

Impact Of COVID-19 On the Passenger Car Aftermarket in Saudi Arabia

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The COVID-19 crisis has had a harsh impact on Saudi Arabia's automotive and aftermarket. In the last three months alone, new car sales decreased by 60% and footfall in car showrooms fell by 80%. A simultaneous drop in vehicle utilisation and miles travelled saw the average spend per vehicle decrease by 25%, periodic maintenance decrease by 75% and spare parts sales fall by 70%, leading to aftermarket job losses in the range of 10-30%.

This data was revealed by market research and advisory services firm Glasgow Consulting Group recently in a webinar organised by Messe Frankfurt Middle East, the organisers of Automechanika Dubai.

Vishal Pandey, Director, Glasgow Consulting Group, says: "Economic factors such as government spending cuts and taxes in response to the prolonged oil price slump will continue to affect the aftermarket, irrespective of the COVID-19 crisis. That said, Saudi Arabia is the largest market in GCC for automotive sales and auto parts, accounting for about 40% of all vehicles sold in the region. It's encouraging that the government has announced a \$31.9 billion financial stimulus package to mitigate the economic crisis. While the majority of vehicles and the parts sold in the country are imported currently, the government is working on the development of a domestic automotive industry. Such measures will help drive the recovery of the aftermarket."



Vishal Pandey, Director, Glasgow Consulting Group

GCG estimates the passenger car market in Saudi Arabia to recover by 2022. The number of passenger cars sold in 2019 was 355,000 units. Initial forecasts for 2020 indicated sales of 387,000 units; however, this has been revised to 252,000 units due to the COVID-19 crisis. The new forecast indicates car sales to reach 340,000 units in 2021 and 442,000 units in 2022. Meanwhile, used car sales will continue to grow. During 2015-2016, the ratio between the sale of new cars to old cars stood at 4:3; in 2019, for every 4 new cars sold, 8 used cars were being sold.

The decline in the average vehicle miles travelled would have a mild or no impact on the demand for auto parts, according to the GCG market study. The passenger car components aftermarket including select maintenance parts, consumables, lubes, tyres and batteries was worth SAR17.8 million in 2019. This market is projected to contract to SAR14.1 million in 2020, recover to SAR17.2 million in 2021 and continue to expand to SAR18.5 million in 2022.

The speed of recovery is based on several positive indicators. Unlike other countries where the dependence on public transport is high, commuters depend largely on personal cars in Saudi Arabia.

GCG estimates that almost 75% of commuters in Saudi Arabia travel nearly 2 hours or more per day; those in Riyadh travel more than 2 hours. Furthermore, a substantial number of women drivers on the roads has created the need for more private driving licenses, an increase in motor insurance, growth in driving schools, a sharp rise in car sales and leasing, thus benefitting the aftermarket segment.

According to another study conducted by GCG, about 83% of vehicle owners in Saudi Arabia seek external aftermarket services. Furthermore, about 94% vehicle owners consider third party aftermarket services, which implies that a significant number of customers are willing to avail the services of an outside workshop for car maintenance. Services such as car washing, filter check and tyre change are opted by vehicle owners within city workshops, whereas battery services and brake pads are popular in outside city workshops. The factors influencing such customer decisions are availability of workshops, overall service, product range, competitive prices, discounts, and after sales support.

Considering the changing customer demands, the GCG market study indicates that the Saudi automotive market is now more geared towards a 'service oriented' business model with more players focusing on customer experience and after sales service.

As customers have become more conscious about hygiene, the safety and hygiene of physical customer touch points will be more important than ever. As a result, dealers, retailers, garages will need to take precautions to ensure the health and hygiene of their workforce, and the adoption of mobile service and contactless servicing will increase. Demand for services like disinfection, cleaning and car wash will increase substantially.

Online sales of parts and services will grow and is likely to account for >5% of the total aftermarket demand by 2025. Some of the fast-moving parts on e-commerce platforms will be tyres, batteries, lubricants, and wiper plates.