

Limiting Chargebacks

By outlining your customers' responsibilities and providing instructions for filing a claim, you can reduce chargebacks and keep the F&I revenue flowing.



BY RON REAHARD

This month's question comes from Jon in Illinois, land of Lincoln and home to the "original" (actually ninth) McDonald's — a simple idea which has grown from one location to serve billions and billions of calories worldwide. "OK, Ron, here's the deal: Making money in the F&I office is great, but keeping it is even better. Can you offer any tips for limiting chargebacks?"

Jon, chargebacks are the scourge of F&I managers everywhere, which is why monitoring and managing them is something every dealer and F&I professional must do. However, some chargebacks are unavoidable, such as when customers trade their vehicles in before the end of the loan or before their service contract expires.

The first tip for limiting chargebacks is to reduce your dependence on finance reserve. Ideally, we like to see 30% of total department income coming from finance reserve and 70% from F&I product sales, with the ideal chargeback rate being between 5% and 10%. That doesn't mean we eliminate rate markup, join the CFPB and march in the streets demanding nothing but flats. It does mean we must ensure the customer is happy with the interest rate, whether it's 2.9% or 22.9%.

Whenever a customer's interest rate is higher than what he or she expected, we have to help the customer understand the finance source's criteria. That means explaining the factors that impact their rate. It also means explaining how making payments on time, reducing debt and putting more cash down can improve their chances of obtaining a lower rate. They need to feel we are their advocate, and that we put together a great finance package based on their current financial situation.

We must also continuously evaluate our chargebacks to see if they are coming from or caused by a specific finance source. Sometimes, finance sources will solicit recent vehicle buyers to refinance their finance deal through them. If this is happening, you need to identify the source and take steps to ensure it doesn't happen in the future.

If ABC Bank or 123 Credit Union is getting a significant number of customers to refinance their deal at a lower rate, you may want to give up your flat and lower the rate even further to ensure the interest rate they get through you is as good (or better) than the rate available there.

Also make sure you're selling products based on what the customer needs, not what you need or what makes you the most money. Remember, needs-based selling is about connecting each customer's unique needs to our products so they can see how the protection will benefit them specifically. It's not a technique designed to help you make more money.

So while we would like every customer to buy a service agreement, not every customer needs one. But every customer needs something. Our job is to discover that need so we can help them see why that product is important to them and their family. And hey, customers don't cancel product they need.

Finally, it's critical your customers understand what the product covers. They also need to know how they can ensure the coverage remains in effect for every product they purchase, and what they need to do in the event they have a claim. Just as most insurance companies provide a handy reference card to keep in your vehicle or billfold, you too need to provide one for all the products you offer.

This card should have the name and number of the product provider, as well as a list of the information the customer will need to provide in the event of a claim. Whenever a customer has a bad claims experience, invariably, they cancel that product — and any other products you sold them. Providing a reference card with contact information for you, your service department and the administrator of the products you offer will go a long way toward ensuring any claim will be a hassle-free experience. It will also increase customer satisfaction and reduce chargebacks.

Jon, thanks for your question. Don't forget to submit your own selfie video for a chance to get your question answered and, for a limited time, a free Yeti. Check out my So Here's the Deal blog at www.fi-magazine to see Jon's Yeti (It's a big one!). Until next month, remember, it's a beautiful day to help a customer! ■

ABOUT THE AUTHOR

Ron Reahard is president of Reahard & Associates Inc., a training company providing F&I classes, workshops, in-dealership and online training. Got a question or objection for Ron? Use your mobile phone to record a brief video (shot landscape style!) of your question and upload it to www.hightail.com/u/REAHARD.

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