Buyers with a trade-in get a raw deal

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If you're in the market for a new car, and especially if you have a trade-in, the latest research from the USC Marshall School of Business marketing department suggests you aren't getting the deal you think you are getting.

New research from USC Marshall School of Business associate professors of marketing Anthony Dukes and Sivaramakrishnan Siddarth shows that a consumer with a trade-in actually forks over more money to the dealer than consumers without a trade-in.

"The Informational Role of Product Trade-Ins for Pricing Durable Goods" is forthcoming in the *Journal of Industrial Economics*.

Dukes and Siddarth co-authored the study with Jorge M. Silva-Risso at the University of California, Riverside, and Ohjin Kwon at Concordia University. Lead author Kwon '10 has a Ph.D. in marketing from Marshall.

Making Assumptions

The research theorizes that sellers of durable goods for which dealers accept trade-ins—cars, boats, home appliances and musical instruments—can utilize inferences about the buyer's willingness to pay based not only on his or her decision to trade in the old good, but also on its characteristics. The researchers focused on automobiles, testing their theoretical model with data from new-car transactions in the premium midsize sedan category between 2001 and 2005.

The results indicate that dealers infer a higher willingness to pay, and so charge higher prices to consumers who trade in a used vehicle than to those who do not.

Brand loyalty? That will cost you too.

Dealers charge even higher prices to consumers who trade in used cars similar to the new one, the researchers found.

Buyers with a trade-in pay an average of $990 more than those who do not trade in their used cars, according to the research. In addition, a buyer pays an additional $150 more if the trade-in is of the same make as the new car, and another $64 more if it is the same make and model.

"The most important finding of our research is that your decision to trade in your old car tells the dealer something about you and your insensitivity to price," said Dukes. "It might be why car salespeople often ask you, soon after stepping into a showroom, whether you're trading in your old car—even before you discuss terms of the new car."

"For example, if you're buying a new Honda and trading in an old Honda, the dealer may infer that you were happy with your old Honda and probably are not considering Toyota, Nissan, or any other competitive brand," Dukes explained.

What is a consumer to do? "Consider hiding from the salesperson the fact that you have a trade-in until after you reach the price of the new car," said Dukes. "Our research suggests you will receive a lower price."

Provided by USC Marshall School of Business