Time to Look at New Mobility Models as Prices See-Saw

By Kriben Reddy, TransUnion Africa, auto information solutions vice president

So, the long-awaited normalisation of the markets has finally started happening. The numbers tell us used vehicle prices are still rising, but from a pure pricing perspective the market has already normalised, and we're moving into a new reality where new vehicle prices will come down in real terms as the industry readies itself for a recession.

For the past year or so, it's been party time for the used car market. Demand was up, there was limited supply of new vehicles, and consumers were looking to make smarter purchasing decisions. Now what's likely to happen is that dealers will have largely solved supply issues, but there's going to be an increasing demand problem as the effects of inflation and interest rates start to bite into consumer wallets.

According to TransUnion's latest Consumer Pulse study, more than half of South African consumers have cut back on their spending, and expect to cut discretionary spend even further in the coming months. One consequence of this is that they'll be holding onto their cars for longer, and the industry is going to have to get creative to get them back into the market.

For me, the market fluctuations once again highlighted two things. One is the value to the industry of having a baseline guide. The market is what it is. But the guide is a tool that helps everyone in the industry, from dealers to insurers to finance houses, maintain perspective in the midst of volatile pricing patterns.

If a car value was a hard and fast number with no discretion on adapting to the market, we'd be seeing a lot of consumers under-insured – and a lot of dealers sitting with stock on their inventory list. If you use the guide correctly, you're able to mitigate your risks as the markets shift.

The second issue that stands out is the fact that we, as an industry, can't rely on traditional vehicle ownership to drive us forward any more. Right now, South Africa remains an ownership-dominated market, but volumes are steadily declining, and that's unlikely to change. Financed vehicles will remain relevant for the foreseeable future, but the real opportunity lies in alternative mobility models.

As we've seen in the past few months, price is a primary factor for South African consumers when buying vehicles. Pricing is also a leading indicator to changing consumer buying behavior, whether new to used, used to new, segment changes, buying up or down, or actually none at all. But as new and used vehicle prices continue to spike, price has become a limiting factor for ownership and a contributor to high depreciation rates.

So, what if we looked at a model where the price of the vehicle matters less than how much will it cost me on a monthly basis? Suddenly a world of alternate mobility opens up beyond vehicle ownership – mobility on demand, ride sharing, ride-hailing, subscription models, and more. In each of these areas, there's a real opportunity for the industry to be at the heart of the solution.

In Europe and more developed economies, ride-hailing and ride sharing have become the norm, and they're a rapidly emerging trend in South Africa, albeit in the major urban centres for now. Companies providing ride-hailing services are moving from providing traditional taxi services to services that can be booked via apps, like ride pooling, food delivery and courier services, which makes the platform even more convenient. Massive investments by automotive manufacturers in ride-hailing services are further fueling the growth of the segment.

Interestingly, on-demand deliveries are growing at a faster pace than on-demand mobility at the moment, as the runaway success of services like Checkers Sixty60 show.

Due to the current affordability and accessibility of vehicles, the vehicle subscription market is expanding rapidly. The subscription model offers simplicity and adaptability, and is appealing to many customer segments. Older drivers want to avoid the annoyances of car ownership, such as maintenance and insurance, while younger markets want to avoid significant outlays and long-term financial commitments.

Either way, it offers the industry new paths to sustainability and relevance in a tough economic environment. And that's good for all of us.

After nearly 63 years, TransUnion's Auto Dealers' Guide – previously known as the Mead & McGrouther Auto Dealers' Guide – is only available digitally through the 1Check app for the vehicle trade. To access the 1Check app, contact the TransUnion Auto Solutions Call Centre on 0861 504 504 or speak to a TransUnion representative.

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