

## Auto sales post COVID-19: the road to recovery

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The automotive sector was bracing for a difficult year even before the COVID-19 pandemic. Auto sales had been tepid for 12 to 15 months<sup>1</sup> when the outbreak stalled production and overall economic activity. The industry now faces concerns on short-term liquidity as well as long-term growth in revenue and profitability, even as automakers restart production and dealerships record sales again with a gradual relaxation of the lockdown. As it emerges from this crisis, the industry will need to realign itself to some of the new realities of the post COVID-19 world that are outlined here. These themes are set to shape its road to recovery.

**Preference for personal mobility:** the pandemic has brought about marked changes in consumer habits and behaviours. There is likely to be a shift away from shared mobility options as people prioritise social distancing and personal hygiene. This would effectively translate into a higher preference for affordable personal mobility, which could boost sales for auto manufacturers, especially in the entry-level vehicles category. A similar trend was witnessed when the lockdown ended in China, where car ownership gained traction vis-a-vis car-hailing and sharing. India is expected to follow a similar path, which could help reverse the declining sales trend in the automotive sector.

The outbreak, however, has also greatly strained personal finances with significant job losses across sectors. As a result, the consumer's financial ability to purchase new cars might be constrained. The automotive sector will have to devise innovative purchase/leasing schemes to drive automotive sales. As new cars may be unaffordable for certain sections of the population, the two-wheeler and organised used car market might also stand to gain.

**Going digital:** the increasing preference for contact-less online transactions has emerged as a major trend and is expected to reflect in automotive purchases as well. There was already a shift towards online models in after-sales with increases in online booking of appointments, doorstep pickup/delivery and online payments. Several original equipment manufacturers (OEMs), both premium and mass market, have already recognised this trend and launched a complete online buying experience<sup>2</sup>, starting from initial enquiries and customisation of features, to booking, financing and delivery in a completely contact-less transaction. Even test drives are today offered at the customer's doorstep, thereby eliminating the need to visit a showroom.

While there will always be a section of customers that continues to prefer the traditional route of purchasing a car, the increasing acceptance of online purchases may ultimately reduce the dependence on expensive real estate. Companies will have to focus on delivering superior customer experience by ensuring a frictionless path to purchase in an online world to benefit from this trend.

**Online marketing:** the pandemic has significantly accelerated the pace of the shift towards digital marketing including augmented and virtual reality technologies<sup>3</sup>. Traditional marketing events,

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such as auto shows and exhibitions, will take a backseat for some time with social distancing being the norm. Going forward, this will significantly disrupt traditional marketing channels and directly impact how advertising dollars will be spent. Digital media platforms likely will be the gainers.

**Innovating with new features:** in adapting to the post COVID-19 world, several consumers will look for better health, hygiene and sanitation features in their vehicles. Certain features like in-built sanitisation, enhanced air-purification systems and anti-bacterial surfaces may see a spike in demand. Consumers are likely to lean towards cars that offer such features and might even be willing to pay extra for their own physical and mental wellbeing. Companies that incorporate such innovation while staying cost-effective will likely have the upper hand in terms of sales.

**Growth of subscription models:** a growing shift to asset-light models and preference for experience rather than ownership is fast gaining favour with millennials. When customers have a less positive outlook in general, they tend to avoid capital-intensive purchases. In the auto industry, this may translate into greater interest in car subscriptions and short-term leasing models. Several startups already exist in this sphere but the focus will now shift to reliable and robust execution to ensure a clear path to profitability.

In conclusion, the easing of lockdowns offers hope that the automotive sector will soon set a course for recovery. This will be a testing time for the sector and the recovery trajectory will depend on how well manufacturers and retailers are able to respond to challenges and adapt to the evolving trends in the post COVID-19 world.

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<sup>1</sup> Automobile Domestic Sales Trends, Society of Indian Automobile Manufacturers, accessed 20<sup>th</sup> May 2020

<sup>2</sup> Mercedes Benz India, Express Store, accessed 20<sup>th</sup> May 2020

<sup>3</sup> iVisualizer, BMW India, accessed 25<sup>th</sup> May 2020

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