

# OLYMPIC RENT A CAR U.S

## CUSTOMER LOYALTY BATTLES

### CASE STUDY



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

## 5 C's



### Company

- Olympic was founded by a popular athlete and was capitalized on him in its promotion and advertising. It mainly involves in providing rental cars to the passengers in slightly lower rates than its competitors.
- One of the weaknesses of the company was that the profit margin was very thin and need more effective strategies to increase their revenue.



### Competition

Enterprise, Hertz, Avis and other independent car rental agencies.



### Complementor

Independent local companies, online marketing platforms, coupon companies.



### Customer

- Business and leisure travelers.
- The target segment: To focus more on the heavy business travelers since they form the higher portion of revenue.



### Context

Since the profit margin is slim for the Olympic company, the management is looking into more aggressive strategies,

- If they have to revamp their Medalist reward program altogether.
- How well do they have to design their marketing and promotion strategy and what should their budget be for the same.
- Should they concentrate on the existing customers by increasing the prices or they need to attract the newer customer base.

## Qualitative Analysis



### Product

Leisure and business vehicle rentals using product line breadth and line depth as well as a loyalty rewards based system, to reward more loyal customer base



### Price

Daily rental rates range from \$10 - \$150 before fees and taxes. The Olympic rewards program has three levels Bronze, Silver, and Gold, where customers are eligible for free rides as well as a percentage bonus on base credits.



### Segmentation

- 80% of rental market revenue comes to business travelers. Leisure travelers only contribute 15% of the revenue.
- Business travelers pay high per trip. If moved to dollar-based reward system, this will incentivize them to use the Olympic rather than enterprise.



### Targeting

- In business travelers, we need to be focusing on the Heavy and Medium business travelers.
- Heavy business travelers contribute for the 55% of revenue and they spend more, which will increase profit margin.
- The Medium business travelers contribute only 20% of the revenue, but they 45% of whole business travelers, focusing on them will increase customer base.



### Place

Hybrid Distribution System – Implement a hybrid model for managing critical aspects of the distribution system by Olympics main locations at airports and using secondary functions such as logistics, warehousing, and management to various channel partners such as local small car rental enterprises and other mobile businesses.



### Promotion

Use two primary sources of promotion, the first being a search engine marketing tactic which will advertise the olympic more to interested users by promoting ads based on their browsing history. Second is email advertising to reach out to high potential prospective customers who are seeking information regarding a solid rental car agency.



### Position

- All car rental companies are offering rewards based on the days used, if olympic changes it to Dollar-spent based then it will attract new business travelers.
- Partnering with third party online aggregators & offering online booking, with premium services.

## Key Points

### What factors help explain Olympic's performance?

- Famous founder
- A franchising operation, which allowed it to grow rapidly and profitably to its 2021 position of approximately 7%
- Capitalized on its popular founder in its promotion and advertising.
- Olympic franchisees were also able to gain airport space as major airports were enlarged in the early 2000s.

Olympic was one of the leaders in the car rental industry. It focused only on being in the airports and was able to build a solid customer base by being a low-cost option compared to the other car companies. These choices allowed for them to be profitable but with Enterprise's rewards program and the changes in travel, Olympic could lose some of their most loyal customers. As seen in their lower profitability.

### What market factors may impede it in the future?

The amount of travel that will be occurring is a factor along with more people having an option to work from home and discussions around video conferences would cause less business travel which accounts for a large portion of revenue.

### What is the potential impact of emphasizing dollars spent versus days of rental?

The impact will bring value for both customers and the company. It can be significant in lowering variable and fixed costs for the company by allowing for credit points that are awarded to be in accordance with the amount of money the customer will spend. The benefit of the customer will come from the program since the frequent travelers will pay more for their day to day rentals.

### Look at the strengths and weakness from the perspective of Olympic management, the rental customers, and the rental customers' employers.

	Olympic management	Rental customers	Rental customers' employers
Strengths	The cost they are offering per rental is one of the lowest in the market which can form a good selling point.	Can trade these points with the Airlines for FFP. No charges levied for becoming a member initially.	Can attract more employees to working at distant locations by favouring them with rental cars, thereby increasing the productivity of employees.
Weakness	Due to inadequate number of locations and lesser reach, the profit margin is very thin.	Fewer locations and lack of accessibility at times.	A part of their expense is heavily spent on these rental companies and for collaborating with them.

### What are the strengths and weaknesses of car rental loyalty programs and Olympic's Medalist program specifically

	Car Rental Loyalty Program	Olympic's Medalist Program
Strengths	<ul style="list-style-type: none"> <li>Gain long-term business from their best customers.</li> <li>Enable companies to maintain a more knowledgeable and "personal" relationship.</li> <li>Did reward not only loyalty but also identified the individuals who accounted for most of aviation's revenues.</li> </ul>	<ul style="list-style-type: none"> <li>It is the number one reason for Olympic's growth and profitability.</li> <li>It drives customers to work towards the next tier through further usage.</li> <li>Provides important consumer data and customer trends.</li> </ul>
Weaknesses	<ul style="list-style-type: none"> <li>Inconsistent Profitability</li> <li>Market saturation</li> <li>Possibility of not having available vehicles due to the number of reward users receiving upgrades or free days</li> </ul>	<ul style="list-style-type: none"> <li>Free rentals are faster and more often.</li> <li>We cannot keep enough cars in prime vacations.</li> <li>Inability to offer something unique and memorable such as "no blackouts and guaranteed low price."</li> <li>They are not meeting the same standards as other leaders like Enterprise in their program.</li> </ul>

### How does the use of third-party consolidators and online price comparisons and Do bookings impact the car rental industry?

They impact in a positive way as it can be pivotal in increasing their number of base locations. There can be higher booking frequency since it is user friendly containing affordable and reliable price comparisons.

Through third party consolidators and marketing agencies, it's easier to reach out to the medium working class who form 20% of their revenue, thereby by helping the companies to increase their online presence and increase the frequency of car rentals

### What effect do (will) these web companies have on loyalty programs?

They can incur more margin due these web companies like Groupon and comparative pricing sites. With these websites, consumers could access availability of cars by location along with other data, giving them additional purchasing leverage. Complementing to that, customers are getting more tech savvy, these companies can facilitate the customers as well as the companies by creating a win-win situation.

### What is the potential impact of removing blackout dates?

Olympic is in a vacation destination and their redemption rates for free days for members are higher than most locations. They will never be able to keep enough cars for prime holiday travel times if they don't have blackout days. If they removed blackout dates, they will disappoint their loyal Medalist customers by promising them availability and then be unable to deliver.

However, it might be worth to disappoint some customers because they had a strategy since founding to follow Hertz's #1 Club Plan. Because Hertz has the highest prices, Enterprise's move will probably hurt Hertz more than any other company. Hertz may be reluctant to match Enterprise. This may be Olympic's chance to take some share from Hertz by moving aggressively.



## Break Even Analysis for Dollar Based Reward

## Quantitative Analysis

Step 1: No.of rental free day rewards = No.of Olympics's fleets\* the average days car rented \* percent of total rental days involving free dates =  $108,000 * 232 * 1.45\% = 363,312$  times

Step 2: Assuming the total times Olympics rent out their fleets unchanged, after dollar-based reward, the total times of rental from free day reward = total times rental \* Different case scenario rate

Best Scenario=  $108,000 * 232 * 1.65\% = 413,424$  times | Average Scenario =  $108,000 * 232 * 1.80\% = 451,008$  times | Worst Scenario =  $108,000 * 232 * 1.95\% = 488,592$  times

Step 3: The cost after dollar-based reward = (each case scenario - the total times of rental from free days rewards before the new program)\*The cost for one free day reward + Advertising of the Medalist program cost

Best Scenario=  $(413,424 - 363,312) * 21 + 28,000,000 = \$29,052,352$  | Average Scenario =  $(451,008 - 363,312) * 21 + 28,000,000 = \$29,841,616$  | Worst Scenario =  $(488,592 - 363,312) * 21 + 28,000,000 = \$30,630,880$

**The cost of matching Enterprise's rewarding program is \$29,052,352 for 1.65% of total rental days involving free days and \$30,630,880 for 1.95% of total rental days involving free days.** We will use the worst-case scenario for the following analysis,

Step 4: On average the times more Olympics need to rent out in order to achieve break-even = The cost of the excess free day rewards / daily rental rates =

\$10 per day:  $\$30,630,880 / 10 = 3,063,088$  times | \$150 per day:  $\$30,630,880 / 150 = 204,205.87$  times | \$80 per day:  $\$30,630,880 / 80 = 382,886$  times

Step 5: The total times Hertz rents out their fleets in one year = # of Hertz's car units \* Hertz's average car rental days in one year =  $290,000 * 208 = 60,320,000$  times

Step 6: The percent of shares Olympics need to take from Hertz to achieve break-even = On average the times more Olympics need to rent out in order to achieve break-even / The total times Hertz rent out their fleets in one year =

\$10 per day:  $3,063,088 / 60,320,000 * 100\% = 5.08\%$  | \$80 per day =  $382,886 / 60,320,000 * 100\% = 0.618\%$  | \$150 per day =  $204,205.87 / 60,320,000 * 100\% = 0.339\%$

**In the worst-case scenario with \$10 per day rental rate, Olympics needs to rent 3,063,088 more times in order to achieve break-even and this will equal as taking 5.08% market share from Hertz.**

No.of cars in Olympics's fleet	108,000
The average days its typical car rented	232
Percent of total rental days involving free dates	1.45%
Percent of total rental days involving free dates after dollar based reward	Best scenario:1.65%Worst scenario:1.95%Average scenario: 1.80%
The cost for one free day reward	\$21
Daily rental rates	From \$10-150, average \$80
Advertising of the Medalist program cost	\$28,000,000
No.of Hertz's car units in 2012	290,000
Hertz's average car rental days in one year	208



### Assumption

- Seth assumed the redemptions would be between 1.65% and 1.95%. We pick 1.8%.
- We assumed Olympic will use the amount(40 million) same with Enterprise for advertising and promotion of dollar-based reward.
- We assumed the amount of rewards member(230,000) will be same with 2012.

	Free day percentage	Annual rental days	Free rental days	Cost per free rental	Extra cost for free rental	Extra cost for advertising and promotion	Total extra cost
Rental Day based reward	1.45 %	25,056,000	363,312	\$ 21			
Dollar-based reward	1.8 %	25,056,000	451,008	\$ 21	\$ 1,841,616	\$ 40,000,000	\$ 41,841,616

### Economic Value

Economic value =  
 Total Cost / Reward Customer Number  
 =  $\$ 41,841,616 / 230,000$   
 = 181.9

# Recommendations



## Car Reservation & Schedule System for Gold Members

Provision to be able to reserve the cars two weeks before the anticipated date. Thereby increasing the trust in the customers and have a safe buffer for the company in case of any unprecedented circumstances.

- Based on quantitative analysis, in the worst case, Olympic needs 3,063,088 more orders to reach the break-even with is about 12% of the rental they made in 2012. Besides, the extra cost for free rental is not high. **So the dollar-based strategy is reasonable. It will also incentivize the business customers to spend more.**
- Based on one of the context, Olympic takes 8% of the market. However, there is a monopoly in the car rental industry, small companies are being devoured, and industries are consolidating. **Olympic must develop its own loyalty customer program if it wants to gain market share, not just be a follower.**
- Invite bronze members to the elite club as **they are eleven times more than the Gold members.**



## Offer no blackouts

Set up more locations with the help of third party consolidators for every 5 miles in the selected cities, and increasing the accessibility.