13 Car Rental Revenue Management

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Learning outcomes

After reading this chapter, you should be able to:

- Understand the world of the car rental industry from the revenue management perspective.
- Understand the different segments of customers in the industry.
- Be familiar with the constraints of optimisation in the industry.
- Have a comprehensive vision of the specific approaches to revenue management at the corporate and franchisee levels.

Introduction

In both leisure and business travel, car rental is one of the components of the transport phase albeit not the main driver. Over the past 10 years, with the widespread use of revenue management, the big global players such as Europcar, Avis and Hertz, have begun to integrate optimisation techniques from the airline and hotel industries. However, significant differences in the characteristics of supply and demand provide sector-specific constraints. As such, the specific characteristics of the sector and its peculiarities that make its revenue management complex will be illustrated, as will different applications at station, corporate and franchisee levels within the same network.

Sector overview

Business line car rental has specific characteristics related to its history and the development of sales on the Internet over the last ten years. Several market segments coexist.

Market segments

There is a need to distinguish three major families with very different behaviours: direct, indirect and business segments.

Direct market segment

The 'Direct' (or B2C) market is defined as an individual customer reserving directly through a rental company without going through an intermediary, or one with special conditions granted to certain partnerships (e.g. train companies, airlines, hotels). One of the important features of this market segment is the dynamic price defined by the rental company and submitted to the arbitration of the yield. These market segments are often privileged and protected by landlords (rental companies) because they contribute most to the margins. They therefore require precise follow up by the pricing and revenue management teams. Usually landlords create market sub-segments based on the rental period to refine offerings and better meet the needs of this clientele.

Indirect market segment

Under the terminology 'Indirect' (or B2B2C) are grouped transactions through an intermediary: Broker and Tour Operator (TO). Landlords contract with them because they are sometimes or often better known than the company itself and, thanks to powerful marketing, are able to operate varied means of communication to reach various type of clientele. In return, these intermediaries are paid via the granting of a very low negotiated rate, impacting strongly on the margin of the renter.

For a few years now, and through the development of dynamic pricing and the visibility that is offered through the Web, the TO/Broker prices have been linked to the public pricing of the owner. They fluctuate during the year according to traditional yield rules (seasonality, utilisation ratio, events, etc.). These intermediates are no longer paid through a net fares model but via commissions (the so-called 'retail model') whose levels are set by negotiation. Like direct markets, and depending on their capacity, landlords do not hesitate to conduct sales and stimulate demand through promotions on these markets.

Business market segment

Business (or B2B) market segments have in common a contract engaging both parties: to provide vehicles responding to the need of the corporate clients, with the same quality of service throughout the network of the lessee in return for a fixed and guaranteed price to be applied during a contractual period with little or no seasonal variation. This price is governed by a number of criteria such as volume of rental days, share of total business give to the main landlord, the rental period, the type of rental station requested by customer and the network coverage (national and/or local contracts). In return, the client company undertakes not to book its vehicles through other car rental company referenced in the contract.

We can distinguish three main categories of business customers: clients renting for very short durations of 1 to 4 days; those renting on a monthly basis (30 days and more); assistance companies using the car fleet of the landlords to ensure their members a means of substitution in case of accident or breakdown of their own vehicle (like Axa assistance in France, Adac in Germany, AAA in USA). Figure 13.1 below illustrates the proportion of each of the two main typologies of customer activities in volume, revenue and margins. The job of the revenue manager in the car rental industry is to fine tune the levers of action to generate maximum volume to guarantee covering the minimum revenue to compensate the fleet holding costs.

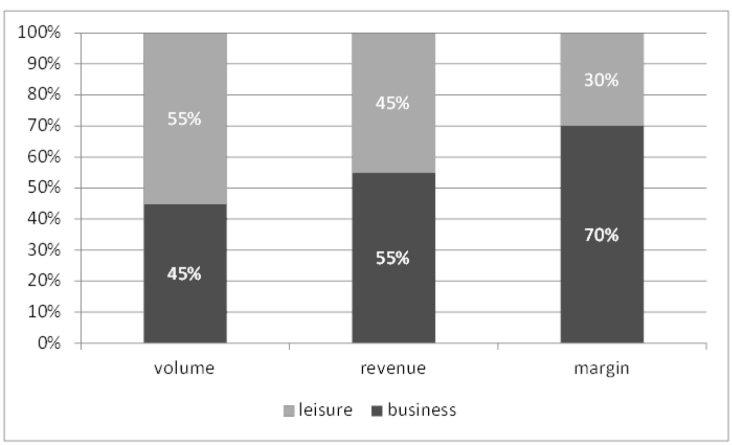

Figure 13.1: Proportion of Key Performance Index (KPI) per types of clients

☐ Consumer behaviour

The customer purchasing behaviour is impacted by various factors influencing the rental approach. First, the objective of the move (business, weekend or holiday) generating long or short road trips, then the rental location where the car will be picked up and finally the rental duration.