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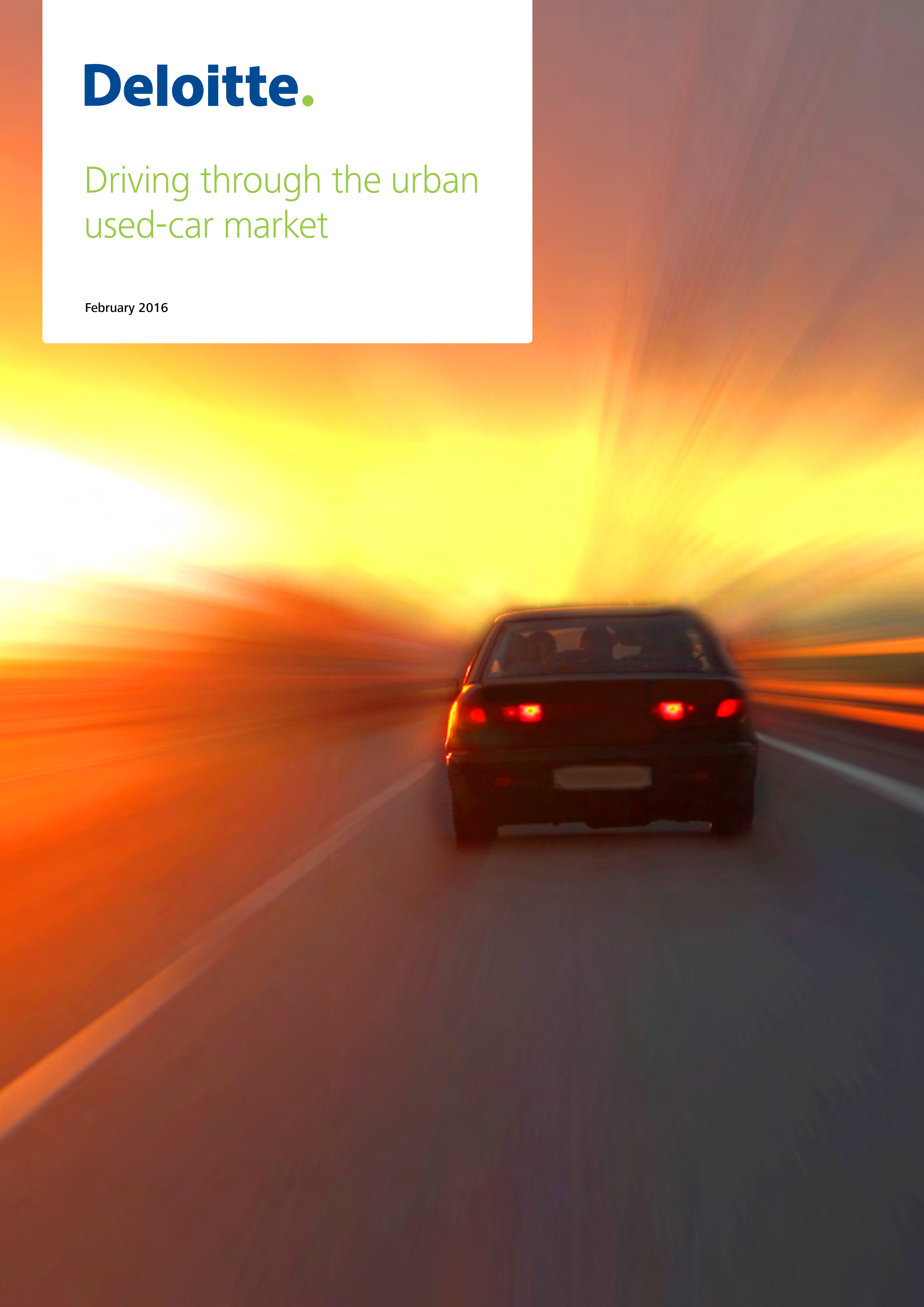
Driving through the urban used-car market

February 2016



Contents

Introduction

Indian used-car market: Gaining momentum

The used-car business has been one bright spot in a slow growing automotive industry over the last few years. The rush to buy diesel cars a few years ago with the prices of petrol being pegged to the open markets and then, the sales going down on account of the inability of the customers to buy new cars led to a visible growth in the used-car volumes. This growth was supported by the investments the manufacturers made in growing the dealer network for used cars, branding and making it viable for the customers to pick this option. The role of internet too cannot be undermined as a critical growth driver in this industry. Online marketplaces and auto sites have played a significant role in bringing the market to the consumers very effectively. A combination of these developments made the business transparent, easy to understand, and create pricing benchmarks making it a compelling proposition for those who could or did not want to buy a new car.

At the present time, the used car market is estimated at the same size as the new-car market. Only a few years ago, it was thought of as a third of the new car market.

While this market has grown rapidly and has become an important part of the automotive value chain, there is little information on the customer profile, buying patterns, business norms, etc. In our endeavor to bring relevant insights to our clients, we researched the sector and based on a primary survey, have come up with some interesting perspectives.

Survey objectives

The survey attempts to obtain perspectives on

- Customer profile
- Decision factors
- Buying process
- Norms and benchmarks related to the outlets.

We attempted to capture the assumptions the dealers make with reference to their customer expectations and what the real customer expectations were. Furthermore, we evaluated if there were differences in either customer behavior or dealer operations across regions. We have highlighted significant regional differences where they occurred.

About the survey

The survey respondents were two-fold – customers and dealers. Respondents included 220 customers and 112 used-car dealers in 16 cities across India. The details of the sample are provided in Appendix 1.

While analyzing the data or drawing inferences, statistically significant data has been taken into consideration. However, the analysis presented in this report may be taken as directionally relevant but not necessarily accurately reflecting the realities related to a brand, customer category etc. The reader is advised not to take the conclusions or the inferences drawn as professional counsel or assume these to be premises on which they would make decisions.

The buying behaviour

In this section, we cover the profile of customers, parameters that the customers use to choose the product of their choice, the nature of the product they buy, the manner in which they utilize their budgets and the type of dealership they buy from. We have asked the same question from customers and dealer to understand the perception from dealers on customer's choices.

Customer profile

The used car customers exhibit some consistent characteristics in terms of demography and the proposed usage their cars will be used for.

- 67% of the used-car customers are in the age group 26-35 years. In the western region, 80% of the customers are in this age group which is the highest across regions
- 22% of all customers are between 36-48 years of age. In the southern region 29% of customers are in this age group which is the highest across regions
- 66% of the customers have 2-4 members in their family, 30% have 4-6 family members and the remaining 4% have 2-member families
- The largest segment of customers in the Northern region are small business owners at 53%. The Southern region has the highest number of private sector employees at 60% as used car customers
- A large number of the used car customers have a 4-year college degree. Approximately 88% of the customers from West are highly educated with a 4-year college degree or a postgraduate degree (Master's degree, Ph.D.)/professional degree (e.g., medicine, law). Similarly, more than 80% of customers from East and South also fall in the same category.

Decision parameters

Top 5 parameters	Next 5 parameters
Brand	Resale value
Kilometers Run	Fuel type
Overall condition of the vehicle	Vehicle purchase price
Budget	Maintenance cost
Vehicle Type	Internal features

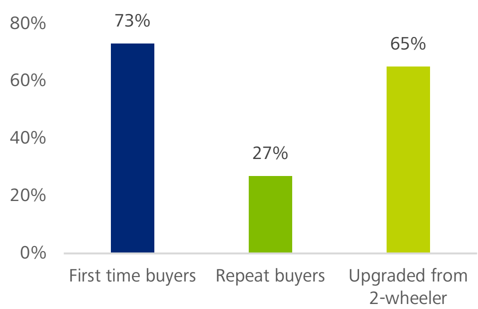
Customer perceptions as reported by dealers are included in Appendix 2

The urban customers seem to favour the OEM affiliated branded dealerships. The internet portals did not have a visible share. It looks like the customers looked to the information on the internet, but concluded the transaction at a physical dealership. It must also be said that the identification of a customer who transacted in a conventional dealership as opposed to a web portal is relatively easy from a sampling standpoint. It is therefore, likely that there is a certain amount of bias away from the buyers on the internet.

Nature of purchase

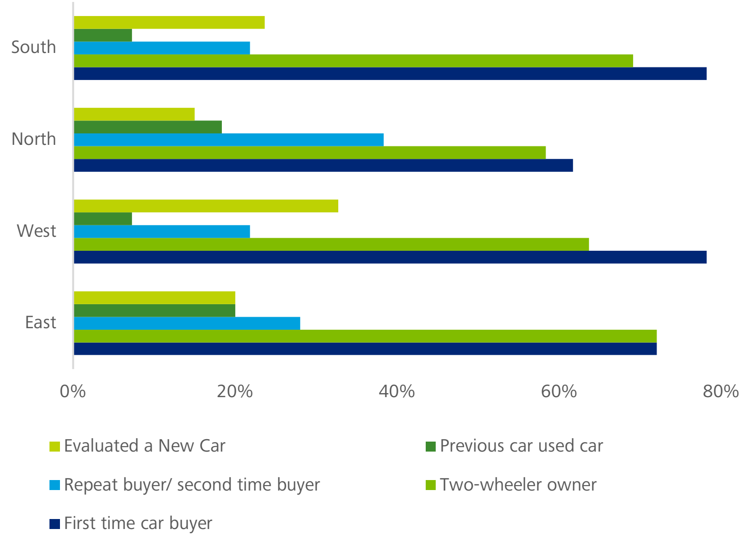
As was expected, majority of the used car customers are first-time buyers, 78% of customers from South and West are first-time buyers. North has the lowest level of first time buyers at 62%. Among these, a high percentage of customers upgraded from owning a two-wheeler to a car.

Customer split by nature of purchase (Fig 1)



38% of customers from North are repeat buyers and 18% of them owned a used car previously. 20% customers from East were used car owners previously. As is expected, the owners of two-wheelers form a large portion of the used car buyers.

Nature of purchase: Regional split (Fig 2)



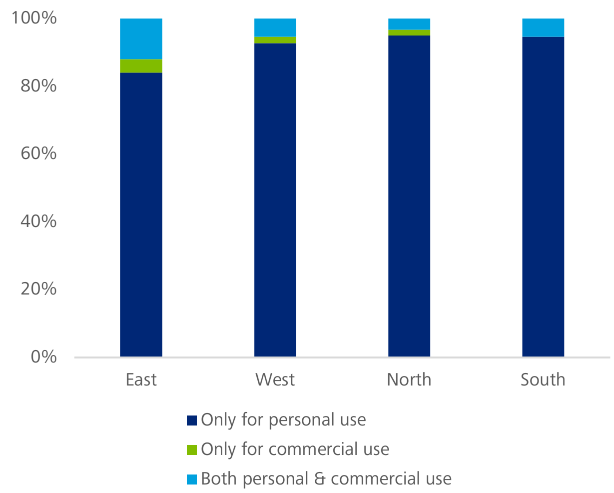
Among the repeat buyers:

- 37% had bought a car <1 year ago
- 44% had bought 1-3 years ago

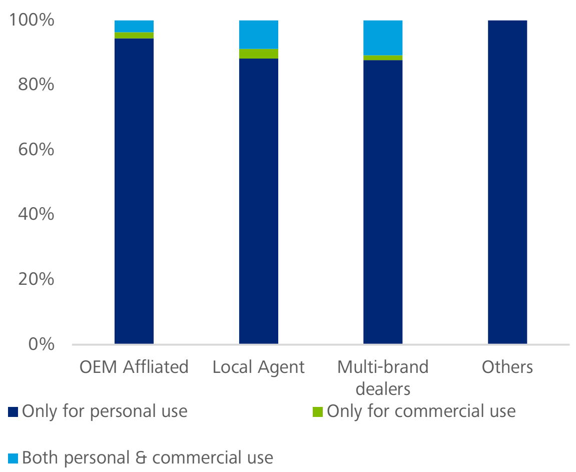
Usage

Contrary to popular perception, majority of customers of the dealerships buy the used car for personal use. More number of customers from East buy the used car for both personal & commercial use. The dealers also expect most of their urban customers to be buying for personal use. Unlike the OEM affiliated dealerships, the local traders/agents and stand-alone multi-brand dealers seem to attract more customers who buy for a combination of personal and commercial use.

Buying purpose: Regional Split (Fig 3)

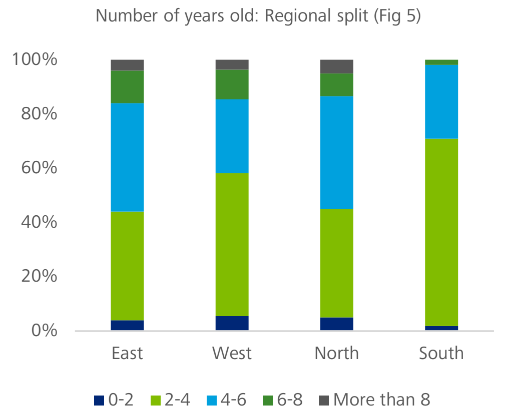


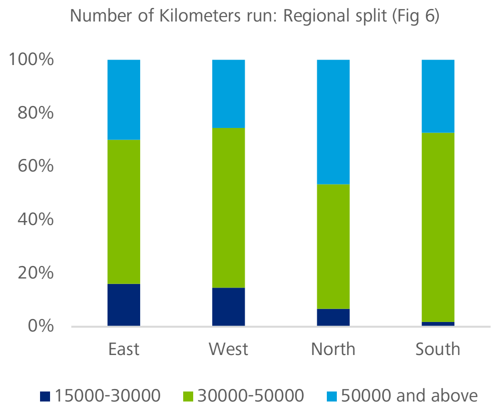
Buying purpose: Split by dealer type (Fig 4)

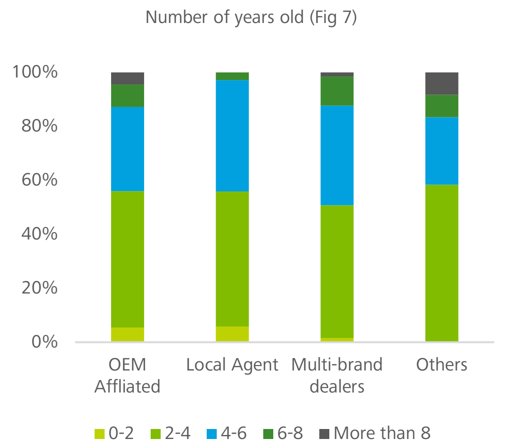


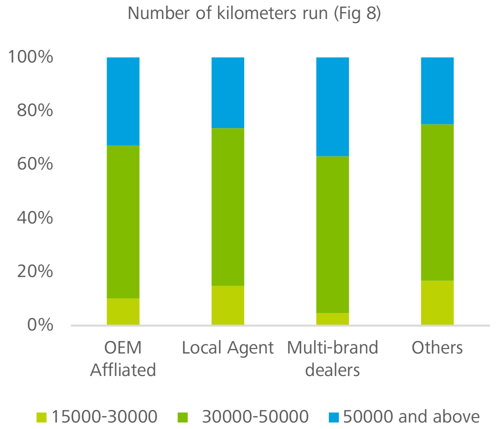
Age of the car purchased

Most customers buy a 2-4 years old car, the trend is largely similar across regions and from both customer and dealer perspectives. While customers in North and East seem to buy 4-6 years old cars in slightly greater proportion. OEM affiliated and Multi-brand dealers sell a relatively higher percentage of used cars that have run more than 50,000 kilometers in comparison with local traders and other types of dealers, possibly indicating the comfort with the warranties that are provided with refurbished cars. Customer perceptions as reported by dealers are included in Appendix 2





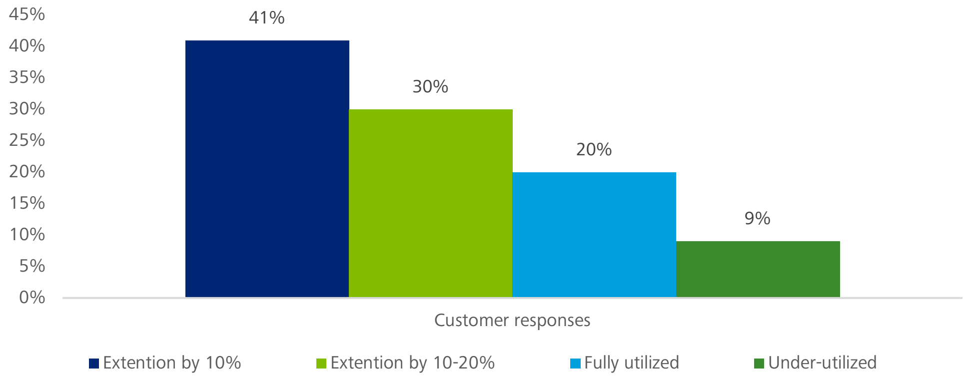




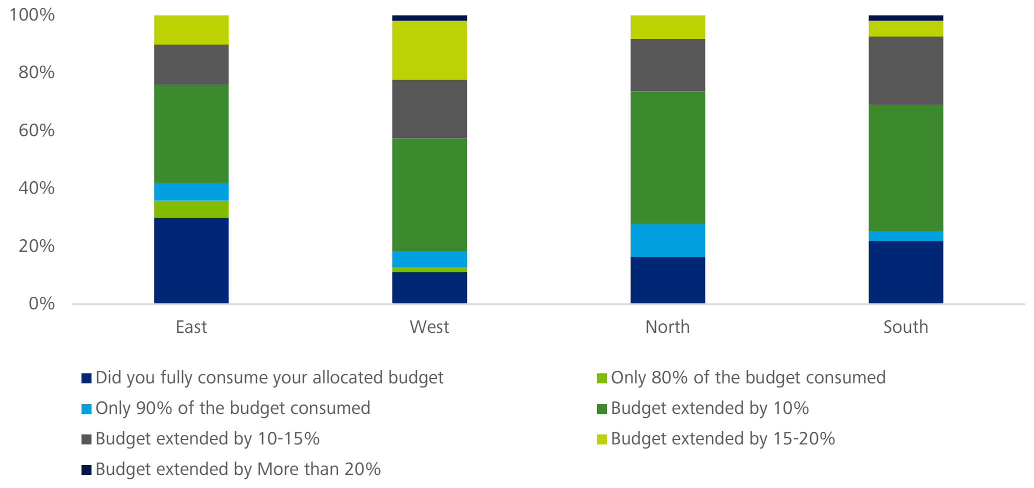
Customer's budget extension

A higher percentage of customers from North and South extend the budget by 10% in comparison with customers from East and West. 20% customers from West and 10% from East extend the budget by 15-20%. 11% customers from North are able to find a car of choice by consuming only 90% of the budget. Customer perceptions as reported by dealers are included in Appendix 2 and customer's response to budget extension across dealer types included in Appendix 3

Range of budget extension (Fig 9)



Range of budget extension: Regional split (Fig 10)



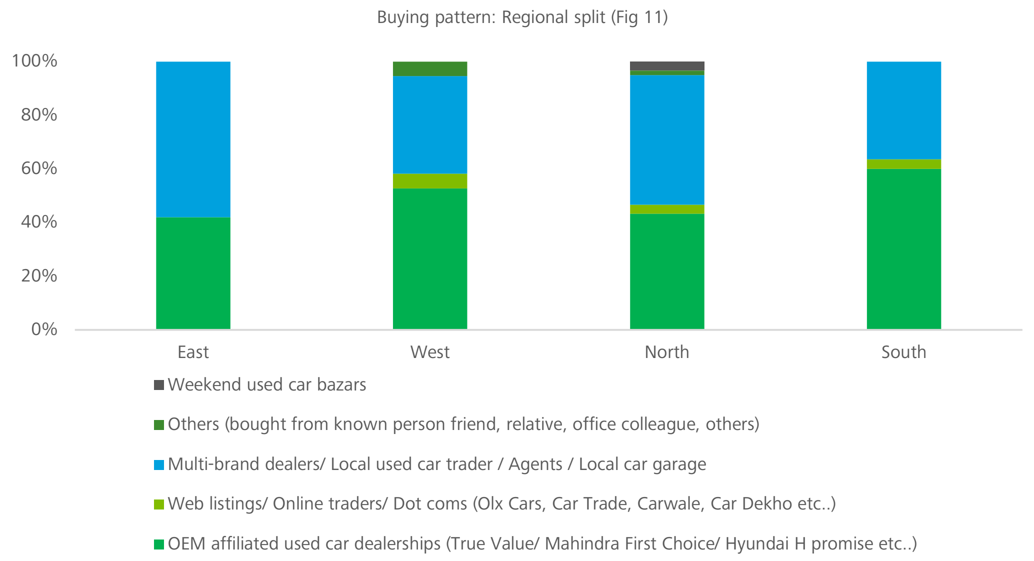
The buying process

In this section we present the process customers seem to go through to make the purchase. Aspects such as the choice of seller, the time it takes to close the purchase, nature of visits to the dealer and the expected retention period of the car are presented.

The choice of channels

The used car market is witnessing a shift towards the formal channel. OEM affiliated dealerships have attained a substantial share of the market. This is a big reason for growth of the used car trade itself as the customer considers buying a used car a meaningful proposition. As already stated, the share of customers on the internet could be higher than what is emerging from the research for the reason that accessing them is relatively more difficult as opposed to the customers buying through conventional channels.

As in the case of the new cars, the used car buyers too depend on word-of-mouth. The internet is used for sourcing information.



Web listings/ Online traders/ Dot coms

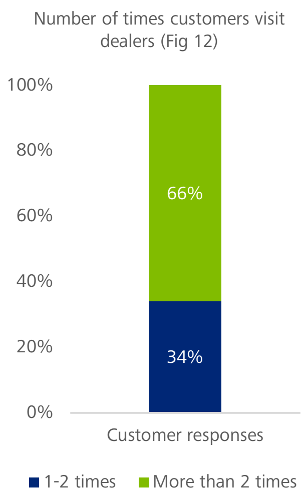
West - Mumbai: 2, Pune:1

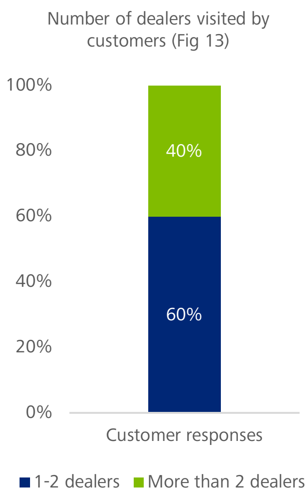
North - Delhi NCR: 1, Jaipur 1

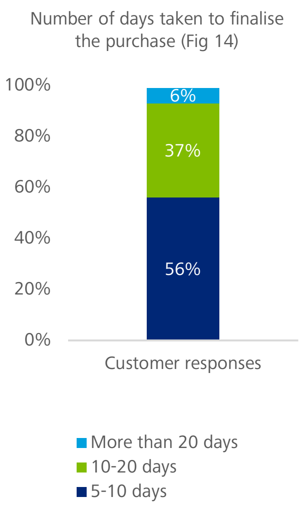
South – Hyderabad: 2

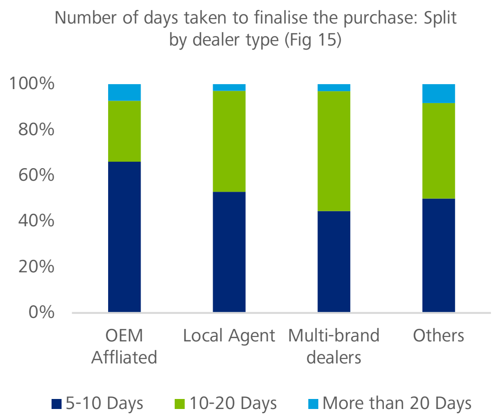
Customer visits

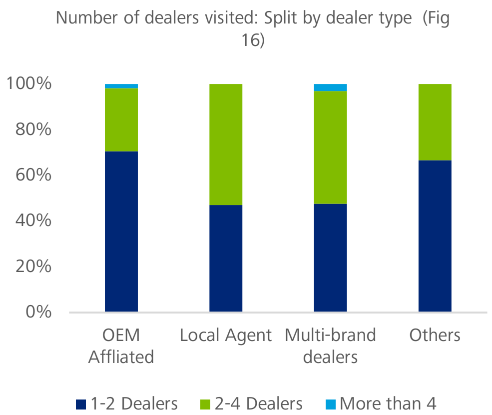
Majority of customers across all regions visit a minimum of 1-2 dealers before finalizing the purchase. 71% of the customers buying from OEM affiliated dealers decide on the purchase by visiting 1-2 dealers and 66% of these customers finalize the purchase within 5-10 days. About 70% of the customers in the eastern region visited the dealers 2-3 times. Customer perceptions as reported by dealers are included in Appendix 4

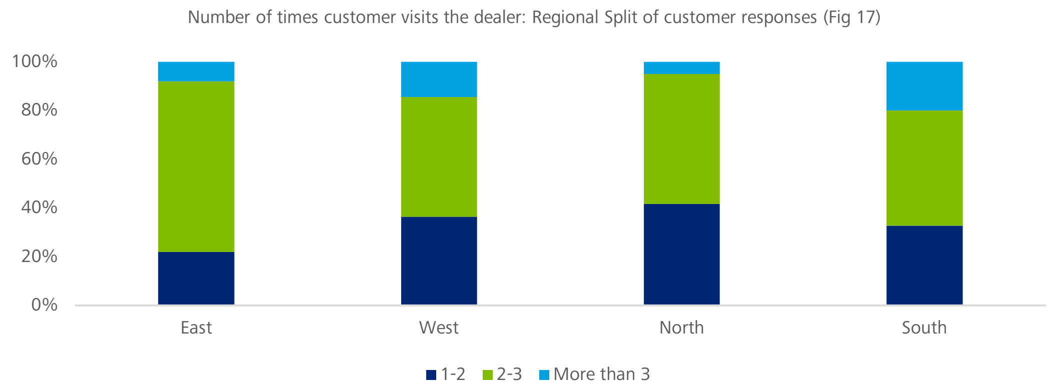








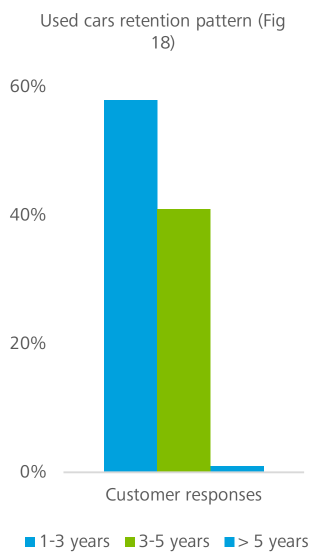


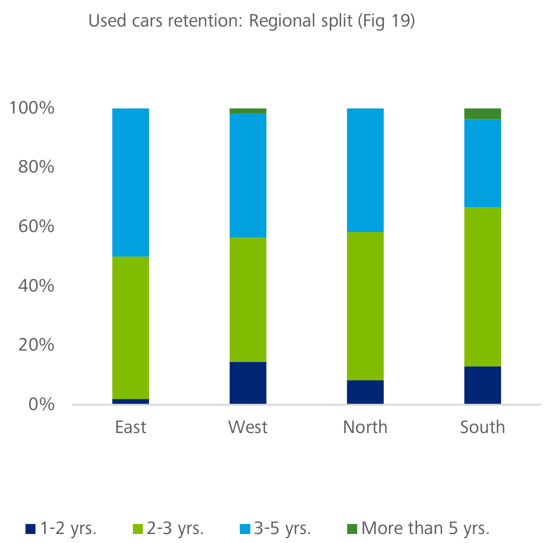


The interviews suggest that approximately 45-55% of used-car sales is being influenced by online portals.

Number of years the used car is expected to be with the customers

Substantial numbers of customers across regions retain the car for 2-5years, this trend is similar for customer and dealer responses. A notable proportion of customers from South and West also retain the car for 1-2 years. Dealers' responses are included in the Appendix 5





Financing the purchase

As per the survey, about 21% customers required loan/financing to purchase the car. 57% of these customers approached banks for loan, 17% opted for dealer-nominated finance companies or banks, 11% sought loan from OEM-owned finance companies and 9% approached non-banking finance company (NBFC).

Dealership business norms

This section presents the business norms that seem prevalent in the trade. These are based on data provided by a limited number of respondents. To that extent, these numbers may be taken to be directionally relevant and may not be accurate to represent all cities/towns or size of dealerships.

Volume of business:

While there is a pattern across regions, efficiencies set in as the volumes cross 25-30 a month. Further, the OEM affiliated outlets seem to run a higher volume operating model relative to the stand-alone dealers.

Parameter	OEM Affiliated Dealer (Approximately) Fig 20			
	North	South	East	West
Number of cars sold in a month	15-20	20-25	35-40	30-35
Number of cars on display	15-20	20-25	25-30	25-30
Standalone Multi-brand Dealer				
Number of cars sold in a month	5-7	7-8	5-10	15-20
Number of cars on display	8-10	10-15	20-25	22-25

Space utilisation

Parameter	OEM Affiliated Dealer (Approximately) Fig 21			
	North	South	East	West
Space owned/leased (sq ft)	~1500	~1600	1800	~2000
Number of Staff members (Operational level only)	7	7	8	9
Standalone Multi-brand Dealer				
Space owned/leased (sq ft)	~700	~1000	~600	~1000
Number of Staff members (Operational level only)	3	4	4	7

Dealer's business model

Most OEM affiliated dealers and standalone used-car dealers follow a business model to maintain a regular cash flow and make optimum utilization of space available to them.

- OEM affiliated dealers: Trade is largely driven by car exchange (81%), with only about 12% of the cars being bought from owners and displayed. 7% of the cars are displayed, and the transaction is executed when the sale happens.
- Standalone multi-brand dealers: Around 60% of the trade happens by way of cars being bought from the owners (across regions), while the rest 40% of trade involves the car being displayed by the dealer and the transaction executed at the time of sale.
- Trader/ Agent: More than 90% of the trade happens by way of cars being displayed and transaction executed at the time of sale. A large number of traders deal in used cars when an enquiry comes to them from an interested customer.

Conclusions

The conclusions from the survey as analysed in the previous pages are the following:

- The urban customer is an educated and sophisticated individual who buys largely for personal use. Only a small proportion of this segment puts the car purely to commercial use
- Given the systems in place at the OEM affiliated dealerships, older/more-used cars are purchased from them compared with the other types of dealers
- There are a number of repeat buyers of used cars. In fact, some of them buy a used car after they have bought a new car. This is significant and indicates the movement upwards is not uni-directional for all customers
- Given the transparency and the information available in the public domain, some customers consider used and new cars as options at the same time
- Many customers keep the brand and body type decisions open
- A large number of customers are willing to keep flexible their original budget to buy the product they like. In some cases, this also means spending lesser than the budget
- The on-line platforms are not yet popular amongst this educated customer set for concluding transactions

Dealer economics

- The dealership model within each category seems largely comparable across regions
- While the OEM affiliated dealers largely depended on the exchange business, the multi-brand dealers largely owned the inventory
- The norm seems to be that the inventory carried (either owned by the dealer or the seller) is equal to a month's sale for OEM affiliated dealers and higher for the others
- The stand-alone dealers with lower volumes and the requirement to own inventory come across as incurring higher costs
- The customers buying from the stand-alone dealers seem to be investing greater amount of time to go through the buying process

Lessons for manufacturers

In conclusion, the research seems to suggest the following:

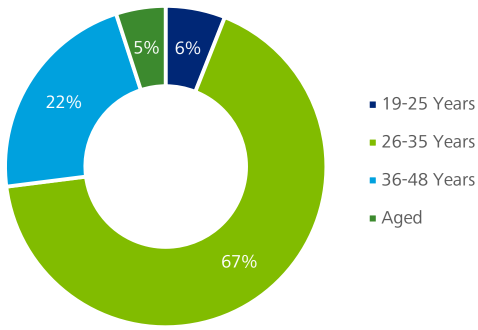
The urban dealerships seem to attract well-informed and largely educated customers. These customers presumably look for transparency of process, the assurance of a brand and the convenience in transaction. To that extent the investments that manufacturers have made in the used car branding and distribution have been timely and well founded

As it is said, with the increasing population of cars in use, there is potential for the used car market to double in size in the coming years. Therefore, it would be a significant opportunity for the manufacturers to continue to pay a lot of attention to this market.

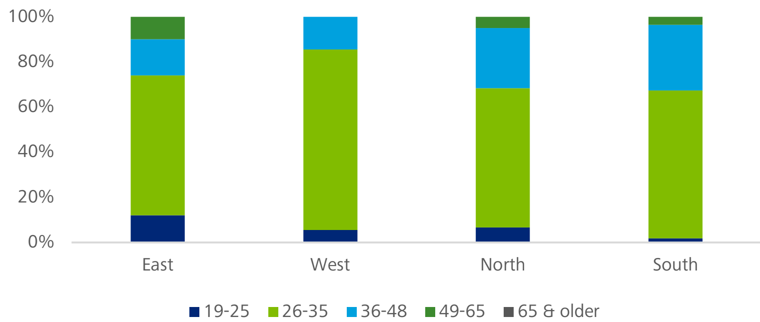
Appendix

Appendix 1: Customer profile

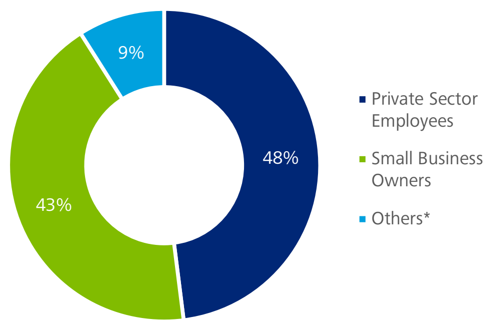
Customer split by age group



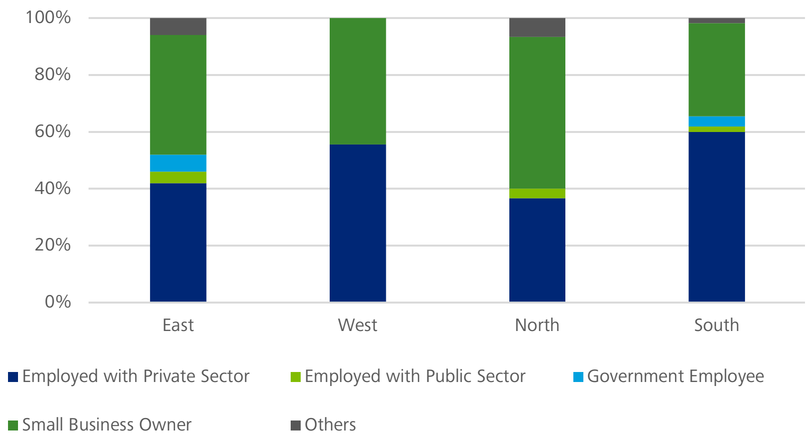
Age Group: Regional Split



Customer split by occupation

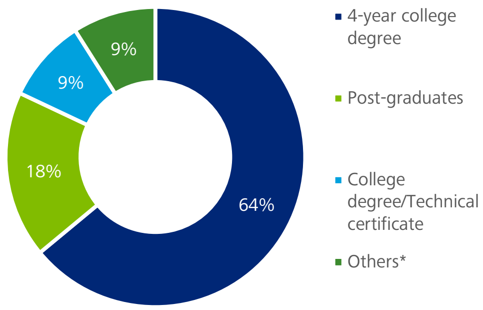


Preference of dealer type by occupation

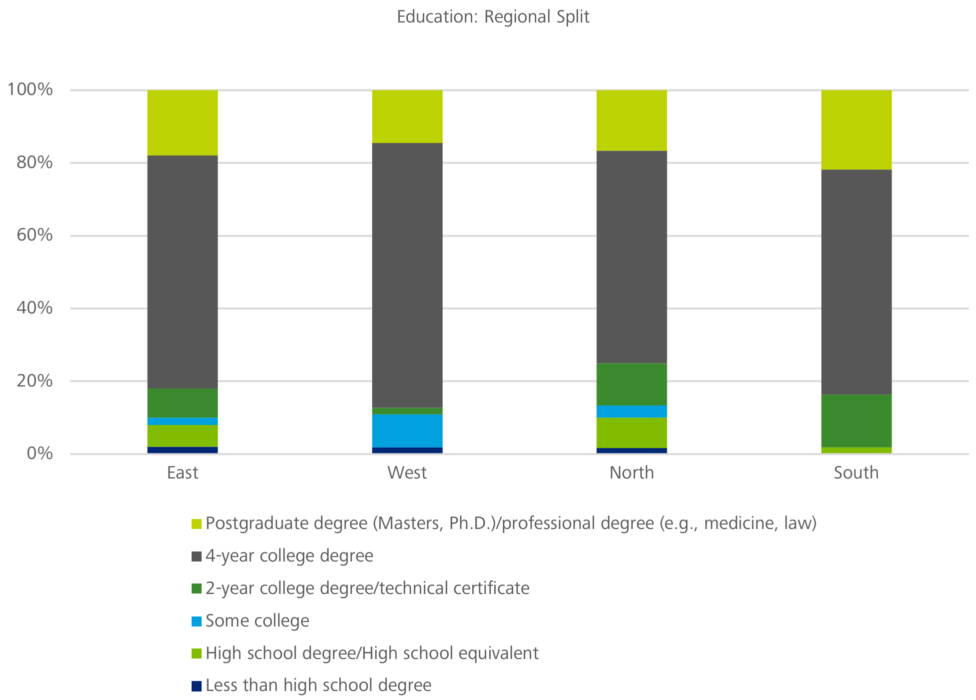


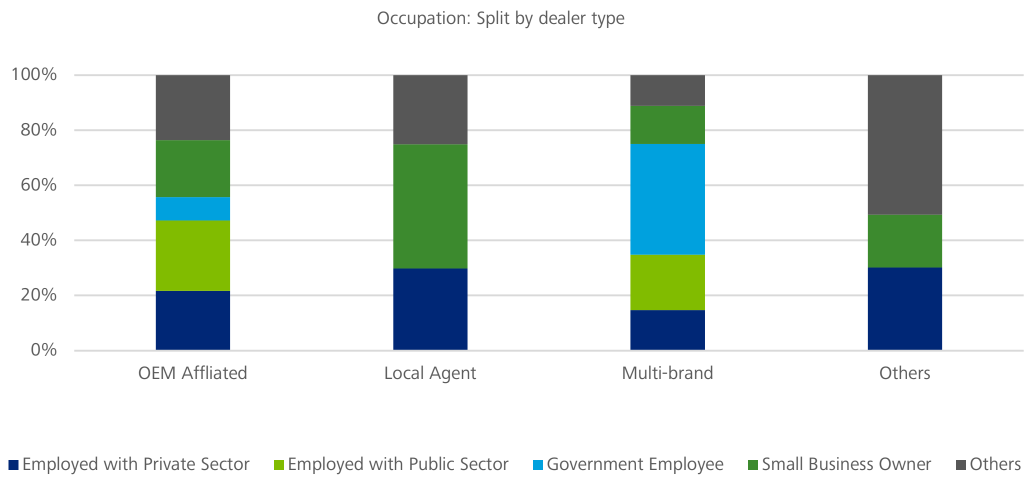
* Others include retired individuals, government employees and public sector employees

Customers split by education



* Others include customers with a high school degree/high school equivalent, less than high school degree and some college degree


Education: Regional Split
100%
80%
60%
40%
20%
0%
East
West
North
South
Postgraduate degree (Masters, Ph.D.)/professional degree (e.g., medicine, law)
4-year college degree
2-year college degree/technical certificate
Some college
High school degree/High school equivalent
Less than high school degree


Occupation: Split by dealer type
100%
80%
60%
40%
20%
0%
OEM Affliated
Local Agent
Multi-brand
Others
Employed with Private Sector
Employed with Public Sector
Government Employee
Small Business Owner
Others

Sampling

Region	Number of respondents	
	Customers	Dealers
North	60	28
South	55	28
East	50	28
West	55	28
Total	220	112

Cities covered: Delhi NCR, Jaipur, Chandigarh and Lucknow (North), Chennai, Bangalore, Hyderabad, Coimbatore (South), Kolkata, Ranchi, Patna, Bhubaneswar (East), Mumbai, Pune, Ahmedabad, Ahmednagar (West)

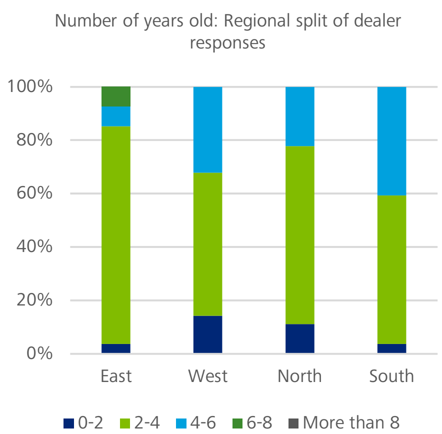
Appendix 2: The buying behaviour

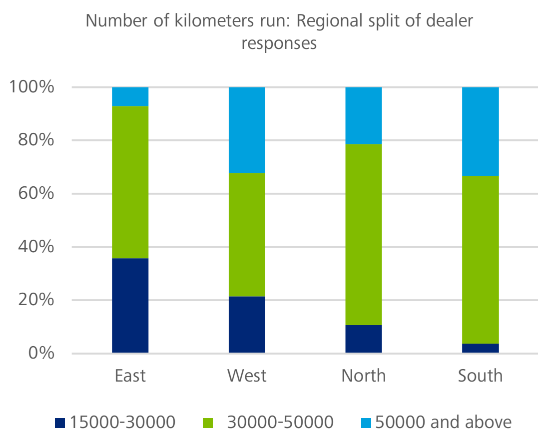
These are customer perceptions reported by dealers

Decision Parameters

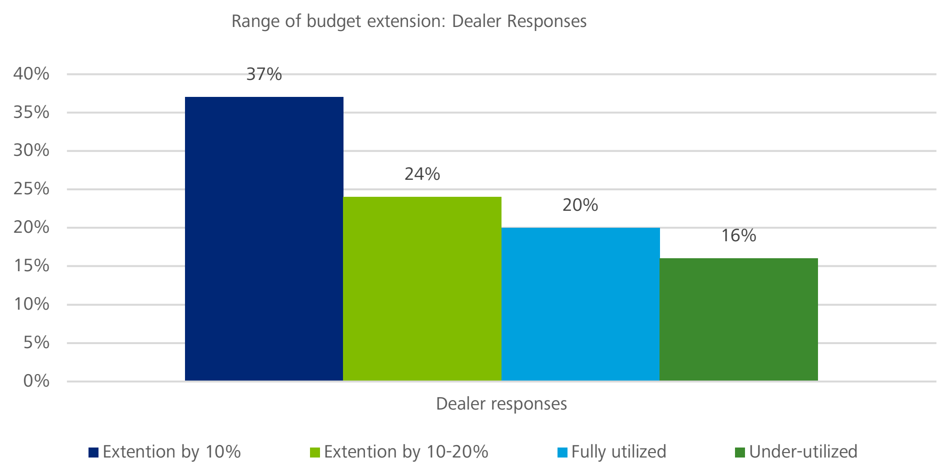
Respondent	Top 5 parameters	Next 5 parameters
Dealers	Brand	Overall car condition
	Vehicle Type	Fuel type
	Kilometers Run	Vehicle purchase price
	Budget	Internal features
	Resale value	Maintenance cost

Age of the car purchased



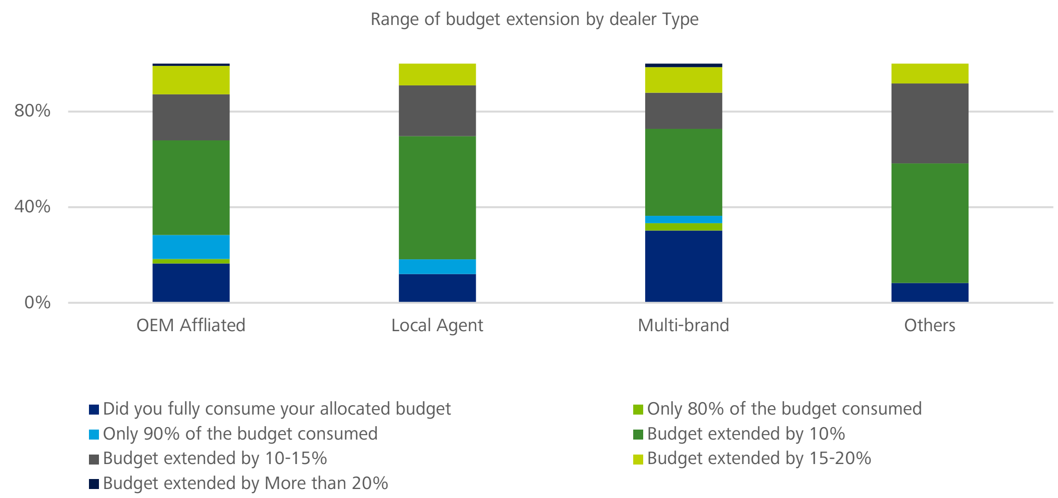


Customer's budget extension



Appendix 3: Budget extension by dealer type

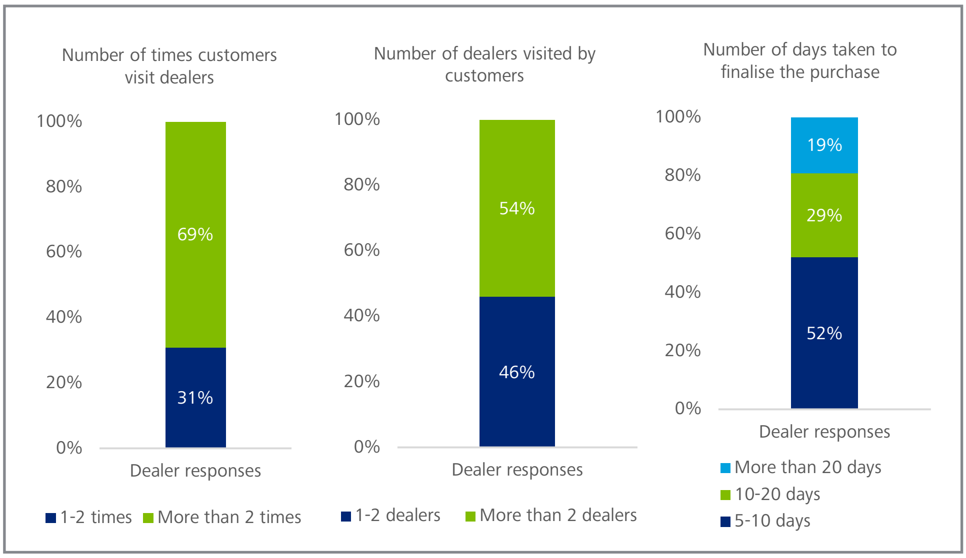
This graphic describes the customer's response to budget extension across dealer types



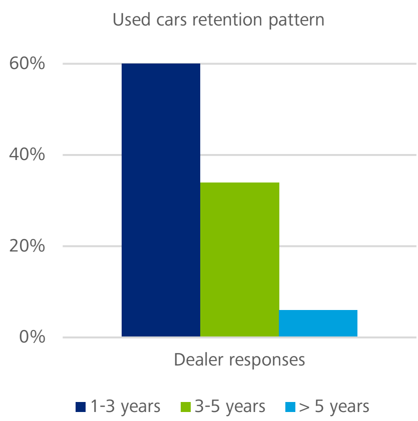
Appendix 4: The buying process

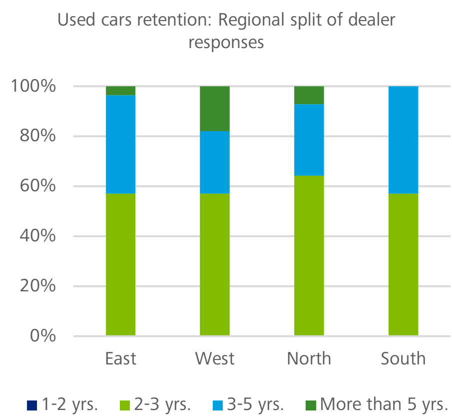
These are customer perceptions reported by dealers

Customer visits



Number of years the used car is expected to be with the customers





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