

# Used Car Market in the USA---The Existing Problems and Solutions

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**Abstract.** The used car market in the USA is a huge and stable market while some problems still exist in. This essay aims to find out these problems and provide sellers, buyers and government possible solutions to solve the problems. This essay analyses the behavior of the seller and the buyer in some cases and discovers the strategies used by them. By conducting social surveys and learning from previous essays, the author finally reaches a conclusion of the strategies for both sides in a negotiation. The research is of great significance because it is a real-life situation that many will face while they may be at a loss of what to do. The real cases inspire the author to reflect on the long-standing and built-in problems of the enormous market and study the benefits of both sides from their point of view so that the author can give suggestions that can reach a win-win situation.

**Keywords:** Used car; seller; buyer; negotiation.

## 1. Introduction

The US used car market is now a big, stable market whose size is twice more than the new car segment and its growing speed is outpacing the latter. Used cars offer a relatively counter-cyclical safe harbor from the stunning sales highs and lows of new cars whose peak-to-trough declines is an average 11% in the past 20 year, compared with 23% for new cars. Additionally, the used-car market is less susceptible to market shocks, for instance, the 2009 recession. In the past decade, the used car market is also experiencing a digital revolution with new players and new retail models emerging.

The main participants of the used-car market are the authorized new car dealers, the used car dealers and individual sellers and buyers. Facing the opportunities and challenges of the second-hand car market, some large dealer groups have established independent second-hand car operation centers. These specialized used car operation centers not only improve the professionalism and efficiency of used car sales, but also provide consumers with a more convenient and high-quality car buying experience. The USA second-hand car market is mainly dominated by these operation centers. In addition to them, the used car dealers and individual sellers and buyers also account for a small part of the market participants. And often, among those second-hand dealers, some of them sell less than a hundred vehicles a year and cannot provide warranty service for the vehicles they sell, which are mainly for lower income people. The digitally fluent entrants—such as Carvana, Fair, and Vroom are strongly influencing the market with cutting-edge digital capabilities, like big data analysis and advanced digital platforms compared with the traditional one used by the used car dealers [1-5].

The common procedure of buying a used car has several steps, including looking for a target vehicle with suitable brand, functions and conditions, which is often assisted by a digital platform based on the big data, going through a test drive, negotiating about the price and other items and then signing a contract. The negotiation process is a common part where conflicts may exist since both sides have their own interests, and sometimes they are hard to reach an agreement. This essay aims to offer strategies which can be applied to the negotiation in used car market in the USA by analyzing specific cases and pointing out the major existing problems.

## **2. Case Description**

### **2.1. Case 1: Negotiation Between Individual Seller and Buyer**

Background: The buyer found a 2015 Honda Civic on Craigslist for \$12,000.

Transaction process: The buyer made an first offer of \$10,000, which is far lower than his walkaway price. Then the seller repeatedly explained the advantages of the vehicle including its good condition and the two parties finally closed the deal for \$11,000.

### **2.2. Case 2: Negotiation Between the Salesperson in the Operation Centre and the Buyer**

Background: Mary is a young mother who needs to move to a bigger SUV. She decided to go to the local car dealership to make the deal.

Mary began her car buying journey by researching reputable used car dealers online and visiting several in person. She focused on comparing large SUVs from different brands, assessing them based on price, mileage, and configuration. To facilitate her purchase, Mary took her old car to a dealer for an appraisal, discussing options for trading it in. After careful consideration, she decided on a 2017 Ford Explorer that fit her budget. She then negotiated the price with the salesperson and explored various financing options offered by the dealership, ultimately selecting the one that best matched her financial needs. Once the deal was finalized, Mary signed all the necessary documents and drove home in her new car [6-11].

### **2.3. Case 3: the Used Car Deal at the Auction House**

Jack, a car enthusiast, decided to resell one of his classic cars through an online auction platform to attract a wide range of buyers. He started by meticulously cleaning and maintaining the car and preparing detailed vehicle history records and photos. After choosing a well-known online auction platform like Bring a Trailer or eBay Motors, Jack registered and created a comprehensive listing that included the vehicle's specifications, pictures, history, and maintenance records. Setting a reasonable starting price, the auction attracted many bidders. In the final hours, Jack monitored the bids closely and responded as needed. Ultimately, he sold the car at a satisfactory price, and after the payment and transfer documents were processed, the buyer successfully received the vehicle.

## **3. Analysis on the Problem**

### **3.1. Second-hand car price formation mechanism**

The price of used car is mainly depended on the overall economic situation, the supply and demand in the used car market and the specific conditions of the car, including its year of use, mileage, mechanical condition, appearance, configuration, displacement, gas efficiency and brand. For instance, the shorter its year of use is, the higher the price will be. And for some customers, they are likely to choose cars with certain brands, usually the one they used to own or trust in. Thus, a car with a well-earned reputation is more likely to be sold at a high price. As for the overall economic situation, we can see how the macro-economy affects certain products. Used car prices in the United States have experienced significant volatility in recent years, especially during the COVID-19 pandemic. Here is an overview of some of the key factors and trends:

(a) Soaring prices: Since the beginning of 2020, used-car prices have risen sharply, driven by supply chain issues for new cars. With the production of new cars limited, consumers switched to used cars, and increased demand caused prices to skyrocket. For example, in 2021, the average price of used cars reached an all-time high, and prices for some models even increased by 30 to 50 percent.

(b) Supply and demand: The shortage of new cars is mainly due to issues in the semiconductor chip supply chain, which has affected the production capacity of automakers. Increased demand and tight supply have led to a sharp rise in prices.

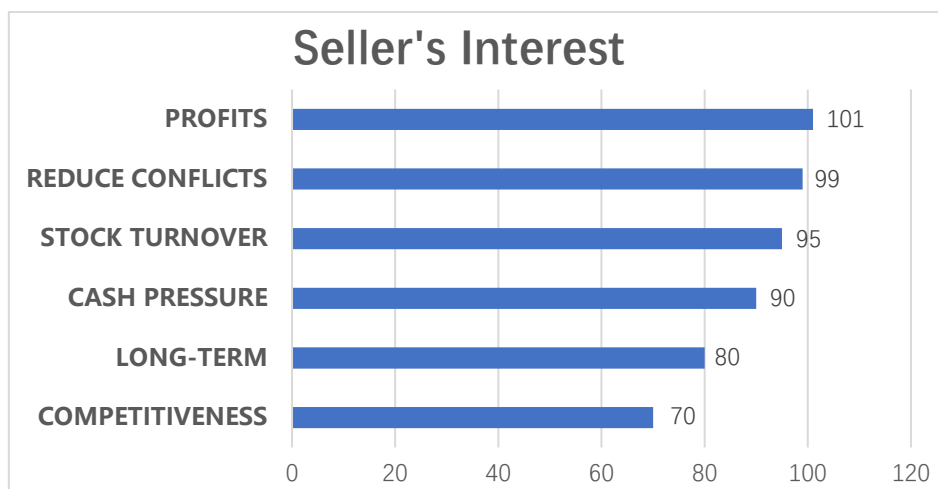
(c) Inflation impact: In 2021 and 2022, the overall inflation rate in the United States increased, increasing the cost of car purchases for consumers. Used cars are often seen as an affordable option, so demand rises further amid greater economic uncertainty.

(d) Downward trend: After entering 2022, prices in the used car market began to gradually decline, partly due to the gradual recovery of the new car supply chain. In addition, with the increase in interest rates and changes in economic conditions, the demand for car purchases has weakened. This means that used car prices at the end of 2022 and the beginning of 2023 have fallen from the peak but are still higher than the pre-pandemic level.

### 3.2. Common Problems in a Negotiation

According to research conducted but our group in previous studies, we can learn that what sellers and buyers care about in the situation. It shows as Table 1:

**Table 1. Seller's interest**



**Table 2. Buyer's interest**

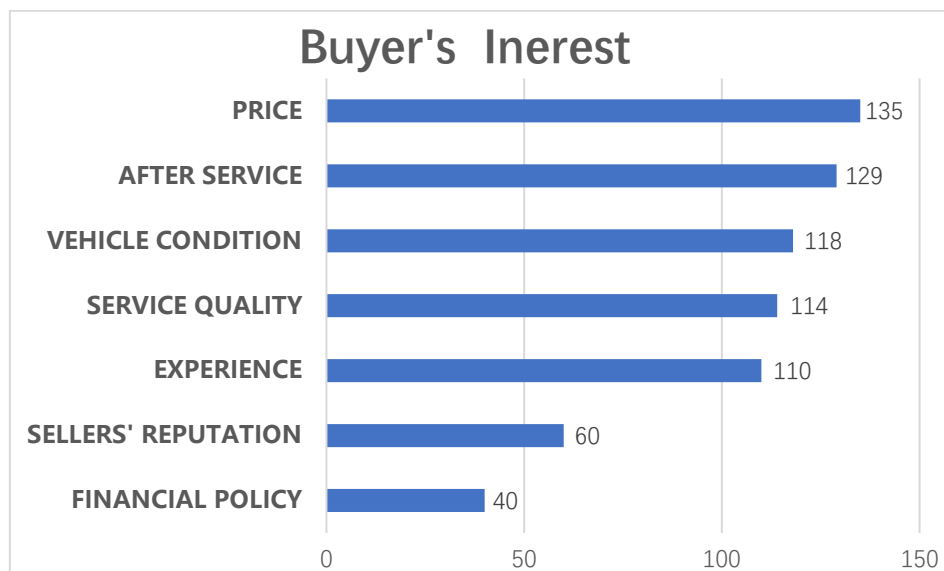


Table 2 suggests that both the sellers and the buyers care most how much they get or pay and that is where the problem lies in. In a negotiation, negotiators often suffer from information asymmetry, which means that the seller and buyer can not get same or similar information. And this often happens to the buyers. As a result, some buyers may be cheated due to their lack of information. Additionally, buying a second-hand car often contain additional fees and hidden cost. Additional fees and hidden costs include taxes, transfer fees and maintenance fees. These fees are sometimes neglected by the

buyers and benefit the sellers, but somehow hiding these additional requirements means an unfair transaction.

### **3.3. Solutions to the Problems**

To solve the problems mentioned above, here are several strategies:

#### **3.3.1. For Sellers.**

**Show the advantages of the vehicle:** When communicating with potential buyers, clearly demonstrate the advantages of the vehicle, such as newly replaced parts, a good maintenance record, or low mileage.

**Set a reasonable price:** Make sure the pricing is in line with market realities. Pricing too high can turn off potential buyers, and pricing too low can cost profits.

**Prepare to answer questions:** Have relevant information about the vehicle, including accident history, maintenance records, and details of any repairs, ready in advance to answer buyers' questions during negotiations.

**Flexible response to conditions:** If the buyer disputes the price, consider making concessions on the price, but at the same time attach some conditions, such as no additional parts or discounts.

**Stay positive:**

Maintaining a friendly and open attitude when communicating with buyers and establishing a good communication atmosphere will help to conclude a transaction.

**Professional certification:** If possible, provide vehicle inspection reports or maintenance records to increase confidence in buying furniture and improve the chances of a transaction.

#### **3.3.2. For Buyers.**

**Do research:** Before negotiating, find out the market price of the vehicle the buyers are interested in. Use websites such as Kelley Blue Book, Edmunds, and Autotrader to assess the average price of the same vehicle. Understand the vehicle's history, including accident history, repair history and maintenance history.

**Set a budget:** Define the price range and stick to it. Set an ideal price and a bottom line price, and adjust according to the actual situation.

**Start with a reasonable bid:** Do not negotiate at the seller's asking price all at once. Start with a bid slightly below the market price to give buyers room to negotiate.

**Back up negotiations with facts:** If the vehicle is defective or does not match the description, buyers can use inspection results, vehicle history reports, etc. as supporting material for negotiation to justify the bid.

**Stay calm and patient:** Negotiations can be messy, so do not rush things. Stay calm, avoid emotional responses, and give the other person time to think and make decisions.

**Alternate conditions:** During the negotiation process, additional conditions can be proposed, such as asking for additional accessories, warranties, or better payment terms. This adds value to the transaction.

## **4. Suggestions**

### **4.1. Strategies for the Buyers**

#### **4.1.1. Market Research of Second-hand Car Buyers.**

When evaluating used cars, several strategies and resources can help make an informed decision. Online resources like Kelley Blue Book, Edmunds, Autotrader, and Cars.com provide valuable insights into market values and price ranges for various models. Additionally, browsing automotive forums and social media platforms can offer firsthand accounts and reviews from vehicle owners, which are useful for understanding the real-world performance and reliability of specific models. It's important to compare prices of similar vehicles by assessing their mileage, year, and condition to establish a reference for decision-making. Comparing national and local markets is also crucial, as prices for certain models may vary by region. Visiting dealerships and individual sellers for field observations allows potential buyers to ask questions and directly gauge market dynamics and supply. Lastly, analyzing economic factors such as macroeconomic trends, supply chain conditions, interest rates, unemployment, and consumer confidence is essential, as these can significantly influence the supply-demand relationship and pricing in the used car market.

#### **4.1.2. The Application of Negotiation Skills.**

In the preparation stage for negotiating the purchase of a used car, it's important for buyers to set a psychological price range, determining both the highest and lowest prices they are willing to accept. This provides a reference point during negotiations. Buyers should also thoroughly research the market, prices of similar vehicles, and the pricing strategies of sellers to support their position with facts. During the negotiation, starting with an opening bid that is below the seller's asking price can allow for adjustments. If any defects or issues with the vehicle are discovered, these should be used to negotiate a more favorable price. Effective negotiation also involves active listening and communication. Understanding the seller's situation and motivations can help find a mutually acceptable price, while maintaining a positive dialogue and demonstrating respect can build trust. Flexibility is crucial; making timely concessions or offering additional conditions, such as a quick deal, can lead to a win-win outcome. Keeping options open by indicating the consideration of other vehicles can also enhance negotiating leverage.

### **4.2. Strategies for the Sellers**

#### **4.2.1. Set a Reasonable Quotation.**

Market research: Understand the price range of similar models in the local market, including age, mileage, vehicle condition and other factors. Use car valuation tools or check out quotes from online used car platforms. Vehicle condition assessment: According to the specific condition of the vehicle (such as vehicle age, mileage, maintenance record, internal appearance condition, etc.) assessment. Vehicles in good condition can be set a slightly higher price. Consider the market demand and supply: if a model in short supply in the market, the price can be increased; Conversely, if supply exceeds demand, more competitive prices are needed. Flexibility: Set the price with some room for negotiation, so that buyers have room to negotiate, but also to ensure their bottom-line price.

#### **4.2.2. Skills for Handling Buyer Objections.**

Listen and understand: Listen carefully to the buyer's objections and understand their concerns. This helps build trust and lays the foundation for further communication. Provide facts and figures: In response to buyer objections, provide transparent vehicle information, such as repair records, maintenance, accident history, etc., to reassure them. Emphasize value: Highlight the good and unique features of the vehicle, such as low mileage, excellent maintenance record or special configuration. Flexible negotiation: Make some concessions on price or other conditions, such as a free maintenance or extended warranty. Build trust: Be professional and honest with buyers and avoid exaggerating or withholding vehicle information.

### **4.2.3. Maintain Customer Relationship.**

Regular follow-up: After the transaction is completed, follow up regularly by phone, text or email to understand the customer's satisfaction and solve any problems they may have. Provide value-added services: provide customers with some value-added services, such as regular maintenance reminders, preferential maintenance services, etc., to increase customer loyalty. Invite feedback: Customers are encouraged to provide feedback about their experience and suggestions in order to improve the service. Keep in touch: Send greeting messages on holidays or special occasions to show concern for customers. Referral reward: Establish a referral reward program to encourage old customers to introduce new customers, thereby expanding the customer base.

## **4.3. Suggestions for Governments**

### **4.3.1. Improve Market Transparency.**

Establish and promote vehicle history database: Create a national vehicle history database to record vehicle ownership changes, maintenance records, accident history and other information. Consumers can easily check the full history of the vehicle when buying a used car.

Require vehicle inspection and certification: It is mandatory to carry out professional vehicle inspection and certification before the sale of used cars and provide detailed inspection reports to buyers. This helps consumers understand the true condition of the vehicle.

Standardized information disclosure: It stipulates that used car sales must disclose specific information, such as vehicle mileage, year, accident records, maintenance records, etc. Ensure that all sellers provide accurate and consistent information. Online platform supervision: To supervise the online sales platform of second-hand cars, to ensure that the vehicle information on the platform is true and transparent, and to set up consumer complaints and feedback mechanisms.

### **4.3.2. Strengthen Consumer Protection.**

Set up consumer protection laws and regulations: make a special law on used car trading, setting out the responsibilities of sellers and the rights of buyers. Clarify the contractual obligations of buyers and sellers and protect consumers from fraudulent practices. The implementation of quality assurance or return policy: the provision of second-hand car sales must provide a certain period of quality assurance, or allow the return of vehicles under certain conditions, in order to increase consumer trust.

Provide legal aid and arbitration services: Establish specialized legal aid and arbitration institutions to provide legal support and quick resolution of disputes encountered by consumers in the course of transactions.

Strengthen market supervision and law enforcement: Strengthen the supervision of the second-hand car market and crack down on improper activities such as false publicity and concealing vehicle information. Set up a special complaint channel to deal with consumer complaints in a timely manner.

### **4.3.3. Promote Industry Standardisation.**

Develop industry standards: Work with industry associations to develop industry standards for used car sales, including vehicle testing, evaluation, certification processes, etc., to ensure that all parties follow uniform standards. Vocational training and certification: Promote the vocational training and certification of second-hand car dealers and sales personnel and improve the professional quality and service level of practitioners. Promote enterprise self-discipline: Encourage the used car dealer industry to self-discipline and establish a corporate culture of honest management. Companies are encouraged to publicly commit to industry standards and government regulations.

Public ranking and scoring: Establish a public ranking and scoring system for used car dealers, conduct public evaluations of businesses based on consumer feedback and regulatory records, and help consumers choose reputable sellers.

## 5. Conclusion

From the research above, here are the problems existing in the second-hand car market in the USA and strategies for buyers, sellers and government to apply to a real negotiation. This essay aims to help negotiators reach a win-win solution in lives. For future research, scholars may focus on the essence of the problem, like why this happens and look for ways to eliminate the problem to make the used car market fairer, more transparent and benefit all. As a high school student, the writer does not have enough social resources to do enough research, which can be improved later in other research.

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