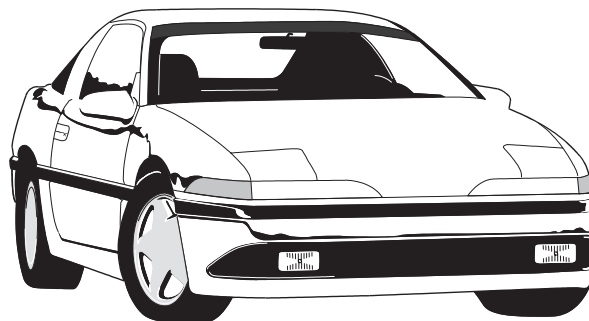


How To Get A Great Deal On A New Car

by Center for the Study of Services



Whether you think of your car as an object of love or view it merely as a way to get somewhere, having a brand new one is bound to give you a lift. But that pleasure can be tainted by thoughts about the cost—both the thousands of dollars you must pay for the vehicle and the emotional cost of coping with the hassles of making the purchase.

Fortunately, there's a way to avoid the hassles and get a great price. The key is competition. Get new car dealers to bid competitively for your business.

The Center for the Study of Services, an independent nonprofit consumer group, operates a service used by many thousands of customers each year to get great prices on new cars. See the "Money-Saving Help" list on the back of this pamphlet for more information. You can use the same general approach and get a very good price on your own. What follows is advice that comes out of the experience of this service.

You may have had friends tell you about sitting eyeball to eyeball for hours with new car dealers.

It's nonsense. They wasted their time.

The only leverage any customer has with a new car dealer is the possibility that he or she will walk out—and either buy a car from another dealer or not buy one at all.

To get a good price, you need simply set up a competitive bidding process. You have to be careful, thorough, and persistent, but you don't have to know all the intricacies of the car business.

You can start the bidding process after you've decided on the make, model, and style of car you want (Toyota Camry, 4-door sedan LE V6, for example). You don't have to know the exact options you want.

It's best to conduct the bidding process by phone. If you try to do it in person, you'll waste many hours and you'll have difficulty persuading salespersons that you're really serious about leaving and getting other dealers' prices.

Get each dealer to bid an amount above or below the "factory invoice price." The factory invoice price is the same for all dealers. So if one dealer bids \$500 *above* invoice and a second bids \$500 *below* invoice, you'll know the second is \$1,000 lower priced than the first. The "Money-Saving Help" list on the back of this pamphlet tells you how you can get information on factory invoice prices.

But you don't really have to have the invoice price information in advance; just explain to each dealer that you will expect to be shown the actual factory invoice for any car you consider buying.

Get bids from at least five dealers. Talk only to a sales manager or fleet manager. Here's the basic approach:

"I'm in the market for a (make/model/style) and I've made a list of dealers to call—including one that's out of the local area. I've done some homework, and I know the approximate invoice cost of the car. What I'm doing now is calling each dealer on my list to find out what each wants as a markup or markdown from factory invoice cost. I would expect to be able to take my pick of any car on your lot of the make, model, and style I'm looking for at the markup or markdown you quote. So that everyone is on a level playing field, I'm calling each dealer only once, and I'm not saying what any other dealer is bidding. I assume you will let me see a copy of the invoice for any car I pick out to buy.

"Before we talk about your markup or markdown from invoice, tell me are there any charges that you will expect me to pay for advertising, document preparation, or other services even though they are not listed on the factory invoice? Also, are there any dealer add-ons, like rustproofing, pinstripes, or wheel locks, that I'll be required to pay for?"

You may *want* some options that aren't factory options. For example, some manufacturers don't offer a radio or air conditioning as a factory-installed option on some basic styles. If you are interested in such *dealer installed* options on these cars, you'll need to find out each dealer's charge to provide them. Then ask:

"Is there a factory-to-customer rebate in effect on this car? Please don't take any customer rebate into account in your bid; I assume I'll get the rebate separately as a further discount.

"Okay, I think that's all I needed to go over. Now, would you like to give me a commitment as to exactly how much markup or markdown you'll accept above or below all these costs we've just discussed?..."

"What if I don't see the car I want on your lot but I still want to buy my car from you? Will you exchange cars with another dealer in order to get me the car I want? Will you still honor the bid you just gave me if you have to get the car from another dealer? If not, how will you figure the additional charge for this dealer exchange? What if I want to factory-order a car? How will that affect your price commitment?"

You *can* go through this process with each dealership. Don't be intimidated. If you don't understand something or if answers seem fuzzy, ask

again. You will almost certainly save hundreds of dollars—many buyers will save thousands of dollars—by following this process.

What if the dealers won't give me a price?

There are many excellent dealers that will respect your businesslike approach and respond in kind. But some dealers may not be so helpful. You may get responses like—

"I'll beat any price you get. Call other dealers and then call me back."

"What do you think is a fair markup? You tell me."

"We don't quote prices over the phone. Just come in and I'll give you the best deal in town."

Let these dealers know: if they don't bid, they have no chance for your business. Be businesslike and persistent. If a dealer won't give you a serious bid, go on to the next dealer.

What does "factory invoice price" really mean? Aren't there hidden kickbacks?

The "factory invoice price" is *theoretically* what the dealer paid the manufacturer for the car. The dealer will actually have a printed invoice that shows this price figure. It is *less* than the "manufacturer's suggested retail price" (MSRP), which is the "list price" shown on the window sticker of the car and is the price for which the manufacturer *theoretically* thinks the car should be sold to *you*.

Actually, almost all cars are sold *below* the manufacturer's suggested retail price, and some cars are sold to customers *below* the factory invoice price.

How is it possible for a dealer to sell a car below the factory invoice price? It is possible because the factory invoice usually doesn't reflect the true cost to the dealer: dealers often get "holdbacks," end-of-year carry-over allowances, factory-to-dealer incentive payments, and other allowances that reduce the cost below what the factory invoice shows.

Although the factory invoice price is not the dealer's true cost, it *is* a useful figure because for identical cars it is the same for all dealers. That's why you can use it as a reference point for dealers' bids.

How do rebates and incentives work?

If a car manufacturer offers a factory-to-customer rebate, you will be able to get this rebate directly from the manufacturer, or you can have the dealer apply the rebate to your purchase price, further reducing the price of the car.

In contrast, a factory-to-dealer incentive payment, sometimes referred to as a "dealer rebate," is money the factory gives the *dealer* for each car sold. The dealer can use the money for advertising, employee bonuses, extra profit, or many other purposes—or the dealer can pass this money along to you as a price reduction. One of the purposes of the bidding process is to use competition to prod dealers to give this incentive money—which sometimes is \$500, \$1,000, \$2,000, or even more—to you as a price reduction. The "Money-Saving Help" list on the back of this pamphlet tells you how to get information on rebates and incentives.

What is a good price?

There's no one answer to this question. The right price depends on supply and demand at the moment for the specific car you want.

Some consumer-advice articles and books give guidelines like the following: "Shoot for \$150 to \$300 over invoice for a mid-size car in good

supply." Ignore such advice. The only way to know what you should pay is to get dealers to bid.

Do I have to know more about prices and costs to get a good deal?

The more you know about factory-to-dealer incentive payments, "holdbacks," and other allowances the dealer will receive, the better off you'll be. It is also helpful to know what the current market for cars is—the best prices cars like yours have recently been selling for. That gives you a "target" price to shoot for.

But without devoting your entire life to car buying, you can't hope to know about all the available allowances and current selling prices. You have to count on competition—and the fact that no dealer knows how much the next dealer will give away—to drive down the price to a satisfactory level.

What if a dealer won't live up to its bid?

This could be a problem for individual buyers, but it doesn't have to be if you do the bidding properly. Be very businesslike in getting your bids. Deal only with a sales manager or fleet manager. Review the details of the bid by phone with the dealer. If you have access to a fax machine, have the low bidder fax a confirmation. If a dealer tries to renege or make changes, take your business to the next lowest bidder.

Do I need to know the exact options I want?

You are better off not to limit dealers' bids to a specific set of options or a specific color. Get the dealership to make its markup or markdown commitment applicable to any car of your make, model, and style. This approach allows dealers to bid even if they don't have a car with a specific option that you might have requested but that might not be of great importance to you.

Once you have your bids, you can call the low bidder to check what specific options and colors are available on cars that are on its lot or that it can get for you.

Shouldn't I consider which dealer offers the best repair service?

Your new car warranty will require you to use a dealer for covered repairs. For this warranty service, you'll naturally want to use a dealer that is conveniently located and that does high-quality repair work.

But you don't have to have warranty repairs done at the dealership that sells you the car. Your manufacturer will reimburse any of its franchised dealers for your repair work. So you can buy your car at the dealership that gives you the best price, then have repairs made at a different dealership if the other dealership is more convenient and does better work.

A dealer with a good repair shop is likely to give you good service even if you didn't buy there. Dealers make money on repairs and won't want to lose your repair business.

How should I deal with financing, trade-in, and other extras?

You don't want to lose the benefit of a good price on a new car by paying too much for financing, for an extended service contract, and for rustproofing, paint sealant, and other add-ons. You also don't want to get too little for your used car trade-in, if you have one. Before you go to a dealer to buy a car, you must know the true market value of all these extras. To avoid confusion, don't discuss any of these matters with a dealer until you have settled on the price of your new car.

Financing

Check the annual percentage rate (APR) currently being offered by banks and savings and loans in the area. If you are a member of a credit union, check its rate.

Car manufacturers often offer special financing plans as an alternative to customer cash rebates. Whether the financing plan is a better deal than the cash rebate depends on the size of the rebate, the manufacturer-offered plan's APR, the APRs available from other lenders, the amount you'll be borrowing, and how long a period you'll be borrowing for. On a 48-month loan, each percentage point you cut your APR is the equivalent of a car price discount of about \$20.50 per \$1,000 of loan.

To illustrate, assume you could get a \$13,000, 48-month loan from a bank at a 10 percent APR, and that the special manufacturer-offered plan's rate is 5.9 percent. The savings from using the factory plan would be estimated as follows: (10 minus 5.9) times 13 times \$20.50 = \$1,093.

Extended service contracts

Extended service contracts often yield substantial profits for the dealers that sell them and the extended service contract companies that back them.

Many new cars are very reliable, so there are few service claims. Also, many cars now carry long manufacturer warranties, so many service problems are covered by the warranty, leaving little to be covered by the extended service contract.

If you decide, despite these facts, that you want to purchase one of these service contracts, check carefully exactly what is covered. Almost all contracts exclude from coverage maintenance and wear items, ranging from brake pads to exhaust system components to air filters. And many contracts exclude—or fail to include—electrical devices like power windows and radios, interior trim, gauges, and even air-conditioning systems. Some contracts cover the cost of towing and a rental car but others do not. And most contracts require you to pay a “deductible” amount for each repair—in some cases, as much as \$100—before the service contract company pays anything.

Be sure to check whether you can get repairs done at the selling dealer only, at any dealer of your make of car, at any new car dealer, or at your choice of new car dealer or independent repair shop. Since many consumers are more satisfied with repairs at independent shops than with dealer repairs, it's good to have the option of using an independent shop.

Also, check how the shop will be paid. Under some contracts, the shop simply bills the contract company; under others, you must pay the shop, then seek reimbursement from the contract company. Even if a service contract company says shops can bill it directly, check with repair shops you might use to be sure they will in fact bill the contract company; many shops have decided not to put up with the hassle of collecting from service contract companies.

Finally, be sure the service contract company is financially sound. Many of these companies have gone out of business in recent years, rendering their contracts worthless. You are probably safest with a service contract backed by an auto manufacturer, by a large insurance company, or by a long-established independent warranty company.

A key point: if you want an extended service contract, you don't have to buy it where you buy your car or where you plan to have it serviced. For example, you can buy your car from one Ford dealer, buy a Ford-backed service contract from another Ford dealer, and have your car serviced under the contract by still another Ford dealer. There have been cases where one dealer was selling a contract for under \$500 while another was selling the exact same contract for more than \$1,000.

Before you go to a dealer to purchase a car, check other dealers for the prices and coverage of their service contracts. Then you'll be able to use these alternative vendors either to negotiate a good service contract price from your dealer or to supply you a contract if your dealer won't meet the competition.

Other add-ons

If a dealer has already applied rustproofing, paint sealant, or fabric protection, you will have to pay for these treatments, but they often are overpriced. When dealers have outside vendors come to the dealership to apply these treatments on cars, the total cost to the dealer is usually less than \$50 per car. If a dealer tries to charge you more than that, you can regard the cost simply as an extra markup. It's better to buy from a dealer that applies these treatments to cars only after a customer requests them.

With regard to rustproofing, there are special problems. Many manufacturers recommend *against* dealer-installed rustproofing. Most say such rustproofing is unnecessary, and some are concerned that it will block weepholes and actually *contribute* to rust.

Burglar alarm systems, wheel locks, and other add-ons may be worthwhile, but find out what other dealers and independent shops will charge for these items, if you want them, *before* you go to the dealer where you plan to buy. You can use the other firms' prices as a negotiating standard or you can simply buy the add-ons from the other firms.

Your trade-in

You can lose the benefit of a good deal on your new car if you don't get a good price on the old car you are getting rid of. The “Money-Saving Help” list on the back of this pamphlet lists sources where you can check the approximate value of your used car. But the best way to get a solid estimate of your used car's value is to take it to several new car or used car dealers to see what they will pay you for it. Simply tell each dealer that you plan to sell your car and that you are getting offers from at least 5 dealers. You can expect the dealer where you buy your new car to pay you roughly the same amount for your used car as these other dealers would pay. If not, you might as well sell your car to one of the other dealers.

Think of trading-in as really a sale of your used car at wholesale. If you've gotten a rockbottom price on your new car, the dealer won't be able to pay you more than the true wholesale value for your used car. A dealer who offers a fat trade-in allowance must be making it up on the new car price.

Remember, you can sell your used car on your own to another consumer. By checking classified ads, you can get an idea how much your car might sell for. That will probably be more than a car dealer will give you for it, but selling the car on your own is more trouble than selling it to a dealer or trading it in. You have to advertise the car and you may have to deal with a number of potential buyers.

Is there a right time of the year to buy a new car?

There's no sure way to predict. Guessing the car market is no easier than guessing the stock market.

Prices simply respond to supply and demand. When there is excess supply, dealers drop their prices and manufacturers throw in incentive programs to get the market moving.

Should I shop on the Web?

There is much valuable information on car features, prices, and other matters on the Web. There are also highly advertised websites that will offer to sell you a car. In most cases, such sites will refer you to dealers that have paid the sites for the referrals. The prices that are offered may or may not be competitive. The only way to be sure you are getting a good price is to get prices from a number of dealers. You have to make them compete.

Should I shop outside my local area?

For most cars, it is sufficient just to reach out as far as necessary to include at least 5 dealers in the bidding process, but it won't hurt to include one that's a little farther away.

After a new year's models come out, does it make sense to buy one of the previous year's models?

If you plan to keep the car only for a couple of years, you'll probably be better off with the new year's model. You'll pay more now for the new

model, but two or three years down the line it will have a substantially higher resale value than the previous year's model. In contrast, if you plan to keep the car 8 or 10 years, the previous year's model may be a better bet. You'll pay a lower price now for the older model and a decade from now the difference in resale value between the two years' models will be small.

The best decision, of course, depends on how much less you can pay for the previous year's model than for the new year's model and on whether the new year's model has new features that are important to you.

Money-Saving Help

Choosing the car

Most public libraries and major bookstores have extensive information to help you select the *type* of car that will fit your needs. Three good sources of comparative information on cars, each of which is published annually, are *The Car Book* by Jack Gillis, *Consumer Reports* magazine's April issue, and the March issue of *Kiplinger's Personal Finance Magazine*.

Getting a firm price commitment

The *Center for the Study of Services* offers the *CarBargains* and *LeaseWise* services (800-475-7283), which will get at least five dealers in your local area to bid to sell or lease a new car of the make, model, and style you want, using the methods described in this pamphlet. You get a price commitment sheet for each dealer. There is a *fee* for this service. You can also reach the Center for the Study of Services online at www.checkbook.org.

Many credit unions, local American Automobile Association (AAA) chapters, membership warehouse stores, and employee associations have lists of dealers who have agreed to sell cars at a fixed markup from invoice. You can contact local organizations to see what programs are available. The dealers that participate in these programs may or may not pay to be listed, depending on the specific program's arrangements.

Getting general car price information

Most libraries and bookstores, and many banks and credit unions, have books published by Pace Publications, St. Martin's Press, and others showing list prices and invoice prices for new cars, and showing resale value estimates for used cars. *Automotive News*, available in some public libraries, gives information on rebate and incentive programs, as does *CarDeals* at www.cardeals.org.

A number of Web sites have extensive free information on car prices and other matters. These include www.edmunds.com, <http://autos.yahoo.com>, www.nada.com, and www.kbb.com.

This publication was developed by the Center for the Study of Services and is offered in cooperation with the Cooperative State Research, Education, and Extension Service, USDA. It may be duplicated by educational or nonprofit groups. Mention or display of a trademark, proprietary product, or firm in text or figures does not constitute an endorsement by the U.S. Department of Agriculture, and does not imply approval to the exclusion of other suitable products or firms.