



Financial Management Objective Homework

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Student Name:

Academy Class #

I plan to accomplish the following objective

December 31, 2018

by:

	Department	Month	Page	Column
Action plan for achieving objective				
What is the area of focus?	F&I	Dec	27	5B
<p>The area of focus is on increasing the profitability of the F&I Department's Profit Per Retail Unit (PRU) from \$1001 to \$1,200 by December 31, 2018. I will be able to directly impact this area as I am currently the Finance Director and a Sales Manager in the store. In reviewing the NADA 20 Group Composite data on F&I, I could clearly see my F&I Department is not only underperforming Toyota's BOC, but the other Toyota members of the group as well. After the Week-1 financial analysis, I can see how impactful the Finance Department's performance is on both new and used car departments surpassing break-even net profit.</p>				
What is the proposed plan? How will you achieve it?				
<p>In order to increase F&I Department's Profit Per Retail Unit to \$1200 by 2018 year-end, I will be making the following changes: pay plan, FSM job description, training partner, and possibly our product mix. Personnel changes will result if the aforementioned changes do not increase FSM performance.</p> <p>In the current pay plan, each FSM can earn a higher commission percentage the more products sold per retailed unit (PPRU) and or the higher their PRU. The focus on PPRU resulted in cheap products to be "thrown in" on deals to gain a higher PPRU while cannibalizing PRU.</p> <p>For example, the Finance Department's second highest volume product for 2017 was key replacement (29% Penetration). The average profit per key replacement contract was \$79 dollars with a cost of \$182 (gross profit of only 30%). Total year-to-date key replacement cost was \$121,212, which potentially could have instead been captured as profit of \$53 profit per retail unit in 2017 (leaving the profit in a Vehicle Service Agreement, GAP, or other products sold).</p>				

Provide the relevant composite data:

In order to fix the behavioral incentives inherent to the current pay plan's structure, the PRU/PPRU matrix will be removed completely. Instead, the FSM's commission percentage will be tied directly to their monthly PRU with only one product incentive.

Very simply, an FSM will be rewarded for a higher PRU. Ranging from a low of 16% for any PRU under \$1000 up to 22.5% for any PRU above \$1450, we have adjusted compensation percentages to match our expectations for FSM performance. Previously, one could earn the same commission percentage by reaching \$700 PRU and 1.3 PPRU or \$1300 PRU and 0.70 PPRU. The previous compensation structure did properly align FSM production with the store's profitability goals.

I chose to include this metric as it has the strongest correlation to a higher PRU. The only incentive outside of PRU in the new pay plan is a 1% commission increase for an FSM achieving a VSA Penetration above 40%. Additionally, they must maintain at least \$1000 average profit per VSA contract to ensure they are not going to sell VSA contracts cheap to attain the goal (based on BOC Toyota's Average VSA Profit Per Contract \$1027). In reviewing our NADA 20 Group 2017 Year-End Composite for Toyota dealers, our Finance Department has the lowest VSA Penetration at 36%. The BOC Toyota VSA Penetration is 50%. This shows that VSA Penetration is an area where we have room for significant improvement.

In terms of training, I am not satisfied with the level of training we are receiving from our current training partner. We send each FSM to a week-long class at our training partner's facility. It is worth-while training, however, there has been very limited follow-up from our training partner after the class. This was not the expectation given to us when we sent our FSM's to their class. Despite an expectation being set for continuous in-store training (review recorded deliveries, test core competency skills etc), this has not occurred. This company has a trainer on their staff that has the ability to improve our FSM's selling skills, however, currently this trainer has not been made available to our store. If this does not change, I will be making a change to a different company that can better assist our FSMs with continuous training.

Process and behavior will also need to be addressed for each FSM. Their job description will be changed to require them to be in the desking tower when they are not doing a delivery. This will give them an opportunity to get involved in deals early. The tower was designed with the intent for the available FSMs and the desking manager to work deals together. This has been working well, except that only 2 chairs exist in the tower. Typically, there are two FSMs available, with only one chair and computer between them. I will be adding another chair and computer terminal so each FSM can work deals effectively with the desking manager.

Internally, we will add consistent accountability by meeting once a month to review each FSMs performance with all sales managers, general sales manager, and the owner present. Additionally, individual core competency tests will be implemented as well as group video reviews.

If FSM PRU performance does not improve after training assistance and increased accountability, then personnel changes will result.

Lastly, I would also like to visit two or three of the top performers in the 20 Group to observe their F&I Department. There could be processes, products, training opportunities that we are not using that could help take the department's profitability to the next level.

How will you track your progress? What measurements, KPI's? How often will you track?

I will track progress by using both manually-accessed and automatically-emailed performance reports. I will check our F&I Department's overall PRU, VSA Penetration, and VSA Profit per Contract by using the NADA 20 Group Composite Plus Tool's Page 27. I will also be checking the New and Used F&I's PRU, VSA Penetration, and VSA Profit per Contract to drill down on any pitfalls that may occur (Page 9 and 19, Columns 5B, 6B, 12B).

Vision Menu Reports will send an automated email with a daily MTD snapshot of individual FSM performance with deal and product volume, income, average income, and penetrations percentages listed. The FSMs, Sales Managers, and Owner will all be copied on this daily automated email. This will allow us to notice negative performances early in the month and address them quickly.

Who are the employees that will be involved, or impacted? Will they require training or assistance?

The immediate individuals involved are our FSM's in the Finance Department: Jon Griffith, Zeb Olsen, and Mike Disher. All FSMs will require additional training, while Mike Disher will require particular attention as he is the lowest performer. We are currently looking to add a fourth FSM (as we prefer each to average 50 deals per

month). Ideally, this candidate will need minimal training if at all to meet our PRU goal. If the fourth FSM is hired with limited experience, they will require both product training (from Toyota Financial Services and our training partner), as well as process, compliance, and menu selling training.

Is there a cost, or estimated cost for implementation?

There is an additional compensation expense with the 1% VSA Penetration incentive goal, but it will be absorbed by the increased profits from the additional VSA contracts themselves.

There will be additional cost for bringing in training staff.

We will be buying another chair and computer for a second FSM to sit in the desking tower. The computer could possibly be acquired from an empty office.

The trips to visit other dealers will have a cost for airfare and hotels.

Projected date of completion?

December 31, 2018

Jan.	Feb.	March	April	May	June
July	Aug.	Sept.	Oct.	Nov.	Dec.