

NAVIGATING NEGATIVE EQUITY: STRATEGIC CONVERSATIONS WITH CUSTOMERS



Negative equity — when a loan balance exceeds the vehicle’s worth — has been exacerbated in the post-pandemic era, fueled by soaring interest rates, inflated car prices and extended loan terms introduced during inventory shortages.

As the market normalizes, customers who purchased a vehicle over MSRP are realizing they may owe more than what their vehicle is worth. For dealers, handling conversations about negative equity requires a delicate balance of empathy and transparency.

How to Handle Negative Equity Conversations with Customers

- » **Assess the Customer’s Financial Position:** Beyond just knowing how much a customer owes vs. their vehicle’s current value, analyze each buyer’s financial situation. This includes looking at their loan details, credit history and overall financial health.
- » **Explore Options Based on Individual Needs:** Each customer’s situation is unique, and solutions should be tailored accordingly. For instance, refinancing might be a viable option for some, while for others, it might be more about restructuring their current loan.
- » **Provide Guidance on Vehicle Selection:** If a trade-in is part of the solution, help the customer select a new vehicle that meets their unique needs, buying preferences and financial considerations.

Building Long-Term Customer Relationships

In the face of negative equity and increased costs, building lasting customer relationships is key to promoting long-term loyalty. This requires sales teams to offer value-added services that resonate with the customer’s needs, encouraging repeat business.

- » **Offer Customized Service Plans:** Create service packages or maintenance plans tailored to the customer’s new vehicle and driving habits.
- » **Engage Customers on a Regular Basis:** Keep in touch with customers through newsletters, service reminders and personalized offers based on their interests and purchase history.
- » **Collect Customer Feedback:** Regularly gather and follow up on customer feedback to improve services, demonstrating a commitment to meeting their evolving needs.

Navigating Supply Chain Challenges

Keeping customers engaged, informed, and satisfied, even when immediate solutions aren't available, will be especially important in the dealership service drive.

- » **Set Realistic Expectations:** Be upfront about potential delays due to parts shortages, offering clear timelines whenever possible.
- » **Proactively Communicate with Customers:** Keep customers updated on the status of their vehicle, especially if there are changes or delays.
- » **Offer Alternatives:** When possible, provide alternative transportation options or interim solutions to minimize customer inconvenience.

Adapting Sales Approaches in a Changing Market

Finally, dealership sales teams need to shift from high-velocity selling to a more strategic and thoughtful approach.

This evolution requires an understanding of changing consumer behaviors and leveraging technology and data analytics to tailor marketing efforts and customer interactions, ensuring a more personalized and effective sales process.

- » **Focus on Customer Experience:** Shift sales tactics towards a more consultative approach that prioritizes relationship-building and addresses individual customer needs.
- » **Offer a Transparent Sales Process:** Establish trust with customers with a transparent sales process that helps buyers feel confirmed and informed.
- » **Take a Data-Driven Approach:** Leverage data from your CRM, DMS and CDP to understand buyer's needs and to personalize vehicle recommendations and follow-up strategies.

To navigate challenges with negative equity customers requires dealership sales and service teams to adopt a dynamic and adaptable approach.

By adapting to changing consumer behaviors, leveraging technology for personalized interactions and prioritizing transparent customer experiences, dealerships can effectively address these challenges, fostering long-term loyalty and success in today's evolving market.

Want to learn how Mastermind can help improve your dealership's customer communications?

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