

# Negotiating Your Purchase

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## Car dealers are great at making everyone feel like they got a “good deal,” even when they paid full price.

When buying a car, too many consumers blindly accept the pricing they are given, never call other dealerships for competing quotes, and pay hundreds of dollars for dealer add-ons and fees – and still feel like they got a good deal.

In the same way that you would spend a little extra time studying for an important test in school, we encourage you to spend a little time learning how to be a more effective negotiator.

There are three steps to effectively negotiating the purchase of your car: setting a target price, negotiating the price with the dealership, and avoiding high profit dealer extras that give back the gains your negotiating skills rightfully earned.

### Setting a Target Price

Once you have determined the exact make and model of the car you want, you need to set a target price for your purchase. Your target price offers a measurable goal that will help you see through the many tactics salespeople employ to get you to pay as much as possible. Don't forget to decide on the “trim” level of your car. Some trim levels will be basic while others may add options such as nicer tire rims, a sunroof, and leather seats. You will need to know the trim level in order to set a target price.

If you are buying a new car, we suggest conducting a Google search for the “dealer invoice” price on your exact car. You will also want to search for current “dealer incentives” that may be offered to dealers by the manufacturer of the car you want. If you can avoid expensive add-ons, paying close to the dealer invoice is considered a good deal.

If you are buying a used car, determining a target price can be a bit more difficult. Used cars vary in condition, mileage, and accident history – all of which should affect the fair value of the car. The official NADA Guide and Edmund's True Market Value (TMV) are good sources of information to help guide your search.

The NADA guide should be available at your local library (do not use the free online version since it is not as accurate) and it lists three prices for each car – dealer retail, trade-in, and bank loan. After adjusting for mileage and condition, a good target price is between trade-in and retail. The Edmund's True Market Value

(TMV) estimate is available free of charge at Edmunds.com and offers a region-specific estimate of what cars like the one you want are actually selling for. That TMV estimate is a reasonable guide to follow, though we suggest a target slightly below their estimate – their prices are based on average selling prices, not the prices of expert negotiators like you.

One guide to avoid is the Kelly Blue Book. Those prices are based on average dealer *asking* prices, not *selling* prices. The ranges offered are also too variable to be useful to the savvy consumer, though dealers will often pull out a Blue Book guide to show what a “good” deal they are offering.

When buying a used car, we also recommend ordering CarFax and AutoCheck reports when you have found a car you are seriously considering. The CarFax service aggregates public records on vehicles, and includes the police reports filed when a car is in an accident. As a general rule, we would suggest avoiding a car that has been in an accident that was serious enough to report to the police – there is no way of knowing what damage was done to the car and whether the safety of the car has been compromised.

When looking at the asking price of a used car, keep in mind that most used car dealers build in profits of between \$3,000 and \$6,000 or more, even on cars in the \$15,000 price range.

### Negotiating Price

Negotiating the price of your car doesn't have to be an uncomfortable experience. After all, you are trying to give them thousands of dollars! That said, car salesmen negotiate for a living, you don't.

Once you have determined the target price for the car you want and found a car you like, it's time to start the negotiation process. The best way to make sure you get the best price is to avoid making on-the-spot decisions under pressure, and to make sure you call multiple dealers to compare “best prices” on comparable cars. By the way, shopping by phone offers tremendous advantages for the consumer – a salesman knows you are price sensitive (otherwise you wouldn't be calling), knows he has a car that you want, and he knows he has a very limited amount of time to get your interest (the phone call). In fact, if you are buying a *new* car, you can complete the whole process by phone. Used cars are different since they require a more comprehensive evaluation.

When talking with a salesperson, keep in mind that they are gathering information on you and your

attitudes about purchasing the car at the same time. For example, they may ask if you need financing or if you plan to pay cash. If they think you are financing, they may ask what your target monthly payment would be – information they can use to eventually sell you the car (along with an expensive financing package) at a higher price than you would normally pay. We recommend being non-committal when answering questions, but be firm in your intent to purchase a car.

Don't mention price first. Rather you can ask for their "best price" and use that as a starting point to go lower. For new cars, you can start with slightly below dealer invoice price if you must mention price first.

Salespeople use a number of strategies in the negotiating process that are intended to give them an advantage. They know that most people want to be agreeable, and have a hard time saying no. They know that many people respect authority figures, so they will often say "I have to go clear this with my sales manager." They know that some people don't want to hurt another's feelings, and will feel somehow responsible to the salesperson if they take a lot of their time with questions and a test drive. Above all, they know that most people are uncomfortable with the negotiation process and will not continue to push for concessions beyond a certain point.

Don't let a salesperson talk you into making a decision that is uncomfortable to you. Armed with your target price, you have more knowledge than most consumers. When you agree to a deal, you are giving up on the possibility of finding a better deal elsewhere, so make absolutely sure you are getting the best deal possible before signing a contract. Don't be afraid of "disappointing" the salesperson by asking for the details in writing for you to review at home or with a friend. Plus, if a salesman is not willing to provide the deal in writing, you should probably look elsewhere anyway.

## **Avoiding Surprises**

One common way for dealers to increase their profit (and your cost) is to install add-on equipment to the car without your consent, charge extra fees, and try to sell you an extended warranty. These extras are typically either optional or negotiable.

Equipment add-ons could include a non-factory alarm system, pin striping, paint protection, undercoating, floor mats, and other low-cost, high-margin extras. If items are added to your car that you do not want or that are priced out of line with what you would expect, ask that they be removed. If they cannot be removed,

you can walk out or require a substantial discount (50% for example) as a condition of the sale.

Also be aware of duplicate or add-on fees, as known as "junk fees." These fees, such as delivery, handling, advertising or car preparation fees are also negotiable. Many dealers do charge a documentation fee, but any fee over one or two hundred dollars is excessive.

Whether you are buying a new or used car, dealers commonly offer extended warranties when completing the final paperwork. Proceed with caution – these warranties are huge money makers for dealers, and may even duplicate coverage that may exist under a factory warranty. Extended warranties also vary greatly in their cost, services offered, mileage limits, deductibles, and payment structure (some warranties will pay when the repair is completed; others require that you pay and contact them for reimbursement). Like everything else in the car buying process, extended warranties can be negotiated. They can also be purchased from places other than the dealership selling you the car, so shop around.

Remember that new car dealers also have source of profit called a "holdback" that is not included in the invoice price. Don't be taken in by a salesperson telling you that selling at invoice leaves them with no profit. The holdback is an additional source of profit, and dealerships also make money from servicing cars and from selling add-ons (just make sure they are add-ons you want to buy and that they are priced fairly).

Used cars dealers make their money through higher margins. In fact, used car sales typically make more money for dealers than new cars.

To avoid surprises when it's time to pick up your car, ask that the contract be emailed or faxed to you in advance. That way, you can review it at your own pace at home. You may also want to consider negotiating your purchase through a dealer's "internet department," if available – those salespeople make lower commissions but sell more cars. They may have less to lose by allowing you to negotiate away fees and add-ons.

If a dealer is trying to push add-ons and excessive fees, there's nothing wrong with walking out the door. In fact, you may find a dealer becomes a lot more negotiable when you start to leave.

**Don't forget, there's nothing wrong with spending your money elsewhere.**