



## Purchasing a car? There's more to consider than just price

By Keld Jensen, July 2010

When attempting to create added value at the negotiation table, one of the most important things to consider is how many opportunities you have to capitalize. In other words, you should appraise the many variables that frequently present themselves at the negotiation table. A variable is a subject for negotiation, such as price, terms of payment, storage, or extra equipment.

Yet people rarely capitalize on all possible variables. This can happen for many different reasons: lack of knowledge, lack of creativity, secrecy, tradition, tunnel vision, poor preparation, unwillingness to cooperate, etc.

In my work as a consultant, I often come across negotiators who have this attitude: *"There are not that many variables in my sector."* Sometimes the negotiator is right. However, the vast majority of negotiators overlook the plethora of opportunities for getting a bigger slice of the pie. You should create added value and leave the negotiation table having gained far more, without your counterpart losing out.

To put it briefly, I have found that up to 42% of the potential in every negotiation is overlooked, not shared, or goes unnoticed.

I have been involved in negotiations worth up to \$200 million where negotiators were only aware of

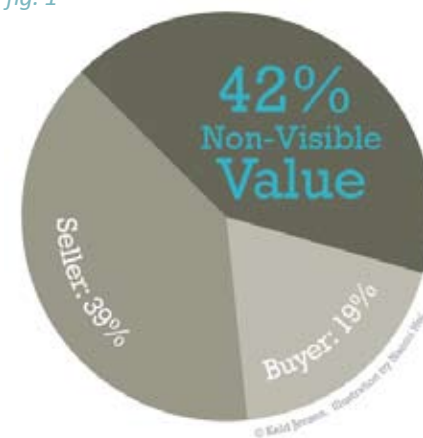
six identifiable variables; in fact, there were closer to 200 variables which could have given each and every individual the ability to create added value!

A large retail chain with whom we work spends approximately \$12 billion per year, yet they only negotiated eight variables when bargaining with suppliers. Another client, a major wind turbine manufacturer which erects wind turbine parks worldwide for millions of dollars, only negotiated 7 commercial variables.

In a single negotiation there is the traditional negotiation space – the seller and purchaser – plus the potential for added value (see figure 1). Only by finding both the traditional negotiation space as well as the added value can the true negotiation space be found. By finding the true negotiation space, two things can take place:

1) Negotiation becomes easier, as there is more space for finding a common ground.

fig. 1



2) Because additional space has been utilized, negotiations give rise to improved results.

The creation of extra variables is not rocket science. It requires creativity, a new way of perceiving things, and openness to change. We often put together a creative team where I facilitate a brainstorming session to determine the full range of negotiation variables.

### **How many variables are there when purchasing a car?**

Nearly everyone has tried to buy a car, whether new or used; at the very least, they have been around when someone has made the purchase. Buying a car is a big decision for the vast majority of people, exceeded only by the purchase of a condo or a house. It is a decision that most people only make 5-10 times over the course of their lives.

When I ask people how many variables are involved in buying a car, I often get the answer "Around two or three, I assume." The answer is closer to 40. Let's have a look at a few:

1. Price
2. Time of delivery
3. Warranty
4. Service
5. Size of engine
6. Insurance
7. Negotiator choice
8. Geography
9. Gas agreement/discount
10. Financing
11. Terms of payment
12. Color
13. Metallic paint
14. Interior
15. Leather seats
16. Mats
17. Radio
18. TV/DVD
19. Model
20. Tires /winter tires
21. Navigation
22. Navigation update
23. Extra equipment

This is just the beginning – there are definitely many more!

These variables should be divided into several levels:

### **Commercial and technical variables**

Commercial variables are factors which have a contract or are of financial consequence. Though technical variables do indeed have financial consequences, they also lead to improvements or changes to whatever the car has to offer.

### **Objective or subjective variables**

You can capitalize on objective variables, which is to say that it is possible to place a value on them. Metallic paint costs \$1,000 more than standard paint; Delivery in one week is more expensive than delivery in 2 months.

Subjective variables are more difficult to price. Why would some people prefer to have an Audi rather than a Volkswagen? Why is it that some people prefer to have 5 doors rather than 3 doors? Why do some people prefer to have a red car rather than a black car?

At first glance, there is no appreciation in value either way!

### **Variables which generate added value**

Let's assume that servicing your car will cost approximately \$600 per visit. You will perhaps have two service visits per year, for an annual cost of \$1,200. What do you think is easier for the dealer to give you: a reduction in the price of \$1,200 for your car, or two free service visits during the first year?

In all likelihood the dealer will prefer to go for two free service visits, since their actual cost for carrying out the service will be less than \$600 per visit.

A combination of an objective variable and a subjective variable could be choice of color. Let's say you would like your next car to be red; the dealer has in his warehouse the same car and model which you wanted, but in white instead of red. To get a red car means he has to order a car from the factory, which will take time to arrive and mean extra work and cost for him; furthermore, he has been trying to sell off his stock. The result is that he will be willing to lower the price if you choose the color he has in his warehouse!

## Conclusion

The variables and strategies I've discussed here are just the beginning, and this approach to negotiation can be applied to numerous transactions beyond purchasing a car. By keeping an open mind and seeking new variables for negotiation, you can find a solution that brings added value to both parties.

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