

ELITE RENT-A-CAR

Jordan Mitchell wrote this case under the supervision of Professor Greg Zaric solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

Ivey Management Services prohibits any form of reproduction, storage or transmittal without its written permission. Reproduction of this material is not covered under authorization by any reproduction rights organization. To order copies or request permission to reproduce materials, contact Ivey Publishing, Ivey Management Services, c/o Richard Ivey School of Business, The University of Western Ontario, London, Ontario, Canada, N6A 3K7; phone (519) 661-3208; fax (519) 661-3882; e-mail cases@ivey.uwo.ca.

Copyright © 2007, Ivey Management Services

Version: (A)2007-04-23

INTRODUCTION

In February 2006, Graziella Zanoletti, president and founder of Elite Rent-a-car (Elite) in Geneva, Switzerland was preparing for the hectic summer, a season that contributed to approximately 70 per cent of the company's annual revenues. As the premier luxury car rental agency in Europe with offices spread across 12 different continental cities, Elite offered 24-hour, seven-days-a-week service along with the following commitment to its clients: "We deliver the car you want, anywhere, anytime."

In fulfilling the commitment, Zanoletti had the challenge of planning the fleet. In her fleet decisions, she had to balance utilization versus the possibility of having to turn away clients if they demanded a specific car. One of the biggest difficulties in preparation for the summer was planning the number of cars in three categories: Sport & Convertible, Four-Wheel Drive, and the Exceptional category in the south of France, which included three offices (Cannes, St. Tropez and Nice). She commented:

This is not a business where we try to get 100 per cent utilization. We look for good utilization, but at a certain point we need to have the cars in the fleet that our customers demand. We need to take the best decisions to have an optimal mix of cars available.

For convertibles, we range between 50 to 70 per cent utilization by car. If we have 70 per cent on convertibles that means that we actually had the car almost fully utilized in the six months during the summer. When we take the convertibles on, we absolutely must rent those as much as we can during the summer. The first season it is just getting the costs back. It becomes profitable in the second season. For Four-Wheel Drive, we have a 40 to 55 per cent utilization and the financing is not as flexible — we usually have to lease Four-Wheel Drive vehicles for 18 to 24 months.

GRAZIELLA ZANOLETTI AND ELITE RENT-A-CAR

Born in 1949 in the small town of Magno, outside of Brescia, Italy, Zanoletti grew up amidst a family business that sold hunting weapons. After acting as the international sales representative for her family's business, she graduated from the University of Bologna and later worked at Club Med, teaching yoga and sailing. In 1985, she moved to Geneva, Switzerland and was hired on as the manager of a luxury rental car agency. Two years later, without any financial resources, she broke out on her own and established Elite Rent-a-Car with the vision that the relationship between car and driver transcended the merely physical — she believed there was a deep-seated metaphysical dimension. She commented: “if the relationship between the car and the driver is fully understood, the people that rent the cars will keep coming back over and over again.” Zanoletti's passion for understanding this relationship was a vital step in creating the company's slogan — “Emotions in Motion.”

During the 1990s, Elite started its expansion both geographically and into new services. Elite opened up three offices in different cities: Zürich, Montreux and Cannes between 1994 and 1995. It also launched Elite Limousine (a chauffeur service) in 1992, and Elite Yachting (a sailboat rental and chartering division) in 1998. Cementing its position as an integrated luxury rental agency, the company launched Elite Magazine in 1999 to talk about its new models and offer lifestyle tips. The company was then appointed as the official representative for Switzerland by the worldwide limousine service, Carey. Moving into the new millennium, the company continued its geographic enlargement: Paris, Moscow (as a sales office only), Milan, Rome, Porto Cervo, Monaco, St. Tropez, Nice, Munich, Gstaad and Sao Paulo (as a sales office only). As of early 2006, the company was planning offices in London and the south of Spain. Exhibit 1 shows a map of Elite's operations.

At the close of 2005, Elite's annual revenues were €10 million, up from €5 million in 2000. Elite's financial success had caused Zanoletti to create the “Elite Human Leverage” program aimed at providing assistance to those in need. Projects included supporting rehabilitating drug users in Vietnam and assisting women to achieve financial autonomy in Afghanistan through entrepreneurial textile activities. Zanoletti's leadership, coupled with the company's growth, garnered accolades from the Swiss business community including the “Swiss Business Woman of the Year” by champagne brand Veuve Clicquot (owned by the luxury holding group LVMH).

THE FLEET

Elite had seven categories of cars:

Category	Total number of models	Examples	Daily Rate Range
Exceptional	14 models	Porsche 911 Turbo, Ferrari 430 Monza, Bentley Continental, Aston Martin DB9, Lamborghini Gallardo	€1,000 to €3,000 Average: €1,350
Sport and Convertible	12 models	Mini Cooper cabriolet, Peugeot 307cc, Mercedes SLK 200, Porsche Boxster, BMW Z4 cabriolet	€200 to €800 Average: €400

Four-Wheel Drive	18 models	Jeep Grand Cherokee, VW Tourag V6, Hummer H2, Porsche Cayenne, BMW X3, Range Rover Vogue Supercharged	€470 to €1,200 Average: €550
Minivan	3 models	Peugeot 807, Mercedes Viano Ambiente.	€320 to €460 Average: €350
Luxury Automatic	8 models	Audi A8 quattro, BMW 760i, Maserati Auctroporte	€980 to €2,590 Average: €1,200
Executive Automatic	6 models	Mercedes C200, BMW 325i, Jaguar S Type.	€410 to €490 Average: €450
City Car Manual & Automatic	13 models	VW Golf, Mini Cooper automatic, Mercedes class A	€140 to €280 Average: €180

For each rental, 250 kilometers was included with the daily rate. Additional charges ranged from €0.40 to €0.123 per extra kilometer. See supplementary spreadsheet, product # 7B07E011A for a list of the fleet and rental rates for Exceptional, Sport & Convertible, and Four-Wheel Drive categories.

Throughout the year, Elite had a minimum of 280 cars in its fleet. According to Zanoletti, “280 cars would be about the minimum to meet demands.” In the busy summer months, Elite’s fleet took on 80 to 120 additional cars through leasing agreements to fulfill demand.

The decision to buy or lease a car was based on a combination of factors such as the desired flexibility for a particular model, the predicted ability to rent the model, the resale value, the competition of other luxury car rental agencies and the company’s cash position. Elite’s preference was to own cars in its fleet since it gave the company the flexibility to sell the cars later. As of the end of 2005, the company owned 90 cars and leased the rest. The cost of a new car ranged from €25,000 for a VW Golf to over €250,000 for a top-of-the-line Lamborghini. Having the ‘right’ mix of premium cars at maximum availability was a constant challenge. Zanoletti commented:

My first thought with the fleet is always: what kind of car do my customers want? To determine this, I look at all of the new models that are coming out and gauge initial reactions from people. From that, we decide on the models.

My second thought is how many cars to have. That’s a little bit harder to determine. We look at the previous year and our business is very seasonal especially in the South of France and Monaco.

Elite operated its owned fleet for a period of 18 months before putting the cars up for sale. The company wanted all automobiles in the fleet to have under 15,000 kilometers. The company had a dedicated manager in charge of instigating and negotiating the sale of automobiles to dealers or private individuals. While the sale price varied by car, it was estimated that cars lost between one and two per cent of their value per month (see below for an explanation of the car’s amortization cost). As Zanoletti said: “We are taking a risk the longer we have the cars.”

The rest of the cars were leased or rented from other agencies on a short-term basis. The minimum time on a regular lease was 18 to 24 months. Typical leasing arrangements cost between €300 and €2,000 per month. For example, the average amount of leasing costs for Sport & Convertible was €450 per month, the

average leasing costs for Four-Wheel Drive was €600 per month and the average leasing costs for Exceptional cars was €2,000 per month.

For short-term leases (defined by a lease period of less than 12 months), the cost was approximately €1,000 per month for Sport & Convertibles and Four-Wheel Drive. Exceptional cars were rarely available for short-term rentals, but averaged approximately €3,000 per month for four months. While Elite only needed the cars for the busy six-month period, most companies renting to Elite required that Elite agree to a nine month or 12-month period as they did not want to receive the car back at the start of winter.

Basic insurance rates (excluding collision) varied drastically based on the type of car. The average monthly insurance was: €150 per month for Sport & Convertibles, €200 per month for Four-Wheel Drives and €400 per month for Exceptional cars. While third-party insurance was mandatory, collision was optional. One of the most difficult questions was choosing which cars should be protected against collision. Zanoletti talked about the challenge:

Insurance is quite expensive and, initially, it was a challenge finding insurance companies willing to take on our risk profile. However, we now have a long experience and we've actually become a good risk. One of the big questions we have is which cars to put the insurance on. We usually take the most expensive car or the cars in the Exceptional fleet such as the Ferrari or Lamborghini which have the highest chances of hitting someone.

If a car was not leased, it was purchased. Under these circumstances, Elite treated the fixed cost as amortization. Amortization was calculated by reducing each owned car by one to two per cent per month on the declining value of the car. Each vehicle had an average cost of €40,000 for Sports & Convertible, €60,000 for Four-Wheel Drive and €200,000 for Exceptional.

Routine maintenance and cleaning were accounted for as variable costs and were approximately €30 per car per month regardless of whether they were leased or owned. Other operating costs such as fuel, repairs and transportation between Elite's offices were covered by the customer. In some circumstances, Elite covered the cost of transporting vehicles between offices if the customer wanted to rent the car for a month or more. Due to European Union (EU) tax rules, all cars that moved between non-EU countries like Switzerland and EU countries were subject to a value-added tax (VAT) at the time of entry into the EU country. VAT could be claimed back as long as the car re-entered its country of registration within three months.

All other costs were classified as overhead and included sales and marketing, salaries and wages, and other administrative expenses.

PLANNING IN SOUTHERN FRANCE

In planning for the 2006 summer, Zanoletti and the rest of her team needed to decide on the number of vehicles in the Sport & Convertible, Four-Wheel Drive, and Exceptional categories for the three agencies serving the south of France. Elite could either buy, lease or engage in a long-term rental. Zanoletti had apportioned a budget of €2,000,000 for purchasing vehicles in the two categories. Approximately 80 per cent of the cash for purchasing new vehicles was generated from selling off the owned cars in the fleet that were over 18 months old.

In her considerations, Zanoletti and her team looked at the data (see supplementary spreadsheet, product # 7B07E011B) for rentals during the previous summer in the south of France. Zanoletti always had a watchful eye on the competition (there were two other prominent luxury rental car agencies in the area) and wanted to ensure that her decisions would reinforce Elite's promise: "We deliver the car you want, anywhere, anytime."

INSPECTION COPY
Not For Reproduction

Exhibit 1

MAP OF ELITE'S OPERATIONS



Note: The offices in Brazil and Russia do not have rental cars on property. They serve as sales offices for the mainland European rental agencies.

Source: Company documents with case writer additions.