

Rental Car Demand Up, Rates Remain Flat This Summer

Companies: CAR, HTZ

October 1, 2013

Research Question:

Are summer rental car bookings and demand supporting higher rental rates, or is competition keeping prices in check?

Summary of Findings

- Rental car bookings in early summer were higher year to year for seven of our eight sources. The remaining source said bookings lagged behind at first because of poor weather but are catching up to last summer's levels. All sources are optimistic about bookings for the rest of summer and beyond, and cited stronger consumer confidence as the catalyst.
- Retail rates for rental cars have been flat for six sources, up for one and down for one year to year. The highly competitive market is expected to keep any traditional rate hikes for summer rentals to a minimum. Two sources reported seeing more pricing discipline than in the past.
- Enterprise Holdings' [Enterprise Rent-A-Car](#) is the low-rate leader while [Avis Budget Group Inc.](#) (CAR) currently has the highest rates.
- Hourly rentals are expected to be a much stronger market in the near future.

	Bookings	Prices	Hourly Rentals
Regional and Retail Managers	↑	→	↑

Background

An April [article](#) from *The Washington Times* named New York City as the most expensive city in which to rent a car and stated that "USA car rental rates seemed to have dropped by around 20% in this strange deflationary economy." However, a March *Wall Street Journal* [article](#) reported rental rates up 5% and cited another rate increase pending from Avis and Enterprise.

Sources for Blueshift Research's [Feb. 20 report](#) described the rental car market as fragmented and prices still highly competitive despite industry consolidation. Sources said Avis was trying to raise rates, hoping other companies would follow suit and that summer demand would allow the increase to stick.

CURRENT RESEARCH

In this next study, Blueshift assessed whether summer bookings and demand for rental cars have been strong enough to support higher rates or if competition has been keeping prices in check. We employed our pattern mining approach to establish one independent silo with eight primary sources (including six repeat sources):

- 1) Regional and retail managers for rental car centers (8)

Next Steps

Blueshift will conduct a more comprehensive rental car report with a particular focus on travel during late July to early August in order to gauge demand and pricing trends.

Silos

1) REGIONAL AND RETAIL MANAGERS FOR RENTAL CAR CENTERS

Rental car bookings have increased 1% to 3% through the first part of summer for six sources, have risen 10% for another source and are quickly catching up to last summer's levels for the remaining source. In general, sources said business is improving slowly and will continue to strengthen, thanks to stronger consumer confidence. The retail market is highly competitive; rental rates are flat year to year for six sources, up for one and down for the remaining source. Corporate prices also are being pressured by heavy competition. Summer overall is expected to bring higher bookings and flat to slightly higher rates year to year. Demand for hourly rentals and car sharing is expected to expand.

KEY SILO FINDINGS

Market Conditions

- 7 of 8 sources said rental car bookings were strong or up 1% to 10% year to year; the average increase was in the single lower digits. 1 source said bookings have been behind last year because of poor weather but now are improving.
- The overall sentiment is that the rental car market is improving in line with the economy.
- All sources described the market as competitive, but two sources reported more pricing stability or discipline.

Rental Car Rates

- 6 of 8 reported prices as flat year to year, 1 said rates are up 2% to 3% and one reported a 10% decline.
- 1 source said summer travel rate hikes usually start July 1 and typically are 25%. This year he expects only a small hike because of stiff competition.

Competition

- Enterprise has the lowest rates while Avis has the highest.
- Sources acknowledged having very low corporate rates because of intense competition for this market.

Trends

- Hourly rentals are expected to become more common in the near future.

1. Hertz regional manager in the Intermountain West; repeat source

Hertz' own [Advantage](#) is evolving into a significant competitor in this region, but overall demand for cars has been strong enough for both chains to avoid pricing pressure. Prices are increasing at roughly the same rate as inflation.

Market Conditions

- "There's still a lot of competition out there as discount vendors proliferate, but on the whole things seem pretty healthy. Our recent price increases seem to be sticking. People shopping for a car rental online or on their phones naturally think of us first, so we get a good share of the overall customer pool there."
- "Bookings are up maybe 10% so far this summer. A lot of them cancel, but in all we're having a much more robust summer than last year so far."
- "Fall is a slower season, and then winter is when things really go through the roof because we have a lot of ski slopes in our territory. ... I think fall will be when we see any competitive pressure develop."

Rental Car Rates

- "Headline pricing may be flat to bring people in the door, but we're recouping more of our costs from service and other fees. In all, our turn ticket may be up 3% to 4% over last year, flat from last quarter."
- "We keep our headline within \$1 of competitors. Right now that is not changing."
- "Nobody's launched a competitive strike yet this season. It remains to be seen what August turns into, but for now things seem to be humming along."

Bookings are up maybe 10% so far this summer. A lot of them cancel, but in all we're having a much more robust summer than last year so far.

*Hertz Regional Manager
Intermountain West*

Rental Cars

- “Advantage has a slight edge in terms of discounting around here because they have more of the corporate and slightly lower-market relationships. Their fleet runs a little closer to full-service life than ours does. They keep their wheels on the road to earn more money.”
- “We stay in close sight of Avis and Enterprise, and I don’t think this will change. Avis looks strong, and I don’t envision Enterprise running any big sales for the next six weeks or so. Fall is always a different story. Beyond that, we all compete, but the trend looks like it points up right now.”

Competition

- “Advantage is the big regional name here. Otherwise, the car-sharing companies never really took off around here and the airports are relatively small, so there’s not a lot of room for new lots to magically pop up.”

Trends

- “This is the year of rebuilding and making existing rental models more flexible. Hourly rentals, nontraditional rental points, automated rentals are all the wave of the future. The goal is to tighten the turn between rental periods and keep your fleet on the highway for more minutes a month. The fleet mix favors nicer cars. Sport and recreational vehicles have always been popular here, and they earn their place on the lot.”

2. Hertz regional manager in the Great Lakes region; repeat source

Consumers are traveling again, and new discount competitors are not infringing on the full-price rental business. Enterprise is on the defensive given Hertz’s new efforts to multiply nontraditional rental locations.

Market Conditions

- “Things are good. Our lots are staying busy, and people who let their cars go in the recession are now driving again. Prices are strong, and we are not leaving a lot of wheels on the lot. It’s the best of both worlds.”
- “We’re tracking up 1% to 3% over last year. Demand is good. We’re actually having to say no to a few people who didn’t book early or thought they could book online.”
- “So far, so good. The economy seems stronger than a lot of people think. We could easily continue on this trend for a while.”

Rental Car Rates

- “Hard to say because the fleet has changed and we’ve embraced ‘situational’ pricing. Our vehicle mix is more upscale, so we can naturally demand a stronger premium. But across the line we’re squeezing marginal dollars out of every car.”
- “We are not cutting or increasing prices across the fleet. Where there’s demand, we’re automatically adjusting. Where demand is slack, we’re adjusting that way. Our pricing seems solid compared to last year and may even be a tiny bit stronger in the aggregate over our core competitors, Enterprise and Avis.”
- “Corporate is already down about as far as it gets around here. We don’t really work with it much.”
- “We are in the top tier in terms of high-end vehicles at fair rates. That’s not going away any time soon. And I think as we explore new types of ‘on demand’ relationships to make a small piece of those vehicles’ drive lives affordable to more people, we will be able to drive per-vehicle pricing up in the near term and the long term.”

Competition

- “They’re out there, but they don’t really compete with us. ... Drivers who go to them aren’t really our customers.”

Trends

- “Enterprise used to have the neighborhood-lot business sewn up, but now we’re moving in there too with rental kiosks and cars stashed in drugstore parking lots. We’re expanding our footprint, and I think that’s tricky for them. We are moving toward nonconventional hourly contracts in these locations. Hybrids aren’t a huge deal. We obviously feel that we are best positioned to capitalize on these trends.”

We’re tracking up 1% to 3% over last year. Demand is good. We’re actually having to say no to a few people who didn’t book early or thought they could book online.

*Hertz Regional Manager
Great Lakes Region*

3. Enterprise regional manager in the Southwest; repeat source

The local market is booming. Any price pressure will have to originate with competitors, which appear content to maintain pricing discipline. Competition for corporate accounts is heating up.

Market Conditions

- “The market is extremely hot. We have not changed our pricing and are looking neither at raising nor cutting our core rental rates. Market share seems to be a factor of local footprint and not people fighting to bring drivers onto their lots.”
- “It’s shaping up to be a great summer. People are going on vacations again.”
- “Everything just points up.”

Rental Car Rates

- “Our core pricing has not changed.”
- “We are showing some flexibility [in corporate rates] because we want to grow our share of this market. This might be putting pressure on Hertz and Avis, but I think the real driver here is less about people fighting over corporate customers and more about people converting once-in-awhile corporate renters into longer-term corporate accounts. That piece of our business has an impact on the old one-off rental paid with a corporate card. Hertz and Avis may see their one-off rentals decline over time but not really notice their corporate accounts under pressure.”
- “[Demand is supporting the] higher rates. Plenty of people are coming through the door.”
- “I think pricing bottomed industrywide late last year, and now we’re edging back upward. It will take time.”

Competition

- “Nobody I can think of is a big threat.”

Trends

- “I think the national names are still absorbing their most recent round of acquisitions. We still don’t know the real competitive map yet. Once we do, people will roll out a lot of innovation and aggressive offers to capture share in the regions they want to dominate. Maybe next year.”

The market is extremely hot. We have not changed our pricing and are looking neither at raising nor cutting our core rental rates. Market share seems to be a factor of local footprint and not people fighting to bring drivers onto their lots.

*Enterprise Regional Manager
Southwest*

4. Enterprise regional manager in Southern California

Demand generally peaks in the summer months but has increased only 1% to 2% year to year. Also, retail rates are at an “all-time low,” down 10% from last year. Corporate account rates are locked in for the year, but even those have taken a hit. Given fierce competition, the three major brands will be hard-pressed in procuring significant rate hikes. This source said Enterprise’s [CarShare](#) holds significant growth potential.

Market Conditions

- “For myself and our largest competitors, the industry prices from a retail standpoint are on an all-time low.”
- “Online sales booking makes up about 50% of our reservations, with 30% from our 1-800 number and about 20% from walk-ins. We expect online sales to continue to drive our sales.”
- “For the overall year so far, there is a small increase in demand, maybe 1% or 2% since last year.”

Rental Car Rates

- “Summer is a peak season, but we expect only a small price increase this year. We are following suit to what our competitors are doing, and everyone is keeping their prices low.”
- “Compared with last year, our prices are down about 10%. That is in respect to the overall industry.”

Summer is a peak season, but we expect only a small price increase this year. We are following suit to what our competitors are doing, and everyone is keeping their prices low.

*Enterprise Regional Manager
Southern California*

- “Typically, prices will increase at the beginning of July through to Labor Day ... in the realm of 25% higher as compared to the off-season months.”
- “We have programs in place where we allow ourselves to be a percentage cheaper than our competitors.”
- “Our corporate pricing is competitive, but that price doesn’t fluctuate. If you have a corporate account with Enterprise, you are locked into that price for the year. Right now our prices are in line with the market. I have seen slight declines for corporate rates since it’s highly competitive.”
- “It is our corporate policy to be the lowest in pricing. The company leading in highest prices is Avis, followed by Hertz. I don’t foresee this changing much over the next one to two years.”
- “For the home city market [versus the airport market] retail is extremely low, and Enterprise takes on a pricing structure where we will be the lowest price leader.”

You are going to see a big push on Enterprise CarShare, where we offer hourly rentals. This is an area where we anticipate a lot of growth.

*Enterprise Regional Manager
Southern California*

Competition

- “There really aren’t any off-brand competitors challenging the market. There are a few mom-and-pop shops that try to compete with the three major brands, and the people that go to these shops aren’t the customers that we’re going after. The smaller shops offer something completely different than what we do.”

Trends

- “You are going to see a big push on Enterprise CarShare, where we offer hourly rentals. This is an area where we anticipate a lot of growth.”
- “Going forward the next few quarters, from a retail standpoint, I see prices staying consistently lower. Costs of rental car companies have gone up significantly over the past several years, but from the retail standpoint the cost of renting has gone down considerably. As prices continue to drop and remain competitive, we will start seeing more companies looking to create a niche in the market.”

5. Enterprise regional manager in the Northeast; repeat source

Competitive fears are a little overblown as consumer confidence recovers. Established car rental brands are faring better than startups.

Market Conditions

- “It’s good. Our pricing has not budged. I think our competitors are trying to move farther up market, which may help boost their per-turn revenue. But I can’t imagine it helping their profit margins or their market share. People seem happier and are going on more business and leisure trips again.”
- Rental Car Rates
- N/A

Competition

- “The no-name ‘shingles’ that survive may thrive the next time the economy falters, but right now they’re really just getting downstream scraps.”

Trends

- “The recovering consumer is the big story. People are shifting from not renting—not vacationing, not going on business trips—to renting again. When that happens, they don’t take their business from a company like us and give it to some no-name, no-frills lot with a shingle in the airport. They create business for companies like us. When established customers shift down or become unhappy, they go to that no-name shingle in the airport to see if they can squeeze a better deal.”

The recovering consumer is the big story. People are shifting from not renting—not vacationing, not going on business trips—to renting again. When that happens, they don’t take their business from a company like us and give it to some no-name, no-frills lot with a shingle in the airport.

*Enterprise Regional Manager
Northeast*

6. Avis regional manager in the Northeast; repeat source

Summer customers are not pushing back on firmer rental rates. Business is good, helped by car sharing.

Market Conditions

- “A lot stronger than last year across the board. We are learning from the hourly rental people.”
- Rental Car Rates
- “So far we haven’t seen any pushback on the new rate scale we put in place last year from either managers or consumers. It’s an improvement.”
- Competition and Trends
- N/A

7. Avis store manager in Southern California

Summer months bring higher demand and prices, but much of that increase is offset by heavy competition, both by online and other local chains. Discount rental sites offer the best pricing and create approximately 80% of this source’s current bookings. The source expects sales to rise 25% year to year during the summer and then decline during the winter. Enterprise is setting the bar on low prices, but it also has the largest fluctuations, doling out the highest rates during periods of heavy demand.

Market Conditions

- “The overall rental car market has been very competitive, but demand remains high with respect to our area.”
- “Demand has gone up in the low single digits compared to last year. The area we are in is of high density, so people find it more economical to rent than own cars. We expect that to continue growing in the coming years.”
- “Business has been getting better and better because demand has been increasing.”
- “Over the next one to two years, we expect demand to continue growing in the mid-single digits, Our prices should continue staying competitive, but industrywide prices will definitely be going up.
- “Our sales are done mostly online. Before, we used to get more calls but now everything is done on different discount sites such as [Orbitz \[Worldwide Inc./OWW\]](#), [Priceline\[.com Inc./PCLN\]](#), other sites that sponsor Avis.”
- “About 80% of our sales are done online.”

Rental Car Rates

- “Compared to the same time last year, prices have remained somewhat the same.”
- “For the next three months we should expect prices to peak, and then it will die down when we start hitting the winter months. For the summer we expect sales to go up about 25%.”
- “Our prices are structured to match everyone else’s price, depending on how busy we get. Our benchmarks are based on what’s out there, online and in the area. Our goal is to match our competitors and beat them in the local markets.”
- “Although prices remain about the same year over year, our sales have gone up since last year about high single digits.”
- “It’s been a steady growth. Our prices have not been shooting up. We do change the pricing a little bit, but because of competition, prices have been holding steady.”
- “For the summer, we anticipate our corporate rates to go up a little bit as well.”

Competition

- “It’s boils down to customer service, and that’s what we tend to focus on. For our store, year-over-year demand has gone up.”
- “The company that has been keeping prices the lowest is Enterprise because they offer the \$9.99 weekend specials. They practically give their cars away. We focus on our business and customer service. We don’t really worry about anyone else.”

“Although Enterprise gives away the lowest prices, when they are busy they also raise their prices to be higher than the market, so they have more price fluctuations.”

*Avis Store Manager
Southern California*

- “Although Enterprise gives away the lowest prices, when they are busy they also raise their prices to be higher than the market, so they have more price fluctuations.”

Trends

- “Small cars are more popular now than ever before. Before, people didn’t care about gas prices, but now they all want smaller cars for better gas mileage.”
- “I think we are best positioned to impact the industry since earlier this year we [Avis] bought out [Zipcar](#). Although it doesn’t really affect my area, I think this will be great around branches that are located in college campuses and ... that have high traffic for hourly rentals.”

8. Avis regional manager in the Midwest; repeat source

Bad weather early in the season disrupted normal rental patterns, but the summer looks on track to recover. Price discipline is firm so far as consumers adjust to new rates.

Market Conditions

- “The industry has recovered its balance and is no longer racing to destroy profitability.”
- “[Bookings are] a little behind where I’d like to be because the spring was so miserable in terms of rain, tornados, everything. But we’re catching up fast.”
- Rental Car Rates
- “Up maybe 2% to 3% in all over last year. People have embraced the new normal in terms of where they think a car rental should cost. Our core competitors are in roughly the same place, maybe a little lower.”
- Competition and Trends
- N/A

Additional research by Scott Martin and Debra Chen

The Author(s) of this research report certify that all of the views expressed in the report accurately reflect their personal views about any and all of the subject securities and that no part of the Author(s) compensation was, is or will be, directly or indirectly, related to the specific recommendations or views in this report. The Author does not own securities in any of the aforementioned companies.

OTA Financial Group LP has a membership interest in Blueshift Research LLC. OTA LLC, an SEC registered broker dealer subsidiary of OTA Financial Group LP, has both market making and proprietary trading operations on several exchanges and alternative trading systems. The affiliated companies of the OTA Financial Group LP, including OTA LLC, its principals, employees or clients may have an interest in the securities discussed herein, in securities of other issuers in other industries, may provide bids and offers of the subject companies and may act as principal in connection with such transactions. Craig Gordon, the founder of Blueshift, has an investment in OTA Financial Group LP.

© 2013 Blueshift Research LLC. All rights reserved. This transmission was produced for the exclusive use of Blueshift Research LLC, and may not be reproduced or relied upon, in whole or in part, without Blueshift’s written consent. The information herein is not intended to be a complete analysis of every material fact in respect to any company or industry discussed. Blueshift Research is a trademark owned by Blueshift Research LLC.