

# Opinion: There's got to be a better way to buy a car, right?



LIISA ATVA

More from Liisa Atva ([HTTP://VANCOUVERSUN.COM/AUTHOR/LIISA-ATVA](http://VANCOUVERSUN.COM/AUTHOR/LIISA-ATVA))

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File photo of a 2014 Kia Soul *LISA CALVI / PNG*

A friend had found the perfect used car at a local

dealership — a white 2014 Kia Soul. Even better, the advertised price of \$16,800 was on the low end of the \$16,000 to \$18,000 range they appeared to be selling for elsewhere.

“I’ll take it,” she told the salesman. The paperwork was promptly prepared and presented.

“When I looked at the purchase agreement I almost fell off my chair,” she told me. The price of the car had mushroomed from \$16,800 to almost \$19,900 — an increase of \$3,100 — and that was before taxes.

She went over the agreement and asked the dealer for an explanation for each of six separate “add-ons.”

Two of them — \$800 to Scotchgard the upholstery, and \$800 for wheel rim insurance — the salesman readily removed when my friend said, “I can get the seats cleaned a few times for that kind of money, and if I wreck the rims on a pothole, I’ll buy new ones.”

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They discussed the other add-ons at length, with the salesman going back and forth to the sales manager to see if they could be reduced or waived. Eventually my friend tired of the process and agreed to the

remaining \$1,500 of add-ons, paying a total of \$18,300 before taxes.

One of the add-ons she paid for was a \$400 “security premium” that consisted of having the vehicle’s identification number etched on the windows. The salesman explained that this would help deter car thieves. The fee for this service had been preprinted on the purchase agreement, giving her the perception that it was a requirement or standard practice.

I’d seen this myself at another dealership. When I had questioned whether it was optional, the salesman’s response was: “Well it’s on the form.” Only after asking the question in a few different ways did he admit that it was optional, but that he would still have to get permission to have it crossed off.

“Permission to not sell me something I don’t want to buy?” It was a battle, but in the end they removed it. An argument can be made that there is a value to the service, but as noted by Consumer Reports — Watch out for These New Car Deal Breakers: “Even if you decide you want VIN etching, you can have it done less expensively elsewhere, or even do it yourself with a kit that costs about \$25 or less.”

Another charge was \$500 for documentation and administration, a fee that most, if not all, dealerships charge. However, as noted by the Vehicle Sales Authority of B.C. on their website, “There is also no set amount for the fee, so they can range anywhere from \$0 to \$200 to \$800 or more, depending on the dealership. Remember that you also have the right to negotiate the amount of the fees along with the price of the vehicle.”

Another add-on was \$500 for the dealer to arrange financing, a fee my friend could have avoided if she’d financed the car through her own bank, perhaps even at a lower interest rate. Dealer-arranged financing is convenient, but may come at a cost. Dealers may also receive a fee from the financial institution they arrange the loans with on your behalf, in effect double-dipping. The remaining \$100 was a finance contract registration fee.

There are other add-ons that dealers offer, including: extended warranties, gap insurance, life or disability insurance, rustproofing, undercoating, paint sealant, freight charges, pre-delivery inspections, and

alarm or other anti-theft devices. Arguably, these options have some value, and should you decide you want them, shop around. The price offered by the dealer will often be higher than you could obtain elsewhere.

Consumer Reports provides some good information on the merits of these types of add-ons. There may be car dealerships that won't try to sell you a plethora of add-ons, but judging by the half-dozen dealerships that I've dealt with, and the experiences of friends at several others, the practice is widespread.

The purchase price of the car was reduced by the \$500 trade-in that the dealer gave my friend for her old car. "It was in good working order. I probably could have got more if I'd sold it elsewhere," she lamented afterwards.

Was my friend happy with her purchase? She likes the car but wonders if she paid more than she should have, and if the dealer made a big profit at her expense? Well, not necessarily.

Although my friend might have been able to negotiate a lower price, she did end up paying only \$300 more than the \$18,000 top end of the range that other dealers were selling the car for. The dealer's profit may have been primarily from the \$1,500 in add-ons. According to J.D. Power research, the average front-end gross profit for car dealers in 2015 was \$1,260 per vehicle — only 3.7 per cent based on an average vehicle price of \$34,000. From this gross profit the dealer still needs to cover its operating costs, including salaries, premises and overhead. As well, car dealers provide a needed service and, in order to continue to do so, need to earn a profit.

With the ease at which buyers can now compare selling prices of used vehicles online, and services such as CarCostCanada and Unhaggle that provide dealer's cost, available rebates and other incentives for new ones, dealers may be under increased pressure to offer a very competitive price for the car itself, hoping to make up for it with add-ons.

In *Behind the Scenes at a Car Dealership*, Ronald Montoya writes: "These days, car dealerships make the majority of their income in the service department, on used-car sales and in the finance and insurance office."

Although my friend ended up with the exact car she wanted, and may have paid a reasonable price for it, her car buying experience was an ordeal. It is unlikely that she would recommend the dealer to anyone — not an ideal situation for the dealer either. And her experience is not unique.

According to Autotrader's 2015 Car Buyer of the Future study, less than one per cent of people surveyed prefer the current car buying process, and — here's where dealers should take notice — more than half would buy a vehicle more often if the process were improved.

What is needed in the car buying process is more transparency. Let's require car dealers to disclose the total profit and fees they make on a vehicle sale. Instead of dealers being forced to try to sell as many add-ons as possible — add-ons that the average buyer doesn't even understand — let them compete on service and other factors.

We need only look to the financial services industry to see that this is not a radical idea. Starting this summer, Canada's investment dealers were required to be more transparent with their clients on the cost of financial advice. Why not car dealers next?

— *Liisa Atva is a freelance writer who enjoys helping her friends buy cars*

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