

# Auto Purchase Guidelines

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Most car dealers will sell a vehicle for \$100 to \$200 over factory invoice, but will do so only if it is apparent the buyer has done adequate homework and is prepared with accurate information. While it may seem that the dealer isn't making much money at this price, in actuality this margin provides a very fair profit to the dealer.

► **Remember Dealer Holdback** - Consider a new auto with a sticker price of \$30,000. The factory invoice will normally be approximately \$27,000. If you offer \$27,200, the dealer will make \$200 plus dealer holdback, normally 3% of the vehicle's price. \$900 dealer holdback plus \$200 margin gives the dealer an \$1,100 gain.

Some might argue that \$1,100 is still not that much profit on a \$30,000 vehicle. However, the dealer did not pay \$30,000 for that vehicle. The dealer typically pays only "Floor Plan Interest" for the time the vehicle sits on the lot. A \$27,000 vehicle at 8% annual floor plan interest actually only costs the dealer \$180 per month.

► **Dealer Profit Can Be Tremendous** - If this \$30,000 vehicle has been sitting on the dealer's lot for 30 days, a \$200 offer over invoice has actually given the dealer an \$1,100 return on a \$180 investment. This gives the dealer a generous profit with which to pay the overhead and sales commissions.

Adhere to the following guidelines to get the best possible deal on your new vehicle purchase. These guidelines could save you hundreds, possibly thousands, of dollars on the total cost of your next auto purchase.

## TEN RULES FOR AUTO PURCHASES

- (1) Consider purchasing a vehicle one or two years old with very low miles if you can buy it for significantly less than a brand new vehicle.
- (2) Determine the dealer's cost of the vehicle from a published source and make a cash offer \$200 to \$300 over that price. Do not discuss trading or financing until a cash price has been established.
- (3) Attempt to sell your existing vehicle yourself, rather than trading. If you cannot, determine the wholesale price for your car from a published source or by asking a used car dealer to make an offer on it. Subtract this figure from the cash price established above to determine the "difference" to offer the dealer.
- (4) Ask the dealer in advance if they charge any additional "paperwork" fees not listed on the invoice. If so, be sure to specify that your offer includes this fee.
- (5) If the dealer had added an advertising charge to the invoice, subtract this amount from your offer. Consumers should not pay for advertising in addition to the recommended margin.
- (6) Do not finance your new car through the dealership if they must increase the price you've established to provide low-rate financing.
- (7) If you do finance through the dealership, do not elect credit life or disability insurance on the loan.
- (8) Do not pay extra for extended warranties or dealer provided rust proofing, scotchguarding, etc. If the dealer "option" has already been added to the vehicle you've chosen, insist on paying no more than their cost for this option.
- (9) Unless the dealer accepts your precise offer, do not negotiate further until two or three days have passed.
- (10) Keep your vehicles for as long as possible. Depreciation losses from trading vehicles every three to four years are typically much greater than the ongoing costs of repairing and maintaining your existing vehicle.