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### PRE-OWNED CAR MARKET IN INDIA: A STUDY OF MARKETING STRATEGIES OF CAR MAKERS

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#### **Abstract**

From the singsong rhythm of the bullock cart to the jet air India has travelled a long way. It was in 1898 that the first motor car rode down India's roads and until the First World War, about 4000 cars were directly imported to India from foreign countries. The Hindustan Motors was set up in 1942, to manufacture automobiles in India. This new trend of pre-owned car market has started a long back but recently with the introduction of the branded showrooms in our state also has increased the demand for pre-owned cars in our region also. The marketing strategies are the main source to attract any customer. In my research I will study the marketing strategies of car makers in pre-owned car segment. As the before and after sales services are the main goal of the companies through which they can make their customers loyal with their company. I will also find the reasons that why this sector is booming fast these days..

#### **Introduction**

Marketing strategy is an overall marketing approach that is used to achieve objectives of strategic marketing plans. The mix is a bundle of variables which are offered to the customer. These include the product or service itself (its advantages); its availability (the place where and when it is available, delivered or distributed); its image (the way it is promoted) and, of course, the price which should be charged.

Thus marketing strategies denotes the combination of various elements, which in total constitute a company's marketing system. They are often described as four P's: Product, policy, price distribution, & promotion (sales promotion, advertising & marketing research).

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#### **Automobile Industry**

Starting its journey from the day when the first car rolled on the streets of Mumbai in 1898, the Indian automobile industry has demonstrated a phenomenal growth to this day. Today, the Indian automobile industry presents a galaxy of varieties and models meeting all possible expectations and globally established industry standards. During the early stages of its development, Indian automobile industry heavily depended on foreign technologies. However, over the years, the manufacturers in India have started using their own technology evolved in the native soil. It was Premier Auto back mobile (PAL), which first produced the cars in India in 1946, as Hindustan Motors concentrated on auto components and produced their first car in 1949. Since the 1980s, the Indian car Industry has seen a major resurgence with the entry of Maruti Udyog Limited (MUL) and with the opening up of the Indian Auto Industry to foreign manufacturers and collaborators. And the unveiling of the world's cheapest car, Nano of rs.1,00,000 by TATA Motors in July, 2009 has created a new segment of mini cars, which competes with other small cars in the Industry[1].

Today, the Indian Automotive Industry is capable of processing various kinds of vehicles and can be classified into four broad categories; Two wheelers, Three-Wheelers, Passenger Vehicles and Commercial Vehicles. The two wheeler and passenger vehicle market dominates the Indian Automotive Sector. New passenger vehicle sales in

India rose by 29.3 percent in April, 2010 to January 2011, compared with the corresponding ten months of the earlier year. The Indian big three namely Maruti, Tata and Mahindra & Mahindra boasted a combined market share of the passenger cars, with more than 60 percent market share.

Of the Global Original Equipment Manufacturers, Hyundai Motors India, the country's second largest car manufacturer and largest passenger car exporter has the outright lead with over 15%, and another challenger is Toyota Motors. In India there are 100 people per vehicle, while this figure is 82 in China. It is expected that the Indian automobile Industry will achieve mass motorization status by 2014. Globally India is an attractive destination for global auto giants like BMW, General Motors, Ford & Hyundai Motors who are setting their case in India due to the post advantage and market potential. The major investors in the industry are MUL investment of rs.6500 crore to set up a second car manufacturing plant, with a capacity of 2.5 lakh units per annum and Hyundai will bring more than rs.3800 crore to India. Honda motor company has plans to set up a manufacturing unit in Rajasthan at a cost of US \$250 million, with a capacity to produce 60,000 cars in the initial phase. Tata's mini car, the Nano, the world's cheapest car with a price tag of US\$2500 has made a car affordable to 50 million current two wheeler owners and first-time car owners. It will create a completely new segment in the car market. More than 20 models of cars have been on the Indian roads. Some best names of global car makers as new entrants in passenger cars are Citroen, Volkswagen AG, Nissan (Separately, apart from its tie-up with Suzuki)[2].

### **Objectives of the Study**

- To find out the reasons for entry of car makers in to the pre-owned car business in India.
- To analyze the different marketing strategies of car makers in the pre-owned car business in India.
- To study the nature of Indian pre-owned car industry.
- To know the reasons behind boom in the used car business in India.
- To understand the before and after sales services provided by unorganized and organized pre-owned car dealers.

### **Research Methodology**

The primary data for this paper has been collected through semi-structured questionnaire from a sample of 40 unorganized pre-owned car dealers and 10 pre-owned car dealers of car makers, in

Indore & Ujjain. Non probability convenience sample method is used for this study. The secondary data has been collected from various auto magazines, journals, newspapers and online information related to the pre-owned car business.

### **Focus of the study**

This study is mainly focused on marketing strategies of car makers in the pre-owned market in India. The geographic focus of this study is mainly restricted to Indore and Ujjain city of M.P.

### **Nature of Unorganized pre-owned car industry in India**

Currently the pre-owned car market size is estimated at 1.5 million in India and it is growing. The Indian pre-owned market is dominated by over 90 percent by the unorganized sector. This comprises of nearly 60 percent of the deals, that are characterized by owner-to-owner (customer-to-customer) transactions, and another 30 percent through brokerage mediated by individual brokers and car mechanics, etc. a minuscule 10 percent of the pre-owned car market is controlled by organized sector. One area that worries pre-owned car purchaser is the authenticity of the car in India, the equation between pre-owned cars and new cars is 1:1, that is, for every one new car bought (1 million units per year), a used car is sold, and the pre-owned car market is growing faster, at the rate of 26 percent as compared to the 18 percent for the new car market. There is a bigger pool of pre-owned cars, with more car models being launched and people who buy new cars do not usually own it for long and tend to sell it off in two to three years. Pre-owned car dealers provide the most affordable resources to the interested buyers [3].

The major limitations of the unorganized used car market are:

- Lack of display and warehouses of used cars for a majority of the dealers.
- Limited choice of cars without any standard price.
- There was no assurance and guarantee of technical conditions of the used cars.
- Could not check the background or legality of the previous owner.
- After sales services are very limited or nil.
- Though used car dealers have their own drawbacks, still, they command a majority of the market share as their prices are low and negotiable as compared to organized used car franchised dealers of the car manufacturers. Their distribution network and sourcing of used cars is much more efficient than car makers.

### **Findings of the Study**

#### Reasons for the Boom in the Pre-owned Car business in India [4].

In this study, through interview of various dealers in organized and unorganized pre-owned car market, it was found that the major factors for boom in the pre-owned car business in India are as follows:

- Frequent introduction of new models of cars by most of the competing Indian and global car makers in India is approximately 25 models yearly. It leads to frequent changing of cars by the existing car owners.
- Decreasing prices and aggressive sales promotions of various car makers motivate existing car owners to sell their used cars and acquire new cars.
- Entry of global car makers into the Indian car industry and increasing competition in the domestic market created a huge resource of pre-owned and new cars.
- Most of the car makers want to enhance the residual value or resale value of their car brands by providing higher prices in the pre-owned car market by exchange programs. Higher pre-owned car prices generally increases the sale of new cars.
- Demand for pre-owned cars, especially small cars, has increased from owners of two-wheelers, who want to upgrade from two wheelers to cars, as the price gap between a new two-wheeler, and a pre-owned car is negligible.
- For most of the new car dealers, selling a pre-owned car can get a profit of 10 percent to 20 percent minimum, whereas, by selling a new car, they can get a maximum of 2% to 5% profit margin. This makes the new car dealers to enter into the pre-owned car market.
- Increasing income of middle class families in India is one of the major reasons for growing demand for new and pre-owned car over a new car.
- Generally, it is found among entry level customers before purchasing a new car; first they will go for a pre-owned car. This is to adapt themselves and learn to drive cars in cities as they are accustomed to driving two-wheelers.
- Boom in the real estate market has created few high income groups from the last five years and demand for mid-size and premium cars has increased.
- Upgrading to new models of cars from the pre-owned car market is convenient and cost

effective for majority of the middle class customers.

- Maintenance cost of used cars for existing car owners usually increases after three to four years, so frequent replacement of used car has increased by the existing car owners.
- Change in lifestyle of most of the people in urban areas – for transportation and travel, they prefer a car rather than travelling by a two wheeler or using public transport

### **Services provided by organized pre-owned car dealers to customers**

In India many new car dealers act as pre-owned car dealers, but at the same time, the number of dealers who deal exclusively in pre-owned cars is huge. Organized car dealers employ qualified engineers and experienced mechanics who certify the cars for their performance, authenticity and Reliability. In the process vehicles involved in accidents and stolen vehicles are rejected. Most of the organized used car dealers have tie-ups with financial institutions and banks, which will provide "spot finance" ranging from 60% to 90% of the vehicle cost based on the make of car and the customer's income. These dealers have a swanky showroom, which matches and indirectly competes with the showrooms of the dealers of new cars.

- **Professional services** are provided by the dealers under one roof like finance, accessories, insurance, registration etc.
- **Financial Assistance:** Majority of the organized dealers including car maker's outlets, dealers and private independent dealers have tie ups with many financial institutions and commercial banks for inventory funding, loans at competitive interest rates.
- **Purchase & Sales:** Most of the used car dealers not only sell the cars- they are also buyers of cars from the customers.
- **Umbrella Warranty:** To give comfort and peace of mind to the customers, a few pre-owned car dealers of car makers like first Choice brand it as umbrella warranty.

### **Reasons for entry of car makers into the pre-owned car business**

The used car market has been in the Indian auto market for years, but due to risky and unorganized nature of buying used cars without any warranty, and due to lack of certification of used cars, the pre-owned car business has been unable to become a significant part of the auto industry. From the last four years, with major car manufacturers entering into the pre-owned car business in a big way in India, the competition between pre-owned cars and

new cars has reached its peak. All these pre-owned cars are generally termed as "Certified Used Cars", as they are provided warranty and certified quality from the car dealers.

Different car manufacturers have entered the pre-owned car business with different objectives, and they have different marketing strategies and priorities in entering into the pre-owned car business. MarutiUdyog Limited is the first car maker to enter into the pre-owned car business in a more organized way with their "Maruti True Value" brand of outlets.

There are various reasons behind the entry of car makers into pre-owned car business like; attractive exchange offers, by exchanging used cars for a new car model. Resale value for an example, MUL's Wagon R, Alto and Swift are the top used car brands in India for their high resale value, which in turn leads to an increased demand of new car sales due to its brand value. Another reason is Customer Retention; a market leader can retain their loyal customers through an exchange program. Car manufacturers especially who are market leaders in a specific segment can win back their lost customers by exchanging new cars of their company brand for used cars of other competitor brands. Support of commercial Banks is another factor through which the dealers get attracted towards the pre-owned car sector, support and collaboration with commercial banks for used car business has also motivated car makers to enter into the used car market. Commercial banks are providing loans upto 60%-90% of the used car value. Competitive Strategy; it is another reason as a majority of the car makers are entering the pre-owned car market, so every car maker wants its presence for this strategic reason. Maximum utilization of dealer's network, this will enhance their profitability, and at the same time, cost can be utilized towards trade promotion and customer promotion schemes [5].

#### **Marketing strategies of car makers in the pre-owned car market in India**

Entry strategies of a few major car makers into the used car market are given below:

- **Maruti True Value:** MarutiUdyog Limited launched its pre-owned cars business under the brand name "Maruti True Value". Maruti True Value is at the top, with more than 90,000 used cars sold through its network. Maruti True Value has more than 300 outlets throughout India in major cities and towns. Their certified cars go through a 120-point check by certified engineers to ensure the quality of pre-owned cars, and they also provide a

warranty up to 1 year for cars that are less than 5 years old. Their major objective is to deal with only Maruti Suzuki brand of pre-owned cars and encourage sale of their new model or new cars. Maruti True Value is changing their marketing strategy, now they have launched Multi Brand Outlets throughout India [6].

- **First Choice:** It is the pioneer of pre-owned car businesses in India, which belongs to \$2 billion Mahindra group. First Choice has integrated multi brand outlets of pre-owned cars and their major objectives are trust, transparency and peace of mind for its customers. First Choice is an initiative of Mahindra and Mahindra, HDFC Bank and Sah&Sanghi Venture. For "First Choice", the pre-owned car business is a new business opportunity, and it would give it the first-mover advantage in the industry. First Choice comprises of over 100 cars on display ranging from brands like Maruti 800 to Mercedes [7].
- **Hyundai Motors Company:** It is tied up with Auto mart for its new car exchange business before entering the pre-owned car business. The HMIL's network, which deals with pre-owned cars is branded as "Hyundai Advantage" multi-brand outlet launched in 2006. At present Hyundai Advantage has 69 dealers across 49 locations across India.
- **TATA Motors:** It is India's market leader in commercial vehicles, and is among the top three in passenger vehicles, with revenue of more than \$9 billion. It also has strategic alliance with Fiat. TATA motors entered into the pre-owned car market under the brand name of "TATA Motors Assured" and launched it on a pilot basis through 15 dealers in Mumbai, Delhi, Hyderabad, Chennai, Pune & Vapi[8].

#### **Conclusion**

The pre-owned car market may be transformed into a more organized market with the advent of Indian and global car makers and other major corporate houses of India. Auto majors not only increase their market penetration through the pre-owned car business, but also make a profit out of this venture. Unorganized pre-owned car dealers are trying to match the service standards of organized used car dealers to become more professional in their marketing approach. The general consensus among the industry is that the pre-owned car segment may become almost double of the new car market in

another five years as is the case in the developed countries.

#### **Scope for Further Research**

A similar study can be carried out in different countries to know the market potential of pre-owned cars. A study can also be conducted to know the perception of pre-owned cars by the customers in comparison to new cars. One can also explore on how pre-owned cars are competing with new cars in the automobile sector of respective countries.

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