

## **BUYING BEHAVIOUR OF PASSENGER CAR CUSTOMERS TOWARDS AUTO FINANCE – AN EMPIRICAL STUDY**

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### **ABSTRACT**

One of the most important factors that influences purchase of passenger cars in India is the availability of auto finance or consumer credit. This empirical study analyses the behavioral pattern exhibited by passenger car customers towards auto loan schemes and financiers when they purchase their cars. The study is based on the data collected from 525 passenger car owners consisting of professionals, employees of public and private sector, businessmen and agriculturist in Dakshina Kannada district of Karnataka state. The respondents have been broadly categorized into three groups based on the original price range of their cars viz. cars in the price range of Rs. 2 – 4 lakhs, Rs. 4 – 6 lakhs and Rs. 6 – 9 lakhs. The study finding indicates that overall the most important three factors considered by car purchasers while deciding auto finance company were less processing time, easy documentation and explanation of the financing scheme by the staff.

**KEY WORDS:** Buying behaviour, passenger cars, auto finance

## INTRODUCTION

Buying behavior of passenger car customers are highly influenced by unique set of cultural, social, economic and psychological factors. The study of buying behavior has proved that many factors like price, income, distribution of income, competition with substitutes, utility, consumer preference (economic factors) & factors like culture, attitude, social values, life styles, personality, size of family, education, health standards etc. (social factors) play a major role in buying behavior of customer. Economists among the social scientists assumes that persons exhibit rational behavior, they have perfect information about the market, and attempts to obtain maximum value for every unit of money and effort spent. Economists thinks that consumers consider price as the most effective vehicle of motivating purchases. The important economic factors and theories which are basic and relevant for understanding consumer behavior includes personal income, disposable income, discretionary income, family income, future income, consumer's liquid assets like bank balances, short term bank deposits, shares, units, government bonds etc. , as well as living standards enjoyed in the past.

Apart from all the factors mentioned earlier, availability of car finance or auto finance appears to be a vital factor that influences buying behavior of passenger car customers in our country. As per the most recent market information accessible on the Indian auto market, it is estimated that roughly 20% - 25% of all cars purchased are bought on a cash transaction basis & the remaining 75% to 80% are funded by an assortment of means of financing such as automobile loans, car hire, operating leases and so forth. Obviously the means of funding preferred by the majority indian auto owners is a plain vanilla car loan, although car leasing is also becoming the funding means of choice for the corporate sector, mainly in big metropolitan areas.

Government banking institutions, public sector financial institutions, global finance institutions, non banking financial corporations and global leasing companies are the chief players offering various types of funding and financing schemes for automobiles. Against this background, the present empirical study makes an attempt to analyze and scrutinize the behavioural pattern exhibited by passenger car customers towards auto loan schemes and auto loan financiers.

## REVIEW OF LITERATURE

Gerald D. Bell (1967) studies how a new car buyer feels about his purchase and what factors determine his reactions when he begins living with his new car. The finding of this investigation suggests the effect of a customer's self confidence, his personality, and the quality of service he receives upon his cognitive dissonance. Edward L. Grubb & Gregg Hupp (1968) tests a methodology for measurement of self-concept and consumer behavior in comparable terms and, therefore, to further substantiate the relationship of self theory to consumer behavior. The authors suggests that the owners of a specific make of automobiles perceive themselves as having self-concepts similar to those of others who own that make of automobile, and significantly. Darlin Doman (1983) in the article has mentioned that satisfied new car buyers discuss their experiences with eight people dissatisfied buyers complain to an average of 22 people. William B Dodds (1991) investigated the effects of the extrinsic cues of price, brand and store information on consumer perception of product quality. They found that price had a positive effect on perceived quality but a negative effect on perceived value and respondents' willingness to buy. Samson Itamer (1992) has observed that purchase decisions are determined on the basis of both absolute attributes of the alternatives and their relative positions within the particular choice set under consideration. He has further suggested that consumers are less likely to choose alternatives that were selected by other consumers for reasons that do not apply to them and that consumers are less likely to choose alternatives that are offered with unneeded features or premium even when these features do not reduce the value of the product in any way. Aradhana Krishna (1994) viewed that buyers purchase behavior can be influenced not only by current price of a product but also by what price they expect in future. C W Park et al.(1994) assessing the

consumer knowledge have observed that consumer knowledge is an important construct in understanding consumer behavior such as information search and information processing. Increase in self assessed knowledge was associated with decrease in the utilization of sales persons recommendations. Andrew et al. (1996) assesses no. of different measures of consumer expertise by examining their ability to predict correct choices in three stimulus based choice tasks. Pavleen et al.(2003) in their article have perceived that the family as a reference group has one of the strongest, most immediate and pervasive effects on a consumer's personality motivation and attitudes. The author have affirmed that from the marketing point of view investigating the family as a consumption unit becomes crucial since attitudes towards saving and spending, and even towards brands and products, are often moulded by the family. Richard et al. (2003) in their large – scale, national study investigates the influences of monthly payment incentives (rebates and low interest rates) on the decision process of both car and truck owners and lessees. Results suggests that incentives were found rated significantly more important among lessees than among buyers. While evidence suggests that incentives obviously should not be used on a wholesale basis, there appears to be a niche among which incentives may be successful. Authors suggests that lessees would be more open to choosing a vehicle that has an attractive monthly payment via rebates and other incentives. Kristin Diehl (2005) suggests that consumers often search for and choose from ordered sets, commonly from options listed from best to worst. Greater search can lead to more positive evaluations for improving versus declining orderings because consumers experience more positive moments on which to base their evaluation. Overall evaluations are influenced by differences in these key moments over and above quality changes of the set. Davy Lerouge & Luk Warlop (2006) in their article proposes that many buying decisions require predictions of another person's product attitudes. Yet, consumers are decisions require predictions of another person's product attitudes. Yet, consumers are often inaccurate predictors, even for familiar others. Joanne Helperin (2010) suggests about the numerical benchmark - the almighty credit score. She insists to maintain a high credit score ensures qualifying for larger loans and lower interest rates. With a low credit score, you'll pay more interest, make higher down payments or not qualify to borrow at all.

## OBJECTIVES OF THE STUDY

1. To study and analyze the various aspects of buying behavior of passenger car customers towards auto finance.
2. To analyze the reasons for using own funds instead of opting auto finance.

## RESEARCH METHODOLOGY

The researcher has collected primary data through a comprehensive, structured questionnaire, from 525 passenger car owners in Dakshina Kannada District. A draft questionnaire was prepared and pre-tested with a group of 25 respondents to iron out fundamental problems in the instructions and questionnaire design. The respondents included professionals, employees of public and private sector, businessmen and agriculturist in Dakshina Kannada district. The respondents have been broadly categorized into three groups based on the original price range of their cars viz. cars in the price range of Rs. 2 – 4 lakhs, Rs. 4 – 6 lakhs and Rs. 6 – 9 lakhs. Stratified random sampling technique was adopted to select the respondents. Statistical tools like chi – square & percentage analysis are used, besides graphical representations, for easy analysis and interpretation of data.

## HYPOTHESES

1. **Research Hypotheses:** There is an association between availability of finance (loan) facility and purchase of cars.
2. **Research Hypotheses:** There is an association between competitive interest rate offered by finance companies and purchase of cars.

## RESULTS AND DISCUSSION

### PURCHASE OF CAR AND SOURCE OF FUND - OWN FUND VS LOAN FINANCE

The data collected from the selected respondent car owners (525 respondents) during the field survey has revealed that maximum number of 399 car owners constituting 76 percent of the total had purchased their cars through loan finances. However 24 percentage purchased cars with own funds.

### REASONS FOR USING OWN FUNDS INSTEAD OF OPTING FOR FINANCE FROM BANKS, CO-OPERATIVES ETC.

Many car owners have used their own funds despite easy availability of vehicle loans from banks and co-operatives. The field survey has revealed that 56.3% did not go in for car loans from banks because of high interest cost. A small number of 17 respondent car owners did not prefer loan as they had aversion towards borrowing, as well 12.7% are averse towards all kinds of liabilities, while 6.3% were not interested in bank loans because of the paper work and other difficult procedural formalities involved. Availability of idle/surplus funds prevented 11.1% of the total, from going for bank loans, for purchasing cars.

### CAR PRICE RANGE AND PROPORTION OF LOAN FINANCE

63.9% of the respondents took loan to the tune of 75% of the total cost of the vehicle, 28.6% respondent took 80% loan, 5% took 90% loan & only 2.3% respondents took 100% loan.

### LOAN TENURE

35% respondents took loans for car purchase for a tenure of five years followed by 32.3% for three years, while 19.7% had taken loans for a period of 4 years & 11.8% for 2 years.

### SOURCE OF LOAN FINANCE

65.2% of the total have obtained loan finance from the nationalized banks, 23.6% from private banks, 34 respondents from NBFC's, 8 from co-operative banks & 3 from foreign banks.

### PURCHASE OF CAR IN THE ABSENCE OF FINANCE FACILITY-RESPONSES OF CAR OWNERS

Responses of the 399 car owners who purchased cars through loan finance indicate that majority of them i.e. 57.9% would not have purchased their cars if finance facility was not available. This reveals that loan finances have a profound influence on the purchase behavior of the car owners.

**EXTENT OF FINANCE AVAILABLE AND THE PURCHASE OF CAR**

49.9% of the total number of 399 respondents who availed finance facility for car purchase would not have been able to purchase their car if the extent of loan was less than what they required. However 50.1% of the respondents expressed the view that it would have been possible to purchase the car even if that extent of finance available now was not available.

**AVAILABILITY OF MAXIMUM LOAN FINANCE & PURCHASE OF HIGHER VERSION OF CAR**

The study indicates that availability of maximum finance has not led to purchase higher version of car according to the responses of majority of respondent car owners. This opinion has been expressed by 82.5% respondent car owners in Rs. 200000 – 400000 category, 79.7 percent respondents in Rs. 400000 – 600000 category and 81.7% in Rs. 600000 – 900000 category.

**ARRANGEMENT OF FINANCE**

The study reveals that 21% of respondents arranged finance with the help of car dealers, while majority of 79% have arranged finance on their own, without the help of car dealer.

**RATING THE SERVICES DELIVERED BY THE FINANCIER**

The respondent car owners were asked to offer their opinion about the financiers' services. The following aspects were covered in obtaining the responses.

**COMPETITIVE INTEREST RATES OF THE FINANCIER**

Majority of 200 respondents (50.1%) have rated the competitive interest rates of the financiers as 'good' followed by 98 respondents (24.6%) who considered the interest rate of the financier as 'average'. 87 respondents (21.8%) rated it as 'excellent', 11 respondents (2.8%) as 'not good' and 3 respondents (0.8%) as 'poor'.

**SHORT PROCESSING TIME OF LOAN APPLICATION**

Maximum of 174 (43.6%) respondents have termed the processing time of loan application by the financier as 'good', where as 133 (33.3%) respondents considered it as 'excellent', 72 (18%) respondents considered it as 'average', 19 (4.8%) respondents considered it as 'not good' and 1 (0.3) respondent rated the same as 'poor'.

**COURTEOUS AND HELPFUL STAFF**

Majority of 157 respondent car owners (39.3%) considered the staff of the financier as 'good' in terms of their courtesy and helpful approach while 154 respondents (38.6%) felt that the financier's staff was 'excellent' in this regard. A good number of 67 respondents (16.8%) felt that the staff was average while 6 and 15 respondents considered the staff as 'poor' and 'not good' respectively.

**TRANSPARENT PROCEDURE**

The procedure of providing loan finance was found transparent and is considered 'excellent' by majority of 162 respondent car owners (40.6%) , while 113 respondents (28.3%) felt this aspect was

‘good’ and 107 respondents (26.8%) regarded it as ‘average’. A small number of 15 and 2 respondents were of the opinion that this aspect of financier was ‘not good’ and ‘poor’ respectively.

### **FAST DOCUMENTATION**

When asked about fast documentation by financier, 21.1%, 39.6% and 33.1% of respondent car owners considered it as ‘average’, ‘good’ and ‘excellent’ respectively. However 6 and 19 respondents considered the documentation as ‘poor’ and ‘not good’ respectively.

### **NO HIDDEN CHARGES**

Absence of hidden charges is considered as ‘poor’, ‘not good’, ‘average’, ‘good’ and ‘excellent’ by 4%, 8.8%, 23.8%, 33.6% and 29.8 % of respondent car owners respectively.

### **TAILOR MADE SCHEMES**

Tailor made schemes offered by financiers are considered as ‘average’ by maximum of 30.3% of respondents, ‘good’ by 25.8% and ‘excellent’ by 21.3% of respondent car owners. However 13.3% and 9.3% of the respondents considered this aspect as ‘poor’ and ‘not good’ respectively.

### **APPROACHING THE SAME FINANCIER WHILE PURCHASING ANOTHER CAR**

Responses of the majority of car owners covered by the study indicates that they would approach the same financier if they were to buy another car, which clearly reveals high level of customer satisfaction among the respondent car owners who availed finance facilities to purchase their cars.

### **INFLUENCE IN AVAILING FINANCE FROM A PARTICULAR COMPANY**

The overall position indicates that 42.8% of respondents were influenced by friends in availing of finance from a particular company, followed by 20.3% respondents being influenced by dealer salesmen, 15% by head of the family, 14.2% were influenced by children and 7.5% respondents were influenced by spouse in availing finance from a particular company.

### **FACTORS CONSIDERED WHILE CHOOSING A FINANCE COMPANY TO FINANCE THE CAR PURCHASE**

The respondent car owners have mentioned varied factors which influenced them in choosing the particular finance company.

Majority of the respondents in all the three price range category have ranked the factors that they have considered in choosing a finance company on the basis of their importance. They are less processing time (343 respondents) followed by easy documentation (332), explanation of the financing scheme by the staff (326), friendly and approachable staff (317), accessible location of the bank/financier (290), reputation of the bank (286), lower interest rates (214), absence of hidden charges (207) and good interior decoration in the office (145). Over all the most important three factors considered by car purchasers were less processing time, easy documentation and explanation of the financing scheme by the staff. These factors were considered most important by high priced car customers and the responses indicate that the finance seeking car owners covered by the study were more prone to choose the financier who could provide hassle free loan facility, personal attention & convenience rather than less interest rates or absence of hidden charges.

## HYPOTHESES TESTING

**1. Research Hypotheses:** There is an association between availability of finance (loan) facility and purchase of cars.

**Table 1**

### PURCHASE OF CAR IN THE ABSENCE OF FINANCE FACILITY-RESPONSE OF CAR OWNERS

Response	Car Price (Rs.)			TOTAL
	200000-400000	400000-600000	600000-900000	
Yes	43 41.7%	62 43.4%	63 41.2%	168 42.1%
No	60 58.3%	81 56.6%	90 58.8%	231 57.9%
TOTAL	103 100%	143 100%	153 100%	399 100%

$$\chi^2 = .162 \quad p = .922 \text{ (ns)}$$

**Null hypotheses :** There is no association between availability of finance (loan) facility and purchase of cars in DK district.

**Alternative hypotheses:** There is an association between availability of finance (loan) facility and purchase of cars.

Since the P value ( $P = .922$ ) is more than 0.05 there is no statistical significant difference and hence the research hypothesis is refuted and null hypothesis is accepted. From this it follows that there is no association between availability of finance (loan) facility & purchase of cars.

**2. Research Hypotheses:** There is an association between competitive interest rate offered by finance companies and purchase of cars.

**Table 2**

### SERVICE DELIVERED BY THE FINANCIER: COMPETITIVE INTEREST RATES

	Car Price (Rs.)			TOTAL
	200000-400000	400000-600000	600000-900000	
Poor	1 1%	2 1.4%	0 0%	3 0.8%
Not good	5 4.9%	0 0%	6 3.9%	11 2.8%
Average	27 26.2%	40 28%	31 20.3%	98 24.6%
Good	49 47.6%	70 49%	81 52.9%	200 50.1%
Excellent	21 20.4%	31 21.7%	35 22.9%	87 21.8%
TOTAL	103 100%	143 100%	153 100%	399 100%

$$\chi^2 = 10.885 \quad p = .208 \text{ (ns)}$$

**Null Hypotheses:** There is no association between competitive interest rate offered by finance companies and purchase of cars.

**Alternative Hypotheses:** There is an association between competitive interest rate offered by finance companies and purchase of cars.

Since the P value ( $P = .208$ ) is more than 0.05 there is no statistical significant difference and hence the research hypothesis is refuted and null hypothesis is accepted. From this it follows that there is no association between competitive interest rate offered by finance companies and purchase of cars.

## RECOMMENDATIONS & CONCLUSION

1. It is evident from the study that availability of loan finance provided by banks and NBFC's is one of the major factors that makes car purchase possible for majority of customers. It may be noted that in spite of the availability of finance there were still many car purchasers who did not approach banks and NBFC'S, for various reason. Many of them felt that finance companies charge high rate of interest. Some of them were averse of tedious paper work and documentation and few are averse of liabilities of any kind. Finance companies need to work out strategies to tap these customers. Finance companies through there advertising strategies and selling techniques need to try to get rid of these mental blocks that some potential consumers are experiencing. A modern customer wants to "enjoy now and pay later", unlike old customers. Finance companies need to understand this new customer philosophy and to plan accordingly so that they are able to derive maximum benefit.
2. Finance companies need to provide quality service in minimum time. This may be possible by launching transparent schemes, by training the staff to be proactive, approachable and friendly to customers, by reducing processing time, introducing easy documentation and starting branches in convenient locations. As less interest rate is not considered to be very significant factor by this category a higher interest rate can be charged to these consumers.
3. Low interest rates and absence of hidden charges emerge as the most important factors for consumers of Rs.2 - 4 lakhs price category, while choosing a finance company. Finance companies need to come out with very competitive interest rates without hidden charges to attract these customers.
- 4 As the data reveals that friends were the most prominent influential factor in availing finance from a particular company, finance companies should take special care in servicing every customer because he or she will be capable of driving their friends to the same company or to another one. Gift schemes can be introduced for referral schemes. Festival greeting and gifts can be sent to special customers and opinion leaders so that positive word of mouth spreads.
6. It is evident that dealer sales men also exert influence on their customers to choose a particular finance company. Gift schemes or tour programmes can be sponsored by finance companies to motivate them.
7. Less number of people has availed 90% & 100% finance. These schemes can be promoted to high net worth individuals, salaried class, and business men with reputation. This will enhance sales volume and profitability of the company. Special advertisement campaign can be released for this purpose. Customers should be encouraged to avail maximum loan.

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