

IDENTIFICATION AND ANALYSIS OF THE FACTORS AFFECTING THE PRE-OWNED CAR MARKET IN INDIA

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Abstract— The following paper analyses the booming pre-owned car segment in India. SIAM expects this industry to have a CAGR of 10% over the next 3 years. Therefore, research has been undertaken to analyze the various factors that affect customer buying decision. By reading and reviewing related articles as well as using their own experience, the authors have pin pointed various factors that are influential according to them. Also, looked upon is the EKB model of consumer behavior.

Keywords— Pre-owned Car, EKB Model, Manufacture Certified Cars

1. INTRODUCTION

In the following conceptual paper, the authors have attempted to give an overview of pre-owned car market in India and its growth prospects. The authors have endeavored to analyze the trends and the various factors which may affect the growth of the pre-owned car segment by reviewing existing papers and available secondary data. While doing the research, the authors have used consumer behavior and its perception to see the growth trend in the market.

A pre-owned car, also known as a used car or a secondhand car, is a vehicle that has already had one or more retail owners. Used cars are sold through a variety of outlets, including franchise and independent car dealers, rental car companies, leasing offices, auctions, and private party sales. Some car retailers offer "no-haggle prices," "certified" used cars, and extended service plans or warranties.

The used car market in India is estimated to have a compounded aggregate growth rate (CAGR) of 20 percent in the next 5 years. According to Autocar Magazine, there are about 750 organized used car outlets in India while there is demand for around 3500-4000 outlets.

2. HISTORICAL DATA:

Till the mid-2000s, the pre-owned car market was dominated by C2C (customer to customer) sales among friends and relatives. Cars were traded in the circle of trust that a person grew up in. The entry of Maruti True Value in 2001 marked the transformation of the industry. Today, organized players including large scale players like CarTrade, Carwale, and manufacture owned enterprises, who use a mixture of quality and value delivered over multiple mediums to customers, dominate the industry. The organized players deliver value by using multiple point inspection of the car and also by background checking of the customers. Maruti True value has a 120 point inspection of quality done on every car sold through any of its outlets. On the other hand, CarDekho has given an organized platform for C2C transactions.

3. LITERATURE REVIEW:

- a. Nikhil Monga, Dr. Bhuvnender Chaudhary and Saurabh Tripathi research into the possible gaps between the customer expectations and the present market offerings that new entrants in the market can target. The researcher has collected both primary and secondary data for the paper. The research has analyzed the applicability of existing research concepts, theories, and tools for evaluating consumer satisfaction.
- b. Pablo A. MuñozGallego Eva Lahuerta Otero have revealed some very interesting data about the pre-owned car market. Among first time car buyers, 66.4% turn to the second-hand car market as a first option. 87.5% of them thought price was the main advantage. Therefore, 62.7% of buyers in this market acquired the vehicle they were initially looking for.
- c. Duvan and Aykaç investigated the pre-owned car business, particularly in the US, Europe and Turkey. Their research highlighted that the dealers and manufacturers with successful used car operations have made strategic

investments in technology to improve customer experiences. and build trust that forms the basis of their ability to compete with lower priced independent dealers and private sellers.

- d. Kiley (2002) and Rusert& Wiseman (2003) have listed various advantages that the Manufacturer certified Pre-owned vehicle programs offer to the manufacturers and to the buyers. Some of these are that the Manufacturer Certified Pre-owned Programs are designed to give buyers the chance to purchase a pre-owned car with complete confidence by offering some or all of the benefits like comprehensive vehicle inspection, extended warranties, strict qualification guidelines, roadside assistance etc.
- e. Purohit (1992) explored the relationship between primary markets for new cars and secondary markets for used cars and found that the depreciation of used cars is influenced strongly by the types of changes in the new model cars.

4. OBJECTIVES :

1. To pin point factors affecting the growth of the pre-owned 4 wheeler sector
2. To study the impact of development of online platforms on the pre-owned car market
3. To compare the difference between prices of brand new car and pre owned vehicles
4. To gauge the relationship between factors affecting sales of pre-owned cars and its impact on sales of brand new cars
5. To determine the factors which affects the decision making of pre-owned cars
6. To examine whether the launch of a brand new model increases the sales of pre-owned cars

5. SCOPE OF THE STUDY:

- i. The research is only conducted within India. Therefore, the physical boundary of the study is India.
- ii. Only cost data of the 10 most selling four wheelers in India is taken. So the scope of the study is limited to these 10 cars.
- iii. The data is taken with time frame of 5 years.
- iv. The research mainly focuses on 4 wheeler pre-owned vehicles. Therefore, the scope is limited to the pre-owned market within 4 wheelers.

6. LIMITATION:

- i. The study is wholly based on secondary data sourced from online portals. Therefore, the reliability and relevance of the data to the research is questionable.
- ii. It is bound to the ex-showroom prices of Delhi. Therefore, this creates a problem since every state has its own taxation policy. However, this problem will be non-existent in future researches due to the implication of GST.
- iii. Data available to research did not specify on each factors affecting the consumer psychology.
- iv. The pre-owned car market is an unorganized sector, so the availability of the data wasn't accurate or reliable.
- v. There is difference between the launch price and Ex-showroom price
- vi. The sale of every Pre-Owned car had different rates based on usage and wear and tear of the car.
- vii. There was no study made on luxury car , research was constrained to the car price upto 13,73,000
- viii. There is differences in model, as all the car have there updated version available in the market

7. FACTORS THAT INFLUENCE THE PRE-OWNED CAR MARKET:

In the initial stage, this factors can be broadly classified into the following:

1. Internal factors
2. External factors

Internal factors refer to the intrinsic condition of the car. It has the following sub heads:

Car Appearance- When a consumer buys a preowned car, the external appearance of the car is what creates the first impression. If the car is well maintained with no dents and an attractive paint job, the customer is half convinced. In the appearance, the customer usually focuses on the dents, finish of the paint, scratches and many further things. The body and the design is the first thing a customer notices about the car.

- i. **Spare parts-** The availability of spare parts is a key determinant of the resale value of the car. A Maruti 800 or a Hyundai Santro has low depreciation due to the easy availability of the spare parts. On the other extreme, a luxury/sports car like the Ferraris and the Lamborghinis face massive depreciation to the high cost of the spare parts. The major expense in maintain a car is in replacing old, worn out parts. Therefore, customers tend to prefer brands with cheap and easily available spare parts.
- ii. **Interior of the car-** All the customer's time with a car is spent inside it. Therefore, the interior of the car gives the customers a sense of pleasure when riding the car. Hence, it is logical for customers to want an involving and attractive interior. Moreover, a neat and clean interior is always preferred over a dirty and smelly interior.

- iii. Condition of the tires- While not a major factor, the wear and tear on tires of a car is looked at when inspecting a car. A new tire offers more grip and safety to the rider than the worn out tires. However, the cost of a new tire is not out of reach of the customers.
- iv. Reliability and durability- The reliability and durability of the car goes beyond its engine. It includes whether the exterior panels are strong enough to keep the riders safe. Also, the reliability of the interior components like the mirror mechanism can deter customers.
- v. Engine- The engine is the most important part of the car as the reliability of the entire vehicle is dependent on the engine. Before the 2000s, the Japanese cars were labelled the world's most reliable cars due to its amazing engines. Also, the condition of the engine tells a lot about the car's history. How the car drives can help you estimate whether it has been well maintained or not.
- vi. Cohesiveness of package- While all these factors are important on their own, the package it self has to be up to the standard. Also, the components have to show the same story. If the tire is worn out but the engine shows only 5,000 km, the customers are bound to question the car's authenticity.

The external factors are the extrinsic factors that impact the purchase of pre-owned cars. These are beyond the car itself and include economic and market factors:

- i. Cost of fuel –Fuel and vehicle demand have a complimentary demand. Therefore, if the cost of fuel decreases significantly, the customers may be moved to purchase a pre-owned car.
- ii. Purpose of buying the car- The way the car is used determines whether the car is worth purchasing or not. If the customer wants it for daily, home to work travel, buying a second hand car is feasible. But other tasks need more reliable or a particular type of vehicle which is primarily provided by the new car market.
- iii. Actual cost of the car- Every person dreams of owning a Mercedes or a Ferrari. However, buying a brand new car Mercedes is impossible since it is very expensive. However, a second hand car of the same model is cheaper and more affordable for the customers.
- iv. Increased standard of living- The income per capita is a major determinant of the purchasing behavior of a country. As the GDP of the country improves, the customers move from a 2 wheeler to a basic 4-wheeler and to a more luxurious variant. Therefore, a boom in GDP aids growth of the pre-owned car market.
- v. Weather- In some cities in India, the weather conditions are extreme. Hence, people want to commute in cars that are suitable to the weather. For this, the second hand car market offers a lot of options in a budget.

8. OPERATIONAL DEFINITION :

- i. Ex showroom price: Ex-showroom Price of Car is the price at which a car dealer sells a car to customers. It includes Dealer Margins, Transportation costs and applicable Excise, State Taxes and Octroi Charges. It is exclusive of any registration, insurance or loading charges.
- ii. EKB model: The Engel Kollat Blackwell model is a model used to assess, analyze and predict consumer behaviour by looking at multiple intrinsic and extrinsic factors affecting it. The distinctive parts of consumer decision making according to the EKB model are input, information processing, decision process, variables, and external influences.
- iii. Manufacturer certified used cars: Certified pre owned vehicles are inspected according to the manufacturer's standards and carry a manufacturer-backed warranty that usually extends the length of the new-car coverage. They're sold through dealerships of the manufacturers. Examples include the Maruti Suzuki True Value.

9. ANALYSIS

Society of Indian Automobile Manufacturers (SIAM) releases a yearly report on the state of the Indian Car industry. Recent annual reports from SIAM have highlighted the tremendous growth experienced by the pre-owned car market in India. Today, for every new car sold in India, 1.3 used cars are sold. The growth can mainly be attributed to:

- i. Upgrade to a bigger car at a lower budget
- ii. Expansion of organized used car players
- iii. Improved Quality
- iv. Internet Access
- v. Better maintenance

9.1 EKB Model Analysis

The EKB model has various aspect or one can say boxes where Each of the boxes in the "multi mediation" model of consumer behavior represents a variable that may influence behavior. The arrows connecting boxes describe relationships between variables as well as emphasizing that consumer behavior is a dynamic ongoing process. The decision making was based on two aspects internal and external factors. The following situations and examples will give the detail information about the factors affecting it.

- i. Believe - If Hari believes that one should be environment friendly then he will prefer to buy a Eco-friendly car instead of non Eco-friendly car. So this is how his believe influenced his decision making.

- ii. Motive - If Ravi wants a car for adventure sports then he will buy a car that solves a purpose for the same. So in this situation it is quite clear that Ravi had a motive and that factor affected his decision making for buying a car.
- iii. Intention - If Kuldeep wants to show off in the society about his money and other aspects he will want to buy a luxury car so that he can brag about it in the society. So in this scenario kuldeep's intention to show off in society made him think in a such a way that affected his attitude toward buying the car
- iv. Family influence- If Radha has a family size of 7 people that she will go for a car that can accommodate all of them so in this case she will buy a SUV instead of a hatchback. So this way her family size influenced her decision making.
- v. Evaluative criteria - Now let's take an example of Manu. She wants to buy a car which is durable as well as fuel efficient and value for money. For that she will evaluate each and every aspect of all the cars. In this way she can evaluate each one of them. Her evaluation criteria will help her make to make decision. Hence forth becomes a factor for decision making.
- vi. Unexpected circumstances- Now it may happen that Joshua Dash crashed his car badly but due to unavoidable reasons he needs a car as soon as possible. So in this situation he will immediately go and buy a car. This is how his situation acted as a factor that made him take a decision to buy a brand new car.

Based on the analysis done by using secondary data, we have come across various facts like:

- i. There are 3.3 million pre-owned passenger car market in India is currently notching 15% year-on-year growth.
- ii. More than half of these buyers, i.e.55%, have bought there first car in the family by buying the pre-owned vehicle
- iii. According to Dr Nagendra Palle, MD and CEO, Mahindra First Choice Wheels, "Over the last 24 months, the pre-owned vehicle industry has been the subject of much attention from a variety of industry stakeholders such as investors, automotive OEMs, car dealers, financial institutions and consumers.
- iv. At present, India, which is slated to be among the top five global automotive markets by 2020, sees the pre-owned car market growing at over 15% a year (the organized segment is seeing over 25% growth). While 45% of all pre-owned cars are sold in metro cities, non-metros account for 55% and growing faster than the metros. Zone-wise, the North with 36% leads the pre-owned car market in India, followed by the West (27%), South (26%) and the East (11%).
- v. The reports also reveal that the North and West exhibit more organized channels than the South.
- vi. Fifty percent of buyers are in the 25-34 age group.
- vii. The average age of a pre-owned car at the time of sale is 4 years with the average ticket size being Rs 3-4 lakh.
- viii. The pre-owned car market in India is supply constrained, with inventory turns at dealers under 30 days compared to over 60 days in the US.
- ix. Pre-owned car channels are also highly fragmented with four primary market segments: - Organised: 12% market share. Average volume at 16 per month - Semi-organised: 35% market share. Average volume 9 per month - Consumer to consumer: 34% market share - Unorganised: 19% market share. Average volume is less than 3 per month As is known, the unorganised sector is highly fragmented but it accounts for the bulk of the dealer population (58%) and only 19% of the total volume.

10. CONCLUSION

From the research, the authors conclude that there is rising need for people to own a vehicle. This business line is turning itself towards an organised sector, we can claim this fact by seeing increasing number of registered dealers in last 5 years and various online platforms have also evolved over the period of time. One of the significant factor in this developing industry is that, there are institutional owner like corporate offices and hotel chains who gives major contribution in growth of this business. apart from this the industry also involve individual owners. Due to, the increasing growth and development in this business many companies like BMW, Mahindra and Audi has started its own exclusive Pre-owned vehicle showrooms in various parts of country starting from Delhi and Gurgaon. The report tries to give details on the rapid growth of pre-owned vehicle market and provides insight into the scale, stage and structure of the industry. This is the first-of-its-kind report that will be extremely be useful to all stakeholders in assessing the Indian pre-owned vehicle industry and its future growth.

One of the main component in the growth of this industry is related to consumer behaviour. the research paper is examining the factors influencing the purchase and sale of preowned vehicles.

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