

# ***Problems and Recommendations for the Development of Pre-owned Car Market in China***

**Yulin Liang<sup>1,a,\*</sup>**

*<sup>1</sup>University of California, Irvine, California, United States of America, 92697*

*a. yulil13@uci.edu*

*\*corresponding author*

**Abstract:** The pre-owned car market has ushered in a new opportunity for development with the constant economic growth and the rise in the number of cars owned by Chinese residents in the past decade. However, there are still huge systematic and strategic loopholes in China's pre-owned car market at present. Therefore, improving China's used car market and promoting its sustainable development is a significant challenge that has to be overcome at the moment. This paper mainly relies on the research of China's pre-owned car market in recent years to explore the mainstream marketing strategies and the problems that exist in the current stage. These problems include information asymmetry, lack of integrity mechanisms and industry standards, inadequate evaluation systems, and outdated marketing strategies. To address these problems, this paper suggests that the market ought to alleviate information asymmetry through multiple channels, strengthen used car transaction management, optimize the expansion of national trading platforms, and further improve marketing strategies.

**Keywords:** pre-owned car, marketing environment, marketing strategy, competitive strategy

## **1. Introduction**

The rapid socioeconomic development of China in recent decades has led to a continuous improvement in the standard of living of the people, accompanied by fast urban expansion and rural modernization. The increasing demand for private vehicles has resulted in the growth of car ownership in both cities and rural areas. In the meantime, the demand for the replacement of vehicles owned by families or businesses, as well as the increased recognition and acceptance of used goods by the public, have contributed to the emergence and development of the used car market. As a result, the used car sales market in China has been continuously expanding, and the number and scale of transactions have maintained a high growth rate. According to the data published by the Ministry of Public Security on its official website on January 11, 2022, the nation's car ownership has reached 302 million [1]. The huge number of car owners has also created a huge market for vehicle circulation and the sales of used cars witnessed rapid growth from 2013 to 2021 [2].

Despite the fact that the used car market is booming at the moment, there are still shortcomings in the overall perspective for both the industry and enterprises operating in this market, which affects the long-term development of this huge market. The significance of this paper is, on the one hand, to comprehensively analyze the situation of the used car market in China, to find the factors

that hinder its development, to analyze the existing problems for the majority of used car dealers, and also to provide information on the used car market situation to the majority of consumers. On the other hand, this study takes the situation and the problems faced by the used car market in China as an example, proposes multi-facet resolutions for coping with the problems, and eventually promotes the proper development of the used car market in China. This paper primarily adopted a literature review and theoretical tools as the major methodology. The research results of domestic and foreign scholars on China's pre-owned car market are firstly sorted out and summarized to form the theoretical research basis for this paper. After that, PEST analysis is adopted for analyzing the external macro-environment.

## **2. Analysis of the Chinese Pre-owned Car Market Using the PEST Model**

### **2.1. Political Factors**

The development of China's pre-owned car industry is heavily influenced by national policies, and enterprises in this industry have to analyze various policies issued by national and local governments to provide effective guidance on the direction of their operations. In particular, with the rapid rise of used car e-commerce platforms and the rise in market demand for the cross-regional circulation of used cars in 2015, the government has made further regulatory requirements for the used car market [3]. The introduction of various policies at different stages illustrates the increasing importance the government attaches to the used car market, and such importance also proves the increasingly prominent status of the used car market in China's consumer market. Among the national and local policies, the followings have a particularly significant impact on the development of the used car market.

First of all, the Chinese government abolished the policy of restricting the relocation of pre-owned cars to other cities in 2022 [4]. Before 2016, 95% of prefecture-level cities in China were implementing regional relocation restrictions targeting used cars based on emission standards, a regional policy that restricted the flow of used cars in China nationwide. The work report of the government in March 2021 mentioned the need to remove the used car trade restrictions. In August 2022, the State Council of China explicitly called for the full abolition of the used car relocation restriction policy in the "Package of Policy Measures to Solidly Stabilize the Economy" [5]. The measure was further refined and implemented to ensure that the measure is implemented as soon as possible. The policy requires the implementation of the policy nationwide, including the key areas of air pollution prevention and control, to promote the national emission standard used cars to achieve free circulation. After the full abolition of the relocation policy, used cars will achieve nationwide circulation, which can greatly enrich the supply of automotive products, enhance the supply and demand suitability, and achieve positive economical and social benefits.

Furthermore, the reform of China's tax policy has been a catalyst for the rapid development of the used car market. Chinese taxpayers engaged in the sale of used cars are charged VAT at 2% on the sale of their acquired used cars, but all along individual transactions are invoiced in the used car market without paying VAT, and only a small amount of invoicing fees need to be paid to the used car market for the transfer. Therefore, in the actual operation before the tax policy adjustment, many used car business enterprises also use the used car trading market invoicing to avoid paying taxes. This not only causes the loss of national tax revenue, but also allows these used car enterprises that do not comply with national laws and regulations to escape from the responsibility of the vehicle after-sales, adding to the market chaos. In 2020, the Ministry of Finance and the State Administration of Taxation have clarified that VAT will be levied at 0.5% from May 1, 2020 to December 31, 2023 [6]. This is a significant benefit for used car business enterprises operating in

compliance with the law. At the same time, the phased tax reduction policy also means that the state tax authorities are concerned about the used car industry.

## 2.2. Economic Factors

The rise in living standards and purchasing power of Chinese residents has contributed to the increase in demand for used car consumption. In China, cars are the second largest household consumer product after houses in most families, and their demand is closely related to residents' purchasing power. Since China's accession to the World Trade Organization, the entire automotive industry has maintained a high level of development, with growth and high stability in all years except 2008 when it was affected by the world economic crisis. China is the most populous country in the world with a broad market and a big stage for economic consumption. Currently, the main direction of China's economic development has changed from the original manufacturing industry to the service industry. For example, the proportion of luxury consumer goods has gradually increased, and the automobile, as the original luxury consumption, is becoming affordable in people's lives and becoming an important industry serving people's commutation [7]. In this context, the sales volume of new cars in China has been increasing, and the sales of new cars directly provide a large number of used car sources for the used car market.

According to the data related to used car transactions released by China Automobile Dealers Association since 2013, the national used car transaction volume grew from 5.2 million units in 2013 to 17.5 million units in 2021, and the transaction amount grew from RMB 291.649 billion in 2013 to RMB 111.692 billion in 2021 [8]. Except for 2020, which is affected by the epidemic, the rest of the years are on a year-on-year upward trend. And the used car market volume and transaction amount will increase by more than 20% in 2021. Meanwhile, the used car transaction volume in Southwest China (Sichuan, Chongqing, Yunnan, Guizhou, and Tibet) reached 2,503,500 units in 2021, second only to East China (Guangdong, Guangxi, Hunan, Hubei, Henan, and Hainan province) and South Central China (Shanghai, Jiangsu, Zhejiang, Annex, Jiangxi, Anhui, and Shandong province). With the national used car transaction scale continuing to expand, the future development prospects of the used market are promising [9].

## 2.3. Socio-cultural Factors

In the Chinese social and cultural tradition, the items a person owns including clothes, cars and houses can represent his or her social status to a certain extent. However, used products inevitably create a negative impression and perception of inferiority in the public consciousness. In the past, the choice of second-hand products was often a non-ideal one based on price. With the development of social culture and the popularity of environmental awareness, the concept and acceptance of used product consumption have started to change, and people are willing to sell their unused items in the used goods market or platform, and there are an increasing number of people who are willing to accept the purchase of used goods with high-cost performance. Used cars are one of the most rapidly growing and voluminous product branches in the used goods market [10].

However, the used car market is characterized by significant information asymmetry, which leads to a lack of trust in the used car business and the used car market. It is also true that China has a mix of quality used car business enterprises and various agents in the trading market. The entry of internet e-commerce into the used car industry in 2015 has increased the channels for consumers to purchase used car products and established online used car product information display standards, which has led to an increase in information transparency in the entire used car industry. In the meantime, the major used car e-commerce platform companies were bombarded with a large number of advertisements in various media channels and the intensive marketing not only expanded

the national awareness of used cars, but also educated consumers and further increased the acceptance of used cars by the public [11].

## **2.4. Technical Factors**

Used cars have different conditions and vehicle values due to various factors such as the frequency of use, original owners' habits, and maintenance. Thus used car appraisal is a necessary process for every enterprise in the market. Used car appraisal is the process of identifying and confirming all information about the vehicle's condition and giving an appropriate valuation based on the market situation. Generally speaking, vehicle appraisal involves 7 basic indicators and 17 current technical indicators in China. Basic indicators include vehicle type, the specified service life, accumulated mileage, manufacturing quality, maintenance, nature of work and working conditions. Current technical indicators are appearance, interior, chassis, engine, driving system, steering system, clutch, suspension, braking system, lubrication system, transmission, cooling system, the number of overhauls, sewage indicators, smoothness, operational stability and acceleration power [12]. Enterprises that serve used car businesses usually promote and implement their own technical standards for appraisal and evaluation in the actual business development. However, due to the lack of effective industry supervision, some used car dealers will cut corners or even falsify the testing process in order to save costs.

## **3. Identify the Problems in the Development of China's Pre-owned Car Market**

According to the PEST analysis, the first problem in China's used car market is a serious information asymmetry. On a national scale, the delay in building a credit system for citizens has resulted in important information such as maintenance records and accident records of private cars not being systematically stored and shared. As a result, information on used cars currently flowing into the market may be unsound and consumers' trust in used car dealers will also degrade. Furthermore, some car owners choose to conceal actual information about their cars in order to gain greater financial benefits when selling their cars. Used car dealers currently rely on professional used car appraisers to assess used cars technically and price-wise to obtain basic information. However, the current construction of used car appraisal agencies in China is not robust enough, and human evaluation also leads to a lack of authenticity in the appraisal results. Secondly, the management and supervision of third-party appraisal agencies in China are in its initial stage, which means there is no comprehensive system and mechanism to regulate their behavior, which is likely to have loopholes and affect the appraisal results. At present, China Used Car Network is an evaluation platform for used cars with relatively transparent information. With the involvement and supervision of the relevant government departments, the website staffs have received rigorous training. They can analyze and filter vehicle information from a more professional perspective, and strive to serve many consumers with the greatest degree of information transparency [13]. However, this website is obscure at the moment and does not fully solve the problem of information asymmetry in the used car market.

The second problem that can be observed from the analysis of technical factors is the inadequacy of the evaluation and testing system. The quality and performance of used cars are the main concerns of consumers, which also directly determine the value and price of the car. Therefore, the evaluation of used cars is an extremely important part of the used car trading process. The Chinese government stipulates that personnel engaged in the assessment of the quality of used vehicles must have a certificate of "used car appraiser" issued by the state. However, at present, only a small portion of people in China receive training in car value assessment every year, which is far from enough for the whole huge used car market [14]. On the other hand, because of the large regional

differences in China, there are differences in training standards from region to region, which also leads to arbitrariness in the assessment of the results in used car transactions. Thus, this problem puts the average consumer in a vulnerable position, which makes it difficult for them to distinguish between the truth of information and the quality of the car in a transaction.

The third problem that China's used car market faces is the lack of an innovative marketing model. The advanced marketing concept is a guide for the reasonable operation of used car operators, and without the support of the advanced marketing concept, some enterprises will only pursue immediate interests, which is not conducive to long-term development. Besides, used car dealers do not usually provide sufficient service to their customers. It is not uncommon that many used car dealers and agencies consider the sale as one-time cooperation, unlike other enterprises that can carry out long-term and stable cooperation with their customers [15]. Thus they only focus on the transaction process without paying attention to the post-sale service, causing many problems for buyers, which directly affects the purchase confidence of used car buyers and the positive development of the whole market.

#### **4. Countermeasures and Suggestions for China's Pre-owned Car Market**

In response to the problems mentioned above, China's used car market can be improved through the following three aspects. Firstly, industry regulators should adopt multiple methods, such as big data and blockchain technologies to alleviate information asymmetry. Before the transaction of used cars, sellers should make a disclosure of vehicle information including accident records and maintenance status. During the transaction process, vehicles should be inspected by a qualified third-party trading platform or institution to prevent information asymmetry condition of the vehicle. After the transaction is completed, all data should be uploaded to an official certified platform or blockchain so that all data about the vehicle becomes transparent and untamable. If consumers or dealers have any questions about the vehicle's information, they can access the vehicle's information at any time. Meanwhile, future potential consumers can also find reliable and thorough vehicle information from the platform or blockchain when choosing a used car.

Secondly, the government departments concerned should establish a sophisticated system for evaluating the price of used cars. This evaluation system can help customers build confidence as they can get the right price, which effectively solves the problem of information asymmetry to a certain extent. In addition, the establishment of such a system is important for regulating the used car market because it can make the transaction reasonable and fair as well as reduce the emergence of market fraud. Furthermore, this system can also play a supervisory role in the used car market. The trading behavior of used car dealers and intermediaries can be well restrained, which can greatly reduce illegal operations.

Finally, the used car market should develop diverse and innovative marketing strategies. The majority of used car dealers are currently focused on physical stores, along with the internet channel for sales. However, the number of physical stores in the business is small and it is quite difficult to fully cover all areas in China. Therefore, used car dealers, on the one hand, should proactively promote the layout of physical stores, using self-operated as well as franchising models to gain access to more areas and cover more customer groups. On the other hand, used car dealers should work with local financial institutions to seek more financing methods because the size of the business can be considered the core competitiveness of an enterprise. In addition to spreading physical stores, enterprises also need to pay attention to the construction of online channels because the advantages of low cost, wide coverage, no time and space restrictions. Enterprises should also optimize their website design, and emphasize the quality of online products as well as payment security to dispel customers' purchase concerns.



## 5. Conclusion

This paper offers a more profound analysis of the current situation and problems of China's used car market using theoretical research methods. Firstly, drawing upon the PEST model, this paper analyzes the current situation of China's pre-owned car market from four macro aspects. Secondly, this paper proposes that China's pre-owned car market faces three major problems including information asymmetry, an unsound evaluation system and a lack of innovation in marketing strategy in light of the current development status. Finally, this paper puts forward some specific suggestions for coping with these problems, such as eliminating information asymmetry through various channels, establishing and building a complete used car appraisal system and opening up a multi-channel marketing model combining online and offline strategies.

There are two main shortcomings in the research of this paper. On the one hand, it is the problem of being in-depth and comprehensive enough in analyzing the problems of China's used car market. On the other hand, in the discussion of used car marketing strategies, the countermeasures proposed in this paper are rather broad and may have limited feasibility. The main reason is that the research direction of this paper is relatively broad and no special research is conducted for specific regions and used car companies. Therefore, the validity of the research findings needs to be further tested in practice. However, this research has a part to play in attracting more scholars to reflect this topic, so as to further enrich the research results in the field of used car market in China.

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