

Case Study

Olympic Rent-A-Car U.S.

By submitting this deck of case slides, the members of our team affirm that we all participated in the analysis of the case and the creation of this document.

Nipun Manghi

Shreya Vajpayee

Prakruthi Mavinakatti

Vikas Mahendar Karamallayan

Rodrigo Feix

Yujing Lin



Dollar-Driven Olympic: A Threat to Gold Glory



→Enterprise has launched a new dollar based rewards program, drifting away from the common industry practice . →Olympic has to decide on a strategic move to compete with enterprise.	→ Both business and leisure travelers → Customer Persona - Affluent households who enjoy leisure and prefer to book the most economical option available Online	→ 7% market share Considerably Low Fleet Size relative to competitors. → Currently following Day-Based Rewards program. → Average daily rental income is below the industry average.	→ Enterprise 50% Market Share Local renters and business travelers → Hertz 24% Market Share Local renters and business travelers → Avis 14% Market Share Segment - Frequent travelers	→ Airport Officials - 10% revenue shared → Franchises - 3% member rentals on top of standard franchise fee
--	--	--	--	---

Impact of online price comparison and booking

The car rental industry will eventually turn into a price war with the introduction of online price comparison and booking systems. It will also force the existing companies to expand their inventory and improve logistics to accommodate the extensive volume of customers.

Impact of dollar based approach on Olympic

Dollar-based rewards would impact negatively since Olympics is the most economical amongst all and therefore may not incentivize customers well. A duration-based incentive aligns better with its leisure traveler customer base

Should Olympics remove black out days?

Olympics has high redemption rate and non-blackout days. Given its limited fleet size,it may struggle to deliver if black out days are removed , leading to potential loss of loyal customers.

Car rental loyalty programs	Enterprise	Hertz	Avis	Olympic
Strengths	→ Very simple and transparent points and upgrade rules for customers	→ Provide different levels of membership for corporate car rental and business travelers to give customers a sense of privilege → Free rental days are available during blackout periods	→ Members go straight to the car → Members can get lowest mileage car → Has prepay option that has discount up to 15%	→ Free join as Bronze member → Credit can be redeemed for airline frequent flyer programs
Weaknesses	→ Members cannot use the reward on blackout days → Upgrade rules are stricter than Avis and Olympic.	→ High cost for upgrade in Hertz → Only number of rental can be counted as redeeming free rental day	→ Members can only earn weekend rental reward	→ Credit expires in a year → Only the number of rentals can be counted for credit, Duration of rentals cannot be counted for credit

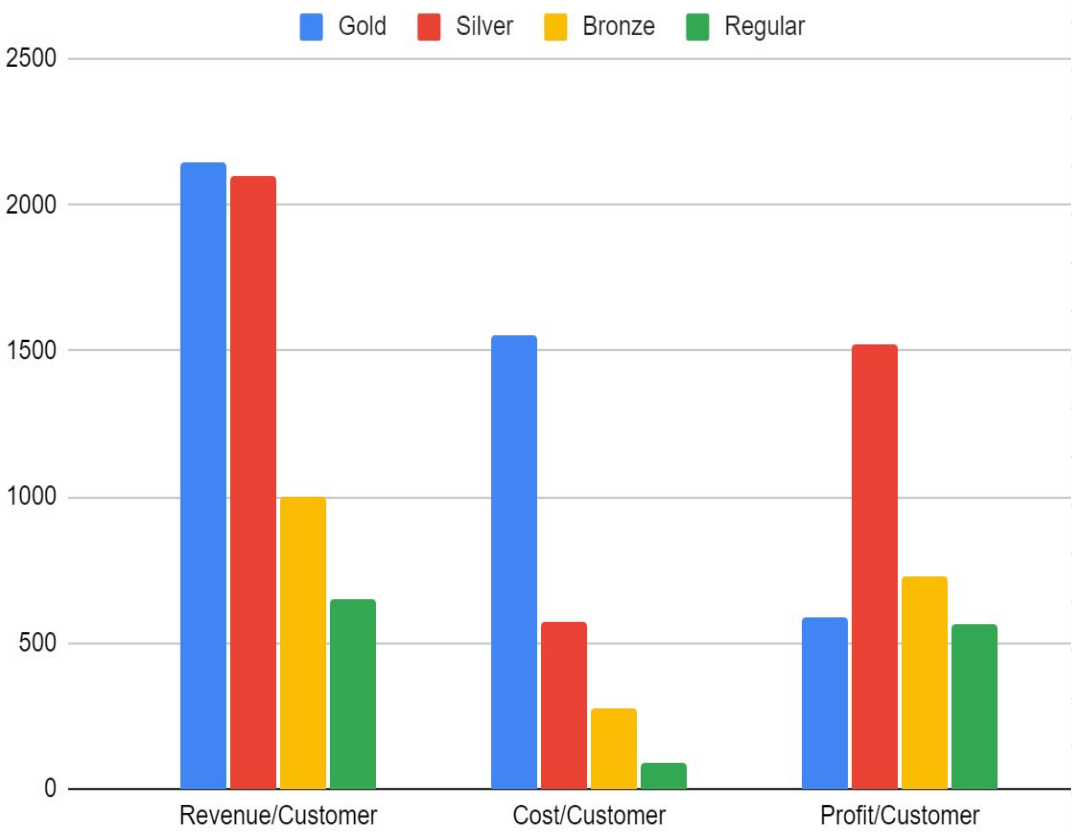
Same Revenue & 2% Increased Costs

Decision Analysis

- On switching to a Dollar-Based Rewards program, the number of free-days increases from 1.45% to anywhere between 1.65% and 1.95% → Cost to match Enterprise is thus \$ 53.68 Million (↑ 2%)
- Hence, the cost incurred for Free days increases by 14% (Best Case - 1.65%) and by 34% (Worst Case - 1.95%) with the total revenue generated remaining the same
- Thus, Net Profit generated reduces by \$ 3 Million in the worst case scenario, with the Customer Profitability reducing by 1.2% (\$1175 to \$1163 per customer)

Medalist Program

- Medalist members have a big economic influence in revenue structure
- Silver-Tier Members have the highest Customer Profitability (\$1523/customer) thus making a valuable contribution
- Differentiating Values (difference in benefits between Dollar-based and Day-Based program) for a loyal-customer are \$4.7 and \$11.8 respectively
- Economic Value = Differentiating Value + Price of Product = \$233 (Best-Case) & \$240 (Worst-Case)
- Following Enterprise strategy would result in 3-8% reduction in Profits



	Day-Based Program	1.45%
	Olympic Medalist Customers	Regular Customers
No. of Customers	230,000	1,860,909.09
% of Customers	11%	89%
Total Rental Days 2012	25,862,068.97	
No. of Rentals	2,130,000	
Rental Days Paid	3,978,000	21,509,068.97
Spending for Points	323,000,000	-
Rental Days Claimed	375,000	-
Total Revenue	1,540,000,000.00	
SP/Rental Day	81.20	56.56
Revenue	323,000,000	1,216,600,000.00
% Revenue	21%	79%
Variable Cost per day	\$4.20	\$4.20
Total Variable Cost	16,707,600.00	90,338,089.66
Cost for Free Days	7,875,000.00	0.00
Total Ad Expense	108,000,000.00	
Ad Expense	28,000,000.00	80,000,000.00
Total Cost	52,582,600.00	170,338,089.66
Profit	270,417,400.00	1,046,261,910.34
Total Profit	1,316,679,310.34	
Profit/Customer	1175.727826	562.2316079
Cost/Customer	228.62	91.53487964
Revenue/Customer	1404.347826	653.7664875
Benefit for Customer	34.23913043	0

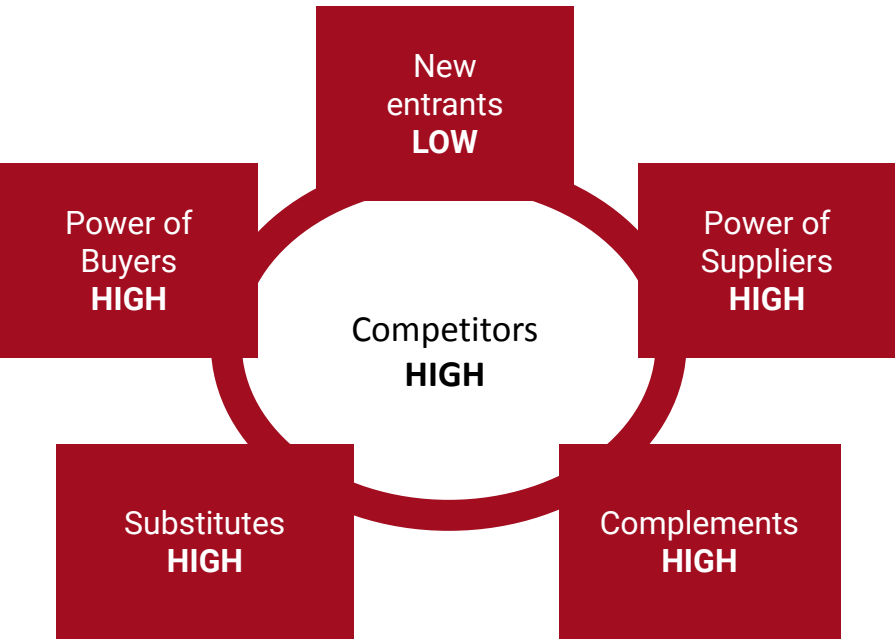
[Click Here for Detailed Analysis](#)

	1.45%	1.65%	1.95%
Revenue/Customer	1404.347826		
Cost/Customer	228.62	233.3426387	240.4265967
Differentiating Value	-	4.722638681	11.8065967

Breaking the Mold: Olympic's Unique Strategy Amidst Enterprise's Shadow

Rationale

- Saturated market, with no considerable increase in rentals for the last 4-5 years
- Pressure from the market leaders and elimination of weak companies
- Reward programs are not perceived as differentiation anymore, but “perks” for customers.
- Using the imitation strategy would be costly and would not guarantee the market-share increase
- “Red ocean” with the three major rental companies controlling 88% market-share. Shouldn’t go for a price war
- Possible disruptors, such as changes in business communications (teleconferencing)
- Additional costs for dollar-based program would offset the increase of revenue for the next years



Recommendations

- Keep the day based rewards programs to maintain loyalty customers and focus on rentals in different segments
- Adopt two different defensive strategies to Olympic rental cars: Create strong customer relationships and differentiation
- Instead of fighting with a market leader, Olympic should find a niche where they can add value and convenience to move away from price war.

PRODUCT

Focus on offering rentals to the leisure segment. Also, Olympic should focus on adding value to its services and link it to a new niche (touristic and convenience searchers). This “new” service would enable Olympic to use interaction with customers and create a long-term relationships with customers, recommending vacation cities and cars that suit the best with them.

PLACE

Olympic should continue offering services at local rentals, but could expand their channels online at resort hotels and touristic cities. The company could also develop a new application to make the rentals easier and more intuitive. This app would use GPS system that would allow rentals with no paperwork or human interference.

PROMOTION

Olympic should expand their customer base partnering with third-parties and adding agreements with hotels/airlines to offer “Holiday Packages”. Promotions should be done online and through third-party consolidators.

PRICE

Once Olympic achieves their objective of creating value, they should move away from price war market, where everybody ends up losing. Leisure segment perceive value in CONVENIENCE and “Holiday package contracts” which are great opportunities to increase their profit.

Risk mitigation

- **Strategy replication by competitors:** Create exclusive relations with our collaborators and build a strong relationship with customers
- **Fear of losing current market share:** Focus on improving the loyalty program by focusing on the customer experience rather than providing low price than competitors.

Meanwhile.....A New Game!!!

- Launch a program with driver management (like Uber)
- Less costs with fleets, once the drivers would use their own cars
- Offensive strategy, trying to become first movers and consequent increase of brand equity
- Blue ocean environment, with no competitors and many possibilities