Olympic Rent-a-Car U.S.

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Background

- $24 billion mature service industry
- Business is conducted in 2 markets
  - Airport Rentals
  - Local Rentals
- Segments are based on rental purpose
  - Business (Varying based on frequency)
  - Travel
- High competition (player elimination)
Segments

Leisure Laurens
- 20% of on-airport derived revenue
- Averages 4.6 days and 150 miles in Miami
- Per-day charges tend to be less

Business Bobs
- 80% of on-airport derived revenue
- Averages 2.3 days and 45 miles in Boston
- Typically pays a contract rate
Olympic Rent-A-Car

- Founded in 1976 by John Uelses (Olympic medalist in Pole-Vault)
- Franchise business
- 108,000 national car fleet 2012
- 7% of total Car Rental Market Share
- Historically follows the lead of big players in the industry.
- “Go with the winners”
Olympic Medalist Award Loyalty Program

- Managed as a cost center (maintain or decrease costs with same % of sales)
  - Costs around $28 million to advertise annually
  - Variable Cost $7.9 million ($21*375,000)
  - Total costs ~$35 million
- A 24-hour rental is equal to 1 credit
- Credits are valid for 1 year from the date of issue
- Program has 3 tiers:
  - Bronze: 16 credits equals 1 free 24 hour rental
  - Silver: Rent 10 times per year or 16 rental days. Receive a 15% bonus and 5 free upgrades a year
  - Gold: Rent 20 times per year or 30 rental days. Receive a 25% bonus and 10 free upgrades a year
- Members of the program currently account for 21% of total revenue
Enterprise

- 870,000 car fleet >50% entire market
- Dominates the local rental market and moving into Airport more
- Recently acquired National and Alamo.
- New Customer Loyalty Program (EnterprisePlus)
  - No blackout days (days when members cannot redeem rewards due to high demand IE. holidays)
  - Each dollar is equal to a point
  - Various bonuses and accelerators
  - "Simple: dollars equal points. Then add bonuses and upgrades"
  - $40 million to advertise
Problem

- Do we change the Medalist program? If so, how?
- How much do we spend to advertise if we do?
- When do we implement the change?
- How do we form a distinctive competitive strategy?
Consideration 1

Follow Enterprise’s lead and implement a comparable dollar based loyalty program

Pros:
- Opportunity to gain market share from Hertz
- Potentially high payoff (more loyal customers)

Cons:
- Disappointed Customers (Vacation Destinations might be unable to deliver on holidays)
- Most expensive
## Consideration 1: Financials

<table>
<thead>
<tr>
<th>Program</th>
<th>Revenue</th>
<th>Total Cost</th>
<th>Cost/Revenue</th>
<th>Increase in Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Olympic Medalist Program</td>
<td>$1,540,000,000.00</td>
<td>$35,875,000.00</td>
<td>2.330%</td>
<td></td>
</tr>
<tr>
<td>New (Enterprise) Program w/ same $28mm marketing</td>
<td>$1,615,430,073.82</td>
<td>$37,632,177.86</td>
<td>2.330%</td>
<td>4.90%</td>
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<tr>
<td>New (Enterprise) Program w/ $40mm marketing</td>
<td>$2,130,552,025.04</td>
<td>$49,632,177.86</td>
<td>2.330%</td>
<td>38.35%</td>
</tr>
</tbody>
</table>
Consideration 2

Leave the Customer Loyalty program the same

Pros:
- Consistency (avoids confusing customers)
- No transition cost

Cons:
- Enterprise steals market share
- Low involvement/ inferior to competitors (1/10)
- Plateaued growth
Consideration 2 Financials

- “Rewards members provided 21% of 2012 revenue”
  - $323,400,000
  - 11% of customers used the loyalty program
  - 8% of all rentals were from loyalty members
  - 80/20 rule

- Program began in 1980’s and has been modified multiple times
Consideration 3

Removing the loyalty programs to focus on delivering low-prices to all customers

“Nixing the gimmicks”

Pros:

- Customers might favor it
  - “Value-conscious traveler”
- Reduces costs
- Provides opportunities to invest elsewhere

Cons:

- Olympic isn’t a market leader
- Potential loss of revenue from loyalty program customers
- Loss “ticket of admittance” in market?
Recommendation

- Do we change the Medalist program? If so, how?
  - Yes - eliminate Medalist program
- How much do we spend to advertise if we do?
  - $28 million
- When do we implement the change?
  - 2nd Quarter of 2013
- How do we form a distinctive competitive strategy?
  - Brand Positioning Statement: “Olympic Rent-a-Car provides gimmick free travel autonomy with value better than any other car rental provider. We do this by focusing on low cost, quality drop off and pick up, and delivering an exceptional experience every time.”
Recommendation Timeline

2012

- Q4: Begin to seek out corporate partnerships

2013

- Q1: Remove rewards program and implement “lowest price guarantee”
- Q2: Begin advertising for busiest months for business travel (June, July, August)
- Q3: Expand advertising efforts to leisure customers for holiday travel
- Q4: Prepare for adjustments for next financial year
Why?

- Proposed by ad agency
- Direction of the Market and Consumer Behavior
- Partnership opportunity with companies guaranteeing lowest price with discounts implemented
- Easy transition without a new loyalty program
- Easy transaction between a company via online booking and partnership
- Business rentals are the most attractive market even regarding teleconferencing
- Creates opportunity to invest $7 million in projects like streamlined drop off and pick up (Research shows that is customer desire)
Allocation of Advertising

28 million

- **60% Online**
  - Online ads
- **25% Traditional**
  - Print advertising and TV ads
- **15% Corporate Relations**
  - Customer Relationship Management, Cold Call
Opportunities to invest cost savings

App
- Streamlined pick up and drop off
- Customer more likely to remain loyal
- Increasing popularity (projected 32% by 2016)
- Increased convenience

Reinvest in the company
- Increased operating margin
Addressed Concerns

Question: What will happen to our current loyalty members if we eliminate the loyalty program, will they go to our competitors?

- Create a grandfather clause for current users
  - Rewards will still be applied
  - New customers will not be eligible
  - If we assume even 50% of customers left our business, then we can direct expenditures to 3.4% of the business traveler market share
    - By increasing investment in corporate relationship management

Question: Will the increase use of teleconferences have an impact in our business traveler segment?

- No. This is highly subjective
  - Dependent on compatible systems, connectivity, and business discretion
  - Human interaction equally important
Thank you

Questions?