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In the driver's seat

Want to learn to negotiate? Consider the world of automobile sales, leasing

Question: With all this zero-interest financing going on, do you have any tips for buying or leasing a new car?

Answer: Even with all the hype, most people still find the process of buying a car a taxing experience. I know, because I am currently in the process. I equate it to my experience in buying a new computer — an experience which required me to learn a new "language" before I could understand what to ask for and how to negotiate the best price.

Consider that the average buyer makes a new car purchase every five years, whereas the average sales person sells a new car every two to three days; from a negotiations standpoint, the salesperson clearly has the strategic advantage. Since a vehicle is one of your most expensive lifetime purchases, it is worth your time to do your homework and educate yourself on the basic terminology that will impact your ability to negotiate a good price. If you do your homework, it is possible to save more than $2,000 on a new car or truck.

I have found www.carprice.com and www.edmunds.com to be very helpful in teaching both the language and how to negotiate a good deal. Both sites help you calculate the costs and options for new and used cars. CarPrice.com is a great source for articles about car buying and leasing whereas edmunds.com offers easy-to-read comparisons for invoice, MSRP (manufacturer's suggested retail price), and TMV (true market value) differences.

So here are five suggestions to help you save you money:

1) Know the dealer's invoice, the MSRP and the TMV. The dealer is initially billed at the dealer's invoice. That is the actual dealer cost for the vehicle and all of its options. You will need to add the destination charges. Those are the predetermined charges to the dealer for the specific vehicle to the specific destination. This becomes your reference point for all your calculations.

MSRP is the manufacturer's suggested retail price. That figure is usually between 8% and 15% above the dealer's invoice. That is the manufacturer's suggested price and is the number located at the bottom of the sticker.

True market value is a guide to help you understand what you should expect to pay (or receive for a used vehicle) without having to spend hours negotiating. That is available at Edmunds.

2) Determine the dealer's holdback. That is the specific percentage of the car's price that is credited to the dealer's account periodically by the manufacturer. It reduces the dealer cost by 2% to 3%. So if you are looking at a $25,000 car, the amount can be substantial — at 3%, the dealer could expect to receive an additional $750 profit on the sale.

According to Edmunds, there are four different types of holdbacks. Each manufacturer offers a different percentage across all car/truck types. For example Lexus' holdback is 2% of base invoice, Ford/Lincoln is 3% of total MSRP, and Honda is 2% of base MSRP. Knowing the holdback figure helps you to understand the total revenue earned by the dealership.

The first type of holdback is called total MSRP. That holdback is based on the window sticker price including all selected options. So let's say the base MSRP of the car you want is $25,000 and you have added $3,500 in options. The total MSRP comes to $28,500. If the dealer has a 3% holdback, it would receive $855.

The second type of holdback is called the base MSRP. That figure is calculated on the sticker price of the car excluding options. So if the sticker price is $25,000, the dealer would receive $750 at the same 3% holdback level.

The third type of holdback is called total INV. In this scenario, the dealer's holdback is based on the invoice price for the car including options. So using the same example above, if the $28,500 MSRP car invoices at $23,500 with options, then the dealer's holdback at 3% would be $705.

The last type of holdback is called base INV; it is the amount the dealer gets paid based on the invoice price of the car without options. So if the base invoice without options is $20,000, the dealer would receive a $600 holdback.

While this may seem a bit confusing, it is worth taking the time to understand so you are able to intelligently negotiate.

3) Factory incentives: Factory incentives are given by the manufacturer to the dealer to move excess inventory or to move out previous year's models (typically they are about 5%). They are usually heavily advertised.

Manufacturer incentives/rebates should be considered at the very end of your price negotiation. They are above and beyond what you negotiate from the invoiced price unless the advertisement states that the "offer is good at participating dealers only." This tells you that the dealer may be paying some of the rebate.

4) Dealer charges: Those are additional charges added to the sticker price after it is received from the factory. The charges are for extras that can be costly and benefit the dealer by raising its profit margin. Items such as: "dealer prep" charges, added rust-proofing, extended warranty, side molding and special exterior/interior protection, document handling charge and credit life insurance fall into this category. These are high markup extras, and you shouldn't buy them if you don't want them. Recognize that dealer handling charges is what a dealer will charge you for processing your paperwork; that's part of doing business. And beware of dealer prep charges, as the factory pays the dealer for this.

5) Trade-ins. Your trade-in represents high margin to the dealership. Don't give it away. Have your car appraised at several dealerships and tell them that you are getting bids from other dealers. That will let them know that you are an informed consumer. Go to one of the on-line sites and have your car appraised. If the dealer's quote is significantly below the on-line site, take your car to another dealer. If it is within reason, get the quote in writing.

Once you have the value of the trade-in determined, you can now move on to negotiating the price of your new car. As a general rule-of-thumb, the dealer should expect to make between $1,000 and $1,500 per car. That includes its holdback.

Don't make the mistake I did of telling the salesperson upfront your preference for either buying or leasing the vehicle. Instead, state that you are considering both options and need to come to an acceptable price first.

Also don't the salesperson what you are able to pay on a monthly basis. Just say, "It really depends on a lot of factors that I haven't worked through yet. I am investigating some options to help me make that decision."

Recognize that it is in the salesperson's best interest to create a sense of urgency. Comments such as: "Demand has been so high on this car that we might be looking at 60 to 90 days before we can get you what you want," or "Demand has been so high that the manufacturer is not offering any specials. This is the best I can offer you." When you know the difference between Invoice and MSRP and how the holdback works, you have plenty of negotiating room to play with to arrive at a mutually acceptable agreement.

The key to being successful is to do you homework. Don't be fooled by the multi-syllable terminology and fancy spreadsheets. Take your time. Work through the numbers. Ask questions when you don't understand something. Buying a car is a very emotional experience. Remember $1,000 to $2,000 is better in your pocket than in the dealer's.

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