

Influence of Financing Options on Purchase Decisions in the Pre-Owned Car Market

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Abstract

The proliferation of diverse financing options and increasing affordability have driven the used car market in India. This article examines the significant impact of financing on customers' purchase decisions in this area. It highlights how various financing options such as loans, leases, and installment plans impact consumer behaviour and the overall market dynamics. The study reveals significant financing-related concerns, including interest rates, loan terms, down payments, and eligibility criteria, all of which affect middle-class families' ability to purchase and acquire a vehicle. It underscores the imperative for innovative strategies to meet evolving customer demands while addressing the challenges associated with financing used vehicles, including perceived risks and regulatory complexities. The report underscores the importance of financing in facilitating vehicle ownership and fostering market growth in India's pre-owned car sector through an examination of these interconnected aspects.

Keywords: Financing Options, Purchase Decisions, Pre-Owned Car Market

I. INTRODUCTION

The used car market in India has experienced significant growth over the last decade, driven by enhanced affordability, escalating aspirations, and the accessibility of dependable financing alternatives. For numerous middle-income families, financing has emerged as a critical determinant in the shift from two-wheelers to four-wheelers. This article examines the influence of financing on purchasing decisions, emphasising its effect on consumer behaviour, market expansion, and prospective trends. Multiple studies illustrate the relationship among financial products, consumer behaviour, and perceived risks, rendering financing options a vital element in the decision-making process for purchasing pre-owned vehicles. Customers can assess their total expenses through financing options such as loans, leases, and installment plans, facilitating informed decisions when purchasing vehicles (Heon & Joon, 2018). Moreover, product quality and promotional strategies had a combined influence of 67.8% on purchasing decisions, indicating that marketing efforts are closely linked to financial factors (Utami & Suzanto, 2024). The disorganised nature of the pre-owned automotive industry heightens perceived risks, which financing can help mitigate by providing clearer price structures. The expansion of financing options has heightened demand in markets like India (Mishra & Das, 2018). Moreover, familial influence and demographic factors such as age and affluence determine financing decisions, therefore affecting customer satisfaction and debt levels post-transaction (Furtado et al., 2023) (Aujirapongpan et al., 2014).

II. OBJECTIVES

1. To identify key factors influencing financing choices
2. To analyse the impact of financing options on purchase decisions
3. To identify challenges in financing pre-owned cars

III. METHODOLOGY

This study employs a methodology reliant solely on secondary data, involving a comprehensive evaluation and analysis of existing studies regarding financing alternatives in the used automobile market. The study systematically gathers data from

many academic journals, industry reports, and credible online sources to understand the dynamics of financing options and their impact on consumer purchasing behaviour. The data collection focusses on key themes that significantly influence financing decisions, including interest rates, loan terms, down payments, and eligibility criteria. A conceptual model is proposed based on the current literature to enhance the analytical framework. This model illustrates the relationship between financing options and purchasing decisions by emphasising the independent elements influencing these choices, including credit availability and consumer risk perceptions.

3.1 Pre-Owned Car Market in India

The pre-owned car market in India has surpassed the new car segment in recent years, with an estimated annual growth rate of 15-20%. Elements like as cost, accessibility of certified quality vehicles, and consumer awareness have driven this increase. Nevertheless, obstacles such as fluctuating pricing and restricted access to funding in specific areas endure.

The elevated prices of new vehicles, changing consumer preferences, and increasing disposable incomes are all factors contributing to the significant growth of India's used automobile market. The luxury market, characterised by challenges in accurately calculating resale value due to several influencing factors, is projected to expand at a rate of 16.30% from 2024 to 2032 (Ranjith, 2024). Customers seeking personal transportation options are influenced by the convenience of ownership and the increasing availability of financial assistance, especially following Covid-19, which contributes to the shift towards pre-owned vehicles (K. et al., 2022; Saranya & Chander, 2022). Digital platforms have transformed the market by providing real-time data and enhancing the buying and selling process through advanced machine learning models that predict automobile prices (Ranjith, 2024; "Review on the Pre-owned Car Price Determination using Machine Learning Approaches", 2022). Moreover, stakeholders must understand the evolving client behaviour, as preferences have significantly shifted over the past decade, necessitating tailored marketing strategies (Schmidbauer, 2023).

3.2 Financing Options for Pre-Owned Cars

Various methods exist to finance pre-owned vehicles, including prequalification programs that facilitate the process for purchasers. Recent technological advancements have rendered the purchasing process more open and efficient, allowing consumers to simultaneously access car history records and explore preapproved financing options (Cain et al., 2015). Approximately 75% of automobile acquisitions are financed through credit, with third-party financing being the predominant method (Agarwal et al., 2008).

Furthermore, lenders may now evaluate customer credit histories and vehicle equity thanks to cutting-edge finance models like equity mining, which allows for customised financing options (Cain et al., 2016). Additionally, by offering consumers flexible buying options like fixed-price buy options or predetermined discounts, promotional systems that leverage options can improve market segmentation and consumer value (Afik et al., 2012). Ultimately, these diverse financing strategies aim to meet customer needs while managing lender risks associated with defaults and prepayments.

The significant advancement of financing options has granted consumers increased autonomy and convenience. Traditional bank loans offer competitive interest rates; nevertheless, they often impose stringent qualification criteria. Individuals with moderate credit scores particularly advantage from the expedited processing and enhanced acceptance rates of non-banking financial organisations (NBFCs). In-house dealership finance at the dealership offers streamlined processes and incentives to attract customers. Peer-to-peer lending platforms provide a digital avenue for individuals to secure loans from others under mutually agreed terms, hence broadening the options available to consumers.

3.3 Factors Influencing Financing Choices

Purchasers often evaluate many factors when selecting financing options for automobile acquisitions to ensure optimal alignment with their financial situations. Given that interest rates directly influence the overall expense of the loan, they should be prioritised in consideration. Interest rates for used cars are typically higher than those for new cars, which can make them difficult to finance. The higher perceived risk of financing older assets that depreciate more quickly is frequently the cause of this discrepancy (CarWale).

The loan tenure, which determines the duration of the repayment period, is another significant factor. Numerous buyers opt for flexible loan terms, as extended durations render monthly installments (EMIs) more manageable and afford greater financial latitude, whereas abbreviated terms diminish the total interest payable (CreditMantri). Down payments are essential in financial options. Buyers are often attracted to solutions that require lower down payments, as they reduce the initial financial burden. It is essential to note that smaller down payments lead to a bigger principal loan amount, hence increasing the total interest paid throughout the loan term. Due to this trade-off, buyers must meticulously evaluate the long-term financial implications in relation to their current financial capacities (Axis Bank).

Eligibility requirements significantly influence the conditions and accessibility of funding options. Lenders typically assess a buyer's repayment capacity by examining their employment history, credit score, and income stability. A stable income and a high credit score not only enhance the probability of loan approval but may also result in more favourable terms, such as lower interest rates or increased loan amounts. Conversely, buyers with moderate or low credit scores may face more rigorous requirements or be compelled to explore alternative financing options, such as dealership financing or loans from Non-Banking Financial Companies (NBFCs) (CreditMantri, n.d.). To select a financing plan that balances cost, convenience, and long-term financial stability, buyers must consider all of these interconnected factors.

3.4 Impact of Financing on Purchase Decisions

Financing significantly impacts the decisions of pre-owned car buyers, driven by various factors such as consumer behaviour, perceived risk, and credit accessibility. Research indicates that customer choices are significantly impacted by the accessibility of auto finance, particularly in countries such as India, where the demand for used vehicles has escalated due to an expanding middle class and increasing disposable income (Mishra & Das, 2018). Purchase decisions are also directly impacted

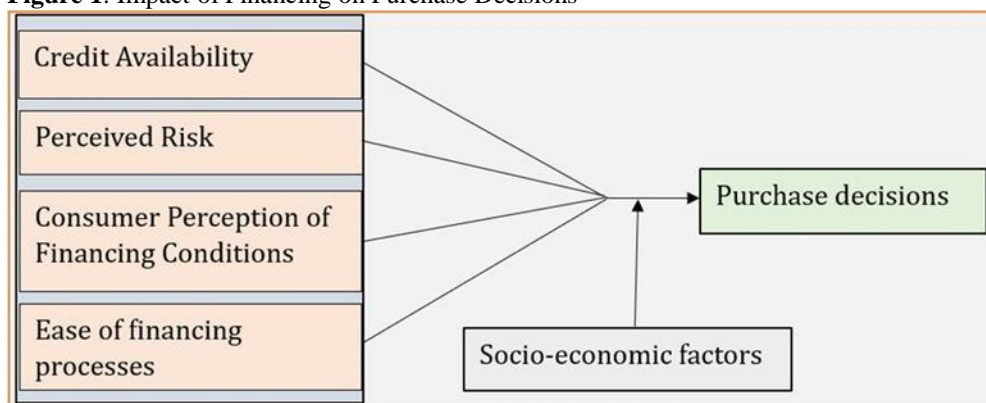
by how financing circumstances, including interest rates and loan processing periods, are perceived; consumers are more likely to purchase cars when they expect favourable credit conditions (Johnson et al., 2014). Additionally, consumers prioritise ease of documentation and speedy processing times when choosing vehicle loan businesses (Joseph & Kamble, 2011). The dynamics of the used car business are significantly shaped by the interplay between financing options and consumer perceptions (Aujirapongpan et al., 2014).

The market for pre-owned vehicles has expanded significantly due to financing options, hence facilitating vehicle ownership for a broader demographic. Flexible repayment options have enhanced affordability for middle-class families, allowing them to get a vehicle without concern for initial costs. Moreover, financing schemes offering lower EMIs or attractive interest rates often sway consumers' brand or model preferences, therefore impacting their purchasing choices. Moreover, tailored financing solutions instill confidence in clients, enabling them to choose luxury vehicles they previously deemed expensive. These variables collectively underscore the significance of financing in shaping consumer behaviour and driving the used car industry.

3.5 Conceptual Framework: Impact of Financing on Purchase Decisions in the Pre-Owned Car Market

The conceptual framework underscores the critical importance of financing options while delineating the various factors that affect decisions to purchase a used vehicle. The choice to purchase a pre-owned vehicle is the dependent variable in this framework, influenced by several independent variables and intervening factors.

Figure 1. Impact of Financing on Purchase Decisions



A primary factor affecting customer decisions in the used automotive industry, particularly among middle-class consumers, is finance availability. Car ownership has become more attainable due to the provision of auto loans, which assist consumers in overcoming the challenge of substantial initial costs. This is especially relevant in emerging economies such as India, where finance initiatives address the fiscal constraints of a burgeoning middle class. The funding process can be streamlined through pragmatic factors such as minimal documentation and expedited processing times. These attributes enhance market accessibility by attracting novice buyers and persons with less financial literacy. Moreover, favourable financing conditions, such as low interest rates and flexible repayment plans, enhance the appeal of car ownership, since buyers are more likely to engage when financial terms are perceived as equitable and advantageous.

Consumer perceptions and expected financial considerations significantly impact purchase decisions. Consumers are urged to persist with significant acquisitions when assured by financing alternatives that offer stable repayment conditions and support during challenging financial periods. Tailored finance solutions can diminish perceived risks, allowing consumers to consider luxury vehicles that may have previously seemed unattainable. Moreover, financing schemes that provide attractive interest rates or minimal EMIs often sway consumer preferences towards specific brands or models, demonstrating their direct impact on purchase choices. An expanding middle class and increasing disposable income exemplify socioeconomic features that act as vital intervening variables, promoting an environment favourable to the development of financing options. These factors discreetly enhance consumers' spending power and inclination to acquire used automobiles, hence driving market growth.

Consumer perceptions and financial opportunities converge to yield several significant outcomes. Primarily, financing enhances the accessibility of car ownership, broadening the market to encompass a larger demographic, especially middle-class families. Secondly, customers' brand and model selections are shaped by financing conditions and plans that guide them towards budget-compatible options. Thirdly, tailored financing instills greater confidence in customers and encourages them to consider luxury vehicles that were previously unattainable. These aspects collaborate to stimulate the used automobile market, underscoring the importance of financing as a catalyst for industry growth. This conceptual model illustrates the extensive impact of financing on consumer behaviour and market dynamics, highlighting its role in enhancing accessibility, confidence, and market growth within the used automotive sector.

3.6 Challenges in Financing Pre-Owned Cars

In India, financing pre-owned vehicles poses several challenges, mostly due to fluctuating market dynamics, legal intricacies, and economic volatility. The perceived risk of lending is significantly influenced by economic fluctuations, including alterations in inflation rates, currency instability, and interest rate policies. These factors affect capital structure decisions in the automobile business by resulting in adverse debt-to-equity ratios for financial institutions ("A panel data exploration of macroeconomic factors influencing the optimal capital structure of the Indian automotive sector," 2024). Financial institutions may exhibit reluctance in extending loans for the acquisition of used vehicles due to heightened pressure to maintain profitability amid prevailing economic concerns.

The vehicle finance market must adapt to stringent regulatory requirements while addressing evolving consumer expectations, including the increasing need for competitive interest rates and flexible repayment terms. Financing activities are often complicated by compliance with governmental restrictions, including tax legislation, loan distribution criteria, and financial transparency requirements. Robust risk management strategies are essential to address these challenges, ensuring both sustained growth and financial stability. Lending risks can be mitigated by effective tactics such as comprehensive credit risk evaluations, advanced data analytics for client profiling, and portfolio diversification.

To maintain competitiveness, the industry must proactively adapt to evolving market trends, including the rising demand for digital loan applications and enhanced customer service (Ranawat & Bhaiyya, 2024). These components collectively underscore the intricate challenges associated with financing pre-owned vehicles in India, necessitating innovative and adaptable solutions to overcome obstacles and capitalise on market opportunities.

The historical context of the Indian vehicle market, marked by outdated models and stringent regulatory challenges, has resulted in a finance environment that often struggles to meet modern customer demands (Krishnan, 2002). The automobile business has been characterised by limited vehicle options, strict import laws, and a deficiency of competitiveness for many years. These forces established a financial landscape that prioritised institutional mandates over consumer-centric innovation. Due to this background, financial institutions are less capable of swiftly adapting to the rising demands of contemporary consumers for flexible financing options, reasonable interest rates, and expedited loan approvals.

The challenges are exacerbated by the complexities of marketing financial services for pre-owned vehicles. The underutilisation of available financing options is often attributed to inadequate communication strategies and a failure to bridge the divide between lenders and borrowers. The ability to make informed decisions is further obstructed by information asymmetry, which arises when consumers possess inadequate comprehension of loan terms, eligibility criteria, and concealed costs. Consumers, particularly individuals from lower-income demographics or first-time purchasers, face additional financial strain due to elevated credit expenses, encompassing high interest rates and processing fees (Ranganath & Rao, 2012; Rao et al., 2017).

The interplay of historical inflexibility, insufficient customer awareness, and cost inefficiencies highlights the ongoing challenges in rendering finance more accessible and appealing to a wider demography in the used automobile industry. To resolve these issues and align finance systems with contemporary market expectations, an innovative strategy for legislation, product design, and consumer education is essential.

IV. CONCLUSION

In the used automobile market, financing options significantly impact decisions, particularly in a diverse and dynamic economy such as India. This essay illustrates how financing options enhance market accessibility by reducing financial barriers for clients. Middle-class families can now purchase a vehicle due to flexible repayment choices, reasonable loan rates, and streamlined processes, contributing to the rapid expansion of the pre-owned automobile sector. Buyers can make educated decisions due to the integration of advanced financial structures and digital platforms, which also enhance market efficiency and transparency.

Nonetheless, obstacles persist that hinder finance approaches from achieving their maximum potential, including historical market inflexibility, regulatory constraints, and economic fluctuations. Restricted consumer awareness and elevated credit fees further obstruct access for numerous individuals, especially those in lower-income brackets. The sector must adopt innovative strategies, including enhanced credit risk assessment tools, tailored financing options, and comprehensive consumer education programs to overcome these challenges. By addressing these concerns and using technological advancements, stakeholders may create a more dynamic and inclusive ecosystem that satisfies modern consumer wants, hence facilitating the sustained growth of the used automobile industry.

V. FUTURE DIRECTIONS OF THE STUDY

The future objective of the study is to evaluate the proposed conceptual model through primary data collection and analysis utilising Structural Equation Modelling (SEM). The conceptual framework elucidates the impact of various financing options on purchasing decisions in the pre-owned automobile market, identifying relationships that this methodology aims to substantiate. Data, both quantitative and qualitative, regarding the financing experiences, preferences, and decision-making processes of consumers who have recently purchased used cars will be collected via surveys or interviews.

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