, then funding will most likely not be received until **11 to 13 business days after the contract was originally signed.**

Time is money. As you can see, E-Contracting can significantly help a dealership save on both.

Step Two — Implement Penalties for Those Not Following the Policies and Procedures

CIT has always been a worry for any dealer, no matter the size of their operation. In addition to conducting Build-A-Deal Meetings and E-Contracting, another recommendation is to adjust compensation so no one gets paid until the deal is funded. This may seem a little harsh, but it will deliver a more desirable result with funding. Unless there

are consequences, there will be no change in behavior. The below is a possible compensation plan to implement for dealerships that remit 75 to 100% using an E-Contracting platform:

- Deal funded within five (5) business days – 100% of commission
- Deal funded between six (6) to 10 business days – 75% of commission
- Deal funded between 11 to 15 business days – 50% of commission
- Deal funded after 16 business days – 0% of commission (this being an extreme option)

The degrees of punitive measures should only be put in place after the policies and procedures (Build-A-Deal Meetings and E-Contracting) are implemented, and only if they are needed.

Your F&I development company is a great resource to help resolve high CIT balances. They can assist with the Build-A-Deal Meetings and negotiating an E-Contracting platform, as well as other customized in-dealership support for your dealership. Implementing the above steps will help to dramatically lower CIT, resulting in more cash flow for the dealership.

Demetrios T. Lahiri, BA, BS, MBA
Vice President of Sales
DLahiri@AFASinc.com