

What Does the Future Hold for Daily Rental?

Daily Rental, particularly of the mainstream car variety used to be considered a highly recession proof industry.

As the media delighted in depressing the nation with tales of job losses, resource shortages and as many ills they can invent, the leading lights of the daily rental industry, be their colours green, red, yellow or whatever would be quietly briefing their management teams that there were opportunities to be won and money to be made.

Well if the world stayed true to form, the mainstream rental industry in this country should be quietly having a great time, as this recession (technical or otherwise) has been a cracker! But no, picking up vibes from around the industry, things are not good with issues causing great pain to some great businesses.

So just what is different?

Great businesses do not go on forever. There is an expected life cycle for businesses great and small. Is it then that some of the great names have just run their course? No, I don't think this is the issue although there are some monoliths out there whose issues are perhaps of their own making. But no, I do not believe that a whole section of the rental industry is simultaneously becoming moribund.

I do believe though that the vehicle rental industry is in the midst of a perfect storm.

Surviving this perfect storm is of paramount importance. The industry is very diverse, and I know there are players out there who have played their niches superbly and are in absolutely great shape. Well done, you know who you are and will be rightly proud. But a wider healthy vehicle rental sector is so vital to an ongoing integrated transport industry moving forward. This is so today, and probably more so in the future.

So to return to my original question, what does the future hold for the rental industry? Whilst my crystal ball is no clearer than anyone else's, I do believe the answer could be - 'good times'. But surviving today's tougher times is the key.

Why is this recession not like those of the eighties and nineties then? I think there are both macro and micro economic reasons for this.

Looking at the financial world, I believe the availability of finance or lack of it, has acted to constrict the rental industry massively. How the banking industry looks itself in the mirror I don't know, but then Dracula can't see his reflection anyway can he?

Possibly more so, the rental industry has been painted into a corner by ownership issues .. The great era of manufacturer ownership ended years ago, and whilst banks still play in the leasing arena, rental is too scary, and probably too small for them. So the big boys have ended up as fodder for the private equity/venture finance world. It is quite clear that some of the giants are being micro managed on a global basis. In my view, this car crash has been run time and time, and it just doesn't work. Vehicle rental requires fully empowered and financed local management, and a mindset of maximising opportunity, not just hitting targets.

I'm not clever enough to see where equity in rental companies is best held. My suspicion is that in private hands would be best. Unfortunately though some of the players, whilst not huge by comparison to other sectors, are still pretty big and probably would have to be broken up somewhat to make them digestible.

The industries ills are not all though related to ownership/equity. I believe there has been a paradigm shift in working patterns and in what the man in the street wants to own and drive that as yet the industry is finding difficult to react to.

Go back less than ten years, and business travel was in its heyday. Why – because meeting customers prospects and suppliers face to face was the only real option. But it was incredibly expensive. Bring half a dozen execs together round a table can cost thousands however it was an under the radar spend and therefore not high profile. And let's face it, we all loved it! Today though, no cost has escaped the microscope, and technology has provided plenty of alternatives. It is quite feasible now to arrange a meeting across continents with full audio visual content at the drop of a hat, and it minimal cost. And that's what people are doing. There is still a human element to business that can only be transacted face to face, and you can't fix a photocopier over the telephone, but I do believe people's working practices have changed massively. And this has adversely affected the rental industry. The natural balance between corporate and retail vehicle rental has shifted, and the knock on effects on rental company P and L have probably not worked their way through the system fully yet.

Fleet patterns are probably the other area where daily rental companies have to find their way back to solid ground. Go back twenty years, and manufacturers almost wholesaled certain models though daily rental into the used market. It was a symbiotic relationship. Unfortunately both the pilot fish and the shark have suffered so much pain, especially in the past ten years, that they are very wary to swim with each other today. What the Fleet Manager sees as his bread and butter product today, I don't think Mrs Smith from Railway Cuttings wants to buy as a second hand car any more. The old B/C/D segment ever presents be they from Luton, Dagenham or wherever, are shunned by the private motorist. Certainly the old favourite D segment car is now seen as expensive. If the punter is going to spend that kind of money, they'll run a German motor.

So what happened to Mrs Thatcher's 'Mondeo Man' – I hate to suggest this, but I think he is going Korean as its the Hyundai's and Kia's of this world who have identified the vehicles and price points that Mondeo Man wants.

The other factor that seems painfully apparent is the stresses that slow rotation of fleet and high mileage vehicles adds to rental p and l accounts. I cannot help but think that some reversal in this trend is now overdue and that properly managed this could actually put smiles on the faces of rental leaders, manufacturers and rental customers!

And our Fleet Manager is caught in between a rock and a hard place!

Fortunately I believe that this perfect storm is probably transitory and calm waters will return. Ownership patterns will stabilize and the day will return when the wider industry enjoys health and not just isolated pockets of success. And this is of vital importance not just to the good men and women who work in the rental industry and those businesses that surround it, but to everybody.

As a race, we are not going to give up on the freedom that travel has bought us. I do think though that travel patterns will have to change, and a strong private vehicle rental sector must surely be an important part of these changing patterns.

We just need to get there!

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