

Article Date	Headline / Summary	Publication
3 Jan 2024	Bullet at 30% less: What Royal Enfield's pre-owned market foray means for buyers and its business	The Economic Times

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The move will bring a new set of customers to the Royal Enfield fold and further strengthen the brand. The consumer will benefit as premium bikes will be available at a much lower price. The used two-wheeler market can become better organised if big players like Royal Enfield enter the market.

If you want to call it the democratisation of the Royal Enfield brand, feel free.

In a two-wheeler-crazy nation, getting a shot at the 'bullet' comes true for only those who can spare a minimum of INR1.50 lakh. For the rest, buying an Enfield remains an aspiration of a lifetime. But this is going to change soon.

Last month, Royal Enfield decided to enter the pre-owned two-wheeler business with a company-operated initiative, Reown. For now, only select Royal Enfield dealerships will enter this business on a trial basis.

B Govindarajan, CEO of Royal Enfield, sees "Reown addressing the issue of accessibility" and gaining "the trust of the customers" while purchasing pre-owned Royal Enfield motorcycles. He believes this venture will bring into the company's fold a new set of customers while opening a new market. Prospective and existing customers can buy or sell their Royal Enfield motorcycles or exchange them for an upgraded machine.

It's good news for Royal Enfield dealers, too.

For the last two years, a small-town dealer of Royal Enfield in Rajasthan was boosting his sales by exchanging old Enfield bikes of customers with upgraded models. He would sell these motorcycles, mostly five-year old, through an agent who brokered old-vehicle deals at a fat profit margin.

The dealer is now bullish that he will eventually get an opportunity to formalise his used-bike business and eliminate the middleman.

Reown will operate both online through product listings on the company's website and through dealerships with outlets initially having a corner in the existing setup earmarked to market the pre-owned bikes. Later the company could look at separate stores if it becomes a lucrative business.

In India, the used two-wheeler market is quite fragmented with every town, especially the smaller ones, having its own 'bikewalas'. Local garages or small dealers/agents rule the roost. Can Royal Enfield, the mid-weight motorcycle segment leader, make it more organised? Do used bikes make for a good business proposition for Royal Enfield?

The opportunity Prathamesh Chaudhari, principal-automotive practice, Arthur D. Little India, says the unorganised transactions (customer-to-customer or at a small dealer-level) have a lion's share of 85%-90% in the second-hand motorcycle market. He, however, expects the organised market to command a higher share of 25%-30% in the next five years.

That's because the organised used two-wheeler market has been growing rapidly with the emergence of online platforms such as Droom, Bikes4sale, Bikes24, etc. Chaudhari expects the market to grow at a CAGR of 12%-13% in the next five years. A key factor that will fuel growth of the pre-owned market is the steady hike in new vehicle prices with the addition of emission and safety features. According to Sandeep Aggarwal, founder and CEO of Droom, the used market for two-wheelers will grow at a CAGR of 14%-16% over the next few years.

Average selling price of used two-wheelers@2x

Given this, the decision to enter the pre-owned market makes good business sense for Royal Enfield. Prajyot Sathe, manager-mobility, Frost and Sullivan India, feels Reown will have a positive impact on the revenues of Royal Enfield since its buyers (enthusiasts) will have greater options. Moreover, considering the base price of Enfield bikes, the used-vehicle market will offer greater purchasing power for budget-conscious buyers.

Aggarwal of Droom says India sells around 16 million to 18 million new two-wheelers annually. In comparison, around 35 million used two-wheelers are sold every year.

A key reason for the growth in the used two-wheeler market has been the growing premiumisation of new vehicles. A two-year-old motorcycle can be bought in the used market at 35%-40% lower price. So, the price difference remains a very compelling draw in every category – whether it's a car or a motorcycle.

From Royal Enfield's perspective, an organised channel for used two-wheelers will further strengthen the brand, as the motorcycle maker will be able to set the right residual value for its models and this will, in turn, help new vehicle sales.

An organised pre-owned channel will also help create a pull for customers who are waiting on the fence. For, the pre-owned bikes will come with a certification on vehicle performance from the company, a warranty and higher financing options.

When Royal Enfield, Bajaj Auto, or any other manufacturer enters the used market, they will ensure proper paperwork before the vehicle is transferred to the new owner. As the sector gets more organised and consolidated, it gets better quality bikes. Buyer consciousness will also be built regarding the choices available, importance of transfer of ownership and third-party liability, says Subhasish Majumdar, head-motor distribution at Bajaj Allianz General Insurance.

Sumit Shukla, founder of Sunidhi Motors, an Alwar-based Royal Enfield dealer, says a small corner of the existing showrooms is currently being readied for sale of vintage two-wheelers of the company. Demand for vehicles as old as 2018 have a good market. He expects used Royal Enfield bikes to earn the dealer a 10% net margin on the vehicle value compared with a 4.5% net margin on the new bikes.

But the used two-wheeler market in India has its own battle to fight.

Key challenges

A major constraint is the cost evaluation of the used vehicle matching the buyer's expectation. Lack of vehicle documentation makes it difficult to ascertain the condition and pricing of the used two-wheeler.

There are fewer options for financing a used two-wheeler. Even if you get one, the interest rates are high. A new two-wheeler loan generally attracts an interest of 11% to 18% while for a used two-wheeler, it can be in the range of 14% to 22%.

Growing loan defaults is also adding to the complexity. It becomes very difficult to determine whether it's a good deal for banks and NBFCs to give a loan or not, according to Aggarwal of Droom.

Chances of fraud are higher in this segment because unlike the West, India does not have a Buyer Protection Law. Aggarwal says a buyer is inheriting someone else's problem in the used-vehicle market. In some countries, the seller is morally and legally obligated to disclose every known problem of the vehicle. That is not the case in India. He cites information asymmetry and moral hazards as problem areas.

Non-renewal of insurance is a perennial problem. Only 25%-30% of the two-wheelers plying on the roads are currently insured. New ones are ensured, at least for third party, as it is needed for vehicle registration. But after one year, very few buyers renew their insurance, says Majumdar of Bajaj Allianz. According to Arvind Shenoy, former consultant, General Insurance Council, any vehicle above 35cc running on public roads has to have at least third-party insurance, as per the Motor Vehicles Act.

In the unorganised two-wheeler market, there is no legal transfer of vehicle ownership since in a customer-to-customer transaction, money and bike keys exchange hands. Shenoy says fraud can happen if the vehicle has not been transferred to the new owner.

What is Royal Enfield up against

New and used two-wheeler markets together are pegged at USD25 billion, with both Honda Motorcycle and Scooter India (HMSI) and Hero MotoCorp dominating the pre-owned segment. HMSI runs its used showrooms under the brand Best Deal. Other players leverage both online automobile market portals and dealerships to exchange two-wheelers. Superbike brands like Harley Davidson and Triumph India contribute just 3% to the used market.

Most popular models in the used segment are the Honda Activa 6G, Hero Splendor Plus, Honda Activa 125 FI, Honda SP 125, and Hero HF Deluxe. While the average ticket size for a new two-wheeler is around INR75,000, for a used one it is around INR51,000.

The five largest used two-wheeler markets in India are Bengaluru, Delhi, Ahmedabad, Pune and Jaipur. "Maybe [the lack of public transportation and alternative transportation options, and the growth of the city," have contributed to this growth, says Aggarwal of Droom.

Sathe of Frost and Sullivan feels Royal Enfield's move will not have a big impact on the overall used-vehicle market since it is quite mature and, to some extent, organised in terms of sales experience, financing options and after-sales services.

Globally, premium two-wheeler motorcycle makers like Ducati, Harley Davidson, etc. have fairly successful used-vehicle platforms. An organised channel for used two-wheelers with Royal Enfield-branded showrooms (plus an online platform) will strengthen the brand and also expand the serviceable addressable market, believes Chaudhari of Arthur D. Little.

Dealers say the resale value of Royal Enfield bikes that are five-six years old is just about 30% lower than the original price. As more motorcycle manufacturers like Royal Enfield jump onto the used-vehicle bandwagon, the pre-owned market will get a boost and become more organised. On the other hand, the consumer will benefit as premium bikes can be scooped up at a much lower price.