

Car Rental Industry Approaches A Consolidation Turn

BY CHRIS DAVIS

One way or another, irrevocable change soon will consign the car rental industry of 2009 and the first half of 2010 to the pages of history, and not just because of the easing of the recession and corporate cutbacks that brutalized the sector a year ago. Dollar Thrifty Automotive Group, so wounded by the recession that its stock price dipped below 65 cents a share, soon will become the property of Hertz Corp. or, less likely, Avis Budget Group, for a billion-dollar price tag.

At press time, Avis Budget's bid to disrupt Hertz's announced acquisition of Dollar Thrifty with a more lucrative offer hadn't been settled. Whatever the final result, the acquisition of Dollar Thrifty from 2009's bankruptcy bait to 2010's billion-dollar prize is to an extent emblematic of an industry that effectively rethought its fleet strategy and capitalized on an improving used-car market to claw out of last year's pit.

Corporate buyers with the ability to direct significant volume, though, still can expect a strong hand in car rental negotiations—the

industry hasn't come that far yet. Smaller accounts might find vendors less interested in cutting rate-based deals than last year, but corporate demand still goes a long way.

"Taking a glance at our top 200 accounts, there are still a few pockets that aren't as rosy as we'd like, but there is positive, reasonable growth," said Avis Budget senior vice president of commercial sales Bob Lambert. "During the downturn, there wasn't as much volume there." He added, "We're happy 2009 is over. We're cautiously positive as things move forward. 2010 is a much better year."

Avis Budget's 2010 could well hinge on the outcome of their outside bid for Dollar Thrifty. Hertz in April agreed to buy Dollar Thrifty for \$1.2 billion, but Avis Budget officials a week later expressed interest in outbidding Hertz with "a substantially higher offer." The situation remained in flux at press time, but whatever the outcome, the competitive business travel landscape shouldn't be too roiled: Neither Dollar nor Thrifty are key corporate brands, but they would allow Hertz to provide a broader package of price points.

Dollar Thrifty largely has remained mum since the Hertz acquisition announcement in April. "We continue to believe the improvement in the overall economy, combined with the ongoing recovery in consumer confidence, will result in low single-digit growth in rental days in 2010," said president and CEO Scott Thompson in May during Dollar Thrifty's first-quarter conference call, after the acquisition was announced. "The company believes that customer demand for its value-oriented leisure brands will result in moderate increases in revenue per day on a year-over-year basis. Accordingly, we are reaffirming our outlook for revenue growth of 2 percent to 4 percent compared to the level in 2009."

Sitting on the sideline this time is Enterprise Holdings, author of the last major car rental deal in 2007, when it acquired the Alamo and corporate-centric National brands. "The industry is getting more competitive," said Enterprise vice president of business rental development Brad Carr. "We're seeing business come back slow but steady, with a slow increase since January. We're still slightly below

Car Rental Brands

Car Rental Brand	2009 Car Rental Revenue (\$000)	2008 Car Rental Revenue (\$000)	LOCATIONS							FLEET						
			Total	U.S. Corp.-Owned	U.S. Franchise	U.S. Affiliate	Foreign Corp.-Owned	Foreign Affiliate	Foreign Mktg. Partners	Total	U.S. Corporate	U.S. Franchise	Foreign Corp.	% On-Airport Revenue	% Business Travel Revenue	U.S. Locations On/Off Airport
Avis Rent A Car System <i>Parsippany, N.J.</i>	3,100,000	3,700,000	2,205	985	299	0	287	634	NA	NA	300,000 ¹	15,000	35,000	79 ²	60 ²	345/939
Budget Rent A Car System <i>Parsippany, N.J.</i>	1,400,000	1,900,000	1,814	612	219	0	168	815	NA	NA	300,000 ¹	14,500	16,000	79 ²	29 ²	272/559
Dollar Thrifty Automotive Group <i>Tulsa, Okla.</i>	1,648,828	1,697,000	1,558	243	224	0	53	1,038	NA	158,360	99,012	15,339	4,070	69	4	249/218
Enterprise Holdings ³ <i>St. Louis, Mo.</i>	12,100,000	13,100,000	12,963 ⁴	5,912	201	0	963	587	5,300 ⁴	865,866	760,789	0	105,077	33	20	624/5,489
The Hertz Corp. <i>Park Ridge, N.J.</i>	6,000,000	6,860,000	5,545	2,065	0	1,220	1,140	1,120	NA	444,100 ⁵	288,400	0	155,700	63.5	46.5	516/1,600

¹ Combined total of Avis and Budget brands

² U.S. only

³ Combined total of Enterprise, National and Alamo brands

⁴ Includes locations operated by Europcar

⁵ Corporate-owned locations only

2008 levels, but it is starting to come back.”

Corporate customers “have been aggressive,” Carr said. “They understand the competitive landscape. They are leveraging National and Enterprise. We are taking it case by case. Our costs are still expensive, and are going up, not down.” As such, he said, customers should not expect tremendous negotiating power. “We want to maintain consistent pricing as much as possible, relative to spend,” he said. “Everybody is fighting for share with an eye on the margin for each account.”

Hertz began to see “a modest uptick” in corporate business take hold in January, said senior vice president of global sales Robert Stuart. “Nobody’s really loosening their belts, but in our top 40 or 50 accounts there’s more normalcy in travel patterns.”

Hertz “isn’t going to do crazy things on pricing, but we want the team prepared so they don’t miss any opportunities,” Stuart said. “They want to save a buck, and you have to get creative with them. They’re pushing rate, ancillary revenue, GPS, even blackout dates. You have to weigh the whole picture, and there are so many variables that go into that.”

Lambert also noted that Avis Budget was less than inclined to give significant ground on negotiated rates. “We’ve taken a stronger look at commercial, and we are less flexible, but it’s not just a pure rate play,” Lambert said.

Meanwhile, Avis Budget’s lengthy public flirtation with U.S. no-show fees—in place in some European markets—led to their debut in a handful of U.S. cities, but have been applied only on leisure rentals as part of voluntary offers in which the traveler also receives a discount. The company sees the application of such charges, which levy a fee when renters neither show up nor cancel a reserved car, as in line with other travel supplier practices.

“There’s a great assumption that travel managers will hate this,” Lambert said, “but look at restrictions in the air industry. The travel management world has widely embraced that concept. Nobody wants restrictions, but once we explain to people that they let us manage our assets better so you have a better experience, they understand.” Any expansion of such fees would be gradual, he said, as opposed, for example, to airlines’ checked-bag fees. “That’s another misnomer: We won’t go from zero to 60 overnight. We’re not going to flip the switch.”

Carr said the Enterprise brands have “no current plans for no-show fees.” Stuart said, “We’ve said we’ll evaluate them, but we have nothing to announce,” adding that a system-wide rollout of such fees would be a significant

Hertz’s Estimate Of U.S. On-Airport Marketshare

Brand	2009*	2008	2007	2006	2005	2004	2003
HERTZ	25.7%	27.4%	27.9%	28.5%	29.2%	29.6%	29.0%
AVIS BUDGET GROUP	28.9%	30.0%	30.0%	30.1%	30.7%	30.4%	31.6%
Avis	18.5%	19.6%	19.8%	19.8%	20.2%	20.2%	21.2%
Budget	10.4%	10.4%	10.2%	10.3%	10.5%	10.2%	10.4%
ENTERPRISE	31.4%	29.2%	28.3%	27.4%	26.4%	25.8%	25.8%
National/Alamo	21.2%	20.1%	19.8%	19.7%	19.4%	19.8%	20.8%
Enterprise	10.2%	9.1%	8.5%	7.7%	7.0%	6.0%	5.0%
DOLLAR THRIFTY AUTOMOTIVE GROUP	12.0%	11.3%	11.4%	11.5%	11.4%	12.2%	11.8%
Dollar	7.1%	6.9%	7.1%	7.1%	7.1%	7.7%	7.4%
Thrifty	4.9%	4.4%	4.3%	4.4%	4.3%	4.5%	4.4%
OTHER	2.0%	2.1%	2.4%	2.5%	2.3%	2.0%	1.8%

* Through Sept. 30, 2009

Note: Hertz included this chart in its 2009 annual report filed with the U.S. Securities and Exchange Commission. The data is Hertz’s calculation of car rental marketshare at the approximately 190 largest U.S. airports at which Hertz has company-operated locations. The data is determined on the basis of revenues reported to the airports’ operators on which concession or off-airport permit fees are determined for the indicated periods.

Between the Lines

The Hertz Corp. in April signed an agreement to acquire **Dollar Thrifty Automotive Group** for about \$1.2 billion, but **Avis Budget Group** shortly thereafter announced its intention to make “a substantially higher offer” for the company. At press time, no such offer had been publicly announced, and Dollar Thrifty’s fate remained unclear.

Hertz continued to grow its Connect by Hertz hourly-rate car-sharing program, launching it in Europe late last year. Other providers include **Enterprise’s** WeCar offering, **Sixt’s** SixtiCarClub and dozens of local, regional and national providers, including **ZipCar**, which in June 2010 filed for an initial public offering.

technological undertaking, given the number of available car rental booking platforms.

Car rental companies’ technological advances in the past few years, such as global positioning systems and electronic toll-payment devices, have created other negotiating avenues for some buyers. Creating difficulty in negotiating such deals toll devices, Carr said, is the lack of a unified countrywide electronic toll booth mechanism. “There’s so many ways they are done,” he said. “We’re exploring different

options. It can be frustrating for customers.”

Much of the car rental firms’ solidifying position can be credited to a stronger market for the sale of used cars and the employment of more effective fleet strategies. “Fleet costs haven’t eased off, but the used car market is fairly stable,” Carr said. “We’re holding on to cars longer. Last year, there was contraction, but we have increased our fleet size. We expect pretty good demand. We think contraction is over, and we want to grow again.” ■

Card Charge Volumes Rebound From Last Year's Depths

BY MICHAEL B. BAKER

Corporate payment charge volumes in 2009 painted a clear picture of travel spending cuts, though issuers expect those volumes to rebound this year. In the meantime, corporate card vendors are enhancing data offerings and global performance capabilities in response to increased demand from travel buyers.

Most major corporate card issuers saw year-over-year volume decreases in 2009. American Express reported overall commercial card volume worldwide was down almost 9 percent from 2009 levels, while U.S. Bank reported its volumes fell almost 16 percent. Jeff Rankin, senior vice president and senior sales and marketing officer for U.S. Bank's corporate payment systems unit, said the bank was able to mitigate some of that by growing its client base.

"U.S. Bank was the leader of the pack in terms of being a good, strong, solid financial institution," Rankin said. "We continue to see a flight to quality, whereas customers in the past might have accepted a commercial card service based solely on the pricing."

AirPlus International, the leading issuer of the Universal Air Travel Plan, reported its global charge volume dropped by €17.1 billion, about 6 percent.

"2009 was a year where travel managers reacted severely to the recession," said AirPlus CEO Patrick Diemer. "Volume from existing customers was down 20 percent, half of that because of lower ticket prices and half of that because of less travel."

Payment issuers and networks are optimistic about volumes this year. All issuers who responded as to their expectations for 2010 said volumes would rise from 2009 levels. Diemer said he expects to see two-thirds of the volume lost in 2009 return this year. "With a little bit of luck, this year will come back to a 2008 situation," he said.

U.S. Bank's Rankin expects double-digit percentage volume growth this year. "Customers are still being very judicious about their airline contracts and preferred hotels, and we're seeing better management today than we've ever seen in the past," he said. "Even with that, our customers are working on growing their business, and we expect to see that continue through the remainder of the year, depending on the economic situation."

Payment Networks

Payment Network	Acceptance: # Of Merchants	Acceptance: # Of Countries	Cards Issued On Platform	Worldwide ATMs Available For Cash Advances	Charge Per Transaction For Foreign Exchange
American Express	ND ¹	125 ²	7.1 million ³	900,000	2.5%
Diners Club	ND ¹	200 ⁴	ND	675,000	ND
MasterCard Worldwide	30.2 million	210 ⁴	1.6 billion ⁵	1.7 million	Issuer-defined
Visa	30 million*	200 ⁴	1.8 billion ⁵	1.6 million	Issuer-defined

*BTN estimate

¹ Reports acceptance as "millions of merchants around the globe."

² Measured in markets

³ Total number of commercial cards issued worldwide

⁴ Includes both countries and territories where networks do business

⁵ Total cards issued, not just commercial products

Between The Lines

BMO Financial Group in November reached an agreement to acquire **Citigroup's Diners Club** North America franchise, giving it exclusive rights to issue Diners Club cards to Canadian and U.S. corporations. That deal closed earlier this year, and the franchise's volume is included in BMO's total.

Bank of America at the beginning of the year completed its purchase of **Merrill Lynch & Co.**, giving it the largest wealth management business in the world.

All issuers, with the exception of Bank of America Merrill Lynch, have a separate meetings card offering. **U.S. Bank** reports 400 such cards issued as of Dec. 31, 2009.

Citi and **JPMorgan Chase** did not submit data to *Business Travel News* this year. Information in the charts is based on the latest data available to *BTN*.

A 2010 CFO Research/American Express Global Business and Spending Monitor, fielded in February, indicated that 26 percent of 479 financial executives surveyed said they plan to increase travel spending this year, part of 57 percent overall who either will maintain or increase such spending. In a similar survey in 2009, only 2 percent of respondents expected an increase in travel spending.

"Overall, we're seeing some positive signs of stabilization and growing optimism about recovery," according to Wendy Prewitt, vice president of American Express' global commercial card

sector. "Companies are really balancing that with some of the policies, controls and disciplines they put into place over the prior year."

Despite the deep recession, a few issuers still saw volumes increase in 2009. Bank of America Merrill Lynch reported its corporate travel and entertainment expense volumes were up by 5 percent compared with 2008. The biggest volume jump, however, appeared in BMO Financial Group's volume, thanks to its late-year acquisition of the North American franchise of Diners Club from Citigroup.

The Toronto-based bank, a growing pres-