What Should Your Product Penetration Tell You?

by : Gil Van Over

We all live by the numbers. You could reach Jenny at 867-5309. 14 – 0 represents the pinnacle of single season victories posted by a college football team (OSU, 2002). The steroids-free home run king hit 756 homers.

Dealerships run by numbers…PVR, CIT and profit, to name a few. Your F&I penetrations is another set of telltale numbers that can speak volumes about your processes.

Average is one step away from "sucks"
Very few long-lasting players in our industry want to be average. Face it…average is just one step from mediocrity. Averages, however, are useful in helping to understand where your dealership stands as compared to other retailers.

A recent survey I read reports the following average penetrations:

Vehicle service contracts	33 percent
Gap	40 percent
Credit life	8 percent

Your F&I manager falls into one of three categories based on these averages:

- Your customers are only purchasing products if they demand them (below average). You risk lowering profits and potentially paying claims to customers who were not offered a product if a calamitous claim evolves.
- Your manager is maximizing product sales and minimizing chargebacks (slightly above average). Congratulations! You have achieved the balance between compliance and profits.
- Your customers have no idea that they "purchased" the product (two times average). Hope you're not allergic to iron bracelets!

Solutions
The very definition of average dictates that you will fall below, on or above the line. Fortunately, there are practical solutions for each situation.

Below average: It is likely that your F&I manager is not offering every product to every customer every time. My boss always accuses me of not having any common sense, but even I understand that if you don't offer a product, you are less likely to sell a product.

Some F&I managers continue to practice amateur psychology and contend that they can determine the customer's needs with a 43-second interview.

Here's a bridge…get over it.

F&I managers cannot consistently ascertain in a quickie interview what products the customer needs every time.

I have purchased three vehicles in the last three years. Not once was I offered tire and wheel coverage. I had to demand the product. Imagine the number of customers at these dealerships who did not know that tire and wheel coverage is available and therefore did not purchase the product.

There have been successful lawsuits litigated against car dealers contending, “If credit life had been offered, I would have bought it and now that my spouse has passed away, I want you to pay off my loan.”

The F&I manager always asserts that the customer did not express a need for credit life. Go figure.

Twice average: I once had a conversation with a dealer who admitted to stuffing Gap into every deal. He claimed that if he properly disclosed it, his penetration would certainly drop from the 92 percent penetration level he was “enjoying.”

The mid-six figure settlement on his class action lawsuit quickly wiped out his 92 percent penetration profits.

Oops…another bridge. Get over it.

An abnormally high penetration of any product is a compliance red flag. Unless you are dealing with the rule of small numbers, like credit life, anything approaching a doubling of industry averages on a product must elevate the terrorist level to a red alert.

Slightly above average: You have nailed it. You are likely using an electronic menu, offering every available product to every customer every time. Your products are competitively priced. Your paperwork will support that the customer knowingly purchased each product, which leads to lower chargebacks once the customer emerges from his ether high.

What are your numbers telling you?

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