

Former Car Salesman Exposes Techniques to Save Thousands When Buying and Selling Cars



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Automotive Price Breakdown

Have you ever wondered where the cost of a vehicle comes from? What is the essential breakdown of the cost of a vehicle? Of course we all know that the bulk of the cost of a vehicle covers the materials used and the machinery and cost of operations to create that specific vehicle for a company. But then there are all the other costs that are added onto it.

The best example I can give you is one I once heard about sneakers. Let us take ADIDAS sneakers for example, these shoes are made for approximately \$5 to \$10 in some factory. Next, the shoes are shipped to a distributor who tacks on his own prices to help cover the cost of operations for his business. The sneakers are sold to a retailer for \$30 to \$40 per pair. Now the retailer has even more overhead than a distributor with the cost of operations for a store



and employees, sneakers hit the shelves for \$80 to \$100. It hardly seems fair that we should pay \$100 for something that only cost \$5 to make, but that is the joy of business. Cars are essentially the same. If you consider a BMW for example, first it is manufactured overseas, then the cost of the vehicle is doubled just to ship it to the United States so that a certified BMW dealer can sell it to consumers. That \$300,000 BMW you love to drive around town, cost around \$50,000 to manufacture.

It is safe to say that the art of manufacturing and selling any product is not new information for you. However, next there are the add-ons that car dealers use to make money off of every sale. The interesting part is that many of these features come “standard” at a specific dealership, but it is actually tacked onto the price to help increase overall profits.

How Car Dealers Make Money Off of You

Understanding where those extra costs factor into your wallet is essential to help you save money when purchasing a vehicle. Different types of dealerships take advantage of different circumstances and services to increase profits. Watching out for the top ways car dealers make money off of you will help you be a smarter car shopper.

Retailer Mark Up

As we already discussed, there is plenty of mark up on automobiles depending on where they come from and how high the demand is on them. The cost is marked up approximately 5% to 10% per vehicle. In a nut shell, this does not seem like that much. In fact 5% to 10% is around the same percentage of sales tax in most parts of the United States, but consider this – the average new car sells for around \$30,000. At a 10% mark up, that will be \$3,000 that goes back into the dealership’s pockets. The average new car dealership can sell 10 to 15 vehicles per month, that is \$30,000 to \$45,000 per month in “free” revenue. Of course, larger dealerships in big cities easily do three to five to eight times that business per month. This additional mark up is used to furnish employee bonuses and sales contests as well as salary increases within the dealership.

Undervaluing a Trade-In

One of the biggest things that happened recently in car sales history was when the government offered “Cash for Clunkers” during 2010. During this incentive, people were

promised \$2000 to trade in ANY older vehicle towards a new one. However, thousands of dealerships failed to read the fine print. The government did not pay dealerships for approximately 40% of all the “Cash for Clunkers” vehicles that were brought in. This was of course a big problem for dealerships.

You see, car dealers tend to undervalue a trade-in vehicle. This is one of the ways that they make money off of consumers. Let us say you have a 2004 Buick Regal with 46,000 miles on it. Overall the car is in superb shape, most would say that it is worth quite a bit considering the shape and



the low mileage. The average consumer (and some car dealers) will use Kelly Blue Book to get a rough estimate of the Actual Cash Value (ACV) of a vehicle. As of June 2011, this vehicle’s ACV is between \$4,000 and \$5,500 depending on its overall condition. Most car dealers will use NADA or the most recent auction prices to assess how much the vehicle is worth to them, and then the price is knocked down. Consumers should never expect more than the “Fair” condition value when trading in a vehicle towards a new one.

Dealers undervalue trade-in prices on vehicles because they anticipate that the car will need some work as well as interior and exterior cleaning for them to sell it OR send it to the auction. Either way, dealers want to make money off of your trade-in.

Buy Here – Pay Here Interest Rates

If you have ever considered purchasing a vehicle at a buy here-pay here dealership, you may notice there is never any statement of the interest rate. Many consumers think they are getting a good deal on a vehicle at a buy here-pay here place. The prices seem just a little above the average for each vehicle, but the terms are flexible to help work with people who have less than perfect credit. However, on average, the interest rate at a buy here-pay here dealership is 25%. This is because the dealership takes a huge risk selling a car on payments to someone with less than perfect credit. As a result, the dealership takes the initiative to charge ample interest for the vehicle.

Extended Warranty

One of the biggest money makers for used car dealerships is the extended warranty. Honestly, it is essential to have an extended warranty with your vehicle. As good of condition a vehicle appears to be in, there is no way of knowing when something will go wrong. A mechanic cannot tell you that the engine or transmission is going to blow up six months after you purchase the car. Federal regulations require all car dealers to give a 30-day conditional warranty on a vehicle that basically protects the buyer. If anything major happens to the vehicle, the dealer is obligated to replace or repair it at no cost to you. But along the lines, you are going to have repairs. Even routine stuff can be expensive to deal with. An extended warranty protects you.

I am going to use Diamond Warranty Corporation as an example of how used car dealers make substantial money on an extended warranty. The top warranty companies,

such as Diamond, so not sell the warranty outright to the consumer. It can only be purchased through a dealer. The process works like this – the dealer has a cheat sheet of the cost of the warranty. We will say that a 2007 Ford Escape with 87,000 miles on it can have the medium level coverage for two years at a price of \$365.



To seem like they are doing you a good deed, many car dealers will “include” the deductible cost (typically \$50 to \$100) in the warranty price. Now we are at \$465 for a 2 year warranty on a vehicle that, given its mileage and age, can be expected to last two years. However, dealers are then able to “sell” the warranty at whatever price they choose and keep the profits. Dealers price a warranty anywhere between \$800 and \$1200 per vehicle. Furthermore, the price is tacked onto the overall price of the vehicle to make you feel that you are getting a good deal on your car because it comes with a 2-year warranty included.

Now the dealership has made \$735 off of the warranty price alone, but it gets more lucrative for them. Diamond Warranty Corporation offers “Dealer Reserve.” Dealers automatically receive a percentage of the cost of the warranty (\$365), however, if they utilize the Dealer Reserve, the money earns interest of \$0.60 per dollar on the total cost of the warranty (\$365) and is paid to the dealer when it expires in 24 months. Pretty good deal right? Yes, for the dealer; not so much for the consumer.

What Kind of Vehicle Do You Want?

Choosing the right vehicle for you depends on many factors. What is your price range? Do you have a family? How much traveling do you do? What kind of vehicle do you prefer? Are you able to get financed? You need to start with the basics and build your list, realistically, before you start to look at vehicles.

The Price Game

The most important part of buying a new or used vehicle is how much you are willing or able to spend. As a general rule of thumb, most dealerships are able to finance those with average to perfect credit if you have at least 30% of the vehicle cost to put as a down payment. If you have superb credit, it is significantly easier to get financed. Financing depends on your credit history, current income and length of current employment. These factors are important now more than ever because financial institutions are leery to lend to consumers since the economic downturn in 2008 that has not improved. If you are planning on paying cash for a used car that is purchased from a dealer or private party, you need to determine how much you are able to spend. It is ideal for consumers to have a minimum of \$4,500 if you expect to get a decent vehicle and pay cash. Determine how much you have to spend or can afford to spend if you plan to make payments. Keep this number in mind when figuring out what type of vehicle you want.

Vehicle Use

What is your vehicle going to be used for? Do you have several kids or take part in carpooling? Do you live in a back roads area that has poor road conditions during the winter months? A car is one of the most functional pieces of “equipment” that most people own. Cars are expected to weather the storm, carry the luggage and groceries and be reliable. A coupe car is ideal for the single person who has minimal stuff to tote around and rarely has other people in his car. If you have a family, an SUV, van or sedan is the preferred option. SUV’s are considered a better option if you live in area where bad weather is regular during the winter months. It is also as useful as a truck when it comes towing or hauling items. Vans are preferred if you need more space for storing things or carrying kids or family around. There are consumers who choose to buy a vehicle “just because” but in most instances, consumers are looking for a vehicle that meets their needs in a vehicle usage.

Eco-Friendly or Gas Guzzler

Many newer cars are fashioned to be eco-friendly. Hybrid cars came into the picture during the mid-2000’s to give consumers a way to have a vehicle that got better miles per gallon and also have less impact the environment. As of 2011 most vehicles get a minimum of 20 miles per gallon and every car manufacturer is striving to increase their numbers. Nissan released the first 100% electric car in spring of 2011 as well to help beat out the competition. The downfall of the newer hybrid and electric vehicles is that maintenance automatically costs more because you are forced to go to a dealership that specialized in that type of vehicle instead of traditional Joe Mechanic.

Miles per gallon in general is something you want to consider when purchasing a new car. If you regularly have to drive 20 to 30 miles to work, you do not want a vehicle that needs to be filled up every few days. There are many ways to get the vehicle you want and also enjoy better gas mileage. For example, the Honda Civic couple has managed to get over 30 miles per gallon since it first came into production. These vehicles are known for their longevity and quality as an automobile. If you need an SUV-type vehicle you can consider a Subaru which is automatically all-wheel drive and get between 25 and 32 miles per gallon or the Ford Escape which is one of the most affordable SUVs for purchasing and repairs and gets 29 miles per gallon.

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Do's and Don'ts of Finding Your Car in Advertisements

There are many mistakes that people make when searching for a car through online or print advertisements. The end result is usually a poor quality vehicle or becoming victim of a scam. Use this handy list to keep you in check and be sure that you are getting the best value for your buck and know all the information about the vehicle you are about to purchase.

Do's

- **Call or email the sellers of multiple vehicles.** You never know which will be sold and which will still be available.
- **Make a list of “missing” information about the vehicle to ask the seller on the phone or via email.** Sometimes advertisements will fail to mention the mileage, major repairs that have been made to the vehicle, rust spots or door dings and a full listing of the features. Be sure to find out every detail of the vehicle before you decide whether or not to see it.
- **Ask for a CarFax Vehicle History Report.** There is no reason for a dealership to not offer a CarFax Vehicle History Report with a used vehicle. Obtaining one of these is very cheap. If the seller is not able or willing to offer it to you then they should at least offer up the VIN so that you can obtain one yourself. Ideally, the CarFax report is accurate, but there are instances where an accident may not be reported. While it is rare,

you should always ask the seller for as much information about the vehicle as they have.

- **Take the vehicle for a test drive.** A test drive should be more than around the block. Be sure to take it on the highway and allow it to accelerate. If possible, take the car on some back roads and city streets to see how it handles on different terrain. A good test drive should be at least thirty minutes.
- **Bring Your Mechanic.** The traditional car buyer cannot adequately determine the quality of a vehicle. Bring along your mechanic and have him do a quick check over the vehicle for anything that seems out of place. He will be able to identify parts that have been replaced recently or in the recent years. Your mechanic is the most valuable person that can look at a vehicle with you, no matter who you are.
- **Search outside of your specific area.** Depending on where you live, a better priced vehicle may not be too far. For example, New York State borders Pennsylvania, overall the cost of vehicle can be a few thousand dollars less in PA than in NY. Since you will still be subject to NY sales tax, saving money on the price is beneficial to the buyer. If you are willing to really do some travelling, you may be able to find a great vehicle for dirt cheap prices. A 2007 Chevy Silverado, base model, with 130,000 miles on it will easily cost \$11,000+ in New York State, but if you are willing to take a cross country trip, you can get a 2007 Chevy Silverado, fully loaded with 70,000 miles for that same price out west where people prefer more eco-friendly vehicles.

- **Consider public auctions.** Car dealers purchase vehicles at an auction. These auctions are closed to the public and if a dealer brings in a customer as a buyer, they can lose their privileges at that auction all together. However, there are public vehicle auctions or wholesale dealers that offer cars at discount prices over the retail costs at other dealerships.

Don'ts

- **Do not purchase a vehicle over the internet and have it shipped.** There are people every day who get scammed by wiring money to a seller for a vehicle that does not exist. Unfortunately, it is impossible to track down these sellers once your money is gone. If an advertisement looks too good to be true, then it most likely is. When you email about the vehicle, the seller will say something along the lines of they have to sell in a hurry and will ship the car when payment is received. This is a scam, always see and exchange money for a vehicle in person.
- **Do not waste your time on a vehicle that does not meet your needs.** There are thousands of cars available in today's market. Do not get hung up on one specific vehicle that does not fit your needs.
- **Do not buy a vehicle with over 150,000 miles.** When money is tight for purchasing a new car, you may be obligated to just buy what fits your budget. However, vehicles over 150,000 miles are not eligible for any type of extended warranty. Most used car dealers will offer some sort of extended warranty, but a private seller will not. While a warranty may not

seem that important, it only takes one blown transmission for you to think otherwise. There are several online companies that offer extended warranties but only on vehicles that are under 150,000 miles.

- **Do not buy a vehicle around the 100,000 mile mark.** If you ever open up your car manual, you will find that there are a wealth of things that need to be taken care of once the car reaches 100,000 miles. While some automobile brands deal with age better than others, many start to need expensive repairs and routine maintenance between 90,000 and 100,000 miles. The best used cars will have less than 80,000 miles or more than 105,000 miles on them.

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