

Rental Car Fleets in Line with Solid Demand

Companies: CAR, HTZ

February 5, 2014

Research Question:

Are rental car fleets for Hertz, Avis and Enterprise a rational size for profit, and what is their inventory utilization rate?

Summary of Findings

- National rental car fleets are sized appropriately at all the major rental car companies. Regional increases to meet specific demand or to accommodate new business partners' fleet adjustments are said to be by design.
- Utilization rates ranged from 80% to 100% and averaged 91% for the winter. Industry specialists and several regional managers suggested that 95% is the industrywide utilization goal for the year overall.
- Rental car demand is solid. Although leisure car rentals traditionally soften after the holidays, six sources reported higher demand year to year. Leisure demand has been steady or down for four sources each. Business and corporate demand has risen year to year for nine sources and has been flat for four others.
- Sixteen of 23 sources expect rental car demand to further increase this year. Normal seasonal fluctuations are expected, but 2014 should benefit from improvements in the economy and consumer confidence.
- Rental car prices have been flat for nine regional and store managers, down for seven and up for two year to year. Only one source reported using discounting to gain share, while another source said stronger pricing discipline has resulted in higher sales.
- According to the seven [Hertz Global Holdings Inc.](#) (HTZ) sources, any excess fleet at the corporate level has not affected them. An industry specialist said Hertz trimmed its fleet in the fourth quarter through auctions, sales and by pushing some older vehicles to its [Dollar Thrifty](#) brand and then returned to offering newer, most upscale cars.

Silo Summaries

1) Regional Rental Car Managers

Not one of these 11 sources said they were "over-fleeted." Fleet size was up year to year for five of 10 sources, including an Enterprise source whose fleet was increased by 15% in an effort to open new markets; an Avis source who added 1% to 2% more cars to service the conference season; a Avis Budget source who had taken ZipCar (a subsidiary) inventory for sell-off; and a Dollar source who increased fleet by 5% to meet increased demand. Fleet utilization ranged from 85% to 95% and averaged 90%. Leisure rental demand has declined for three, held steady for two and increased for one. Business demand has increased for five sources and has been flat for one source. Overall demand has risen for four other sources. Rental car rates have been flat for eight sources and down for three. One Hertz source said rates were flat but that revenue was up because more clients were renting luxury cars. Another source said prices were down because of discounts used to gain market share. Two sources said rates had fallen because of a seasonal drop in demand.

2) Rental Car Store Managers

Six of these eight sources said their fleet size was correct and that utilization was in the 89% to 95% range. Fleet size will remain flat for five sources and increase for one source this year. Demand for leisure car rentals is up for four sources, flat for two and down for one. Business and corporate rental demand is up for four sources and flat for three. Insurance-related rentals and an improved economy are driving demand. The outlook for 2014 is optimistic; six of the eight expect demand to increase. Pricing is up for two, flat for four and down for one source year to year.

3) Industry Specialists

All four sources agree that oversupply is not a major issue for the rental car industry. Hertz did face an oversupply related to the government slowdown, but it has since thinned its inventory and upgraded with upscale vehicles. Utilization rate goals are 95%, and any rate of between 90% and 100% is considered healthy. One source pegged industrywide utilization as 90% to 95%, which is good, considering the season. Demand is appropriate and is expected to be flat to up 5% year to year. Two sources said pricing is flat, while two others said a 3% to 5% rate increase is possible.

| | Fleet Size Correct | Utilization Rate Correct | 2014 Rental Car Growth Outlook |
|------------------------------|--------------------|--------------------------|--------------------------------|
| Regional Rental Car Managers | ↑ | ↑ | ↑ |
| Rental Car Store Managers | ↑ | ↑ | ↑ |
| Industry Specialists | ↑ | ↑ | ↑ |

Background

Blueshift Research's [Oct. 1, 2013](#), and [Oct. 21, 2013](#), rental car industry reports indicated that strong bookings were leading to higher year-to-year rates industrywide. Sources were positive about market conditions, reporting strong summer demand and rising rates for both leisure and business travel. [Enterprise Holdings Inc.](#) offered aggressive pricing to capture share, while Hertz and [Avis Budget Group Inc.](#) (CAR) commanded the highest leisure rates. Corporate rates continued to be highly competitive between Hertz, Avis Budget and Enterprise. Avis Budget was leading the charge to increase business pricing, but saw limited support from the competition.

According to Advito's 2014 Travel Industry [Forecast](#), corporate rates will be flat to up 4%, while the 2014 car rental global [forecast](#) anticipates year-to-year increases in daily rates in all markets. Possible headwinds for the rental car industry include softening demand related to high retail car sales, bigger fleet sizes (which already had [affected](#) Hertz), and a soft used-car market.

Current Research

In this next study, Blueshift Research assessed how rental car fleets were sized and utilized. We also assessed demand and rates for rental cars. We employed our pattern mining approach to establish four independent silos, comprising 23 primary sources (including seven repeat sources) and five relevant secondary sources focused on the rental car and travel industry:

- 1) Regional rental car managers (11)
- 2) Rental car store managers (8)
- 3) Industry specialists (4)
- 4) Secondary sources (5)

Next Steps

Blueshift Research will continue to monitor both leisure and business rental car demand and prices to determine if the recovery experienced in 2013 is sustainable. We will determine if rental car fleets are sized and utilized appropriately. Finally, we will review the rental car industry practice of selling older inventory and how a softer used-car market is affecting margins.

Silos

1) Regional Rental Car Managers

Not one of these 11 sources said they were "over-fleeted." Fleet size was up year to year for five of 10 sources, including an Enterprise source whose fleet was increased by 15% in an effort to open new markets; an Avis source who added 1% to 2% more cars to service the conference season; a Avis Budget source who had taken [ZipCar](#) (a subsidiary) inventory for sell-off; and a Dollar source who increased fleet by 5% to meet increased demand. Fleet utilization ranged from 85% to 95% and averaged 90%. Leisure rental demand has declined for three, held steady for two and increased for one. Business demand has increased for five sources and has been flat for one source. Overall demand has risen for four other sources. Rental car rates have been flat for eight sources and down for three. One Hertz source said rates were flat but that revenue was up because more clients were renting luxury cars. Another source said prices were down because of discounts used to gain market share. Two sources said rates had fallen because of a seasonal drop in demand.

KEY SILO FINDINGS

Rental Fleet Size and Trends

- 6 said fleet size was appropriate.

Rental Cars

- 5 said their fleet size was up YY because of high demand, new market penetration and the acquisition of cars from affiliates to prepare for sale.
- Fleet utilization averaged 90%.

Rental Car Demand

- 3 sources experienced lower leisure rental car demand YY.
- 2 said leisure travel rentals were flat.
- 1 source has posted greater leisure travel demand.
- 5 regions have higher business rental car demand.
- 1 region's business car rentals are flat.
- 4 said, collectively, rental car demand is up.

Rental Car Pricing

- 8 said rental car rates were flat.
- 3 said rates were down.

1. Enterprise regional manager in the South

This source's fleet is sufficient to meet demand, with no excess inventory. Utilization was about 94% to 95% for the fourth quarter. The locations in his territory had a customary spike in rentals during the holiday season. Post-Christmas leisure rentals are down about 5%, and business rentals are flat year to year. Both segments are expected to increase in late spring and throughout summer. Sell-off of used vehicles has been soft, as is typical for this time of year.

Rental Fleet Size and Trends

- "We've got the right number and mix of vehicles. Reservations are OK for January. It's down a little bit from where we were last year with travelers. Business rentals are about the same. It usually slows down a lot after the holidays."
- "I haven't heard anyone with [Enterprise] say their fleet was too big."
- "We'll sell off cars when we need to bring in some newer models. If sales are soft, then we'll lower prices, but we're pretty competitive."
- "Utilization is 94%, maybe 95%. We can move cars around if one location needs it."
- "Our prices on cars coming off the fleet are below [\[Kelley\] Blue Book](#) in most cases, so there is good value. The pricing hasn't gone up from last year."

Rental Car Demand

- "Vacation rentals are down maybe 5% from last year. Winter has a lot to do with that."
- "We're seeing a small pop in business rentals, about 5%."
- "We go after corporate contracts, but we haven't changed our strategy or anything. It really comes down to pricing and building relationships."
- "Leisure rentals should pick up around the end of May. We usually rent a third more vehicles in the summer than any other time of year. Business rentals flatten out during the summer, then go back up in the fall."

Rental Car Pricing

- "Our rates are a few dollars lower than they were just before Christmas. That's really a competitive response to lower demand this time of year. Compared to a year ago, same time frame, our rates are about the same."
- "We've cut a bit on our winter rates. Everybody renting cars shaves their prices a little bit this time of year. A few dollars can make a difference."
- "Corporate pricing hasn't changed."
- "Rates always go up toward Memorial Day. If you look at Avis and Hertz and some of the discount places, everybody starts raising rates as we move into the summer. We might lower rates a little bit here and there to match or beat whatever Hertz is doing, but at a certain point when there's enough demand for leisure rentals, you'll see rates stay about the same all summer. I don't expect anything major up or down."
- "Selling fleet cars hasn't had any effect on our rental pricing. Our used fleet pricing is pretty stable."

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*Enterprise Regional Manager
South*

2. Enterprise regional manager, East Coast; repeat source

The fleet has expanded 15% over the last year as off-airport locations continue to conquer new markets. Most new inventory is on the no-frills end of the spectrum, although the chain is working to enhance its model mix. Weather and other unpredictable factors have made year-to-year and even seasonal comparisons difficult.

Rental Fleet Size and Trends

- “Up 15% or so. We have pumped up our regional fleet by 8% in just the last six months. This is largely a push to open new neighborhood lots, rent in pharmacy parking lot locations, support kiosks and so on. Airport is probably neutral, all in all.”
- “We want to be wherever people want to rent a car in nontraditional environments: in the neighborhood, on college campuses, even short-term rentals for shoppers. The traditional business traveler who pays full price for a prestige ride is great, but he’s not our core customer and not what’s really driving growth in this industry. There are only so many business trips and the number declines year by year.”
- “We are still probably 80% value models, fuel-efficient and cost-efficient. The mix is getting a little fancier in terms of fuel: more hybrids—one day there might even be a Tesla in our future if that goes well; also more basic enhanced options and extras and all the little things that make a rental more prestigious and lucrative on a day contract basis.”

Rental Car Demand

- “It’s good, but we have had such a crazy couple of years with the weather that I’m not going to make any promises what we’ll see in summer or next year. We have had massive cyclones shut down whole towns for weeks. We have had weeks of miserable cold so nobody wants to leave the house. They’re telecommuting or otherwise putting off trips.”
- “If you could somehow adjust for disasters, we are easily growing our core contract volume by 10% to 15% year to year.”

Rental Car Pricing

- “We have kept our weekend discount right where it was. I think our gross is up about 5% over last year, largely because of the slightly better fleet composition. The advertised and offered rates have not really budged on a given model or class of rental.”

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*Enterprise Regional Manager
East Coast*

3. National regional manager, Pacific

The airport fleet is roughly 2% above year-ago levels as leisure and convention activity flattens out. Keeping life-of-car ROI extremely high remains a priority, driving rental lifespans upward when utilization rates lag slightly. Pricing is firm.

Rental Fleet Size and Trends

- “The fleet is trending as exactly alongside contract volumes as we can take it. Obviously, I want supply to lag demand and not run ahead because if we can make the same customer happy with fewer cars, we boost our ratios and our operating margins. If we use more cars to make the same customer happy, our overall volume may increase but our efficiency goes the wrong way.”
- “We are letting our cars age an extra month or two in order to make every marginal dollar count. We are also cutting back a bit on selection in order to keep a stronger core fleet and not quite so many unique or specialty models on the lot.”
- “It is paying off in terms of utilization. We have one of the best utilization profiles in the chain because we are so careful with our buying patterns. That isn’t changing. If anything, our utilization is getting a little higher as we let the older cars hang around without selling them off quite so soon, or even let them go without replacing them.”

Rental Car Demand

Rental Cars

- “Activity is decent. The winter is good, but not great and not what we were hoping for. I think we’re up about 2%, maybe a little more. The summer should be on track with what we’re seeing now, maybe a little stronger in terms of year-over-year tourist and professional rentals.”

Rental Car Pricing

- “No complaints on pricing. We pass on our costs and retain our margins. Our clientele tend to be upscale leisure and the professional market, so they’re willing to pay the going rate. They know we need to make a living just like they do.”

4. Regional manager for Avis, south-central United States

The source reported having no issue with excess inventory because of the approach of tourist season in late May. The leisure rental segment is up slightly, while business rentals have risen about 5%. Both segments are expected to climb in the spring and continue through early fall. Weak demand in the winter months gives the region a utilization rate of about 85%.

Rental Fleet Size and Trends

- “Our fleet is about the right size. Rentals usually slack off after Christmas. And we’ll need the cars we have going into the summer season.”
- “We replace vehicles at about 25,000 to 30,000 miles. We will probably need to replace about 15% of the fleet in our region this year, maybe a little more.”
- “Our utilization averages about 85% this time of year.”
- “During the summer months we’ll have 90% to 95% of our cars on the road at any given time.”
- “Fleet sales are about the same as last year. Prices are competitive. We do play up the fact that our vehicles are [well maintained](#). Some people get nervous at the idea of buying a rental car because they think the vehicle has been driven hard.”

Rental Car Demand

- “Our leisure rentals are up maybe a little bit. Business rentals are up about 5% from what we saw last year.”
- “We’ve been running different specials like a free upgrade or discounts on a weekly rental to provide some support in the winter.”
- “Summer rentals usually go up a good 30% to 35% from where we are right now.”

Rental Car Pricing

- “Our rates are pretty much the same as last year. You’ll see everybody raise or lower their rates to come in line with demand.”
- “When more reservations come in, we’ll start to raise rates. I can’t say how much. It will depend on the demand and how other places are setting their pricing.”
- “I’ve never had a situation where fleet sales changed our rental rates. They’re not really related.”

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*Regional Manager, Avis
South-central U.S.*

5. Regional manager for Avis, North Central

The source believes his fleet is the right size. Business rentals are up 10% while the leisure segment is down by about 5% year to year. Utilization rates hover close to 90%. He expects corporate rentals will continue to grow throughout 2014 because more companies are sending employees out on trips. For corporate contracts, renting often is more cost-effective than paying business travelers for using their own cars.

Rental Fleet Size and Trends

- “Our fleet is where it needs to be. We produce a million rentals a year in this region on approximately 15,000 vehicles, so we’ve got to monitor that inventory very closely.”
- “We’ll replace 20% to 25% of the fleet this year with new cars.”
- “All of our locations on average are at 90% utilization.”

- “We’ll push up to 95%, maybe 97% [utilization] through the summer season. It picks back up around the holidays, too.”
- “Used-car sales are comparable to last year’s results, both in volume and price.”

Rental Car Demand

- “The leisure segment is off about 5% from what we had last year. I’m not sure why. The weather’s been pretty brutal so people probably don’t want to travel as much. Our region is not a huge vacation destination, not like California or Florida. We’re doing strong business on the corporate side. That’s up about 10% this year.”
- “Our summer rentals will go up probably 25%.”

Rental Car Pricing

- “Rates everywhere are very, very competitive right now. We lowered rates after Christmas—everybody does—but they’re not higher than a year ago.”
- “We’ll adjust our rates as the demand picks up. Everybody’s watching prices, watching the movement. You’ll see some guys cut a few dollars off their posted price, then try to make it up with upgrades and other products when the customer comes in. There’s a lot of that going on.”
- “Fleet sales are independent of rate decisions. We plan our fleet and anticipate what that cost is going to be. Selling off older vehicles is a factor of market value. You have a pretty good idea what the car is worth when it’s time to take the vehicle out of service, and we take that into account with our planning.”

6. Avis regional manager, West Coast

The overall fleet appears reasonably sized as corporate strategy favors short-term sharing programs. Airport pricing and volumes are steady as the corporate conference season continues. [Recalls](#) have left fleets throughout the industry on the depleted side, boosting utilization rates beyond seasonal norms and forcing renters to substitute cars in order to meet demand.

Rental Fleet Size and Trends

- “Our fleet is about where it was last year, maybe 1% or 2% bigger throughout the territory. That’s good. We are incrementally seeing more turns per unit as sharing rolls through this part of the country and we integrate the Zipcar brand.”
- “What has actually happened is that last fall’s recalls hit us especially hard, so we lost a lot of cars that we were previously expecting to work with. I’m sure this happened with everyone, but I can only address our fleet. There has been a bit more scarcity than I would have seen last summer or even early last fall. We have needed to substitute and move renters up or down the premium scale from time to time just to ensure they drive off in one of our cars, even if it’s not the one they wanted.”
- “The sharing piece is really a game changer, actually. If we can turn the ‘hot’ car on the lot multiple times a day, it takes the pressure off one or two other cars that may not be seasonally appropriate right now. My locations are a little less nervous about raw fleet size. There’s a little more confidence out there, which I can’t complain about.”

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Avis Regional Manager, West Coast

Rental Car Demand

- “This is peak conference season, and the weather just about everywhere else in the country is encouraging people to actually take the flight to a trade show or other industry event. That’s great for airport locations in particular.”
- “The neighborhood replacement business is steady, although with the recalls we also saw some uptick when private car owners lost their vehicles as well.”

Rental Car Pricing

- “We’re on course. I was hoping pricing would hang on over the last six months, and it did.”

7. Budget regional manager, South

Utility cars coming in after Zipcar's peak summer season have increased inventories somewhat, but the situation is both temporary and deliberate. Most will be sold off over the summer to make room for 2015 models. Traditional business travelers continue to migrate down-market.

Rental Fleet Size and Trends

- "We have a few more cars on the lot, and I mean single digits. The overflow from Zipcar was split up after their summer rush peaked a few weeks after back-to-school, and now we have absorbed those vehicles."
- "A few more budget cars are not hurting us. They will be gone in six months or so as they make their mileage targets and we make room for the incoming model year."
- "Utilization is a top priority. We still discount our lot on slow days in order to bump up our turn totals. While 90% feels a little high for us right now—it's gotten cold even down here—it's not a bad goal."

Rental Car Demand

- "We are more interested in expanding our share of the overall pie by targeting [Enterprise's] [National](#) and Hertz corporate travelers with our promise of lower prices. Of course, it's all relative, but the fact is that a lot of the cars are exactly the same, so why should they pay more?"
- "A turn is a turn. I am happy to undercut National or Hertz to get it. We don't undercut Avis, of course, and Zipcar is its own special pricing proposition and has its own markets."

Rental Car Pricing

- "There is some room for opportunistic discounting right now. Our role is to steal share from the mouths of rival chains. That means courting the family travelers from the moment their plane lands, primarily. All it takes to impress that market is a dollar or two below the market leader, which basically means we keep our effective pricing where it is while Hertz bumps its rates up 3% to 5%."

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Budget Regional Manager, South

8. Fleet manager for Hertz in the Southeast

The regional fleet is the right size to meet demand. Utilization is around 91%, which is good for the winter months. January brought harsh weather and a dip in car rentals. However, the source expects utilization to continue at the present rate until at least the summer, when it should increase. Leisure rentals are flat while business rentals are up about 10%, which the source attributed to an improving economy. Fleet size and used-car pricing are not affecting rates.

Rental Fleet Size and Trends

- "I don't think we have too many cars and we can get more if we need them, so we're at the right size. There's been some talk about [Hertz] having an inventory surplus on the lots, but we're not seeing that here."
- "We don't have any big changes planned this year. We'll replace high-mileage cars when it's necessary."
- "Our utilization rate is about 91%, which is pretty good this time of year. The weather in January was pretty bad and that has an impact, but it's coming back. We'd like it to be 100%, but 90% to 95% is more realistic."
- "Rental rates go up in the summer, and so does demand. If the economy stays strong, I think we'll see rentals going up a bit."
- "Fleet sales are kind of slow in the winter. Prices are probably about the same as a year ago."
- "Our fleet is right for our market. There are a lot of factors that play out in the winter. It's traditionally a slower period, and the weather is a big factor. If we have a hard winter, you'll typically rent fewer cars."

Rental Car Demand

- "Leisure car rentals are about the same. There's no real change from a year ago."
- "Business rentals are up about 10%. I think our loyalty program is probably

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*Fleet Manager, Hertz
Southeast*

Rental Cars

- helping with that. Maybe the economy has picked up a little too.”
- “We’re not doing anything different with corporate contracts. The business hasn’t gone down. It’s about the same as last year.”
- “Things will probably be slow until the spring. We see a 25% to 30% spike in the summer and again in late fall with holiday travel.”

Rental Car Pricing

- “Pricing is about the same as it was in January 2013.”
- “Corporate pricing is also about the same.”
- “Rental prices will go up during the summer, but the amount is hard to say. We look closely at the market, what other companies are charging, and also the demand. If you’ve got more customers than cars on hand, you should probably be charging more.”
- “I don’t think fleet pricing or the price of used cars is having any impact on our rental rates.”

9. Hertz regional manager, West Coast; repeat source

This source’s fleet is slightly inflated by seasonal standards but is no cause for alarm as surplus vehicles now can be offloaded onto Dollar Thrifty locations. Pricing at the premium end of the market remains disciplined; luxury cars are being routed into specialized channels while more mainstream inventory is distributed on an as-needed basis.

Rental Fleet Size and Trends

- “We have maybe 5% more cars on the lot than we did a year ago, but they are probably 90% real prestige vehicles: the convertibles, SUVs and sport models. I’m OK with that.”
- “We can now push any car that’s no longer performing for us down to Dollar Thrifty or even straight to [Firefly](#) if they have a need for that particular model. If we need it, we can call it back. The fleets are integrated from the bottom so we no longer need to, for example, keep a lot of utility compact cars around in case we get a rush or a big convention in town. We can keep those cars on the Dollar Thrifty lot and call them in as needed.”
- “Going forward, I expect to see the total pool of cars available be determined more by the central fleet management team while we tinker with the specifics of the vehicles we think we can turn today or next week or even into next year. We control our lot, but the inventory and the lot are now no longer really the same pool of cars. The inventory is a lot bigger than whatever we have in our branded Hertz fleet.”
- “We can comfortably grow our on-site fleet by 3% to 5% a year at this point. We have no ‘up market’ left to migrate. We’re already on top of the market, so now we simply ebb and flow with that demand. Demand at that level is trending at 3% to 5% growth, maybe more if you hit the cycle right.”

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Hertz Regional Manager, West Coast

Rental Car Demand

- “Demand for Hertz is in fact up maybe 5% over the last year, and of course Dollar Thrifty and Firefly are growing from a lower base. Seasonal factors make it hard to talk about three months from now, six months from now, but the overall trend is finally pointed up again.”
- “Utilization is easily in the 90% range all in all. Dollar for dollar, I think we turn the entire lot’s sticker price every three years at this point, which is good because these are some high-ticket cars.”

Rental Car Pricing

- “Our pricing is easily up 10% over the last year as we cull the bargain models from our fleet and focus on the full-price premium models. We’re not raising prices; we’re simply providing a luxury experience more often than we did.”

10. Dollar Thrifty fleet manager in Florida

Demand is about equal to supply, so fleet inventories are not a concern. The leisure rental segment is flat year to year, but not a cause for concern since the segment almost always spikes in late spring and continues through the fall.

Rental Cars

Business and corporate rentals are up about 5% because of a stronger economy. This Hertz subsidiary expects to replace up to 20% of its current fleet in 2014, rotating older cars out for sale.

Rental Fleet Size and Trends

- “We have enough cars to meet the demand, but not too many. I have not heard anything about Hertz having a glut of vehicles. We’re not seeing that here.”
- “We anticipate replacing about 20% of our vehicles this year with newer and lower-mileage cars.”
- “Fleet sales are hard to predict in terms of what the cars will bring. Our older cars are sold at auction, and we’re seeing pretty much the same prices we got last year.”
- “Daily utilization is close to 90%. Our target is 95%. I don’t think price is holding us back; it’s just the demand is not there right now. It picks up around the weekends.”
- “By early summer, we should be at 95% daily utilization or higher when the tourist season gets going.”

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Dollar Thrifty Fleet Manager, Florida

Rental Car Demand

- “Rentals for tourists are holding steady. It’s the same as it was last year.”
- “Little bit of an increase in business use, about 5%. Business and leisure rentals move in opposite directions during the summer; then it turns around in the winter.”
- “Corporate travel usually climbs and falls on the economy. You’ve got more business travelers when the economy is better. The other thing we’re seeing is more local people renting a car for a business trip. The way we promote it, you can rent a car for \$45 a day with unlimited mileage, or you can reimburse your employee for mileage on his own car. All of a sudden, a three-hour trip costs half as much if you rent the car.”
- “If it’s like last year, our rentals this summer will go up a good 33%.”

Rental Car Pricing

- “Rates are the same across the board. We haven’t raised rates except for seasonal adjustments.”
- “Rates will go up during the summer—that’s our busiest time of year—but everybody in this business bumps up rates during tourist season.”
- “Our older cars are sold at auction. That doesn’t influence rates. Competition does.”

11. Dollar Thrifty regional manager, Southwest; repeat source

Management is comfortable with an expanding fleet as the chain evolves into an economical option within Hertz. Pricing is strong, and utilization is better than usual on a seasonal basis.

Rental Fleet Size and Trends

- “We are up maybe 5% over last year in terms of rental fleet size. A lot of these are vehicles coming in from the Hertz side now that we are formal fleet partners. We take their cars, and they bring in new ones.”
- “Turnover is around 20% to 25% of the overall fleet a year right now, with a lot of it coming from Hertz lots and a few cars even coming in from third-party used-car dealers. So if there’s a glut elsewhere, we are not hearing about it.”
- “Utilization in terms of pure hours under contract is a little better than last year. It’s never a tight season, but we are already rebounding from the annual lull.”
- “We are so not concerned about resale prices that we are buying at resale. We are more concerned with being in position for the summer than we are about the risk fleet getting us in trouble.”

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*Dollar Thrifty Regional Manager
Southwest*

Rental Car Demand

- “The business travel market here is still strong from a national perspective, and I think we’re moving up a bit more. We are a little unusual in the chain, with our on-airport business being stronger in terms of growth than our

Rental Cars

neighborhood rentals. This is a huge enterprise geography because of all the drilling and people needing to be out into the oil field. They come in the airport side and, if we're lucky, they turn into neighborhood [location renters]."

- "Leisure is looking promising, but this is not really the prime leisure travel season, which might be why we're still looking so strong relatively."

Rental Car Pricing

- "Pricing is steady, on and off airport. The fact that we're bringing on inventory says that we're not really discounting to chase share or to put idle assets to work."

2) Rental Car Store Managers

Six of these eight sources said their fleet size was correct and that utilization was in the 89% to 95% range. Fleet size will remain flat for five sources and increase for one source this year. Demand for leisure car rentals is up for four sources, flat for two and down for one. Business and corporate rental demand is up for four sources and flat for three. Insurance-related rentals and an improved economy are driving demand. The outlook for 2014 is optimistic; six of the eight expect demand to increase. Pricing is up for two, flat for four and down for one source year to year.

KEY SILO FINDINGS

Rental Fleet Size and Trends

- 6 said their rental car fleet was appropriately sized.
- 1 said his fleet was undersized.
- 1 said the fleet was slightly high and the company's airport location was making more requests for the off-site location to take more compact cars.
- Utilization ranged from 80% to 100% and averaged 91.5%.

Rental Car Demand

- 4 sources are experiencing increased leisure and business travel demand.
- 2 said leisure demand was flat, while 3 are experiencing flat business demand.
- 1 said leisure rentals were down.

Rental Car Pricing

- Prices have increased for 2, have been flat for 4 and have decreased YY for 1.

1. Manager of an off-airport Enterprise location, Kansas; repeat source

Fleet size has not changed much year to year. Rates are down about \$2 a day in order to remain competitive. Demand for cars is up about 6% on the corporate side but has been flat on the leisure end.

Rental Fleet Size and Trends

- "The fleet size seems about right. Enterprise does a good job of maintaining the right fleet numbers. They turn over cars more quickly than the competition. Cars are all sold at 30,000 to 40,000 miles. We don't have a shortage or surplus of cars at this location usually."
- "I have not heard about fleet size changes this year."
- "Our fleet utilization rate varies by the day and week. We usually only have a couple on the lot that are not reserved. We can always get cars down from the airport if we have a reservation to fill. The utilization rate is not much different than a year ago."
- "I am not familiar with the fleet sale price trends. We have Enterprise used-car lots next to two of our rental locations in the metro area."

Rental Car Demand

The fleet size seems about right. Enterprise does a good job of maintaining the right fleet numbers. They turn over cars more quickly than the competition. Cars are all sold at 30,000 to 40,000 miles. We don't have a shortage or surplus of cars at this location usually.

*Manager, Off-airport Enterprise
Kansas*

Rental Cars

- “Demand for leisure travel is about the same as last January. This is a slow month for leisure bookings.”
- “Demand for business rental is up about 6% compared to last January. That figures is for all our locations in this area.”
- “We always compete for corporate contracts. We lost some about six months ago when some clients decided to go with both Hertz and us.”
- “The insurance market makes up about 50% of our business. These are cars we rent to people who have theirs in the body shop. That business is about what it was a year ago at this time.”

Rental Car Pricing

- “Our rental rates so far this year are probably down an average of \$2 a day compared to last year at this time. We try to stay competitive.”
- “Our corporate contract prices haven’t changed much so far this year.”
- “I don’t see a lot of change in the rental car rates through the course of the year beyond the usual fluctuations based on demand and the competition. There is nothing in the larger picture that would seem to impact the rates.”
- “Rates should not be affected by our fleet inventory and used-car prices because I expect those to be stable.”

2. Ft. Lauderdale Enterprise manager

This agency utilizes 80% of its fleet and has not experienced a vehicle surplus. Fleet size is expected to grow during the next three to six months based on existing reservations and seasonal influx. Leisure car demand is up 25% while business demand has been steady year to year. Prices on rentals have increased because of high demand.

Rental Fleet Size and Trends

- “Our fleet size fluctuates with no set number. It is most likely to go up in 2014.”
- “We have enough cars to meet our customers’ needs.”
- “We using 80% of our fleet now, and I expect that to increase into the next three months.”
- “Hertz is not a competitor. We are international and better known.”

Rental Car Demand

- “Our leisure car demand is up over last year by 25%. More people are traveling again, and it shows.”
- “Business car demand is steady with last year with no significant change.”
- “Demand will increase over the next three months due to high season into six months. I think demand will continue to grow for us. Our location at the beach helps, and a lot of international people frequent the area.”

Rental Car Pricing

- “Prices fluctuate so much but are up slightly over last year.”
- “Our prices are directly related to the number of existing reservations we have at the time. Prices go up the more reservations we have.”

Our leisure car demand is up over last year by 25%. More people are traveling again, and it shows. ... Business car demand is steady with last year with no significant change.

Enterprise Manager
Ft. Lauderdale

3. Avis agent for a nonairport location, Atlanta suburb

Rental car demand usually falls during this time of year. However, rentals of both leisure and business are up by 15% year to year. Inventory does not meet demand, and customers often do not get the vehicle they want. Rental car prices were the same in 2013 as in 2012 and are expected to increase 5% this year based on greater demand.

Rental Fleet Size and Trends

- “We never have enough inventory. The sizes of vehicles we rent to customers aren’t always ideal.”
- “I’m not aware of any changes to our fleet size this year.”
- “If Hertz is saying their fleet is too large, then I guess that’s good news for us. It probably means they are not using their inventory or getting customers.”

Rental Car Demand

- “Current leisure car demand is up a wide margin compared to last year—at least 15%.”

Rental Cars

- “Our business car rentals are up 15% compared to this time last year.”
- “At this time we are securing more corporate contracts than last year.”

Rental Car Pricing

- “Prices of the rental cars has remained the same compared to last year.”
- “Pricing of corporate contracts has remained the same compared to last year.”
- “I expect prices of rental cars will go up about 5% based on higher demand.”
- “Fleet inventory and used-car sales don’t really impact pricing that much. If there isn’t enough inventory, then eventually the price will go up.”

If Hertz is saying their fleet is too large, then I guess that’s good news for us. It probably means they are not using their inventory or getting customers.

*Avis Agent, Nonairport Location
Atlanta Suburb*

4. Owner of an Avis Budget franchise in Illinois

Rental car companies need to increase their overall fleets. This source experienced a shortage in 2013 and had to hold onto vehicles past their 35,000-mileage sell point. Low inventories were due to the Avis Budget merger, lower numbers of vehicles purchased to cover both companies, and monies needed to cover newly acquired ZipCar. Even with these challenges, his rental business is growing and his typical utilization rate is around 90%. He expects leisure rentals to grow, driven by the ever-challenging airline industry. His corporate contracts typically renew the first quarter so those levels are similar to last year’s. His biggest challenge to growing his corporate rentals is a lame duck salesperson assigned by corporate to close deals. Business is expected to increase with spring break rentals, and in April demand start to grow toward summer levels.

Rental Fleet Size and Trends

- “We don’t have an over-fleet. Our problem is the opposite for a few reasons, but I believe 2014 can be a successful year. In 2013, the biggest problem we had with inventory was because we merged the two companies, Avis and Budget, into one. Instead of two companies buying cars for their fleets, now we just have one big company. What we purchase now for a fleet is a smaller inventory than what we purchases when there were two companies. They need to buy more cars to make up the difference. We also bought ZipCar and did not have sufficient inventory for new markets, so those new vehicle purchases in 2013 got pulled out of the pot too.”
- “We are still having problems with a short fleet, especially with the weather that we are having. People are grabbing cars at the airport last minute when their flights are canceled and drive them out of state. It takes longer for the cars to get back to us when they are driven out of state.”
- “Since airport rentals are filled first, sometimes we lose out on rentals when they are sold out. If they sell out, they come to us and we sell out faster and have to turn away customers.”
- “My fleet utilization rate is in the high 80s, low 90s. It was 88% for the month of December. I don’t have the January figure yet.”
- “Moneywise, we are making more this winter than we did last year. This is basically the time that business is down, so I am happy to be a bit busy.”
- “Summer should be as profitable as last summer and hopefully more once we get some our fleet back. I don’t want to be losing out on last-minute rentals again because I don’t have cars. That was hard to swallow.”
- “If new-car prices go up, it does not really affect the rental market or our prices, per se. The prices for the new fleet are set, and we get bump-ups within the order. For example, if we order 10,000 Ford Focuses, Ford might fill our order with 7,000 Focuses and upgrade us for no charge to 3,000 Ford Escapes, a more expensive, higher daily rated vehicle. Then we can turn around and give a bit better discount on the Escapes because we only paid the price of a Focus for them.”
- “I did not hear that that Hertz had too large a fleet this fall. That was not my experience, especially in November. I know every operator in the area was struggling with not having enough vehicles. I am always getting calls from the local Enterprise, asking if I can assist them with rentals. I feel like all operators in the area are running on low fleet inventory.”

Rental Car Demand

- “Industrywide, I do expect rentals will continue to grow in 2014 and beyond because the airline industry keeps getting less attractive. In many cases, you save time and money just renting a car and going. You don’t have to deal with delays, sitting in airports, plus the baggage fees.”
- “For this January, the unofficial numbers show leisure car rentals were about the same as January 2013.”

Rental Cars

- “This winter, way more so than last, weather is affecting local business rentals. I have customers who take a car every week to drive to Michigan or Indiana, but with this weather, they are skipping traveling altogether. This will probably go on until March, when the weather hopefully improves.”
- “Corporate rentals have unfortunately been pretty stagnant this quarter. This is the time of year corporations change their contractor crew, so people who have been here renting every week for the last year are going back to their countries. Then a whole new crop comes in. There is a lag in corporate rentals during these transitional periods.”
- “The biggest factor in securing corporate contracts is your salesperson. We initially tell them what we can offer but then corporate sends in their salesperson. To me, that is a big problem; if you have a salesperson that does not do their job as they should, you miss out on opportunities. It has happened to me.”
- “Summers are always at least double to triple what you do first quarter.”
- “In July and November of 2013, I had to turn away walk-ins and last-minute callers. I told them they have to book way in advance to guarantee themselves a vehicle. It was upsetting, and I wrote corporate a lengthy letter about it.”

Rental Car Pricing

- “Our prices are a little lower than they were this time last year. It is because we have vehicles available.”
- “Three weeks ago, we were low on inventory and prices were a little bit higher for a week. But I can almost always get cars from the airport location if I am out. It is only when they are sold out that I am stuck with no rental availability.”
- “My corporate contract pricing has not changed this year. In fact, the prices have been stable and the same since December 2012. The contract may differ a few dollars, but that is because of different tax rates.”
- “Over the next year, I expect that rental car prices will maintain the same levels as 2013. They only variance from that comes when we are nearly sold out.”

5. Manager of an off-airport Budget lot near Kansas City, MO

Fleet size is sufficient. Any fleet issues for Budget in general do not trickle down to the rental rates. Demand and pricing have largely remained the same year to year. This location is often sold out on Tuesdays and Wednesdays.

Rental Fleet Size and Trends

- “I can’t say how the fleet is doing at other Budget locations, but ours seems to be about right.”
- “I have not heard of any fleet size changes for Budget this year.”
- “Our fleet utilization is at 100% or close to it on some days like today. Today we have five cars out there on the lot, and all of them are waiting for reservations. We are sold out. Tuesday and Wednesday are the busiest days. By the weekend, we may have more cars than we need.”
- “I am not sure about where fleet sales stand. We sell our cars to dealers at wholesale auctions, usually when they get to 20,000 to 25,000 miles. It varies by the model.”

Rental Car Demand

- “Our demand in leisure vehicles hasn’t changed much from a year ago as far as I can remember. Weather is a factor. We haven’t had much snow, so people are taking their trips. But when there is snow, like last winter, people will rent SUVs or bigger cars at higher rates, which is more profitable for us.”
- “Business car demand is about the same as last January. This is not a real strong location for business rentals or insurance rentals because there are not a lot of body shops near here.”
- “Corporate contracts have not changed much since a year ago.”

Rental Car Pricing

- “It doesn’t appear that any issues with fleet size or used-car prices have affected pricing because ours have not changed much in recent months.”
- “It’s hard to recall our rates of a year ago. I am not sure how they compare to now, but I think they are roughly the same.”
- “Corporate contracts have not changed, I don’t think.”

It doesn’t appear that any issues with fleet size or used-car prices have affected pricing because ours have not changed much in recent months.

*Manager, Off-airport Budget Lot
Kansas City, MO*

6. Manager of a nonairport Hertz outlet in suburban Kansas; repeat source

The fleet size may be up slightly but has not affected rental car prices. Demand is up by about 25% because of the improved economy and the lack of snow.

Rental Fleet Size and Trends

- “I was aware that Hertz said its fleet size was getting too large nationally, but the fleet size in our area doesn’t seem out of line to the point that is impacting rental car rates.”
- “Our fleet may be somewhat bigger than a year ago, but not by much. We do seem to get more calls from the airport asking if we need vehicles down here, especially compacts.”
- “I wouldn’t know about fleet size changes overall.”
- “Our fleet utilization rate at this location is about 95% this year, about like last year. Our goal for every location is 94%. I can’t say whether we can stay at 95% in three, six or 12 months out, but we will try to get even better. You want to grow that. The more you grow, the more successful you are.”
- “Actual fleet size is a subject out of my area of knowledge, so I don’t know the trends. We can get the cars we need here.”

Rental Car Demand

- “Demand for leisure and business is up by about 25% this year. We don’t separate the two. We’ve had better weather this January than last January, so fewer trips are canceled. Maybe a better economy is helping business travel and leisure trips too.”
- “We are out there working to get corporate business, but are not doing anything different in that regard right now than we have in the recent past.”
- “Demand for rentals will be good this year, but I can’t predict a percentage.”

Rental Car Pricing

- “Really, I don’t see much change in prices from last year at this time.”
- “Pricing for corporate contracts is unchanged.”
- “I can’t really say how prices will change this year. That is always hard to predict.”

Our fleet may be somewhat bigger than a year ago, but not by much. We do seem to get more calls from the airport asking if we need vehicles down here, especially compacts.

*Manager, Nonairport Hertz Outlet
Suburban Kansas*

7. Manager of an Hertz location in Wisconsin; repeat source

Fleet size is appropriate and meets demand. The source expects to be profitable in 2014 and better off than in 2013. The utilization rate is 95% almost every day and should remain this way throughout this year. When additional vehicles are needed, the source takes from another agencies’ fleets.

Rental Fleet Size and Trends

- “We recently sold off part of our fleet, so we are in the process of adding back new cars this year. Cars had too many miles in most cases and were due to be replaced. Cars are processed at one of our eight locations, then sent out to us.”
- “We are currently a bit low in our overall fleet, but once they add back what was sold off, our fleet will be at the same levels as 2013. Otherwise, I have not heard anything about increasing it further this year.”
- “With the unanticipated increase in business this winter and the lower fleet, we do have occasions when we don’t have vehicles available. It happens about every other week.”
- “This morning, after the weekend, I took back 16 cars. Today, Monday, is usually slower, and we have cars available. But come Wednesday, they will start selling out again. ... I expect this to continue through this summer. Rentals traditionally drop off after that, but it may not, as we have seen this winter.”

We are currently a bit low in our overall fleet, but once they add back what was sold off, our fleet will be at the same levels as 2013. Otherwise, I have not heard anything about increasing it further this year.

*Manager, Hertz Location
Wisconsin*

Rental Cars

- “We did not necessarily have a surplus of fleet to sell off. We own our own cars so when they are too old or have high mileage, we sell them at auction and purchase new ones to add to the fleet.”
- “I have not heard Hertz’s fleet was too large. That has not been the case with our business.”

Rental Car Demand

- “Leisure or personal cars rentals have at least doubled, maybe even tripled, since last winter primarily due to a significant increase in insurance claim rentals. This winter started early and has been rough, so there have been a lot more accidents and weather-related mechanical issues. All those people need rentals while their cars are in for repair.”
- “Our corporate business is also growing and is stronger than this time last year. I am seeing more and more faces that I have never seen before. Most of these folks are renting for business.”
- “We have steady contracts with all the businesses around here. Corporations are having their people travel again, and they have figured out it is cheaper for them to rent their people vehicles versus them using their own cars, especially for long trips. Here, you can get a car for \$40 a day with unlimited mileage. Reimbursing mileage for a five-hour drive is way more than \$40.”
- “I expect car demand will remain strong throughout this year. Corporations are letting their people travel again, so business rentals will grow. And if this weather continues to be extreme, personal rentals due to insurance claims will continue increase overall rentals for this quarter. We may drop off then for a few months until summer.”
- “Some of our competitors only allow their vehicles to be driven in the tri-state area. Our vehicles are allowed to be in all 48 continental states without penalty. That is an advantage for us.”

Rental Car Pricing

- “Our pricing is the same as it was this time last year.”
- “Pricing for corporate contracts has not changed from 2013. We tend to hold prices are much as possible.”
- “I expect prices will hold this year and be pretty much the same rates as 2013.”
- “Even with new car purchases to replenish our fleet, our prices will hold. Those costs were expected and planned.”

8. Ft. Lauderdale off-airport Hertz manager

Eighty-nine percent of this source’s fleet is being utilized, and inventory is adequate. Utilization will grow to 95% in the next three to six months. Leisure rentals are down 10% year to year because of internal company changes on rate structure. Business demand is the same based on a successful loyalty program. Leisure rates are up 25%, while corporate rates have remained the same year to year.

Rental Fleet Size and Trends

- “We utilize 89% of our fleet. I think our current inventory is just right. No over-fleeting here.”
- “We just got more specialty equipment. More luxury vans and SUVs help round out our offerings. I don’t think we will be getting more cars, and we can’t afford to lose any in the next three months. I think we will be using 95% of our fleet.”

Rental Car Demand

- “Our leisure rental car demand is down 10% compared to this time last year. Company changes affected rate structure, and renters are looking for the best price for the best car.”
- “Into the next four months our demand will be up due to the season and existing reservations.”
- “We have good loyalty program for our business renters, and this has not changed since last year same time.”
- “It is hard to stay competitive when some companies can offer a premium on a contract without an OK from corporate. We don’t have that at Hertz. All upgrades and price negotiations have to be done through our corporate office. I have lost some deals because I couldn’t price-match on the spot.”
- “Hertz has the edge nationally.”

Rental Car Pricing

- “Rates are up 25% over last year at this time. Reservations push prices up.”
- “Corporate pricing has stayed the same as last year.”
- “Prices have plateaued out for now.”

We utilize 89% of our fleet. I think our current inventory is just right. No over-fleeting here.

*Off-airport Hertz Manager
Ft. Lauderdale*

Rental Cars

- “Our fleet size has no significance to our pricing, nor do our used car sales. Used car prices are usually below or right at fair market value.”

3) Industry Specialists

All four sources agree that oversupply is not a major issue for the rental car industry. Hertz did face an oversupply related to the government slowdown, but it has since thinned its inventory and upgraded with upscale vehicles. Utilization rate goals are 95%, and any rate of between 90% and 100% is considered healthy. One source pegged industrywide utilization as 90% to 95%, which is good, considering the season. Demand is appropriate and is expected to be flat to up 5% year to year. Two sources said pricing is flat, while two others said a 3% to 5% rate increase is possible.

KEY SILO FINDINGS

Rental Fleet Size and Trends

- 4 do not see an oversupply of rental cars affecting the industry.
- 1 source said Hertz did have an oversupply issue in the summer, but has since trimmed its fleet.

Rental Car Demand

- Rental car utilization is 90% to 95% industrywide.
- Rental car demand is expected to remain flat to up 5% year to year.

Rental Car Pricing

- 2 sources expect flat pricing.
- 2 expect price increases in the 3% to 5% range.
- 1 source commented on some “pricing power” around the holidays that companies were trying to maintain.

1. Consultant and retired vice president of Avis Budget Group

This source was unaware of any inventory surplus, and said utilization appears to be 90% to 95% industrywide. If soft pricing affects sell-off vehicles, it will not have any meaningful effect on rental rates. Rental companies want to get rid of unwanted vehicles as quickly as possible, both to make room for newer vehicles on-site and to unlock the equity in old inventory. As a result, used rental cars are priced to sell.

Rental Fleet Size and Trends

- “There is no widespread inventory surplus that I’m aware of. Maybe isolated pockets here and there have too many cars, but nothing at the macro level.”
- “A car rental business is doing well with a utilization rate between 95% and 100%; that’s as good as it gets. At Avis, the target was always 95% and preferably above that.”
- “Much of the car rental business is seasonal. You see an upswing in leisure rentals when people take off for summer vacation. Business rentals are higher in the fall and winter.”
- “Fleet sales are soft right now.”

Rental Car Demand

- “During the winter, there is a softening in the leisure segment, typically offset by an increase in business rentals. This has been an unusual winter for the amount of snow we’ve gotten so far. Ice and snow on the roads lead to accidents, so you’re likely to see more cars being rented by the week while a private vehicle is in the shop.”

Rental Car Pricing

- “It does not look like rates have changed to any great degree if you look at pricing today and a year ago.”
- “Rates always go up when the weather gets hot. Avis, Hertz, Enterprise, the discount places, all their rates will start creeping up around the end of May.”
- “If people are feeling good about their financial situation, they’ll spend more on a nice vacation. Leisure rentals may pick up by a third or even 40% in a good summer.”
- “Fleet sales aren’t going to hurt the rental counter. When you’re selling off some inventory, you’re competing with every other guy out there who sells used cars. A lot of car rental companies don’t offer financing; they’ll refer you to a

Rental Cars

bank partner. Some places only sell at auction. The cars have to be moved off the lot, and you don't want to pay to have them parked somewhere else. You're usually looking at a rental car less than two years old with less than 30,000 miles. You've got to price those vehicles a little less than someone would pay for the same car at a used-car lot."

2. Travel consultant and former marketing analyst for Hertz

This source was unaware of any problem with unrented inventory or too many vehicles at any of the national rental chains. Although some regional operations may be saddled with excess inventory, the source does not believe it is a widespread or long-lasting issue. Competition and seasonal demand are the main factors in both utilization and pricing. Efficient operations can maintain a utilization rate of at least 90% and closer to 95%. Rental rates seldom are affected by market conditions for fleet sales. Profit margins are fattened on the success of customer service representatives selling add-ons at the rental counter.

Rental Fleet Size and Trends

- "I don't know of any problem with fleet sizes. Matching up supply with demand is one of the single most important things a rental company can do. If there are too many cars sitting on the lot, it might be a regional problem. It's a temporary thing."
- "Rental companies are trying to hit that 100% on utilization. You want to send cars off the lot as fast as they come back, but realistically you're looking at 95% to maybe 98%. All of the major companies are set up so they can move cars around if they're short at a location."
- "I think rentals for travelers will take off in a few months. The economy is looking good, so people will go on vacation, take trips. Rentals for business travelers should also do well."
- "I don't know about the current conditions for fleet sales. Wintertime is usually slow for sales."

Rental Car Demand

- "This is a seasonal business that rises and falls on the weather. Generally in the winter months, corporate rentals will see you through. You've got some evergreen regions where tourism is pretty strong year-round and they do well, but for the most part the spring and summer months are going to be the busiest for the leisure segment."

Rental Car Pricing

- "I'm not seeing any difference in rates right now and what we saw a year ago. It looks the same for this time of year."
- "You'll see all the companies start hiking their rates toward the end of spring and peaking all summer. It'll drop again after Labor Day and then another rate increase from mid-November through the end of the year."
- "I don't think selling off older vehicles or slower sales in your fleet is going to have an effect on your rates. It might slow down the rate of replacement when you need to bring on new vehicles, but rates are tied more to demand and competitors' pricing. Rental companies will sell or auction off their older cars year-round."
- "The profit margins are made at the counter, at the point of sale. The guys working the counter—they might be called customer service representatives, but they're really salespeople and they're there to sell add-ons. Most of the rental companies will try to sell anything from damage waivers and extra insurance to prepaid fuel charges, car seats for babies, a portable GPS; it's all an opportunity to sweeten the rental contract."

I don't know of any problem with fleet sizes. Matching up supply with demand is one of the single most important things a rental company can do. If there are too many cars sitting on the lot, it might be a regional problem. It's a temporary thing.

*Travel Consultant &
Former Marketing Analyst, Hertz*

3. Consumer rental consultant and longtime reservation agent; repeat source

Rental car industry inventory is sized correctly to maintain margins and utilization rates. Overcapacity within the industry will be difficult to assess until Hertz and Avis digest their recent strategic acquisitions and [Advantage](#) (Franchise Services of North America and Macquarie Capital) finds a position in the marketplace. Last summer's consumer slowdown demonstrates how nimble rental chain management has become in eliminating excess supply, so any harmful effect of

lot inventory should be resolved very quickly. Replenishing thin fleets takes longer and may allow Enterprise in particular a chance to capture long-term share gains.

Rental Fleet Size and Trends

- “There are exactly enough cars right now to maintain margins, utilization ratios, all of it. Some very smart people wrote some extremely smart asset management programs for these companies—Hertz in particular—and when the ratios look like they might need adjustment, they adjust. That’s what happened last year. It happens. Think of it like an airline canceling a flight because the early reservations aren’t there. It’s a very similar algorithm, actually.”
- “In the longer term, Hertz is figuring out what to do with Dollar Thrifty, and Avis is figuring out Zipcar. Advantage is still figuring out what it is going to do and where its new owner wants to price its offering. While those equations are working themselves out, I don’t think anyone really knows whether they themselves or the industry as a whole is oversupplied or undersupplied. We’ll know that late this year maybe, if we’re lucky.”
- “What we know is that if a location is oversupplied, utilization falls and management panics. They push discounts, offers, whatever it takes to move the cars. That’s not really happening right now, as far as I can tell.”
- “If a location is undersupplied, utilization stays high and management can flirt with rolling back discounts. I actually see this as the more likely scenario here, simply because so many lots are now run so efficiently that the main risk for error is on the thin side.”
- “You can dump cars quickly now, or even hand them to a junior partner in the case of Avis or Hertz. Enterprise can demand business-class inventory from its affiliates as well, but it’s not really the same thing. Either way, what you cannot really do is buy a lot of cars in a hurry when demand starts to overwhelm supply. That takes a lot more time.”
- “Enterprise has kept buying cars and now looks a little fat, but it keeps pricing low to keep those cars moving. It’s like a long-term starvation strategy for the other chains. Too much supply means Hertz or Avis dump cars, which is OK. Too much demand mean Hertz or Avis needs time to get those cars back, during which time Enterprise has the cars and welcomes renters to everyday low pricing. Hertz or Avis loses the sale. Enterprise gets it.”

Rental Car Demand

- “Rental volumes seem to be decent, maybe flat to up 5% over last winter. The weather is playing havoc with most of the country, so it’s hard to tell. Spring looks good in theory, but it’s almost impossible to tell. The summers have been improving as families go back on vacation. This summer could be miserable if the market crashes and those vacationers stay home again. There’s no real visibility.”

Rental Car Pricing

- “The silver lining is that people who do rent are not pushing back on pricing. They know cars are more expensive. The cost of every gallon of gas is more expensive and plane tickets are more expensive. It’s just part of the overall proposition. So car rentals edge up \$1, \$2 a year.”

There are exactly enough cars right now to maintain margins, utilization ratios, all of it. Some very smart people wrote some extremely smart asset management programs for these companies—Hertz in particular—and when the ratios look like they might need adjustment, they adjust.

*Consumer Rental Consultant &
Longtime Reservation Agent*

Enterprise has kept buying cars and now looks a little fat, but it keeps pricing low to keep those cars moving. It’s like a long-term starvation strategy for the other chains.

*Consumer Rental Consultant &
Longtime Reservation Agent*

4. Editor of a fleet management industry trade publication

Hertz trimmed its fleet in the fourth quarter, and no new signs of oversupply have emerged in the industry since. The government shutdown played a key role in a dip in October’s rental activity, but volumes have rebounded to normal levels. Hertz used the mild disruption to reduce overall fleet age and to play to its brand identity as providing the newest and most upscale cars. Resale is not really an issue for rental location managers.

Rental Fleet Size and Trends

- “Hertz recognized early on that the government shutdown was going to play out a little like 2011, when contractors throughout the country were essentially frozen out of receivables, new contracts and, most importantly for our purposes, site-to-site travel budgets. They saw this in July when the overall retail climate softened.”
- “But as it turned out, retail spending and the government itself came back roaring in mid-October, and Hertz found itself with a lot of the dead weight cut out of its fleet and a fairly substantial revival in rental activity throughout the industry. It was great. The risk cars are gone. What’s left behind is skewed more closely than ever to ‘like new’ vehicles. They might have shaved an entire month off their average holding period.”
- “Other chains didn’t publicly sell cars, but they did cut back on ordering or delay delivery as much as they could. Braking the on-boarding of new inventory was aimed as a hedge against a 2011-style bump, but when the bump didn’t happen, all it really did was boost utilization rates across the board.”
- “Not everyone is a winner. Hertz also pushed a lot of inventory to Dollar Thrifty, which has had its new-car budget cut fairly dramatically to position it as an exit point for old Hertz cars. Avis did something similar with Firefly, but not to such an extent. Enterprise doesn’t seem to care and has merrily gone on expanding in order to keep chewing up new market share.”

Rental Car Demand

- “Demand looks a little stronger ... but that’s largely weather-related distortions in the data as well as the pent-up activity surrounding the shutdown. We will probably not know what the real trend is before summer, and even then the unusual lull around last summer may create odd or misleading comps.”
- “Demand at airport rises roughly in line with the economy, which seems to be picking up in recent months to maybe 3% or even 4% growth. The discount and leisure chains have been growing a bit more quickly because the base is lower.”

Rental Car Pricing

- “Price power actually emerged around the holidays as business travelers who had put off necessary trips fought it out with holiday travelers who needed a car to visit family or to drive around on a winter vacation. From what I could tell, it was a good quarter, and the chains are trying to maintain pricing here as long as they can.”

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*Editor, Fleet Management Industry
Trade Publication*

Secondary Sources

The following five secondary sources discussed Hertz slashing its fleet by selling double the number of retired rental vehicles; leisure travel heavily outweighing business travel; wholesale used-car prices dropping; Hertz offering discounts to loyal customers in the Middle East and Africa; and Avis Budget’s ZipCar and Hertz’s [Hertz 24/7](#) being viable options for short trips.

Nov. 5, 2013, Automotive News [article](#)

Hertz will slash its fleet by doubling its number of retired rental vehicles it sells to retail consumers during the next two years. Hertz makes between \$1,000 to \$1,500 of profit per vehicle sold.

- “Hertz Global Holdings Inc. plans to at least double the number of retired rental vehicles it sells to retail consumers over the next two years, its top executive said today.”
- “Hertz sells about 16,000 retired rental vehicles a month. In 2015, it expects to retail 6,000 to 8,000 of those units to consumers, said Hertz CEO Mark Frissora. That is up from 3,000 to 3,200 units a month now sold to consumers.”
- “The shift would slash the volume of vehicles the car-rental giant sends to auctions.”
- “Frissora said vehicles sold through Hertz’s retail locations generate profits of about \$1,100 to \$1,500 per vehicle vs. what is sometimes a loss at traditional wholesale auctions. That would help reduce the risk associated with fluctuating used-vehicle prices, he said.”
- “‘We typically always make money at retail—\$1,100 a car to \$1,500 a car depending on the market,’ Frissora told analysts during the company’s third-quarter earnings conference call today.”

Jan. 31 Auto Rental News [article](#)

A study done by [Sojern](#) showed that leisure travel outperformed business travel in the third quarter of 2013, accounting for 72% and 28% of trips, respectively.

- “Sojern, a data-driven traveler engagement platform, has released its latest travel trends throughout the fourth quarter of 2013 (October to December).”
- “At 74%, leisure travel continued to outperform business travel (26%), according to the Sojern report. In the third quarter of 2013, leisure accounted for 72% of U.S. travel search/bookings while business travel only accounted for 28%.”
- “According to Sojern, the top 10 Q4 destinations for U.S. travelers include New York City, San Francisco, Chicago, Los Angeles, Denver, Houston, Las Vegas, Washington, D.C., Orlando and Boston.”
- “In Q4, there was an increase in longer trips with 45% traveling to a destination for a minimum of six days compared to 41% in Q3, according to Sojern. This increase was most likely due to the holiday season.”
- “When it comes to party size, the majority of travelers (72%) booked their flights alone, but the bookings for groups of two or more increased in Q4 compared to Q2 and Q3. For instance, 20% traveled in couples in Q4 while 18% traveled in couples in Q3, says Sojern.”

Jan. 15 Auto Rental News [article](#)

Wholesale used-vehicle prices drop 0.9% in December, giving a smaller margin to rental car companies looking to sell off old fleets.

- “After a one-month hiatus, wholesale used vehicle prices resumed their softening in December, as average prices declined on both a month-over-month and year-over-year basis. The softening price trend was evident throughout much of 2013—with some reversals at the beginning of the year due to lingering supply shortages from Superstorm Sandy and later in the year due to strong retail used vehicle demand, according to the latest Kontos Commentary from ADESA Chief Economist Tom Kontos.”
- “As stated in past reports, the overriding dynamic in today’s used vehicle market is rebounding supply, which is putting downward pressure on wholesale prices. However, strong retail demand is restricting this downside, as is the gradual nature of the supply increase itself. Still, average wholesale prices fell nearly 2% as volumes grew by an estimated 5% in 2013. Growth in retail used vehicle sales of over 3% reduced the impact, says Kontos.”
- “According to ADESA Analytical Services’ monthly analysis of Wholesale Used Vehicle Prices by Vehicle Model Class, wholesale used vehicle prices in December averaged \$9,661—down 0.9% compared to November and down 1.3% relative to December 2012. Luxury cars, SUVs and sports cars were the only segments that showed monthly upticks.”
- “Prices for used vehicles—remarketed by manufacturers—were up 3.4% month-over-month and up 3.3% year-over-year, primarily due to tight supplies for this portion of the market (largely late-model off-rental program units), says ADESA.”
- “Based on data from CNW Marketing/Research, retail used vehicle sales were up 4.8% month-over-month and up 7.5% on a year-over year basis in December. This allowed total retail sales (i.e., sales by franchised and independent dealers) to reach close to 30 million units and total used vehicle sales (including private sales) to reach nearly 42 million units in 2013—increases of 3.4% and 3.6%, respectively.”
- “And based on figures from Autodata, sales of certified pre-owned (CPO) vehicles in December were down 3% from the prior month but up 9.4% from the prior year. Total certified pre-owned (CPO) sales exceeded 2 million units for the first time in 2013 and were up 15.1% from 2012.”

Jan. 21 International [article](#)

Hertz is offering discounts to its most faithful rental car customers in the Middle East and Africa.

- “Hertz has delivered a big New Year offering to car rental users in the Middle East and Africa who made the USA their most popular outbound destination by a considerable distance in 2013.”
- “The return of the Hertz Global Sales from the world’s leading general-use car rental brand gives customers across the region discounts of up to 33 per cent on Hertz car rentals worldwide.”
- “The discounts of up to 33 per cent are available for qualifying domestic or outbound rentals in Europe and the Middle East, with 20 per cent discounts on offer for rentals in Asia, and 15 per cent in North America.”
- “The attractive discounted winter sale rates apply to bookings made from now until 26 January 2014, with pick up between 2 January and 30 June 2014.”

Rental Cars

- “The return of the Hertz Global Sale comes at the end of a year in which the brand’s faithful Middle East and Africa customers again clocked up many more car rentals in the USA than any of the company’s 150 other destinations.”
- “The volume of bookings in the USA was 50 per cent higher than for the next most popular outbound destination—France.”

Jan. 23 [article](#) from *The Fiscal Times*

Car rentals increased 15% during the 2013 holiday season year to year. Consumers have ways of keeping rental rates down, including renting off-airport, checking sites multiple times through different sources, and using car-sharing services like ZipCar or Hertz 24/7 for short periods of travel.

- “Like every other facet of travel, the cost of renting a car is on the rise. AAA estimates that during the most recent holiday season, weekend daily car rental rates were about \$63 dollars. That was 15% higher than in 2012.”
- “Despite the increase, savvy travelers are still finding deals. Here’s how to do it.”
- “Where you rent counts. Shop around before booking a car directly from a rental company’s website. Compare the prices you can find on a travel website, such as Priceline (you can pay a flat fee or bid on a car as you would a flight) or Orbitz. Then see whether your employer, credit card affiliation, insurance plan, or other membership offers a discount rental plan, and search online for coupons and discount codes.”
- “Avoid renting the car at the airport itself, where prices can run at least 20% higher than elsewhere and lines tend to be longest. You may come out ahead by taking a cab or shuttle to an offsite rental facility.”
- “If you use Priceline, check several rental sites for the going rate when you need a car—including all taxes and fees—and then bid 35% less, [consumer travel expert Rudy] Maxa recommends.”
- “Consider car-shares. If you only need a car for a short period—like a portion of a day—on a regular basis, it’s likely cheaper and easier to use a car-sharing service like ZipCar or Hertz 24/7, rather than a traditional rental. Such services usually charge a low monthly or annual fee and offer a specific number of miles per day (along with free gas and insurance). If you’re a member of such a service in one city, you can usually easily access its cars when traveling in another metro area.”

Additional research by Scott Martin, Steve Evans, Tina Strasser, Erica Franklin, Kevin Murphy and Cindy Elsberry

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