Beware the finance package deal

We're all familiar with car dealers promoting HUGE savings on end-of-year run out model cars. Dealers offer 'package deals' with the car at a special price including finance at heavily discounted rates as low 0%

When accountants contact us for finance comparisons and the client is basing their decision on the 'headline' interest rate they simply don't understand the package concept. The Australian cash rate (set by the Reserve Bank) is currently 2.75% per annum which is basically the same rate at which banks lend and borrow money between themselves. This is the cost of money. If the cost of money is 2.75% per annum, how can the car dealer offer customers a rate of 0% per annum? It doesn't add up but the answer lies within the 'fine print'.

If you read the whole advertisement including the microscopic writing at the foot of the advertisement (with the *) you'll soon see why the 'package deal' is too good to be true because:

- The finance is always provided by an associated financer. For example, Toyota vehicles are financed by Toyota Finance that is a separate division of the same corporate entity.
- The finance package is only available on 'selected models'. These models will often be old or superseded stock which needs to be sold before the new models arrive.
- The advertised finance comparison rate (i.e. 1.9%) is based on a specific loan structure, which often varies to the actual finance term on offer. For example, a comparison rate may be calculated on a finance term of 5 years for a loan of (say) $30,000. However, the finance 'package' offered is for a term of only 3 or 4 years on a car value of (say) $20,000. Additional finance conditions may also apply, such as having to pay a prescribed deposit towards the purchase of the vehicle. The disclaimer then goes on to advise "WARNING: These comparison rates are true only for the examples given. Different terms, fees or other loan amounts might result in different comparison rates."

So why would car dealers make such an offer that seems irresistibly attractive? Well, in short, it's a promotional gimmick - a marketing ploy aimed at driving sales. In fact, it has recently been reported that vehicle manufacturers' low finance offers have boosted sales of new cars to record levels. The promotions were so successful because buyers were focussed on the great finance deal not the vehicle price.

The whole marketing strategy is designed to get the customer excited about buying a new car, even though it is an 'old' new car. Next month the 'new' model will be available and the dealer simply wants to shift the old stock. The price of the vehicle is fixed and there is no scope for negotiation on the model of the car or the price because it's a package deal.

Given the vehicle and the finance are sourced from the same corporate entity, the loss on the finance is subsidised by the profit on the vehicle (that is sold at full retail price). Remember, the profit margin on cars can be substantial! For example, through our 'discount car buying service' we recently sourced a new BMW X3 for $81,250 and the best price the client could negotiate through the dealers was $96,000 - a saving of 15.36%!

The moral of the story is, all that glitters is not gold. While the dealers use discounted interest rates as bait, they are not in the business of losing money and the price of the vehicle has a sting in the tail. If you need more information, a finance quote or price on a new vehicle call me today on (03) 9824 5300 or 0417 363 720 or email leasing@pjcamm.com.au

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