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Automotive | the way we see it

'Am I Being Taken?'

Inside the Dealership: The Impact of Consumer Negotiation Preferences and Strategy

Contents

Acknowledgments

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Introduction

"They have an open office concept… he [the salesperson] crunches the numbers and comes up with a printout…and then goes to the manager to see if they can do a better deal. He comes back and says 'oh the manager took a couple more percent off - what do you think about it?' What do I think about it? It's silly; it's silly. He makes us wait there, sitting there like idiots. My wife said this is the worst part of the process…this guy doesn't have the authority to make a deal. I think it's a role play…it's stupid."

"We liked the dealership – we didn't even negotiate, because I felt they were honest. They weren't out to screw us around. No playing around with spreadsheets and formulas like the other dealership was doing."

Two encounters of the same activity by two different customers, but a world apart in the customer experience. As these comments suggest, the process of negotiating a purchase or lease of a new vehicle arouses strong emotions and corresponding reactions. At the heart of it and what concerns most consumers is, as what one buyer so aptly stated:

"Am I being taken?"

As any dealership or vehicle manufacturer can attest to, the vehicle buying process has changed considerably over the past few years. Due to the considerable amount of information that can be researched on the Internet, customers now enter a dealership with a level of knowledge that provides a position of power that can be on par, or even exceed, that of the salesperson.

This increase in knowledge comes into play particularly in the most crucial part of the buying process: the negotiation. It's where a salesperson's ability to recognize the type of consumer they are dealing with, and to respond in an appropriate manner will determine not just whether a sale will occur, but also the quality of the customer experience. If positive, the experience can greatly improve the likelihood of the customer acting in a referral capacity. Conversely, a poor experience will travel around equally as well.

It has been established that the process of buying a new car lasts, on average, six months.[1] During this time, customers do their homework, narrow down their choices to a small selection of potential purchases, based on information from word-of-mouth, traditional media sources and the Internet. However, it is usually only during the last few weeks of the buying process that customers actually visit a dealership to see the final two models (on average) that remain in their consideration set.

Thus by the time customers walk into a dealership, most will have decided on the price bracket within which they are willing to negotiate (many in fact will have a firm target price), determined their preferred options,

[1] CNW Marketing Research, Inc. and Time Inc. (2005), "The Automotive Purchase Process"

and will have a good sense of the trade-in price they want for their old vehicle. In other words, the dealer is faced with customers who, to a large extent, already know what they want.

This study examines the role that a consumer's negotiation preferences and tactics play in the buying process. First, the concept of transparent and opaque negotiation strategies is introduced. Then a set of themes relevant to consumer preferences are explored. This is followed by an examination of the buyer's perception of their salesperson's behavior, and how this interaction affects their satisfaction with the salesperson, the dealership and the vehicle manufacturer (Original Equipment Manufacturer or OEM).

We hope that by providing a more thorough understanding of the drivers and consequences of the negotiation process, our research findings will prove useful to dealerships and OEMs. We believe that customer relationships can be enhanced and in the process, bottom-line performance and brand and dealer loyalty strengthened.

About the Study and Methodology

This study extends the qualitative research into the changing dynamics of the consumer/dealer relationship conducted by CIRP in collaboration with Capgemini.[2]

A three-stage survey approach was used:

1. A qualitative study was carried out in May 2007 in Canada, in which interviews were conducted with consumers who had recently purchased a vehicle, as well as with dealership salespeople and managers. This study was instrumental in determining a set of questions on consumer negotiation tactics.
2. An online pre-test survey was conducted in February 2008 in the United States with a questionnaire consisting of 112 questions and a sample of 100 respondents. The survey was designed to measure 23 factors considered important to the automobile negotiation process and the customer/dealer relationship.
3. In March, a second survey with a reduced set of 104 questions was launched online in the United States. This larger-scale survey was comprised of 508 respondents. Consumers who had purchased a new vehicle in the previous 12 months were selected.

For more information on the methodology used in this study, please see the Appendix.

[2] Jarvin, M., "Inside the Customer/Dealer Relationship," CIRP/Capgemini, 2006

Before We Start: Some Principal Themes Used

A number of identified themes help to paint a picture of consumer behavior in the negotiation process.

Throughout this paper, we refer to a number of themes in the automobile buying process that previous research has identified:[3]

- Fear
- Time pressure
- Enjoyment/self-belief
- Consumer pressure tactics (referred to within this report as applied pressure)

Along with examining each one in some detail, these themes were used as comparative variables to see what influences they have on the primary areas of our research:

- Consumer negotiation strategy
- Salesperson orientation
- Customer satisfaction

They, in effect, help to paint a picture of consumer behavior in the negotiation process.

Opaque and Transparent Negotiation Strategy

Different types of negotiation strategies that have been identified by researchers include: aggressive, competitive or cooperative, integrative and pacifist.[4]

Because a vehicle is an infrequent purchase, the short-term nature of negotiation creates challenges for the consumer. To cope with the process, the consumer utilizes a battery of tactics. Thus, it is understandable that it can be difficult for a salesperson to identify a consumer's specific negotiation strategy and then respond accordingly. Drawing upon CIRP's previous research on trust in the dealership showroom, we were interested in seeing if we could identify a more easily recognizable consumer profile by focusing on the tactics used by shoppers with salespeople.

With this in mind, we initiated our study by conducting qualitative research with consumers and dealership salespeople. The objective was to first create a list of tactics commonly used, and then group them into identifiable themes.

The five themes ascertained were:

1. Interpersonal relations: how the consumer interacts with the salesperson
2. Conveyance of interest: indications of consumer interest in the vehicle
3. Demonstration of knowledge: whether the customer reveals the extent of their knowledge about the vehicle and pricing
4. Application of pressure: if and how the consumer uses pressure tactics
5. Decision making: an indication of how candid the consumer is with what's on their mind at the time of an offer

[3] Scott Morton, F., Zettelmeyer, F., Silva-Risso, J., "What Matters in Price Negotiation: Evidence from the US Auto Retailing Industry," Working Paper, School of Management, Yale University, 2006

[4] Rubin, J. and Brown, B., "The Social Psychology of Bargaining and Negotiation," Academic Press, San Diego, CA, 1975

As can be seen, the tactics identified are in the sequence in which they normally occur. Through the analysis of the survey data, general profiles emerged for transparent and opaque customers. We present these profiles through the following vignette.

Role Play: Life is a Theater

Social interactions can be considered theater. A person presents and represents themselves to others, similar to an actor in front of an audience. They give an expression of themselves in order to create an impression.

A social interaction is a dynamic process of perception, interpretation, communication and mutual adaptation in which each player tries to interpret the other person's role and what they are saying. How do they present themselves and why? What are they trying to express? Are they trying to manipulate me or consciously play with me? The aim of the game is to see through the other's "scene."

Negotiating a vehicle can be considered a game within a scene, in which the common goal is to conclude a deal. To reach this goal, each party has a role to play. All the rules of the game are implicit; any action is possible; and there is no arbitrator. Each player knows each other's interest, but has no idea of how the other will play their cards. In other words, the players face a zone of uncertainty and can only guess the opponent's next move. Both players have a large choice of actions and the evolution of the game depends on each one's decision at each stage of the process. Sometimes the game is played with the cards displayed face up on the table, and the outcome becomes quickly clear. But often, attaining the goal remains uncertain until the very end.

Self-presentation. When performing, the actor can pull on several strings to make his role credible and convincing. These instruments can be verbal (type of vocabulary, tone of voice), body language (gestures, facial movement), the occupation of space (standing close or keeping a distance) or general appearance (costume, accessories). For example the actor can use:

- Dramatization – overdo or minimize an attitude
- Idealization – present oneself in the best light
- Ambiguity – keep certain aspects silent or hidden
- Coherence – arrange attitudes and sayings in order to appear articulate and rational
- Mystification – keep a protective layer surrounding oneself

All of these behaviors can be prepared and performed intentionally, just as they can be unconscious and spontaneous. The more a person is aware of the game, the more willing they are to play. The more they play, the more they will consciously refer to a broad range of techniques in order to control the situation and the impression they wish to give.

Because buying a new vehicle occurs infrequently, some consumers are not necessarily comfortable in this role, and therefore may find a need to improvise. For instance, this study shows that younger customers have a stronger tendency to role play. This can be interpreted as a reaction to their lack of experience. Not having had many occasions to negotiate a vehicle, they can't rely on previous best and worst practices when it comes to choosing a strategy. Therefore, playing and pretending acts as a substitute for the lack of experience. In the same manner, many older consumers have had enough of role playing, and just want to get to the final act as quickly and painlessly as possible.

Strategies and techniques. The choice of personal presentation tools depends on the general strategy the customer has decided to apply. At each stage of the negotiation process – accepting the offer to sit down at

the "seller's" desk; talking about features, prices and options; narrowing it down to actual needs and desires; articulating a price; pondering it over and finally announcing a yes or no – the customer chooses to express a certain degree of closeness/distance to what they really want or think. This scope is broad, from total vagueness to perfect honesty. In other words, the customer adopts either an opaque or transparent attitude towards the seller.

When meeting a seller, the customer can either decide to show how interested they are in a specific vehicle – underlining if and why the make and model is their preference among others – or they can choose to keep their enthusiasm to themselves. When being transparent about their preference, they give some help to the seller. When remaining silent or being opaque, they create a mystery around their wants and needs making it more difficult for the seller. Showing interest can be a spontaneous behavior, as it can be a conscious technique; in this case, the aim is to test the seller and see how they react, and what arguments they respond with. This allows the customer to see if the seller behaves impatiently or thoroughly, either manner having an impact on their next move.

A second technique revolves around the demonstration of knowledge. Some customers are transparent and share the information they have on the car, on the market in general or on the competition. This information may or may not be true; customers sometimes invent that they have received a better offer elsewhere in order to put pressure on the seller to expedite their best offer. At other times customers openly show numbers they have printed out from the Internet to make the seller aware that they really know what they are talking about. However, customers can adopt an opaque attitude and keep their research hidden, asking naive questions to measure the seller's proximity/distance to the data they

have found themselves. In this way, the customer is evaluating whether or not the seller is trustworthy.

When it comes to determining the price, some customers quickly reveal the amount they're willing to pay either because they don't want to waste time, or because they have decided on a transparent strategy and prefer to be open about their situation. Others prefer waiting for the seller to open the negotiation, believing it's easier to be in an answering position where they react rather than act. If the seller's counter offer doesn't match their expectations some customers frankly say why they can't meet it, while others remain silent about their reasons, thinking that by doing so, they keep control over the situation. Some will make their final decision right there and then, whereas others prefer to leave the stage to take time to think it over. This attitude can either be a gambit – playing hard to get in order to pressure the seller – or a real decision-processing requirement.

Reading between the lines. Two observations can be highlighted: First, it appears that applying pressure is a transversal technique that can be used within both transparent and opaque strategies. For example, a customer can be open about the reasons why they are interested in a vehicle and then explain that they are going to see the competition as soon as they walk out the dealership. They are transparent about their intentions in order to put pressure on the seller and obtain their best offer immediately. However, the customer can also pretend they are going to the competition, hoping to provoke the same reaction.

Second, the customer role can be performed by simultaneously using a transparent and an opaque strategy. Their role play in this case is a personal mix, evolving between clear and hazy, or implicit and explicit. For example, a customer can be honest about their interest in the vehicle, even though this doesn't mean the person will open up during the negotiation. On the other hand, a customer can candidly disclose all the information they have on the vehicle, and then pretend they have already received a better offer from another dealer.

The seller's challenge, therefore, lies in their capacity to evaluate whether the customer is playing around or being straight – for instance, bluffing or not. The zone of uncertainty that arises between the actors gives latitude in deciding on the next move, and it's essential not to make a poor decision by selecting the wrong direction. The seller's success depends on their ability to read between the customer's lines, to sense whether they are applying pressure to test them or if they really mean what they say.

For example, a salesperson who only plays the seller's role, applying techniques they have learned in training, might be considered as boring, stiff and too sales-oriented. Some customers want to feel that the human being behind the façade is someone who truly listens and tries to match their needs. Yet, when giving some of their "person" to the customer, the seller takes the risk of overstepping the lines by becoming too personal. Some customers want to see the "human," while others don't. While challenging, it's important that the seller evaluate the customer's tacit statements and adapt their personal role in a manner that corresponds to the customer's expectations.

In some aspects, this refers to the degree of trust the seller provides the customer. Of course it's easier when each actor plays their cards upfront, but the most important point to keep in mind seems to be the trust one gives each other by sticking to the same line (always play opaque or always be transparent). The trickiest situation is when a player slides from one strategy to the other, because the opponent never knows which attitude and set of arguments to refer to.

This observation applies to both parties; it's as difficult for the customer to evaluate the seller's attitude if their behavior is inconsistent, just as it is for the seller to follow the customer's moves. Therefore, the seller has an interest in being as consistent as possible to encourage a similar response from the customer.

A Starting Point: Consumer Perceptions on Dealership Margin and Invoice Cost Information

Many buyers are skeptical of the validity of margins and invoice costs.

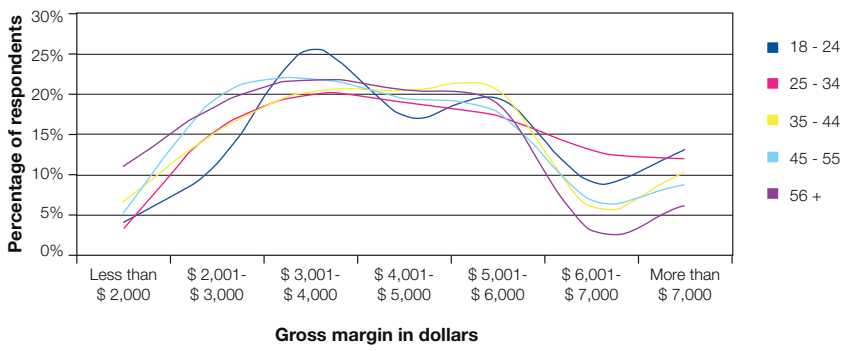
It's no surprise that consumers enter a dealership wary about what price they are going to pay. As our results show, approximately 80% of the respondents indicated that they believe a dealership is working with a gross margin in excess of $3,000 on a $30,000 MSRP (manufacturer suggested retail price) new vehicle – while one out of every three buyers believes the margin is in excess of $5,000.

As can be seen from Figure 1, the perceptions of margin are relatively constant across all age groups. While actual dealer profits can vary significantly by the type of vehicle (sedan, truck or SUV), the majority of consumers are determined to extract a portion of this surplus for themselves.

Four observations of interest are:

- For the roughly one out of every five buyers who imagine that the dealers' gross margins are in excess of 20% ($6,000), their negotiating manners are no different from any other group.
- The 21% of consumers who believe that gross margins are less than $3,000 are more likely to feel they have been treated fairly, and are more likely to give a higher recommendation of the dealer.
- The group of buyers who experience less consumer fear in the negotiation process believe the dealers' average gross margin to be $3,670, whereas, the purchasers who experience more fear believe the dealers' average gross margin to be $4,120.
- For the age group 18 to 24, two peaks occur in terms of margin, at $3,000 to $4,000 and $5,000 to $6,000, whereas all other groups have one peak margin. As our age data was by group, we didn't explore this further, but perhaps there are in fact, two sub-groups within this age category, defined by either age or previous buying experience.

Figure 1: Consumers' Perceptions of Gross Margin on a $30,000 Vehicle (by age group)



Source: CIRP, Capgemini

Key Points

- One out of every three consumers who enter a dealer showroom suspects that a vehicle with an MSRP of $30,000 has a gross margin exceeding $5,000.
- The majority of adults over the age of 56 are inclined to trust the vehicle cost information presented to them. Younger people are more suspicious.

Frequently consumers want to start their negotiations based on the dealership invoice price. Armed with what can be very detailed invoice information obtained from websites such as Kelley Blue Book (KBB) and Edmunds.com, consumers can enter a dealership with data that puts them in a more knowledgeable bargaining position.

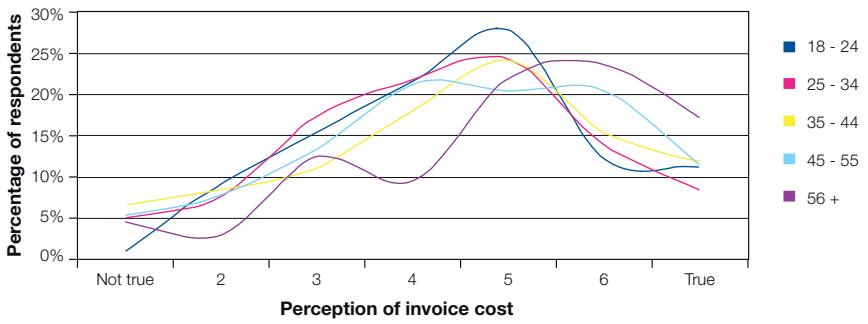
A KBB study in 2005 revealed that fully 59% of the respondents to their online survey initiated their negotiations with the dealer invoice as the baseline reference.[5] Our results, which reach a broader segment of the marketplace, indicated that 36% of buyers commenced their negotiation with the dealer invoice price. Of interest was that men were roughly 30% more likely to use the invoice price as a starting point than women.

However, while the dealer invoice cost is a starting point for many consumers and a bargaining tool deployed by some salespeople, many buyers are skeptical of its validity. Our findings show that approximately just one out of 10 consumers believes it to be entirely true, while slightly more than one out of two respondents believes it to be more truthful than not. The perception of the validity of the invoice price is somewhat related to age. As Figure 2 indicates, 68% of buyers over the age of 56 have a sizeable degree of trust regarding the dealer invoice cost. This is in contrast to the most doubting age group, the 25 to 34 year olds; just 47% of them have the same degree of trust.

Our results demonstrate that consumers who are less trustful of cost information are more fearful when buying a vehicle, feel more time pressure and consequently apply more pressure in the negotiation process.

Finally, in exploring our concept of transparent and opaque consumers, our findings demonstrate that transparent consumers are more trusting of the dealer cost information shown to them.

Figure 2: Consumers' Perceptions That the Dealer Invoice Cost is True (by age group)



Source: CIRP, Capgemini

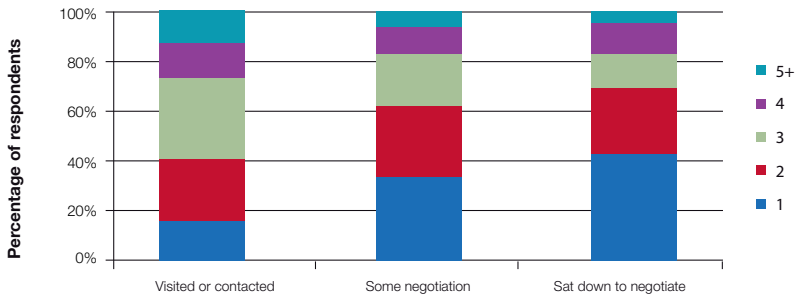
[5] Kelley Blue Book, "Automotive Purchasing and Pricing Attitude Study Summary," August 2005

The Heart of the Matter: Dealership Interaction

A look at the consumer negotiation experience inside the dealership.

Previous studies show that on average, by the time the consumer enters the dealership showroom, their consideration set has been reduced to two vehicles.[6] From an OEM viewpoint this is, of course, important. However, we wanted to understand from a dealership perspective the number of dealers contacted for the eventual brand purchased, and some indication of the type of activity.

Figure 3: Consumer Interaction With Dealers for Brand Purchased



Source: CIRP, Capgemini

Figure 3 summarizes the three types of interaction with the dealerships we inquired about:

1. The number of dealerships visited or contacted (either online or offline)
2. The number of dealerships where some form of negotiation took place (either online or offline)
3. The number of dealerships where the purchaser actually sat down with a salesperson to negotiate (offline only)

The notable observations are:

- One out of six buyers will visit and negotiate with only one dealer.
- Roughly four out of 10 will engage in some type of informal price discussion at three or more dealers.
- 60% of consumers will engage in formal negotiations at two or more dealerships, where they sit down at a salesperson's desk (we refer to it in this paper as the "box") to discuss in more detail a possible purchase.

We find this last aspect interesting as it supports a perception derived from our qualitative study – that once a consumer commits themselves to sit in the "box" with the salesperson, there is a reasonably high probability that this person will purchase a vehicle; in the case of this study, a 40% chance.

Moreover, if the customer is 56 years or older and sits down to discuss a deal, there is roughly a 75% probability they will buy a vehicle during this session. From a salesperson's

[6] CNW Marketing Research, Inc., "The Automotive Purchase Process," 2005; Capgemini, Cars Online 05/06

perspective, this finding suggests that it is their business to lose. However, in contrast to older consumers, one out of every five buyers who falls within the age group 25 to 34 will negotiate at four dealerships.

Figure 4 examines the three themes that we explore throughout this paper and that are relevant to the number of dealers that consumers actually sat down in the "box" to negotiate with.

3. Stress that can come from buying a vehicle
4. Anxiety that can occur from what some consumers perceive as a high-pressure situation

We explored fears in some detail, as previous research had determined that consumers who are afraid of being taken advantage of by dealers in fact do pay more. This suggests that they had a reason to be afraid.[7]

Figure 4: Number of Dealers Where the Consumer Sat Down to Negotiate With the Salesperson

	Fear	Time pressure	Applied pressure
Less	1.9	1.9	1.5
More	2.3	2.5	2.5

Source: CIRP, Capgemini

Key Points

- 60% of consumers will visit or contact three or more dealerships for the brand they eventually purchase.
- There is an approximately 40% likelihood that once a consumer sits down at a salesperson's desk to negotiate, they will purchase a vehicle with this salesperson.

Several points are worth mentioning: increased fear drives negotiation at more dealerships; higher perceived time pressure results in more dealers negotiated at; and finally and not unexpectedly, consumers who deploy a buying strategy that involves pressure tactics negotiate at more dealerships.

How a Consumer's Fears Affect the Negotiation Process

This study addressed four fears that can affect a consumer's negotiation experience:

1. Fear of being taken advantage of
2. Aversion to conflict, which can make bargaining difficult

Figure 5 provides the average score for each of the fears measured (based on a seven-point scale, with the higher the score indicating a greater intensity of feeling). It clearly shows that the primary fear is being taken advantage of by a salesperson – which for most consumers, means paying more for their vehicle than they otherwise should have. This finding is reinforced by Figure 6, which illustrates that one in four consumers strongly fears being taken advantage of.

[7] Zettelmeyer, F., Scott Morton, F., Silva-Risso, J., "How the Internet Lowers Prices: Evidence from Matched Survey and Automobile Transaction Data," Journal of Marketing Research, Vol. XL111, 168-181, 2006

Figure 5: Consumers' Average Score of Fears Measured

Taken advantage of	Aversion to conflict	Stress from buying a vehicle	Anxiety of a high-pressure situation
4.79	3.71	4.33	4.31

Note: Based on a seven-point scale, with the higher the score indicating a greater intensity of feeling.
Source: CIRP, Capgemini

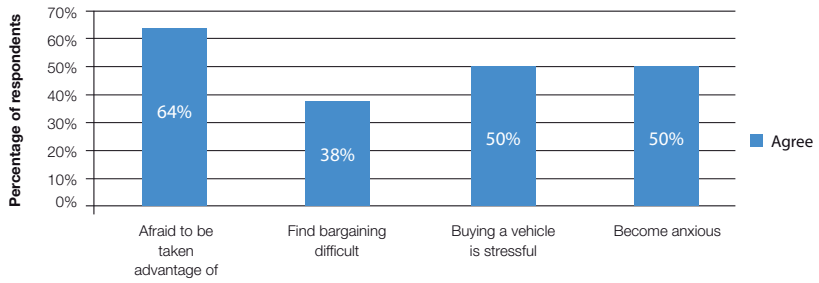
On the other hand, roughly 45% of buyers are not averse to the sense of conflict that can come with bargaining – not that they necessarily like the idea, but they feel nonetheless that they can work with the situation. However, it is worthwhile to note that for every 10 consumers who sit down to negotiate with a salesperson, one will have a strong aversion to conflict, which will make their buying experience more trying.

Looking at the fears that are related to stress and anxiety, our findings reveal that they are indeed important considerations that salespeople need to be aware of – approximately seven out of 10 consumers enter the negotiation process aware of these feelings.

Following are some of the findings on how consumer fear affects the buying process:

- Buyers who have less fear enjoy the negotiation process more.
- Consumers who have a heightened awareness of fears are much more sensitive to the pressure and persuasion techniques of salespeople.
- As a consequence, buyers who have a higher sense of fear are much more apt themselves to apply pressure on the salesperson during the negotiation process.
- The combined effect of these worries results in consumers with more fear negotiating on average at 2.3 dealers, whereas the low-fear group negotiated at 1.9 dealers.
- The net outcome for purchasers who are more fearful of the negotiation processes is that after their purchase, they are less satisfied with the salesperson and dealership than the lower-fear group, and less likely to recommend as highly the dealership to friends, family and acquaintances.

Figure 6: Consumer Fears



Source: CIRP, Capgemini

Key Points

- Approximately three out of every four consumers who visit a dealership with the intention of purchasing a vehicle are fearful of being taken advantage of.
- Salespeople who are more adept at recognizing the presence of fear, anxiety and stress, and adjust their techniques to them will increase not only the likelihood of a sale, but enhance the probability of the purchaser making a more favorable recommendation of the dealership.

Key Points

- Almost one out of two consumers between the ages of 25 and 44 who enter a dealership with the intention of purchasing a vehicle is experiencing some feeling of time pressure.
- Consumers who complete their purchase having dealt with time pressure constraints are less apt to feel the salesperson has been fair, and as a result are less satisfied with the dealership.

The Role of Time Pressure on Consumer Negotiation

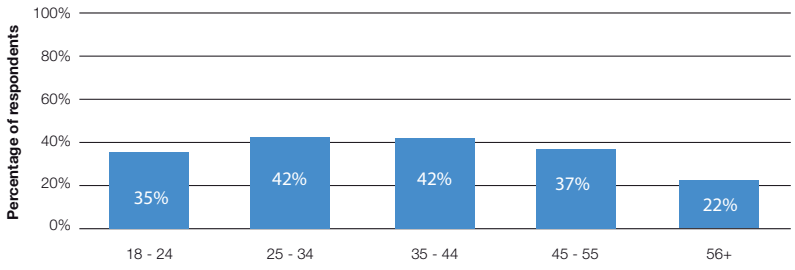
We look at time pressure from two perspectives. First, from the viewpoint of finding "enough" time to shop for a vehicle, and second, from the "stress" that occurs when one doesn't have what they consider to be sufficient time to properly shop for their vehicle.

Our findings demonstrate that time pressure collectively plays a significant role in consumers' buying process and their resulting customer experience. It was an issue with approximately half our respondents.

Following are some of the findings on how time pressure affects the negotiation experience:

- Consumers who comprise the group that feel more time pressure experience a much higher degree of fear (being taken advantage of, stress, conflict and anxiety). On the seven-point scale (with the higher the score indicating a greater intensity of feeling) their average score is 5.01, compared with 3.56 for those who feel less pressure.
- The group that experienced more time pressure was less likely to search for information than shoppers who were under less time strain. However, this may be due to the fact that the more pressured group has a greater perceived amount of car knowledge.
- Consistent with people who are fearful of being taken advantage of, consumers under time pressure sense that salespeople apply more pressure and persuasion, and respond themselves by applying pressure.
- Shoppers experiencing time pressure are more apt to use the tactic of bluffing to salespeople by saying they have a better offer from another dealer.
- Satisfaction with the salesperson and dealership, and recommendation of the dealership are highly correlated to time pressure. The less time pressure the buyer is under, the higher the levels of satisfaction and the recommendation.

Figure 7: Difficulty in Finding Enough Time to Shop (by age group)



Source: CIRP, Capgemini

Figure 7 displays by age group the respondents' perceptions of their time availability for buying a vehicle. The results are not at all surprising. The youngest age group (18 to 24) and the oldest (56+) have the greatest time availability – while the consumers most pressed for time, are between 25 and 44 years old. The greatest sense of time pressure occurs for those who are 35 to 44, where one out of every seven shoppers feels its impact acutely.

When the effect of stress due to time pressure is examined, we observe again that older buyers (56+) are much less affected by stress resulting from time than purchasers under the age of 45. We also note that women are more subject to stress resulting from time pressure than men.

The Effects of Pride, Confidence and Bargaining Enjoyment

"Are you comfortable with bargaining?"

"Me …nah…no…I don't like it. I don't like bargaining – give me the price. Can you go lower? Don't go to a manager in the other room; give me the bottom line and if I can afford it, I will buy it. If I can't afford it, I will go somewhere else."

"No, because I am very direct. It's the way I like to do business whether I am the buyer or the seller. There is a deal to be had or not – you cut through it and in 10 minutes you understand whether the deal exists or not."

"Yes, it's kind of a passion with me. Sometimes even when I know it's a good price, I keep pushing; it can be hard to turn it off."

The significance of the role pride plays in the negotiation process and with the subsequent outcome is immediately apparent. On closer examination, our findings reveal a strong correlation between a consumer's degree of confidence in their ability to negotiate a good price and pride in obtaining a decent price. Thus it's easy to understand how buying a new vehicle becomes such an emotional purchase for many consumers.

Approximately one out of two buyers enjoys the bargaining process, while six out of 10 are confident in their ability to negotiate a good price. And why are the six out of 10 confident? Generally, before they step into the negotiation chair, they are better armed with information. They have conducted extensive research and display a higher degree of collective car knowledge.

Figure 8: Consumer Sentiment Derived From Bargaining

Enjoyment	Confidence	Pride
4.41	4.88	5.06

Note: Based on a seven-point scale, with the higher the score indicating a greater intensity of feeling.
Source: CIRP, Capgemini

As the preceding quotes indicate, negotiation can be a source of enjoyment for some, but for others, it is a task to be minimized. This study examines negotiation and its effects on gratification and self-belief by questioning the following items:

1. The enjoyment bargaining can produce
2. The confidence in one's ability to negotiate well
3. The pride that can be created in negotiating a good price

Figure 8 indicates the average scores for each of the items measured. The scale is out of seven, with the higher the score indicating a greater intensity of feeling.

In general, men enjoy bargaining, are more confident in obtaining a good price and take more pride upon the closing of a deal than women. Understandably, consumers over the age of 25 are much more confident in their abilities to negotiate than the 18 to 24 year old group.

The themes of enjoyment and self-belief are the only ones where all five negotiating tactics differ statistically between the two groups. In other words, while the two parties identified (low enjoyment, high enjoyment) use all the tactics, they use them differently. The variations are shown in Figure 9 (following page).

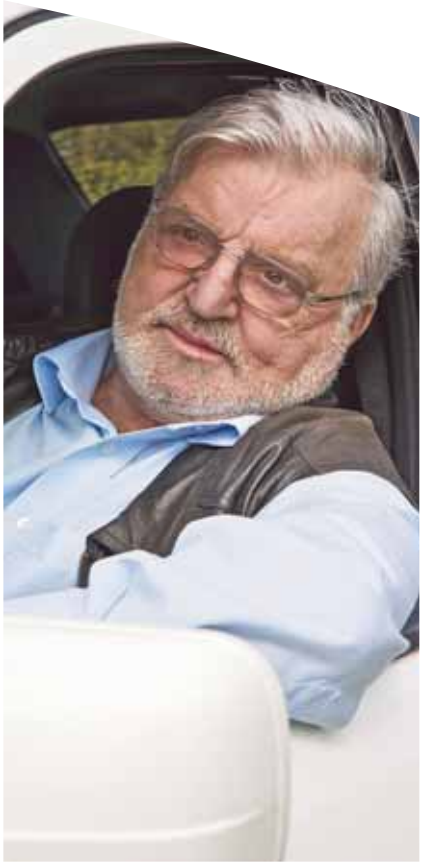
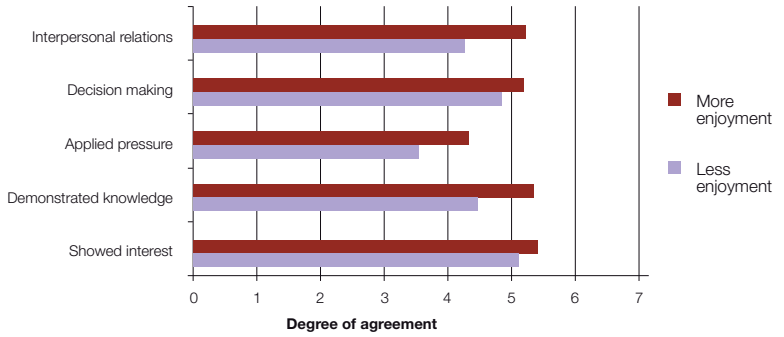


Figure 9: Consumer Negotiation Tactics and Degree of Enjoyment/Self-Belief



Source: CIRP, Capgemini

The principal differences between the two groups occur in their demonstration of knowledge, application of pressure and interpersonal approach. The higher-enjoyment group shares their knowledge more freely with the salesperson, applies pressure tactics liberally in their negotiations and is more comfortable talking with the salesperson.

Following are some of the findings on how enjoyment, confidence and pride affect the buying experience:

- Shoppers who enjoy the negotiation process visit more dealers and sit down more often with salespeople to negotiate.
- Consumers who experience higher enjoyment and are more confident feel much less stress during the negotiation process. Low-enjoyment consumers are much more averse to confrontation and therefore find bargaining much more difficult.
- Higher-enjoyment consumers view the salesperson in a more positive light. They appreciate the salesperson's efforts to make them comfortable and welcome their analysis of their needs.
- The effects of time pressure, salespeople who apply pressure and persuasion tactics, and satisfaction with the salesperson and dealer were all relatively similar and not significant for either group.
- Finally, in exploring our concept of transparent and opaque consumers, our findings demonstrate that transparent consumers are more enthusiastic bargainers, have a much greater confidence in their ability to negotiate a good price and take significantly greater pride in obtaining a good price.

Consumer Usage of Pressure Tactics

Our findings reveal that how a consumer uses pressure as a tactic has a major influence on their entire experience at the dealership. It plays a role in the number of dealers that shoppers negotiate with, their enjoyment of the negotiation process, how they view salespeople and their resulting satisfaction levels. As a general tactic, pressure is applied frequently, but individual types of pressure are used differently by various consumer segments.

In Figure 10 the five pressure tactics surveyed are presented. The column "employ willingly" represents the percentage of consumers who selected one of the top three points on the not true/true seven-point scale – in other words, the consumers who most

Key Points

- If a consumer enters a dealership showroom, seems in a good mood and engages easily with a salesperson, you can pretty well assume that they have done extensive research and likely have a decent knowledge of vehicles. This suggests that salespeople should make every effort to price aggressively from the outset. Otherwise, the buyer will be on their way to the next dealer.
- However, enjoying the bargaining process contributes minimally to the consumer's satisfaction with the dealer.

Figure 10: Five Consumer-Applied Pressure Tactics

Pressure Tactic	Average score	Employ willingly	Did not use
Conversations with similar brand dealers	4.64	60%	15%
Make a decision within a short time frame	4.60	60%	12%
Told dealer I had a better offer from another dealer, which was true	3.98	44%	25%
Leaning towards another brand	3.95	50%	20%
Told dealer I had a better offer from another dealer, which was not true	3.62	40%	30%

Note: Based on a seven-point scale where 1 = not true and 7 = true
Source: CIRP, Capgemini

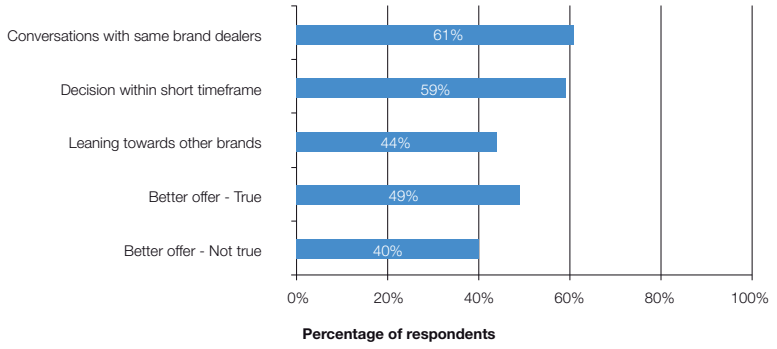
identified with the tactic. (The score is out of seven where 1 = not true and 7 = true).

On the whole, nothing is really surprising. Pressure tactics are commonly used. With many similar brand dealers in a trading area, and the fact that approximately 70% of buyers have negotiated to "some" extent with two or more similar brand dealers, price differences are expected to surface. After all, consumers are looking for leverage, while salespeople are trying to unearth this information in order to determine where they need to price the vehicle to secure the deal.

Since most consumers who are at this stage of the buying process expect to finalize their deal within the following two weeks, the tactic of declaring a decision within a short timeframe is also expected. In addition, most salespeople expect a certain percentage of consumers to bluff about competitive pricing.

Figure 11 illustrates the degree of usage of the various pressure tactics examined. When compared against other variables, the use of tactics becomes more revealing. For instance, there is a relationship between applying pressure in the form of the consumer telling their salesperson that they have had conversations with other similar brand dealerships, and the number of dealerships where they actually sit down to negotiate. If this

Figure 11: Consumer Usage of Applied Pressure



Source: CIRP, Capgemini

is their first time in the "box," just over a third of consumers will use this tactic, but if it's their second time sitting down with a salesperson, it is very likely that the consumer will apply pressure in this manner (78%). Interestingly, negotiating twice in the "box" seems to be the threshold – regardless of whether it's two, three or four dealers negotiated with, a constant 20% of consumers will not deploy this tactic.

Similarly, there is a relationship for consumers who attempt to leverage their position by informing the salesperson of prices they have obtained from other dealerships when negotiating in the "box." A consumer is likely telling the truth if they indicate that they have a better price from a rival dealership and they mention if it is their first time in the "box." Why? Approximately half of the consumers negotiating at a salesperson's desk for the first time will not reference other dealerships' prices. Of the balance, only one out of five will declare a price that is not at all true, whereas, more than one out of four buyers will state a competitive offer that is in fact entirely valid. The consumers in between will hedge on the facts just a bit.

In contrast, if a consumer mentions that they have previously sat down with a salesperson to negotiate, it's difficult to know whether they are telling the truth – as both being honest and bluffing increase linearly with the number of dealers negotiated in the "box" with.

Confusing isn't it? The consumer doesn't fully trust the salesperson, and the salesperson has reason not to take the buyer at their word when it comes to competitive pricing, particularly if the buyer has already negotiated at one dealership. Then what is the salesperson to do?

Well, one way to improve the odds is to take a good look at the customer – if they look like they are 56 or over, odds are they are telling the truth. Roughly 60% wouldn't consider not telling anything but the truth, with fewer than 15% willing to outright use it as a tactic. Essentially, older consumers are transparent in nature. On the other hand, buyers in the age group 25 to 34 are the most apt to use this ploy. As seen in Figure 12, just about half the respondents in this age group used it when negotiating their most recent purchase.

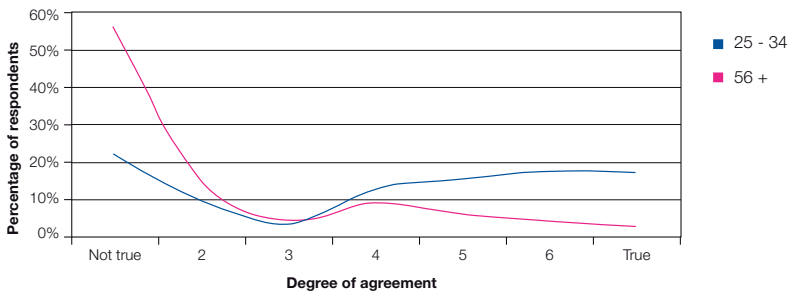
Now if you are a salesperson, don't let your guard down if a woman looks you straight in the eyes with an air of sincerity, and declares that she can buy her new vehicle at a certain price across town – women are pretty much a match for men in the use of bluffing as a tactic.

In general, male respondents indicate a higher level of car knowledge than females. The men who indicate a high level of car knowledge (five or greater on the seven-point scale) freely made use of false competitive pricing. This group represents about one out of every four males.

Following are some additional observations on using applied pressure as a tactic:

- The majority of consumers who apply more pressure appear to do so because they have less trust in the prices shown to them, are somewhat more fearful, or are under what they perceive to be time pressure. On the other hand, some buyers just enjoy utilizing this tactic.

Figure 12: Pressure Tactics – 'I Had a Better Offer From Another Dealer, Even Though it Wasn't True' (comparison of age groups 25-34 and 56+)



Source: CIRP, Capgemini

- How a consumer perceives the salesperson has a major influence on their use of pressure. Buyers who feel their salesperson to be customer oriented are much less inclined to use pressure as a tactic. However, customers of a selling-oriented representative are likely to apply pressure as a tactic to secure a fairer price.
- Low-pressure consumers identify more with low-pressure, customer-oriented salespeople. Thus, if a salesperson applies pressure to a buyer with a low-pressure profile, the buyer is more likely to leave.
- Salespeople need to be keenly aware of consumers who do not use pressure as a tactic. The findings reveal that buyers who use less pressure will negotiate with fewer dealerships – 1.5 dealerships on average vs. 2.5 for consumers who use pressure tactics. This group of consumers neither likes giving nor getting pressure – treat them fairly and they are ready to buy.
- While the level of perceived fairness of the salesperson is high in general (as one would expect if a deal was consummated), the perception of salesperson fairness is significantly less for the consumer who applied pressure. This occurs regardless of whether they felt they had to or wanted to. The same applies to satisfaction with the salesperson. Satisfaction decreases with pressure applied, though at a less rapid rate than the decrease in the perception of fairness. In other words, fairness is more strongly correlated to pressure applied.
- Similarly, satisfaction with the dealer and the willingness to recommend the dealer decrease with the amount of pressure applied by the consumer.

Key Points

- If a salesperson can ascertain that it's the first time for this buyer to sit down and negotiate a price on a new vehicle, and the buyer indicates they have a better price from another dealership, odds are they are telling the truth.
- Use of applied pressure tactics declines linearly after the age of 25. Consumers over the age of 56 make minimal use of them, which suggests that salespeople should trust their comments.
- Consumers who apply less pressure perceive a fairer deal, and are thus more satisfied with their salesperson and dealer. From a dealer perspective this translates into a much higher probability that they will favorably recommend the dealership.

The SOCO Effect: How a Salesperson's Sales Style Influences the Experience

Academic studies have examined the role that an automobile salesperson's sales style plays in customer and dealer satisfaction.[8] Two basic styles are identified: selling oriented and customer oriented (SOCO).

Essentially, a customer-oriented salesperson puts the welfare of the customer first, with the objective of increasing long-term client satisfaction. On the other hand, a selling-oriented salesperson's primary interest is closing the deal. Thus, they may take actions that sacrifice the customer's interest in order to increase the probability of making an immediate sale. The studies have demonstrated that a customer-oriented selling approach increases satisfaction with the salesperson, which in turn positively influences satisfaction with the dealer and the manufacturer.

Our interest was in not only looking at the impact of the salesperson's orientation on satisfaction, but also its influence on the negotiation process itself. Thus, a series of 18 questions based on a previously developed SOCO scale for dealership salespeople was asked.[9] These questions were evenly split between identifying seller- or customer-oriented actions.

Respondents were queried in terms of their recent experience with the salesperson from whom they purchased their vehicle. Of the 508 salespeople consumers purchased from, 347 were perceived to be customer oriented and 161 selling oriented – approximately a 70/30 split.

We started off by examining trust with the thought that the question we had posed to our respondents about it – "Salespersons are to be trusted" – would reflect to some degree their recent purchase. The average score on trust for the total respondent group was 4.05 (on a seven-point scale, with the higher the score indicating a greater intensity of feeling). However, for purchasers who perceived that their salesperson was customer oriented, their degree of trust was slightly above average at 4.38, and the respondents who dealt with a representative they considered to be selling oriented, indicated a score of 3.33, well below the average trust score. In turn, this perception of trust was highly correlated with consumers' belief that the cost information they were shown was true (if in fact it was revealed to them).

Not surprisingly, buyers who felt greater trust negotiated with fewer salespeople, and thus fewer dealerships.

In general, consumers who purchased from a selling-oriented salesperson felt the negotiation process was more stressful, and experienced a higher level of anxiety, as can be seen in Figure 13.

Consumers who perceived the salesperson to be customer oriented did not feel the need to apply pressure tactics to the same degree as buyers whose salesperson was selling oriented. As an example, for the tactic of bluffing, the average score for consumers dealing with a customer-oriented salesperson was 3.30 vs. 4.32 for a selling-oriented representative (a lower score indicates less usage).

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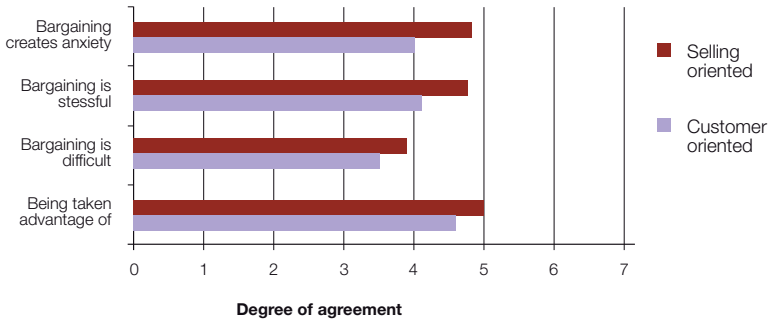
[8] Saxe, R. and Weitz, B., "The SOCO Scale: A Measure of the Customer Orientation of Salespeople," Journal of Marketing Research, Vol. XIX, 343-351, 1982

[9] Goff, B., Boles, J., Bellenger, D., Stokjack, C., "The Influence of Salesperson Selling Behaviors on Customer Satisfaction with Products," Journal of Retailing, Vol. 73, 171-183, 1997

Figure 13: Consumer Fears and Salesperson Orientation



Source: CIRP, Capgemini

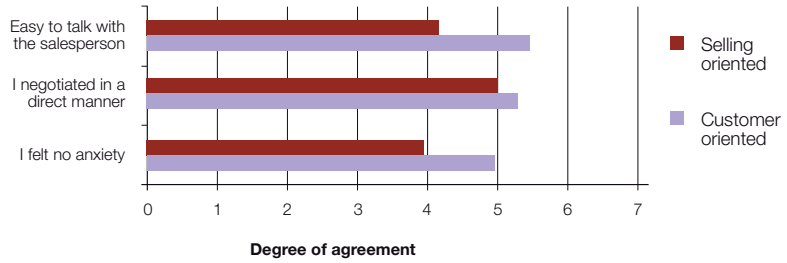
Personal interaction was a notable tactic, as can be seen in Figure 14. A strong relationship exists between the ease with which a consumer could talk to the salesperson and their perception of their salesperson's orientation.

However, in fairness to the salesperson, some consumers make it more difficult for salespeople as they negotiate in a less direct, opaque manner. The result is that the salesperson has to interpret the conversation, which can lead to increased misunderstanding and a lower quality of dialogue. What is clear nonetheless is that a customer is less anxious discussing pricing with a customer-oriented salesperson.

Four conclusions can be derived from the fact that about a third of our respondents purchased a vehicle from a salesperson they perceived as selling oriented. The consumer:

- is comfortable with, or perhaps prefers this sales methodology
- is not aware of what is occurring, as they have put their faith in the salesperson
- is aware of these sales tactics, but brushes them aside
- puts up with it, as they believe they are gaining something from the transaction that is worth the hassle

Figure 14: Consumer Interpersonal Relations and Salesperson Orientation



Source: CIRP, Capgemini

Satisfaction Levels and the Impact on OEMs

There are, however, definite consequences with each sales methodology. While our research does not indicate which methodology is the most effective in closing sales, we see quite different levels of satisfaction for not only the salesperson and the dealership, but also for the OEM.

As Figure 15 shows, consumers' satisfaction levels overall are appreciably higher when customers have concluded a deal with a salesperson they regard as customer oriented. Furthermore, in examining consumers' perception of the fairness of the salesperson, there is a major disparity in favor of the customer-oriented salesperson vs. the selling-oriented representative.

The greatest variance occurs for salesperson satisfaction. While the satisfaction with the customer-oriented salesperson was very similar to their perceived fairness score, the satisfaction with the selling-oriented salesperson dropped appreciably from their fairness score. The results suggest that customer-oriented salespeople will receive more favorable references than selling-oriented ones.

As expected since the salesperson is the "face" of the dealership, satisfaction with the dealer is highly correlated with satisfaction with the salesperson. The high satisfaction with customer-oriented salespeople translates to an equally high level of satisfaction with the dealership.

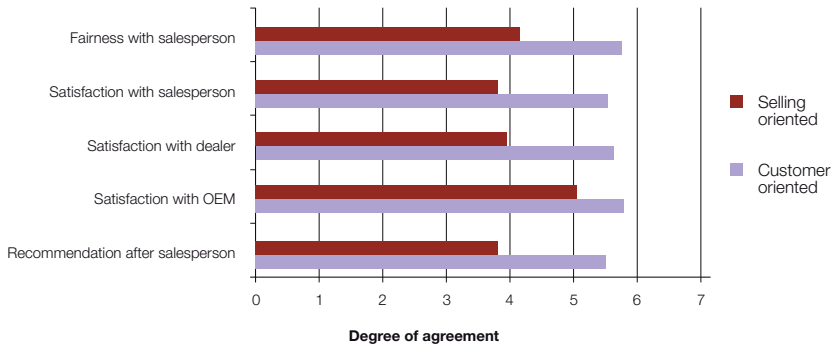
In addition, there is a direct relationship between satisfaction with the salesperson and strength of recommendation for the dealership. Once again, the positive impact made by customer-oriented salespeople translates into stronger recommendations. There is a marked discrepancy between the two groups of salespeople. The research found that almost half of the customers of selling-oriented salespeople gave a poor or downright negative assessment of the dealership. In contrast, two-thirds of the clients of customer-oriented salespeople provided a favorable to extremely positive recommendation of their dealer.

Previous research examining the SOCO influence had identified a relationship between a salesperson's orientation and the satisfaction with the OEM.[10] This study confirms the relationship linking salesperson

Key Points

- The favorability of the dealer recommendation correlates highly with customer satisfaction with the salesperson.
- Customer-oriented salespeople deliver added value beyond the immediate sale through increased favorable consumer perception of fairness, satisfaction with the dealer and the OEM, and higher dealership recommendation opinions.

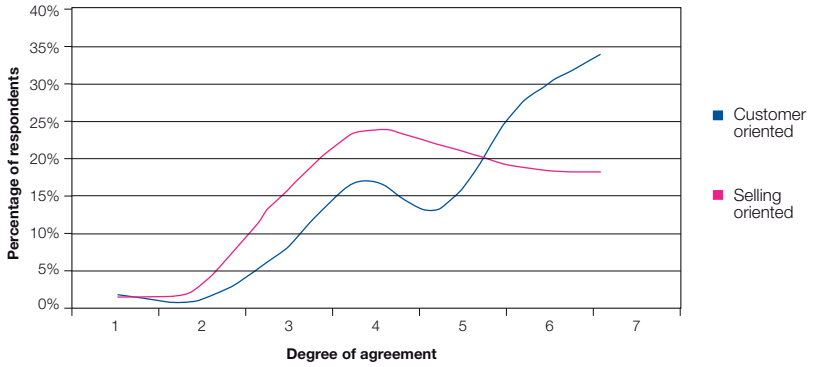
Figure 15: Consumer Level of Satisfaction and Salesperson Orientation



Source: CIRP, Capgemini

[10] Goff, B., Boles, J., Bellenger, D., Stokjack, C., "The Influence of Salesperson Selling Behaviors on Customer Satisfaction with Products," Journal of Retailing, Vol. 73, 171-183, 1997

Figure 16: Consumer Satisfaction With the OEM by Salesperson Orientation



Source: CIRP, Capgemini

orientation and OEM satisfaction, as well as a notable difference in average scores between the two groups (Figure 16). It should be noted, though, that while the correlation was very pronounced for customer orientation, it was less so for sales orientation.

The Influence of the Business Manager on Customer Satisfaction

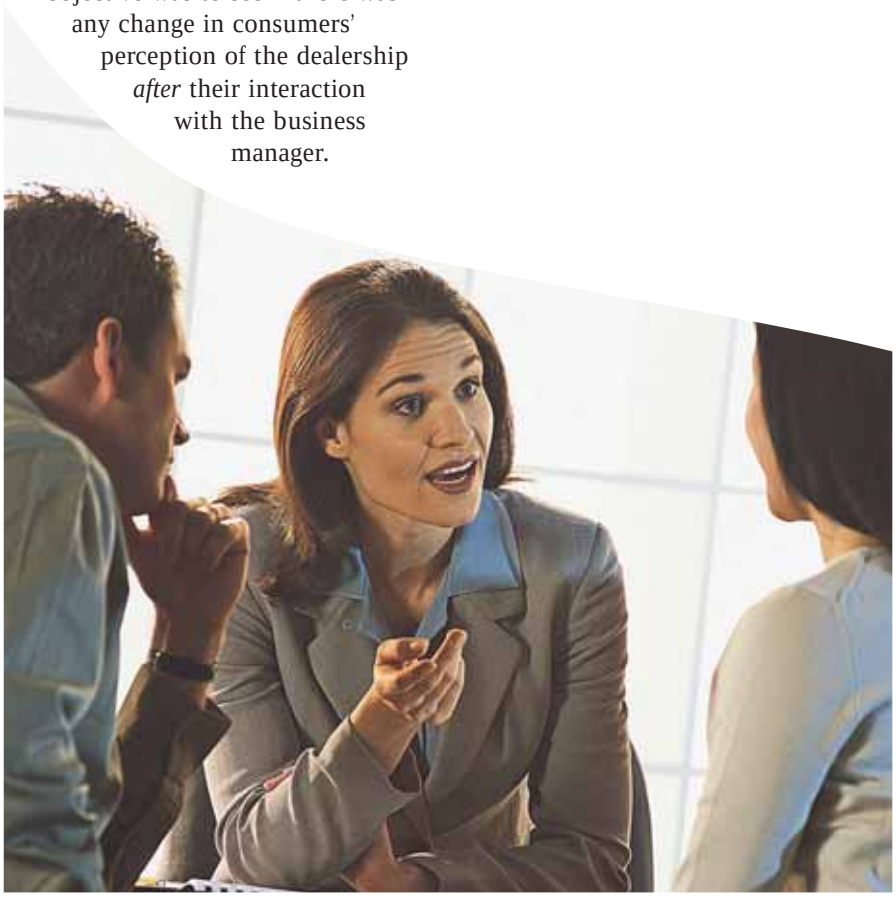
During our qualitative study we were struck by the comments of several consumers:

"Financial manager – that's the only time when I felt a little pressure. The stuff that they try to hit you with… Scotchgard and extended warranty under $1,500 – no time for us to discuss it personally and think about it ourselves. I would have preferred the seller tell us before, that the financial manager is going to present you with these options. 'Here's what we typically recommend and give us some time to think about it.'"

"Actually the finance person turned me off – that was the worst part of the experience – he was pushy; I felt pressure to spend more money. That put a bit of a damper on the experience."

A customer has more than likely spent a great deal of time with the salesperson before coming to an agreement that both are satisfied with. Handshakes seal the deal, but then there is a good chance that the customer is told that they must finalize the transaction with the business manager. Whoa … hold the celebration. There is one more step to go.

To explore the impact of the selling orientation of the business manager (selling or customer oriented) on the level of customer satisfaction, customers who had a level of satisfaction with the dealership equal to or above the average score *prior* to seeing the business manager were examined in further depth. The objective was to see if there was any change in consumers' perception of the dealership *after* their interaction with the business manager.



Key Points

- The business manager represents a brief moment in the sales cycle, yet has a significant impact on the customer experience. With an attitude that is considered too aggressive, they can lessen the level of the customer's satisfaction.
- To help set expectations, a salesperson should give the purchaser a head's up about what the business manager is going to present.

Figure 17: Impact of the Business Manager on Consumer Satisfaction Levels

Item	Post salesperson	Selling-oriented business manager	Customer-oriented business manager
Satisfaction with dealership	6.43	5.47	6.28
Satisfaction with OEM	6.25	5.75	6.34
Recommendation of dealer	6.12	5.56	6.19

Note: Based on a seven-point scale, with the higher the score indicating a more positive feeling.
Source: CIRP, Capgemini

The findings revealed that approximately one in seven purchasers left the discussion with the business manager with the impression that they were selling oriented. This resulted in a group that was less satisfied than when they entered. In fact, their satisfaction with the dealership and the OEM, and their favorability of recommendation decreased across the board, as Figure 17 shows. On the other hand, the customer-oriented business manager more or less maintained the high level of satisfaction the purchaser entered with.

Identifying the Customer's State of Mind

If the salesperson feels the need to apply pressure on the customer in order to speed up the purchase process or to get a handle on the situation, it's important that they identify the customer's state of mind. Poorly timed or excessive pressure will rarely prove a good solution, and may produce the opposite effect. Our research identified three types of customers:

The Cheerful Customer has done their homework and wants to be recognized for that. They are open and desire a similar response – no hide and seek or playing games. Inappropriate pressure will upset them though they likely will not show it. Thus, the salesperson might not understand the problem they are creating. However, at some point, the customer will politely say they need time to think it over, and then walk out the door never to come back.

The Fearful Customer is insecure entering the dealership. Their hesitation and coolness can easily be mistaken as detachment or aloofness. The use of increased pressure will confirm the customer's negative stereotypes of the salesperson. As a result, the customer's distant and opaque attitude will increase, leading to less open interaction. The more the salesperson increases the pace and pressure, the more passive the customer's behavior becomes. Their reactions evolve in opposite directions.

The Time-Pressured Customer appears to be in control but actually has a high level of fear. Their position is hazy, and they put themselves in a position where they depend on the salesperson. Poorly applied pressure will make this customer feel constrained and as though they have lost control over the situation. Already suffering from being under time pressure, they do not need another form of pressure – no one should decide for them. If the salesperson advances too quickly they are off to the next dealership.

Leasing vs. Purchasing: Differences in the Negotiation Process

The manner in which buyers and lessees negotiate is similar, as is their customer experience.

The differences in the negotiation process for consumers purchasing or leasing is minimal. Essentially the number of dealers visited, the negotiation tactics employed and the satisfaction with the various players are similar. In the approximately 70 tests conducted to measure the differences between leasing vs. purchasing, only seven questions indicated any distinction between the two groups. These can be seen in Figure 18.

Following are some observations:

- Consumers who purchased their vehicle conducted a more extensive information search. In addition, purchasers tended to have more vehicle knowledge, as they were more likely to read specialty vehicle magazines and/or their websites on a regular basis.
- Purchasers took more time to make a decision outside the dealership after receiving an offer, and tended to negotiate in a no-nonsense and direct manner.
- The most interesting variation was that purchasers had a higher level of satisfaction for the OEM after the purchase, compared with consumers who leased.
- Perhaps what is most notable is the similarity between the negotiation processes for consumers purchasing vs. leasing. They have comparable levels of fear going into the negotiation process; negotiate with roughly the same number of dealers; are under comparable time pressure; apply pressure tactics in a similar manner; and are equally as satisfied with the salesperson, fairness of their deal and satisfaction with the dealership.

Key Point

- While the economic focus of consumers who lease a vehicle is the monthly lease cost, and purchasers are normally interested in the total price, the manner in which they negotiate is similar, as is their customer experience.

Figure 18: Consumer Actions - Leasing vs. Purchasing Distinctions

Item	Leasing	Purchasing
Do a lot of price comparison	5.48	5.87
Frequently use the Internet	5.45	5.89
Read car or truck magazines/websites	3.54	4.06
Told salesperson price info from web	4.81	5.18
Took time outside dealer to mull offer	4.80	5.19
Negotiated in a direct manner	5.05	5.47
Satisfaction with OEM	5.23	5.66

Note: Based on a seven-point scale, with the higher the score indicating a more frequent use or positive feeling.
Source: CIRP, Capgemini

Differences Between One-Price and Traditional Dealerships

Levels of consumer satisfaction with the salesperson and dealership are not related to the dealership business model; rather, they are related to the individual dealership.

The majority of respondents (82%) purchased at traditional dealerships, while 14% purchased at one-price dealers[11], and 4% bought online.[12]

While this section is confined to one-price and traditional dealerships, we have one observation to make about online sales. In 2002, when CIRP first started research into the automobile buying process, online new vehicle sales were estimated in the United States to be 4%.[13] This study reveals the same number, implying that this retail channel continues to be stable. However, there are signs of growing interest in buying vehicles online. In Capgemini's Cars Online 07/08 report, one in five consumers said they were likely to buy a vehicle over the Internet if this service was available.

To no one's surprise, consumers who preferred one-price dealers enjoyed the bargaining process moderately less than purchasers at traditional dealerships. This aside, there were essentially two major differences among these groups of purchasers. The first was the amount of research that was conducted. As one would imagine, purchasers at traditional dealerships expect to negotiate, and therefore prepare themselves more than one-price dealership shoppers.

The second primary difference was again not a surprise: the perception of the amount of pressure applied by the salespeople. The pressure model used in this study tracked nine different types of pressure or persuasion sales techniques. In the comparison of the two dealership models, six of them have a significant variance as can be seen in Figure 19.

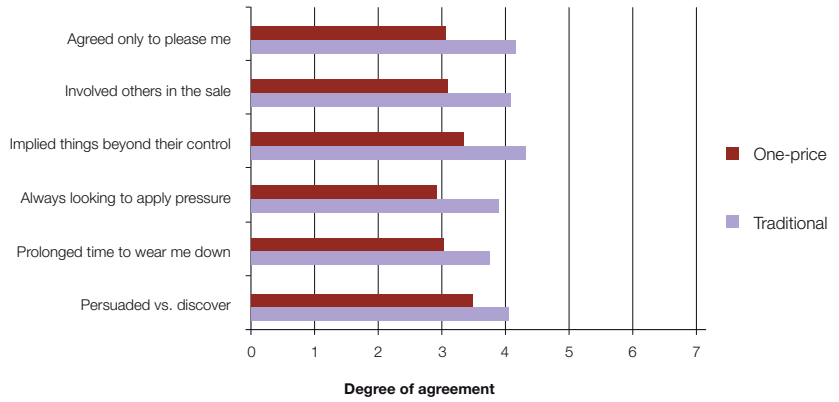
Two of the three techniques that were perceived to be most different between the two groups of buyers are more persuasion oriented. The first is when a salesperson implies that things are beyond their control when the shopper believes otherwise. The second was the perception that the salesperson agreed with the shopper only to please them. In other words,

[11] A one-price dealership is defined as a dealership where the prices are fixed.

[12] An online purchase is defined as any sale where the contact is initiated online and is completed by an Internet salesperson (may exclude payment and shipping).

[13] J.D. Power and Associates, Automotive web site traffic, October 10, 2002

Figure 19: Consumer Perceptions of Salesperson's Use of Pressure Techniques at Traditional and One-Price Dealers



Source: CIRP, Capgemini

Key Point

- Levels of consumer satisfaction with the salesperson and dealership, and the degree of dealership recommendation are not related to the dealership business model. They are related to the individual dealership.

the salesperson adopted a somewhat condescending attitude.

The third tactic that most differentiated the two business models is pressure oriented: the involvement of other salespeople or the sales manager in the selling process. As a result of the use of these pressure tactics, customers who purchased from a one-price dealership perceived their salespeople to be more customer oriented.

Yet, despite the fact that one-price dealership customers feel less pressure from the sales process, it is particularly interesting that there was no appreciable difference in consumer satisfaction between the two dealership models. Each of the variables tracked – satisfaction with the salesperson, dealership or OEM; perceived fairness of the salesperson; and the consumers' degree of recommendation – were more or less similar. In addition, there were no significant differences in the fear level, perception of time pressure or personal confidence between the two different groups of buyers.

This suggests that it's basically a matter of personal preference and expectations. Clients of one-price dealerships may think to themselves, "I am confident when buying a vehicle, I don't have a problem with bargaining, but I would prefer to spend less time buying my vehicle, and I would like to buy it from a dealer where I expect there is going to be less hassle."

Conclusions

Six key points to help understand the negotiation process.

To wrap up this exploratory study on consumer negotiation, it is useful to keep in mind the following six points.

1 Transparent and Opaque Negotiation Strategies

Consumers can be categorized into two groups based on the tactics they employ in the dealership.

Transparent shoppers are at ease with the salesperson, and are open about their interest in the vehicle as well as why they like it. Their communication style is direct and does not require that salespeople read between the lines. They have gathered considerable information prior to entering the dealership and openly reveal their product knowledge. Transparent consumers are apt to apply pressure during the negotiation process, certainly to increase their leverage, but also as a means of communicating to the salesperson their level of knowledge. The result is a shopper who is prepared to buy if they perceive the price to be fair. Otherwise, they are on to the next dealership. Should they buy, they are apt to be more satisfied with the salesperson than the dealership.

Opaque consumers, on the other hand, are less confident in their ability to get a good price, and therefore do not enjoy the bargaining process. At the same time, they trust salespeople less than transparent shoppers do. However, it's important to note that they feel no greater fears as a group than transparent buyers. Shopping for a vehicle is just not their cup of tea. This is reflected in their communication with salespeople: it's more guarded and less revealing. This makes the salesperson's job more challenging. Nevertheless, if a salesperson makes a sincere attempt to understand the consumer's needs and stays away from pressure tactics, they will have a good chance of being rewarded. Why? Opaque shoppers, given that they don't like the negotiation process, want to get it over with – the quicker, the better.

If they do buy, their satisfaction is higher for the dealership than for the salesperson. This is likely because their perception of a salesperson's fairness is lower than that of a transparent buyer's.

2 Sales Pressure

As a general rule of thumb, the use of undue pressure appears to be a no-win situation. The cheerful customer will head to the competition because they need to feel independent and respected as an individual, and not viewed as a customer on which selling techniques are applied. The fearful customer will confirm their negative stereotypes of the seller. The time-pressured customer, feeling constrained and needing to be in control of the situation, will proceed to the exit.

3 The SOCO Effect

For a dealership, there is a strong case made for fostering a customer-oriented environment as opposed to a selling-oriented one.

Customer-oriented salespeople are deemed to be more trustful. This helps to mitigate consumer fear and time pressure. Thus, it translates into a customer experience that is more enjoyable for the consumer and results in negotiations with fewer dealers. The salesperson is viewed as being much fairer, leading to a considerably higher degree of customer satisfaction. In turn, the perception of the dealership is enhanced and the favorability of a customer recommendation increases.

4 Consumers 56 Years and Older

Two statistics should be kept in mind. On average 65% of this group of consumers will visit two dealers or fewer, and a remarkable 75% will sit down at a salesperson's desk just once, at which time they will complete the deal.

In general, this group of customers can be viewed as being very transparent. They act in an open manner; feel less constrained by time pressure; suffer less stress from the buying process; and while not enthusiastic about bargaining, are, nonetheless, OK with it. Most will apply minimal pressure during the negotiation process, and if they provide competitive information, it's likely to be valid. They ask for only one thing in return – to get to the best price quickly, forgoing extended back-and-forth discussions. Thus, if a consumer in this age group perceives any undue pressure, chances are they will be one of the minority of shoppers who are off to the next dealer.

5 Satisfaction With the OEM

There is a correlation between satisfaction with the salesperson and satisfaction with the OEM. The value of the relationship increases with salespeople who are viewed as customer oriented. Likewise, there is a strong correlation between satisfaction with the dealership and satisfaction with the OEM.

These findings suggest that OEMs have every reason to encourage a customer-oriented environment within their dealership network.

6 "Am I Being Taken?"

Finally, in answer to the question that led off this paper, most consumers feel they have received a fair deal – not a rock-solid endorsement deal, but one they are comfortable with several months after completing it. This is particularly so for clients who have experienced a customer-oriented salesperson.

The Last Word

The presence of cognitive dissonance in the vehicle buying process suggests that fresh new ways should be looked at to nurture the customer relationship starting the moment the purchase is completed.

Recent surveys show that the majority of consumers (approximately 90%) overall are satisfied with their dealership experience.[14] The results of our study indicate much the same. Nevertheless, we challenge this finding and present a short vignette to illustrate perhaps why this isn't entirely true.

"Oh, you've bought a new car?"

"Yes and it's great, I really enjoy it. I can't believe it's finally mine!"

"Good for you! Where did you get it?"

"At Linear Motors."

"Are you satisfied with them?"

"Yes, I am."

"We're planning to buy a new car. Do you recommend them?"

"Hmmnn…actually no."

Even if a customer seems satisfied with the dealership, it doesn't mean their purchase experience was positive. At first sight what seems like a paradox is, in reality, cognitive dissonance.

Cognitive dissonance is a psychological state that occurs when a person begins to understand that something they believe to be true is, in fact, not true. This creates an uncomfortable tension. To reduce this tension, a person can use one of two techniques. They can ignore certain facts, or they can create an explanation to justify their behavior.

An attitude or a decision usually evolves during action. Normally, there is no straight line between the first evaluation and final decision. It's rare that someone evaluates a situation once and for all, and then sticks to their decided behavior. Instead, with the addition of new information, a first evaluation is revisited. However, if the input is too different from the initial perception, yet the person desires to conclude their action, the person will ignore the new information in order to avoid cognitive dissonance.

It's worth noting that the longer it takes to make a decision, and the more difficult a decision is, the less likely a person is willing to question it. This is because questioning their personal actions would imply that they have made some error and thus haven't benefited from the extended process they have just completed.

The qualitative research for this study identified the possible existence of cognitive dissonance. To confirm if the presence of cognitive dissonance existed among the respondents, the difference between the average scores for satisfaction with the dealership and for recommendation of the dealer was tested. If this hypothesis is true, we should see a statistically significant lower rating for recommendation. The analysis, in fact, supports the premise that cognitive dissonance is present.

If we return to our vignette for a moment, it's understandable that the buyer would want to convey satisfaction with the dealership to their colleague. They have just purchased a new car and want to be perceived to have acted in a rational manner. However, during the buying process, an event took place that diminished the experience. Nevertheless, the desire to purchase this particular car was still present, so the buyer justified the purchase to themselves. What did change though was the favorability of the recommendation – in this case, to the absence of one.

What the presence of cognitive dissonance suggests is that fresh new ways should be looked at to nurture the customer relationship starting the moment the purchase is completed.

[14] ART – Automotive Retailing Today, "Attitudes and Perceptions," 2006; Consumer Reports, National survey on buying experience at new car dealers, consumerreports.org, 2007

Appendix: Research Methodology

Pre-test: The results from the initial pre-test survey were analyzed using factor analysis to eliminate questions with lower correlation to the total score across all related items.

Likert scale: Apart from demographic and certain vehicle-specific questions, all the variables were rated on a 1-to-7 strongly disagree – strongly agree (or, not true – true) response scale by the respondents. Based on this scale system, a score of 4 was considered neutral and the average score (mean) represented the overall viewpoint of the respondents.

For each of the questions, groups were identified by analyzing the three highest responses (scores 5, 6, 7) and the three lowest responses (scores 1, 2, 3). In addition, questions that were similar in theme were combined into one scale, which was then measured against other scales. To do so, the respondents were divided into two groups – one group above and one group below the neutral score of 4.

With the exception of demographic, brand-specific and the tactic-related questions developed by CIRP, the balance of questions/scales were derived from academic studies published in major research journals. As an example, the salesperson satisfaction scale is constructed of six questions developed by Oliver and Swann, 1989.[15]

[15] Oliver, R. and Swan, J., "Consumer Perceptions of Interpersonal Equity and Satisfaction in Transactions," April 1989, 21-35

About Us

About the Car Internet Research Program II (CIRP II)

The Car Internet Research Program II (CIRP II) is an industry and academic-sponsored automotive research program directed at understanding how new information and communication technology will impact the automobile industry. Administered through the University of Ottawa, CIRP is sponsored by a variety of industry stakeholders that include: Capgemini, PSA Peugeot Citroën, Ontario Research Network for Electronic Commerce (ORNEC), Renault SA and The University of Ottawa.

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