

# **How To Get A Great Deal On Your Next New Car!**

**A Special Report  
Compliments Of...**

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# How To Get A Great Deal On Your Next New Car!

Like most people, after your home, buying a new car is probably the second most expensive purchase you'll ever make.

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 car 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.

Before you step into a dealer's showroom, it helps to know what car model and options you want and how much you are willing to spend. That way, you are less likely to feel pressured into making a hasty or expensive decision and more likely to get a better deal.

A friend or co-worker may have told you about him or her sitting eyeball to eyeball for hours with new car dealers. And suggested you probably will have to do the same in order to get a great deal on your new car.

This is 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 (Ford Taurus, 4-door sedan GL, 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 than the first.

By the way, most public libraries and bookstores have lots of information on factory invoice prices. Three good sources of comparative information on cars, published annually, are *The Car Book* by Jack Gillis, the *Consumer Reports magazine's* April issue, and the *Kiplinger's Personal Finance Magazine's* December issue.

Actually, 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.*

*To be sure 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'll 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'll expect me to pay for advertising, document preparation, or other services even though they aren't listed on the factory invoice?*

*Also, are there any dealer add-ons, like rust-proofing, 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 calculate*

*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'll almost certainly save hundreds of dollars, maybe even thousands of dollars, by following this process.

Here are thirteen questions you may have...

### **1. 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.

### **2. 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. It's less than the "manufacturer's suggested retail price" (MSRP), which is the "list price" shown on the window sticker of the car. And it's also 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.

### **3. 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 carryover 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.

#### **4. How do rebates and incentives work?**

If a car manufacturer offers a factory-to-customer rebate, you'll 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 get 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 report tells you how to get information on rebates and incentives.

#### **5. 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.

#### **6. 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 better off you'll be. It's also helpful to know what the current market for cars is – the best price 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.

#### **7. What if a dealer won't live up to its bid?**

This could be a problem for many 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.

### **8. Do I need to know the exact options I want?**

You're 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 choice.

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 get the lowest bidder to check what specific options and colors are available on cars that are on its lot or that it can get for you.

### **9. 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 get the repairs done 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 from them. Dealers make money on repairs and won't want to lose your repair business.

### **10. How should I deal with financing, trade-in, and other extras?**

Be careful not 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 rust-proofing, paint sealant, and other add-ons.

You also want to get a good price for your used car trade-in, if you have one. Before you go to a dealer to buy a car, find out the true market value of all these extras. To avoid confusion, discuss these matters with a dealer only after you've agreed on the price of your new car.

### **11. 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 like trying to guess 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 help them sell more cars.

### **12. Should I shop outside my local area?**

It's usually good enough for you to just get 5 local dealers to bid on the car you want to buy. But, it doesn't hurt to also check with one or two dealers that are a little farther away.

### **13. 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 road it'll have a much higher resale value than the previous year's model.

Conversely, if you plan to keep the car for 8 to 10 years, then the previous year's model may be a better choice. You'll pay a lower price now for the older model and, a decade from now, the difference in resale value between these two models will be small.

Your decision should also depend 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 any new features that are important to you.

## **Financing Your Car**

Check the annual percentage rate (APR) currently being offered by banks and other financial institutions. If you're a member of a credit union, check its rate.

Automobile 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 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 10% APR, and the special manufacturer-offered plan's rate is 5.9 percent. The savings from using the factory plan would be about \$1,093 ( $(10 - 5.9) \times 13 \times \$20.50$ ).

By the way, some dealers may also offer very low financing rates for specific cars or models, but may not be willing to negotiate on the price of these cars.

To qualify for the special interest rates, you may be required to make a large down payment. With these conditions, you may find that it's sometimes more affordable to pay higher financing charges on a car that is lower in price or to purchase a car that requires a smaller down payment.

Some dealers and lenders may ask you to buy credit insurance, which pays off your loan if you should die or become disabled. Before you add this cost, you may want to consider the benefits available from existing policies you may have. Remember, buying credit insurance is not required for a loan.

### **Extended Service Contracts**

Extended service contracts often make 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 buy one of these service contracts, then 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 for each repair. A deductible is an amount you must pay out of your own pocket 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 service-contract company. And, under others, you must pay the shop, then get reimbursement from the service-contract company.

Even if a service-contract company says shops can bill it directly, check with repair shops you might use to make sure they'll do so when you come in for repairs in the future. Many shops have decided not to put up with the hassle of collecting from service-contract companies.

Finally, make 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're probably safest with a service-contract backed by an auto manufacturer, by a large insurance company, or by a long-established independent warranty company.

If you want an extended service contract, remember you can buy it from another dealer, not just from 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. Since dealers don't sell service contracts for the same price, you can save money by shopping around.

Before you go to a dealer to buy a car, check other dealers for the prices and coverage of their service contracts. This way, you'll be able to use the other dealers either to negotiate a good service contract price from your dealer or to sell you one if your dealer won't meet the competition.

Anyway, before deciding to buy a service contract, read it carefully and consider these questions...

What is the difference between the coverage under the warranty and the coverage under the service contract?

What repairs are covered?

Who pays for the labor? The parts?

Who performs the repairs? Can repairs be made elsewhere?

How long does the service contract last?

What is the cancellation and refund policy?

## **Other Add-ons**

If a dealer has already applied rust-proofing, paint sealant, or fabric protection to the car you bought, then you'll likely have to pay for these overpriced treatments.

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 consider the cost simply as an extra markup. It's better to buy from a dealer that applies these treatments to the cars only after a customer asks for them.

Regarding to rust-proofing, there are special problems. Many manufacturers recommend against dealer-installed rust-proofing. Most say such rust-proofing is unnecessary, and some are concerned that it will actually make the car rust faster.

While burglar alarm systems, wheel locks, and other add-ons may be good to have, find out what other dealers and independent shops will charge for these items, before you go to the dealer where you plan to buy your car from. You can use the other dealers' prices as a negotiating standard or you can simply buy the add-ons from the other firms.

## **Trading in Your Old Car**

After getting your new car for the best possible price, only then discuss the possibility of a trade-in.

Before you do that, find out the value of your old car. You may want to check the library for references and periodicals that can tell you how much your car is worth. This information may help you get a better overall price from the dealer. Remember, too, that though it may take longer, you generally will get more money by selling the car yourself.

The best way to get a solid estimate of your used car's value is to take it to several new or used car dealers to see what they'll pay you for it.

Simply tell each dealer you plan to sell your car and you're getting offers from at least 5 dealers. You can expect the dealer where you buy your new car to pay you about the same amount for your used car as those other dealers would pay. If not, then sell your car to one of the other dealers.

Think of a trade-in as a sale of your used car at wholesale. If you've gotten a rock-bottom 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 large trade-in allowance usually makes it up on the new car price.

Remember, you can always sell your used car on your own to another person. By checking the classified ads, you'll find out roughly how much your car might sell for, which usually is more than what a car dealer would pay.

The drawback is, selling your used car on your own may take more time and effort than selling it to a dealer or trading it in. So, use your good judgment.

Remember, unless you get a good price on your old car, you can lose the benefit of a good deal on your new car.

Good luck.

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