



**CIMA<sup>®</sup>**

## Operational Case Study Examination

**May / August 2021**

**Pre-seen material**

### **COVID-19 Statement**

*This pre-seen and the case study in general (while aiming to reflect real life), are set in a context where the COVID-19 pandemic has not had an impact.*

*Remember, marks in the exam will be awarded for valid arguments that are relevant to the question asked. Answers that make relevant references to the pandemic or social distancing will, of course, be marked on their merits. In most cases, however, candidates may find it helpful to assume that there are no restrictions to the movement of people, goods or services in place.*



# Accelerate

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## Job and role outline

You are a Finance Officer for Acellerate, a car rental company. Your main role is to support Ethan Tennant, the Finance Manager. Your tasks include preparation of the annual budget, producing the monthly management accounts and providing information to management as required. You also assist with the preparation of the financial statements and deal with any queries regarding financial reporting.



## Company information

### Company background

The company, Acellerate, is a leading car rental company based in Everland, in Western Europe. Everland has a population of around 72 million and has the E\$ as its home currency. In the financial year to 31 December 2020 the company reported sales revenue of E\$206.3 million, a decrease of 25% from the previous year. It incurred a loss before tax of E\$0.8 million compared to a profit before tax for 2019 of E\$11 million. The reduction in revenue and the pre-tax loss arose as a result of a global economic recession which impacted the business throughout most of 2020.

The company was formed in 2002 by Joseph Waller, the current Managing Director. The company's development was initially slow as it faced severe competition from global car rental brands, however between 2010 and 2019 it grew rapidly, exploiting its home-grown credentials and commitment to quality customer service.

The company, operating under the Acellerate brand, provides a high-quality car rental service. Rental fees are generally above those of value-branded car rental companies. It mainly services the business and premium leisure segments of the travel industry.

The company operates a number of sales locations throughout Everland. The sales locations are situated at, or close to, airports and in some off-airport sites. Each sales location is supported by a car maintenance centre which is located close to the sales location. A single maintenance centre may support more than one sales location. Some of the sales locations and maintenance centre properties are owned by the company whilst others are leased.

In response to the reduced demand, and in an effort to lower costs, the number of sales locations was cut in 2020 from 155 to 117. The main closures were in off-airport sites. Acellerate however continues to operate car rental sales locations at most of the airports and largest cities in Everland. Maintenance centres were also closed in 2020 where the sales locations that they supported were closed or where it was decided that the maintenance work could be carried out at another centre.

The company's rental fleet consists of a mixture of company-owned cars and cars subject to repurchase agreements (see the extract from the notes to the financial statements on page 20). Under a repurchase agreement, the manufacturers agree to repurchase the car at a specified price subject to car condition, mileage and holding period requirements. Typically, the holding period for a car is 12 months.

The fleet was reduced during 2020 by a mixture of disposals and non-replacement when the car repurchase agreement expired. It currently has a fleet of 15,000 cars down 4,995 from the previous year. In normal trading conditions, the size of the fleet will vary throughout the year depending on the season. The demand for car rental is at its highest during the summer months.

The actions taken by the company in 2020, such as reducing the fleet size and closing some sales locations and maintenance centres, have proved to be effective in enabling the company to survive the worst effect of the recession. In addition, the failure of some companies operating in the market has provided opportunities for Acellerate. Financial performance for the first quarter of 2021 was in line with budget and the Senior Management Team believes that the company is now in a solid position for future development.



## Company services

The company provides car rental services throughout Everland. Customers normally rent a car for 1 day or for a period of up to 1 month. The average daily fee for the car rental varies depending on the length of the rental period and the size and type of car hired.

The company's rental fleet includes a wide variety of types of cars in different sizes from a range of manufacturers. The fleet includes cars with manual and automatic transmission. The fleet cars are mainly diesel and petrol powered but there are also a small number of electric cars. Additionally, it includes a number of "Prestige" cars which are expected to appeal to the business market or to leisure customers who are looking for a bit of indulgence on their vacation. The average monthly car rental fleet size typically peaks in the summer months.

The car rental fee includes basic insurance. The car will have a full tank of fuel on collection and customers are expected to return the car with a full tank. In the event that the car is returned without a full tank, the customer will be charged for the shortfall.

Customers can book the car rental online direct via the company's website or app. Alternatively, the customer can book at the sales location on arrival. Such customers run the risk, especially at busy times, that the sales location will have no cars available of the size and type required.

In addition, car rental can be booked via third parties, including hotels, airlines and other third-party brokers. Acellerate pays a commission on all rentals booked through third parties.

### Additional rental services

**Long-term car rental:** The company offers long-term car hire of periods between 1 month and 3 months. The rental is charged at a fixed fee per month and includes an enhanced level of insurance cover and free additional drivers. There is a restriction on total mileage with an additional fee payable for extra mileage.

**Deliver and collect:** On payment of an additional fee, the rental car will be delivered at the start of the rental period and collected at the end of the rental period from the customer's home or place of work.

**One-way rental:** This service allows customers to collect the car from one sales location and return it to another location on payment of an additional fee.

### Ancillary products and services

In addition to revenue generated from the car rentals and the additional services detailed above, the company generates revenue from customers through the sales and/or rental of optional ancillary products and services including:

- Collision and loss damage waivers, under which Acellerate agrees to relieve a customer from financial responsibility arising from car damage incurred during the rental.
- Additional / supplementary liability insurance or personal accident / effects insurance products which provide customers with additional protection for personal or third-party losses incurred.
- Products for driving convenience such as roadside assistance services, portable navigation units and child safety seats.



## Company strategy

The company aims to grow the business through both the development of new markets and expansion of its range of services.

The main objective is to continue to improve margins by utilising digital technologies to:

- improve asset utilisation;
- improve methods for car disposal using online, direct to consumer and direct to dealer channels;
- achieve fleet cost efficiencies through fleet planning initiatives;
- control costs and increase efficiencies through process improvements.

## The people

The company currently employs 885 staff. Most of the staff are employed at the sales locations and maintenance centres (751) and the remainder at Head Office (134).

## The directors

The company directors are as follows:

Managing Director: Joseph Waller  
Finance Director: Megan Dubois  
IT Director: Gavin Hoffman  
Marketing Director: Jessica Strauss  
Retail Operations Director: Jack Durand  
Human Resources Director: Ben Spiegel

The directors have a wide range of previous experience, mainly in the car rental industry. They are relatively young and highly enthusiastic.



## Directors' profiles



### Managing Director: Joseph Waller

Joseph is responsible for the company's strategy. He worked for a competitor company before founding Acellerate in 2002. Joseph is keen to continue to expand the business through the exploitation of digital technologies. He wants to ensure that an appropriate infrastructure is in place to support future expansion.



### Finance Director: Megan Dubois

Megan is a CIMA qualified accountant. Megan was appointed as Finance Director last year and has quickly earned a reputation for keeping a tight rein on the company's finances. She is interested in exploring the use of digital technology to make the finance processes more efficient.



### IT Director: Gavin Hoffman

Gavin graduated with a masters degree in Computer Science from Everland University. He has been pivotal in the development of the company's fleet management system which is seen as ground-breaking in its use of digital technology.



### Marketing Director: Jessica Strauss

Jessica joined the company in 2010 after previously working as a marketing executive for a retailing company. She is keen to exploit social media marketing both to gain market intelligence and to promote the brand.



### Retail Operations Director: Jack Durand

Jack graduated from Everland University with a masters degree in Sales Management. Jack works closely with Jessica and is keen to further expand the company's services. He is constantly looking at potential new opportunities to meet customer needs.

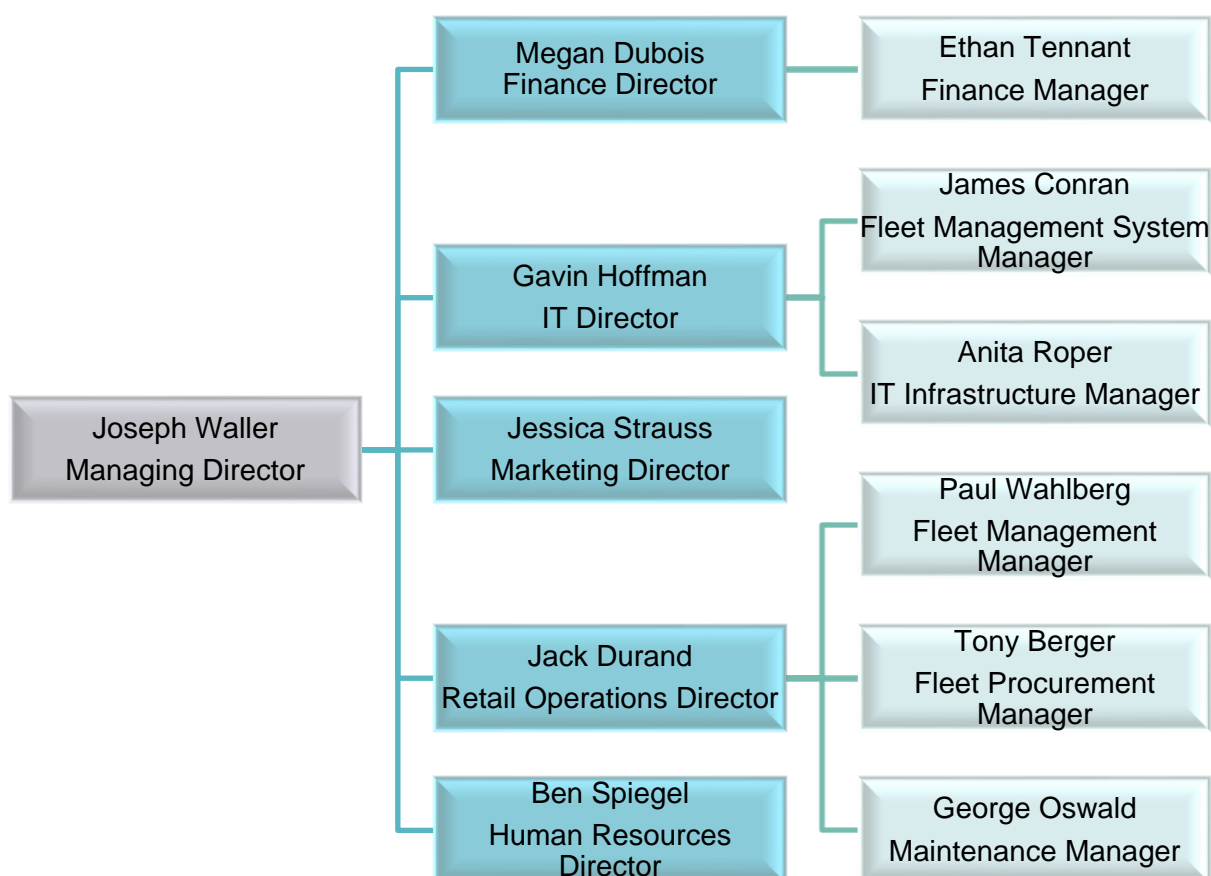


### Human Resources Director: Ben Spiegel

Ben has a wealth of experience in Human Resources Management. He believes that the company's employees are its most important asset and that employee development is the key to the company's success.

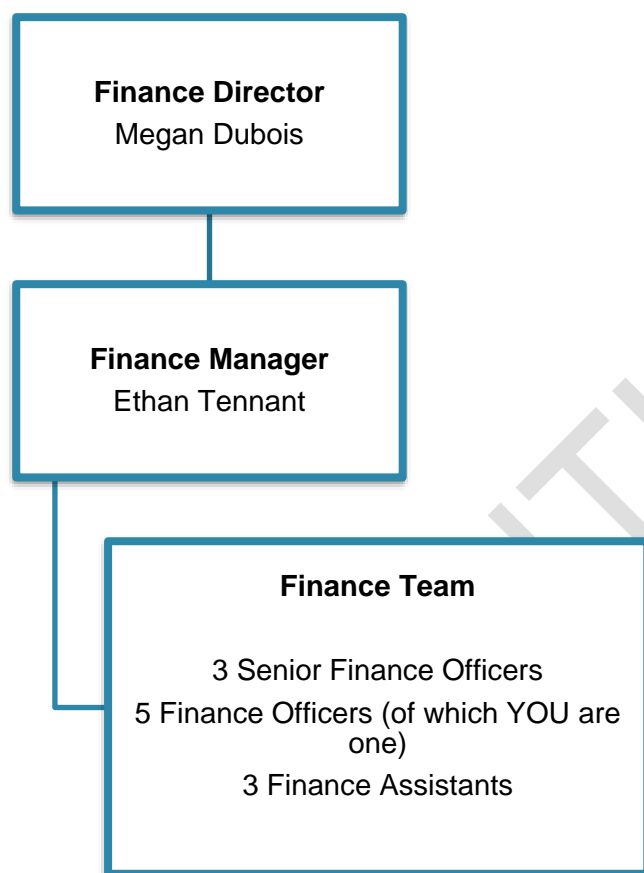


## Extract from Acellerate's organisation chart





## The Finance Department







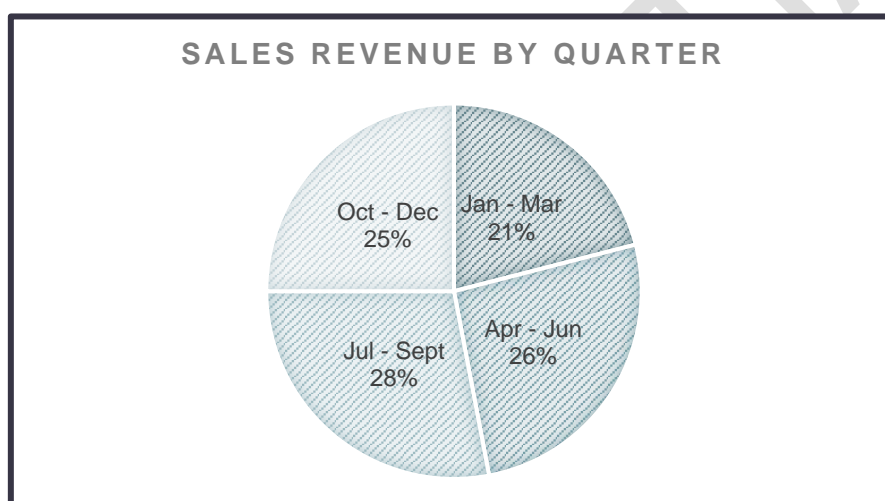
## Company operations

### Sales

The company operates a number of sales locations throughout Everland. The sales locations are either on-airport – situated at or close to airports, or off-airport – situated in areas such as train stations or city centres. Some of the properties are owned by the company but many of them are leased.

Revenue by customer for 2020 was split 49% business and 51% leisure whilst revenue by market was split 68% on-airport and 32% off-airport.

Sales revenue is subject to seasonal variations in customer demand patterns, with the spring and summer vacation periods representing the company's peak seasons. The fleet size is adjusted over the course of the year to help manage these seasonal variations. Any localised changes in demand are managed through moving cars to different locations where necessary.



The average daily car rental fee varies depending on the length of the rental period and the size and type of car hired. The rental fee per day reduces as the length of the rental period increases. However, there is a cost advantage to longer rental periods since many of the costs are incurred at the end of each rental period, e.g. maintenance and cleaning costs. The company's rental income management system (see below) is fundamental to ensuring that prices are competitive. The average rental period is 6.3 days. This varies by customer type with the average period for leisure customers being longer than that for business customers.

Rental fees are normally paid in advance however the company also provides credit facilities to a number of businesses which regularly rent cars for staff and visitors.

The employees at the sales locations are empowered to resolve most customer issues and receive appropriate training to enable this to happen. Customer satisfaction levels are tracked by sending location-specific surveys to recent customers. These are used to assess services and identify ways to improve the customer service delivery and the overall customer experience.



## Maintenance

The quality of the maintenance process is considered to be of vital importance as it is fundamental to customer safety and customer satisfaction. Quick and proper repairs are also critical to ensure fleet utilisation rates are kept as high as possible. To ensure this, the maintenance centres hold inventory of consumables and spare parts.

There are four main occasions when the car is checked by the mechanics in the maintenance centres:

- Checks are carried out when the new car is first delivered by the dealer, this is known as an initial car inspection. Although the dealer will have checked the car prior to delivery, checks are also done by the company's mechanics. The exterior of the car is checked for any scratches and the interior is checked for any tears or other damage. Checks are carried out on fuel, oil, fluids, mirrors, sound system, air conditioner, windscreen wipers, heater, horn, doors and windows.
- Checks are also carried out when the car is returned by the customer after a rental. The customer is asked when returning the car to report any damage or problems. If a car comes back from a rental with a defect noted, the car is given a quality control inspection before the defect is repaired. In this way, mechanics hope to catch other items in need of repair. In addition to all items previously checked in the initial car inspection check, the quality control inspection includes steering and all mechanical items and checks to the tyres, including the spare tyre.



Photo by Tim Mossholder on Unsplash

- Regular servicing is carried out in line with the manufacturers' recommendations under the warranty requirements. The company's maintenance centres have also been approved by the main car manufacturers to carry out rectification work under warranty.
- Accident repairs are carried out by third-party suppliers. When the suppliers complete the body repairs, each car is inspected by an Acellerate mechanic before payment is made.



## Fleet management system and fleet purchases and disposals

### Fleet management system

The company uses a range of technologies in its car rental operation, all of which are linked to its fleet management system. The fleet management system is a national reservation, rental, fleet control, data processing and information management system. The fleet management system allows thousands of customer enquiries to be processed each day. It provides customers with accurate and timely information about the company's locations, rental rates and car availability, as well as enabling the customer to place or modify reservations. The company also uses data supplied from the fleet management system and other information management systems to maintain centralised control of major business processes such as pricing, fleet acquisition and logistics.

The fleet management system incorporates two main components:

- The fleet planning model is a comprehensive decision tool which enables the company to develop plans for the acquisition and disposal of its fleet. The fleet planning model provides details on fleet age, mix, mileage and cost reports. This allows management to monitor and change fleet deployment and to optimise its fleet plan based on estimated business levels and available repurchase programmes.
- The rental income management system is designed to enhance profitability by providing greater control of car availability, car movements and pricing. The system monitors and forecasts both car supply and customer demand to support the company's strategy to optimise utilisation rates at each location. The company also utilises systems to gather and report competitive industry rental rates every day using data from third-party reservation systems, which automatically scan rate movements and report significant changes.

### Fleet purchases and disposals

In 2020, approximately 45% of the company's rental car fleet was comprised of cars subject to agreements requiring car manufacturers to repurchase cars at a specified price. Cars subject to these agreements are referred to as "programme" cars. The remaining 55% of the fleet are cars not subject to these agreements and referred to as "risk" cars because the company retains the risk associated with the residual value of these cars at the time of their disposal. The fleet purchases are financed using different types of borrowing from major financial institutions. At present, none of the fleet is leased.

The agreement with car manufacturers typically requires the company to pay more for programme cars and retain them in its fleet for a minimum number of months. It imposes certain return conditions, including car condition and mileage restrictions. When the programme cars are returned to the manufacturer, the company receives the price guaranteed at the time of purchase and is therefore protected from fluctuations in the prices of previously owned cars in the wholesale market.

The company disposes of its risk cars largely through car auctions and direct-to-dealer sales. In 2020, it continued to expand the scope of its direct-to-consumer car sales programme to include the sale of risk cars directly to consumers through company-owned second-hand car retail sites in several Everland cities. Direct-to-consumer sales and alternative disposal channels such as online auctions provide the opportunity to maximise car sale prices.



## Marketing

Marketing is the responsibility of the company's Marketing Department which employs a range of marketing methods including more traditional marketing media, such as TV and magazines, and social media marketing. The marketing department's main activities are: market research; promoting and advertising the Acellerate brand; raising brand awareness and helping to determine pricing strategies.

The company's website and app are considered important marketing tools and represent its main sales channels. The website and app have been continually developed to ensure visitors are engaging with the content. Both can be accessed in all major European languages. Website and app pages are informative, clear and easily navigated.

The website and app employ data analytics to enable the company to source sales data but also other metrics such as: number of visits; average time on page and "bounce rate" which measures the percentage of visitors accessing the website and leaving without visiting another page. The data analytics also captures data about the customer, such as the customer's home address, age and the reason for the car rental. This data analytics is considered an important source of information to help determine customer preferences and the sales potential of the company's products.

In addition to the data collected from the website and app, an email is sent to customers at the end of each rental period requesting them to complete a survey about their rental experience.

## IT

The company makes extensive use of digital technology both to manage its fleet of rental cars and to improve the service offered to its customers.

The recently launched Acellerate mobile app allows customers to reserve, update and cancel reservations, choose their car, exchange or upgrade their car, add ancillary products, extend rentals, return the car with one click and confirm their fuel level at the beginning and end of their rental, using their mobile device.

The company's recently installed rental income management system includes pricing analytics tools to enable it to increase the profits earned per rental day. It plans to continue deploying new technology systems to support management decisions and to enable it to tailor products, services and price offerings to meet customers' needs and react quickly to shifting market conditions.

## Finance

The financial information system produces monthly management accounts and annual financial statements. This information system also generates daily and weekly sales revenue and fleet operating cost information.

Budgets are produced on an annual basis. Daily rental fees and operating costs are reviewed as part of the budgeting process and other information to formulate the budgets is obtained from the fleet management system. Individual functional managers have responsibility for setting and achieving budgets. Monthly reporting on actual performance compared to budget is to both the functional managers and the Senior Management Team.



## Human resources

The company believes that its employees are fundamental to its success. It is committed to maintaining a professional and supportive workplace. It seeks to support the well-being and growth of its employees by offering development opportunities and training.

The company operates an apprenticeship programme for its maintenance technicians and provides specialised training for staff at different stages of their development. A customer service training programme is also available for customer-facing staff to continually improve the overall customer experience.

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## Industry analysis

The European car rental industry is fragmented with approximately 65% of the market share being held by five major companies which operate in company-owned or franchised locations throughout the world. The remaining share is held by regional and national companies.

The major companies operate in the market under multiple brands aimed at different target market segments. Other smaller companies will generally operate under a single brand name aimed at one of the market segments.

There are three main types of brands on the market:

- Premium brands: These brands provide high-quality car rental and other mobility solutions at price points generally above value-branded car rental companies. They serve the premium business and leisure segments of the travel industry. They tend to offer more additional service options than lower prices brands and their range of cars will be more extensive particularly at the prestige end of the market.
- Middle segment or value brands: These brands are aimed at the value-conscious consumer. Prices are lower than those of the premium brands, but the level of service and resultant customer satisfaction levels are similar. There tends to be fewer options available in terms of the type of car and the ancillary services offered.
- Low cost or deep-value brands: These brands are aimed at the cost-conscious consumer. Prices are lower than those of the value brands but the services on offer are at a basic level. Customers are likely to be required to pay a relatively high deposit as a guarantee against damage to the car. The business model used by these brands allows companies operating with multiple brands to extend the life-cycle of a portion of their fleet, as they “cascade” cars that exceed certain premium or value-brand age or mileage thresholds to be used by the low cost brands.

The industry, in common with other industries, has suffered a severe setback as a result of the recent global economic recession. Prior to 2020, market experts were predicting an average growth in sales revenue of around 7.5% over the next 5 years, however it is now predicted that the industry will not return to 2019 levels until 2025 and that some car rental companies will not survive.

The car rental sector has gone through some significant changes as a result of the internet and e-commerce:

- Online brokers and travel agents/intermediaries have grown in importance as a distribution channel. Online websites serve as intermediaries between the client and the operator. This is a highly competitive segment where price is the main decision factor. Sales through brokers and intermediaries offer lower margins compared to direct sales due to lower prices and commissions.
- The growth of the value segment, particularly in major tourist markets, e.g. in Southern Europe. Online brokers have facilitated this change allowing small players with a limited, local physical presence to reach a global clientele. A major consequence of this growth is that prices have come under significant pressure.
- Car rental companies have taken advantage of the opportunities provided by technological innovations to simplify the customer experience. This has included self-service kiosks, online check-in and automatic rental pick-ups, all of which makes the rental process quicker and smoother. The issue for the car rental industry is that there are two very distinct customer groups that have very different expectations. Business customers, who are often frequent renters, appreciate automatic rental pick-ups, loyalty points and a global network and are willing to pay for this as a value-adding



service. The leisure segment however is price driven and may be unwilling to pay for these new services as the perceived value added is negligible.

- In the last few years, a number of new services, including car-sharing services, car-club schemes and car-subscription services have come to market, driven by the overall mobility trend.

The next few years is likely to see the industry focus on two main themes which are linked with the increase in demand for more mobility and flexibility: Cars-as-a-Service (CaaS) and connected car technology.

- CaaS offers potential for new business channels including car-sharing services, car-club schemes and car-subscription services (see internet article on page 29).
- Connected technology (see internet article on page 30) allows companies clear insight into how many cars they have available, where they are and the car status. All of this facilitates asset management. Added to this, the use of predictive analytics technology which predicts the likelihood of outcomes based on past data, will minimise the likelihood of car mechanical failures. Connected-car technology also offers the potential for new business models and will provide significant marketing opportunities for the industry.

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Extract from the company website: [Acellerate.com](https://www.acellerate.com)

## The car rental process

### Finding our sales counter

If you're picking up a hire car from an airport or railway station, the rental counter might be in the terminal or in a nearby car rental centre. In some locations you will be directed to a free shuttle bus for transfer to the car rental centre.

### What you will need to pick up the car



If you have already made a reservation online, you will need a copy of the car rental voucher or the rental reservation number. If you haven't made a reservation, our staff will ask you to complete a reservation form. In either case, you will also need your driving licence, proof of identity (ID card or passport) and a credit card in the main driver's name, in order to pick your car up.

### Extras

The counter staff will offer you optional extra insurance which will reduce your excess in the event of a claim or avoid the need to leave a security deposit. It's entirely your choice whether to buy additional insurance or not. It is not a legal requirement. You will also be offered other ancillary products such as additional drivers, child seats or a satnav/GPS device.

### Payment

You will pay for the car if you haven't pre-booked, and pay for any extras you've requested or want to add to your rental. The counter staff will also pre-authorise a security deposit on your card, to cover costs if the car gets damaged during your rental.





## Signing the rental agreement and getting the key



Photo by Cytonn Photography on Unsplash

Don't feel rushed into signing the rental agreement: give it a good read-through first. Keep the documents safe: you may need to check something during your rental or need to call the counter or roadside assistance.

Once you've signed the agreement, the counter staff will give you the key to your hire car and tell you where to find it.

Take a good look over the car. If you find any issues with it, ask our staff to record the damage before you leave the car park.



## Extract from Acellerate's 2020 Financial Statements

### Statement of profit or loss for the year ended 31 December

	2020 E\$000	2019 E\$000
<b>Revenue</b>	<b>206,278</b>	<b>275,037</b>
<b>Operating expenses:</b>		
Fleet operating costs	(122,853)	(163,806)
Personnel costs	(40,400)	(47,529)
Network and Head Office costs	(18,631)	(21,919)
Non-car related depreciation and amortisation	(11,721)	(13,790)
<b>Operating profit</b>	<b>12,673</b>	<b>27,993</b>
Finance charges	(13,496)	(17,008)
<b>(Loss) / profit before tax</b>	<b>(823)</b>	<b>10,985</b>
Taxation	227	(1,810)
<b>(Loss) / profit for the year</b>	<b>(596)</b>	<b>9,175</b>



## Statement of financial position as at 31 December

	2020 E\$000	2019 E\$000
<b><u>Non-current assets</u></b>		
Property, plant and equipment	12,488	15,611
Right-of-use assets	23,911	31,559
Intangible assets	8,451	10,564
	<b>44,850</b>	<b>57,734</b>
<b><u>Current assets</u></b>		
Inventory	2,018	2,690
Rental fleet	219,093	292,123
Rental fleet related receivables	65,958	87,944
Trade and other receivables	36,615	48,820
Cash and cash equivalents	43,921	58,562
	<b>367,605</b>	<b>490,139</b>
<b><u>Total assets</u></b>	<b>412,455</b>	<b>547,873</b>
<b><u>Equity and liabilities</u></b>		
Share capital	910	910
Share premium	4,737	4,737
Retained earnings	15,043	15,639
<b>Total equity</b>	<b>20,690</b>	<b>21,286</b>
<b><u>Non-current liabilities</u></b>		
Borrowings	100,271	133,696
Lease liabilities	11,546	15,395
	<b>111,817</b>	<b>149,091</b>
<b><u>Current liabilities</u></b>		
Trade and other payables	42,922	59,650
Rental fleet related payables	55,496	73,995
Borrowings	173,922	231,897
Lease liabilities	7,608	10,144
Tax payable	0	1,810
	<b>279,948</b>	<b>377,496</b>
<b><u>Total equity and liabilities</u></b>	<b>412,455</b>	<b>547,873</b>



## Extract from the notes to the financial statements

### NOTE 4:

#### (a) Rental fleet recorded in the statement of financial position

The company operates a large fleet which is either acquired with, or without, a repurchase agreement with the manufacturer or the dealer. The accounting treatment is detailed below:

##### (i) Cars acquired with a repurchase agreement ("programme" cars)

These cars are acquired under contracts with a clause requiring repurchase by the manufacturer or the dealer after a predetermined period and generally less than 12 months.

The asset is recorded at the acquisition cost of the cars (net of volume rebates) in the statement of financial position. The cost of the asset less the contractual repurchase price, is depreciated through the statement of profit or loss on a straight-line basis over the contractual holding period of the car. Given the duration of these assets, the company recognises these cars as current assets under "Rental fleet" at the start of the contract.

##### (ii) Cars acquired without a repurchase agreement ("at risk" cars)

The so-called "at risk" cars are cars acquired without a clause requiring repurchase by the car manufacturer or car dealer, and the risk of residual value is therefore borne by the company. The cars are initially valued at cost and depreciated on a straight-line basis, net of their projected residual value, over the planned holding period. The residual value of the cars is regularly examined during the holding period in light of second-hand market conditions and adjusted if necessary.

In most cases, the holding period of a car does not exceed 12 months. Consequently, although "at risk" cars are in the nature of tangible non-current assets, the company classifies these cars on the statement of financial position in current assets under "Rental fleet".

#### (b) Rental fleet related receivables and payables recorded in the statement of financial position

Rental fleet related receivables are amounts due from car manufacturers or dealers after cars purchased with a repurchase clause have been returned to the car manufacturer at the end of the holding period.

Rental fleet related payables are amounts due to car manufacturers or dealers.



## Statement of cash flows for the year ended 31 December

	2020 E\$000
<b>Cash flows from operating activities</b>	
Loss before tax	(823)
Depreciation of property, plant and equipment	1,677
Depreciation of right-of-use assets	7,648
Amortisation of intangibles	2,113
Loss on disposal of property, plant and equipment	196
Net finance costs	13,496
Decrease in inventory	672
Decrease in trade and other receivables	12,205
Decrease in rental fleet receivables	21,986
Decrease in rental fleet	73,030
Decrease in rental fleet related payables	(18,499)
Decrease in trade and other payables	(16,728)
Cash generated from operations	96,973
Tax paid	(1,583)
Interest paid	(13,496)
<b>Net cash generated from operating activities</b>	<b>81,894</b>
<b>Cash flows from investing activities</b>	
Proceeds on disposal of property, plant and equipment	1,250
<b>Net cash used in investing activities</b>	<b>1,250</b>
<b>Cash flows from financing activities</b>	
Decrease in borrowings	(91,400)
Payment of capital element of lease liability	(6,385)
<b>Net cash used in financing activities</b>	<b>(97,785)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(14,641)</b>
Cash and cash equivalents at beginning of the year	58,562
<b>Cash and cash equivalents at the end of the year</b>	<b>43,921</b>



## Budget and costing information

### Budget for the year to 31 December 2021

Total company budgeted revenue and operating profit:

	Car rental	Ancillary products	Total
	E\$000	E\$000	E\$000
Sales revenue	175,565	13,185	188,750
Fleet operating costs	98,588	7,118	105,706
Fleet operating profit	76,977	6,067	83,044
Personnel costs			34,340
Network and Head Office costs*			16,768
Non-fleet related depreciation and amortisation			10,549
Operating profit			21,387
Operating profit margin			11.3%

\* Network and Head Office costs include the operating costs of the sales locations, IT and telecommunication costs, operating costs of the Head Office and sales and marketing costs.



### Detailed budget for car rental:

	Small	Medium	Large / SUV	Prestige	Total
Number of cars	2,800	7,800	3,200	1,200	15,000
Available days per year	1,022,000	2,847,000	1,168,000	438,000	5,475,000
Rental days per year	664,300	1,850,550	759,200	284,700	3,558,750
Fleet utilisation rate*	65%	65%	65%	65%	65%
	E\$	E\$	E\$	E\$	
Average per car:					
Revenue per rental day	32	44	60	96	
Revenue per year	7,592	10,439	14,235	22,776	
Operating costs	4,720	5,780	8,360	11,280	
Operating profit	2,872	4,659	5,875	11,496	
	E\$000	E\$000	E\$000	E\$000	E\$000
Total fleet:					
Revenue	21,258	81,424	45,552	27,331	175,565
Fleet operating costs	13,216	45,084	26,752	13,536	98,588
Fleet operating profit	8,042	36,340	18,800	13,795	76,977
Operating profit margin	37.8%	44.6%	41.3%	50.5%	43.8%

\* Fleet utilisation rate is calculated as the number of rental days per year divided by the number of available days per year.



### Budgeted average fleet operating costs per car:

	Small	Medium	Large / SUV	Prestige
	E\$	E\$	E\$	E\$
Depreciation	2,250	3,000	4,500	6,750
Acquisition and disposal	190	250	340	380
Cleaning and other costs	800	850	950	1,100
Repairs and maintenance	720	780	1,120	1,330
Commission	350	400	700	800
Insurance	260	320	520	660
Road tax	150	180	230	260
<b>Total fleet operating costs per car</b>	<b>4,720</b>	<b>5,780</b>	<b>8,360</b>	<b>11,280</b>

### Notes:

- The average fleet operating cost is based on an assumed average utilisation rate, number of rental periods and kilometres travelled.
- Direct costs for each range of cars include depreciation, acquisition and disposal costs, commission, insurance, road tax, parts and consumables.
- Indirect costs are apportioned to each range based on the number of cars.





## Costing information

### Fleet operating costs

#### Direct fleet operating costs

Direct fleet operating costs consists of the following costs:

- Depreciation
- Acquisition and disposal costs
- Car insurance
- Car tax
- Parts and consumables
- Commission

After assumptions about utilisation rates, number of rentals and kilometres travelled, the total direct fleet operating costs are assumed to vary with the number of cars.

#### Indirect fleet operating costs

Maintenance and repairs: the costs of maintenance and repairs include parts and consumables which are direct costs and will vary directly with the number of cars. The remaining maintenance and repair costs including depreciation of maintenance centre machinery and lease costs of premises are fixed costs. These costs are apportioned to each range of car based on the number of cars.

The capacity of the maintenance centres is fixed in the short-term. The demand on the capacity will mainly be dependent on the number of rental periods since each car is inspected and any repairs carried out after each rental period.

Cleaning: cleaning costs also include parts and consumables which are direct costs and will vary directly with the number of cars. The remaining cleaning costs, including depreciation of machinery and lease costs of premises, are fixed costs. These costs are apportioned to each range of car based on the number of cars.

The capacity of the cleaning operation is fixed in the short-term. The demand on the capacity will mainly be dependent on the number of rental periods since each car is cleaned after each rental period.



## Profit by sales location

The company determines the operating profit by individual sales location.

Each sales location has an allocated fleet of cars. The allocated fleet changes on occasions when a car is transferred to another sales location to meet fluctuations in demand or as a result of a one way rental.

**Revenue:** the revenue for each sales location is based on the actual revenue achieved from car rentals starting from that location.

**Fleet operating costs:** fleet operating costs are charged out to sales locations based on the budgeted average fleet operating cost per car for the allocated fleet.

**Non-fleet operating costs:** the non-fleet operating costs are specific to each location and include staff salaries, lease cost of premises, telecommunication costs and any specific marketing costs.

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Accelerate key performance indicators				
	Budget 2021	Actual 2020	Actual 2019	Actual 2018
<b>Total sales revenue (E\$000)</b>	188,750	206,278	275,037	262,149
<b>Operating profit (E\$000)</b>	21,387	12,673	27,993	24,235
<b>Operating profit margin</b>	11.3%	6.1%	10.2%	9.2%
<b>Average number of locations</b>	117	136	155	145
<b>Average fleet size</b>	15,000	17,754	19,995	18,250
<b>Number of available days</b>	5,475,000	6,480,210	7,298,175	6,661,250
<b>Number of rental days</b>	3,558,750	3,888,126	5,181,704	4,796,100
<b>Fleet utilisation rate</b>	65%	60%	71%	72%
<b>Total car rental revenue (E\$000)</b>	175,565	191,938	254,990	245,320
<b>Average per car:</b>				
<b>Revenue per year (E\$)</b>	11,704	10,811	12,753	13,442
<b>Revenue per available day (E\$)</b>	32.07	29.62	34.94	36.83
<b>Revenue per rental day (E\$)</b>	49.33	49.37	49.21	51.15



## The tax regime in Everland

### Corporate profits:

- The corporate tax rate applicable to taxable profits is 20%.
- The value added tax (VAT) rate is 20%. The sales revenue threshold for VAT registration is E\$150,000.
- Unless otherwise stated below, accounting rules on recognition and measurement are followed for tax purposes.
- The following expenses are not allowable for tax purposes:
  - accounting depreciation;
  - amortisation;
  - entertaining expenditure;
  - donations to political parties; and
  - taxes paid to other public bodies.
- Tax depreciation allowances are available on items of plant and machinery (including cars used for business purposes) at a rate of 25% per year on a reducing balance basis. A full year's allowance is available in the year of purchase.
- Tax losses can be carried forward to offset against future taxable profits from the same business.



## Recent internet articles

# To own or not to own

30 April 2021

Michelle Dolan



The car industry has experienced an evolution fuelled by technological innovation and driven by changing consumer behaviour. There has been a major shift from car ownership to car "usership". This "Car-as-a-Service" or CaaS model includes concepts such as ride sharing, car sharing and car-club membership schemes.

One of the earliest concepts in the CaaS model was the car-subscription service which allows customers to outsource the ownership and entire management of their cars: from procuring it, to maintaining and remarketing it. So, for the payment of a monthly fee you can access a brand-new car and all you will ever have to do is add fuel. A car-subscription service also provides consumers with the potential to swap their car after a short period if they decide they don't like it or just want to try something different.

Another innovation has been the emergence of car-club membership schemes in many European cities. These schemes allow members to hire a car by the hour and to pick it up and drop it off at a convenient location. Such schemes are especially popular with the younger generation, as it's a much cheaper alternative to owning a car in a highly populated area where parking is at a premium. So far in Everland, one such scheme exists in the capital city.

So why own a car? That is the question!



# Keeping connected

13 April 2021

Matthew Kettering



Car connectivity presents the greatest challenges but also opportunities for the car industry. So, what is car connectivity? A connected car has two-way communication via the internet with other systems both inside and outside the car. The connected car can access data, send data, download software and patches, communicate with other Internet of Things (IoT) devices, and provide WiFi for onboard passengers.

A typical journey in a connected car will include the satnav giving directions and informing you of road difficulties ahead and the kids streaming a video in the back whilst you listen to your favourite music. You can also turn on the central heating system before you get home and ask your smart fridge whether you need to stop to buy milk.

The benefits for car rental and fleet management companies are immense. Car connectivity provides a new competitive advantage to run a smarter fleet and increase efficiency and reduce costs. Real-time visibility and critical data are allowing companies to improve their business models and even transform them. Fleet managers are now able to manage their fleets remotely knowing location, health status, speed, fuel consumption, temperature, tyre pressure and much more.