

International Car Rental Show

April 17-19, 2016 • Bally's Las Vegas

THE GLOBAL MARKETPLACE
FOR THE CAR RENTAL INDUSTRY



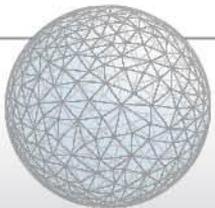
BROUGHT TO YOU BY
Auto Rental
NEWS

IN CONJUNCTION WITH
ACRA
AMERICAN CAR RENTAL ASSOCIATION

Walking Among The Giants

Agenda

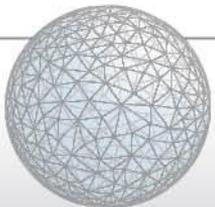
- Introduction
- What this session is all about
- Some examples of smaller companies that thrive “among the giants”
- “OK...then what do we do?”
- An alphabet soup of things you can work on
- My opinion of what’s the most important
- Next step once you are better
- Q & A



Walking Among The Giants

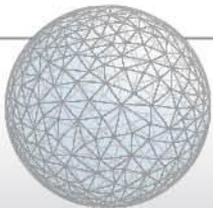
Kane Introduction

- Mike Kane
- In the industry since right out of college
- Enterprise ~ 20 years
- On my own for ~ 15 years – VRCG, Inc.
- Both big company and startup experience
- Pretty good observer of business + own(ed) other businesses and ‘involved’ in the world



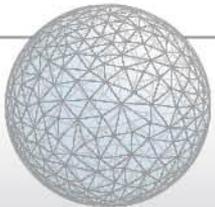
Walking Among The Giants

- Agenda
 - Rental is not the only industry that's consolidated
 - In many “consolidated industries” there is, and will be, room for well run smaller companies
 - That's the rental industry ‘to a T’
 - This is the life you've chosen, so let's make it work



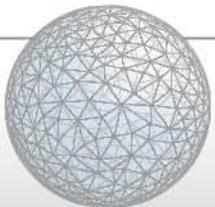
What this session is NOT about...

- I'm not sure that the next founder of Uber, or the silicon chip, or Velcro, or the Post-It Note is sitting in this room...and that includes me
- Truly game-changing ideas are very rare, hard to execute, and although very exciting, don't happen a lot in this industry
- **Blocking and tackling is what keeps you in business**
- So let's concentrate on our real world...



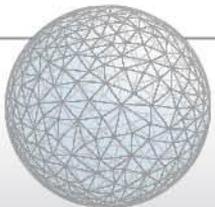
Some examples of heavily consolidated industries...

- None uniquely like the rental industry, but...
- ‘Rollups’ have been around for many decades...like Standard Oil did in the petroleum industry from 1870 to when it was broken up in 1911
- Evidence of this in a huge number of industries
- Big consolidations are oftentimes touted as “a great way to increase economies of scale” but it is the rare big company that can sustain what “got it there” in an ongoing, customer-serving way. Many times the bigger they get, the more inward –focused they become. They often ‘calcify’ if they are not on guard against it.



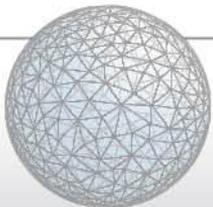
Example 1 – the US Beer Industry

- In 1989, even after 56 years of legal alcohol production (post Prohibition) there were fewer than 200 breweries in the US
- In 1989, of all the ‘premium beer’ (there are multiple categories of beer...) brewed in the US, 89% was brewed by only five companies (Bud, Coors, Miller, Miller Genuine Draft and Schlitz)...so about 11% of the premium beer brewed was by “little guys”
- In 2003, Budweiser alone sold **30 millions barrels** of beer
- In 2003, the craft beer industry, in total, **sold about 6 million barrels**
- In 2013, Budweiser sold about 16 million barrels, and the craft beer industry sold about the same...**up 10 millions barrels in ten years**
 - Note that the market didn’t get bigger, but the market share sure did!
- In 2015, there were about 4200 craft breweries in the US, and their % of market share in the premium beer category is now approaching 12% of **all beer** in the US.
- Among many factors, craft brewers have developed loyal followers; they are “different”



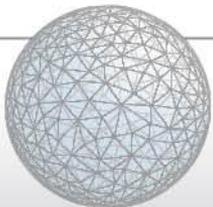
Example 2 – The US Banking Industry

- In 2015, five big banks in the US (JPMorgan, B of A, Wells Fargo, Citibank and US Bank) controlled 44% of the banking industry's total assets
- Is your bank any easier today to deal with than five years ago?
- Cue the rise / increase of market share for credit unions, along with alternate banking sources like social lending networks like Lending Club/Zopa and Prosper, online banks like Ally and ING Direct, PayPal
- Big Banks spend a lot more time dealing with regulators and 'big company issues' than they do taking care of clients
- Many of us now go out of our way to avoid Big Banks



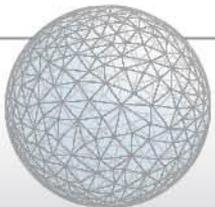
Example 3 – Office Supplies in the US

- This is old news, but the “big box” office supply stores like “OfficeMax/Staples/Office Depot” (can you really tell them apart any more?) are being decimated by online purchasing.
 - They got big, they all started to look the same, and along comes a better mousetrap
- At the same time, there are 9,000+ small or medium privately owned stores that do just fine really taking care of their customers’ needs
- At the same time, did you know that these small vendors are supplied by only two companies....S. P. Richards, and United Stationers (now known as Essendant). Please note that S. P. Richards is over 160 years old....yet they’ve reinvented themselves time and again



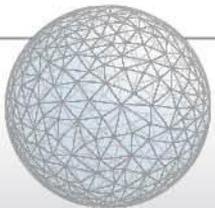
Example 4 – Fed Ex and UPS vs. The Little Guys

- In the US, Fed Ex, UPS and DHL combine to control **96%** of the “time definite shipping” business...that’s mostly overnight/2nd day, plus small package delivery
- Amazon is making a move on this, but we’re certainly not Amazon!
- Did you know that a little company like Spee Dee Delivery in St. Cloud, MN, **delivers 26M packages per year**? That’s ~ 71,000 transactions per day, every day of the year
- Keys to success: listening to customers, don’t cap packages at 85 pounds, and generally ‘hit ‘em where they ain’t’, etc. etc.
- Spee Dee now has 1800 employees, 1300 pieces of equipment, and is a thriving 36 year old company
- There are a bunch of companies like Spee Dee that take business away from FedEx and UPS **every day** by providing services better than ‘the big guys’



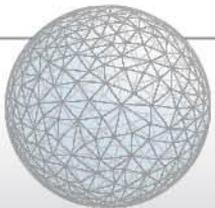
That's all nice, but....what do we do?

- The fact is, you are walking among giants
- So, get better at it than you are
- Excellent quote from Arthur Ashe, famous tennis player (1943- 1993, three time Grand Slam title holder)...he had a very sly sense of humor:
 - *“One important key to success is self confidence. An important key to self confidence is preparation.”*



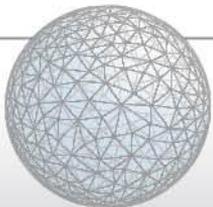
Another Quote

- Everybody in this room has a healthy ego, or you would not be owners or executives in a very competitive business
- ...but, Socrates instructed us to “*Know Thyself*”. At least acknowledge that you may not know it all, and may not be doing it all the right way.



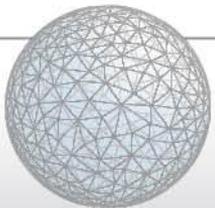
* *An Important Perspective* *

- The most important take-away from today...
 - “...If I was an outsider looking to buy my existing business today, what would I look for?”
 - **Would I laugh at me, or be impressed?**
 - *Look at, and manage your business as if you were preparing it for sale*
 - Author Bo Burlingham notes “...every business either is sold, or closes...there are no other outcomes...”. If that’s the case, what will your business do?



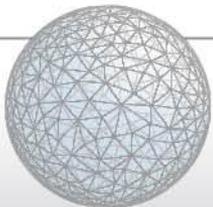
To really get good, and sustain healthy growth in our industry...What you can't have...

- *Is a business that is solely based on your personal skills*
- If you personally create all the value in your company, then how can it be sold?
- If it can't be sold, then Plan B is that it closes
- Can your business survive *you*?



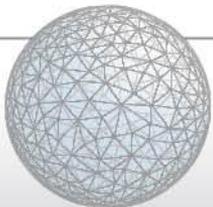
So, if it's not “all about you...” ...

- Identify the functions and characteristics that make a business *replicable and sustainable*
- Can you construct it so it'll run without you there, or do you have to be there with your hands on the controls each minute/day/week?
- The idea of ‘building it to last beyond me’ is key....and it's an *attitude!*
- You don't have to be perfect, just be better



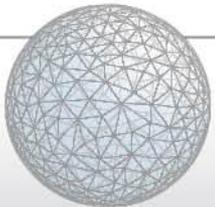
So how do you “Walk Among the Giants...but safely?”

- An ‘A to Z’ approach would have 26 facets
- There are more than 26 facets to running a business well, safely, and productively
- Most of my suggestions don’t require any money; *not everybody does it, but everybody can, or at least try*
- Let’s just focus on a handful of them before we leave today...



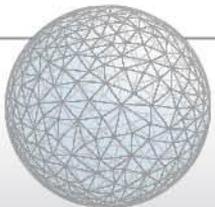
Money & Banking

- We are in a capital intensive business
- Without lending sources we fail
- Lenders hate many things, but most of all they hate their debtors not being truthful
- Secondly, they hate their debtors paying themselves before they get paid
- So, you need....



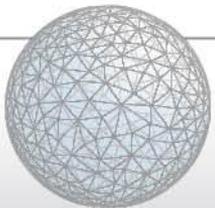
Money & Banking - 2

- An accurate accounting system
- A conservative approach to cash management
- Transparency and an ability to explain things to the lender; don't think they really know what you do all day
- You should keep them updated formally at least once per year with how you are doing
- Be proactive with them!



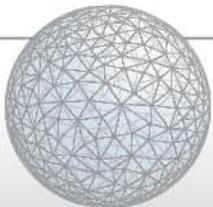
Insurance

- Arguably the second most important thing in the rental business is access to insurance
- To one degree or another, without insurance you can't be in business
- Insurance people are like bankers, just with better memories
- So, like bankers, what you need is....



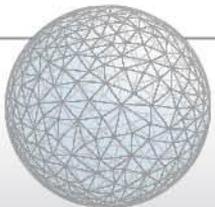
Insurance - 2

- An established loss prevention strategy. Even if not totally accurate, you must pay more than lip service to it.
- A conservative approach to renting cars
- Transparency and an ability to explain losses to your insurer
- You should keep them updated formally at least once per year with how you are doing
- Be proactive with them!
- *Be prepared to present your business case to another insurance company on less than one week's notice*
- **Formally 'shop' your insurance company every three years**



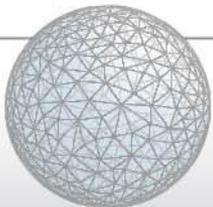
People

- Rental is in many ways a “retail” business and without people at the counter facing your clients you don’t have a business
- Those people can either be well hired, well trained, well coached, and well motivated, **or not**
- If they are, you stand a better chance of doing well in the business. If they aren’t you stand a better chance of doing poorly.
- So, with your people plan, you need...



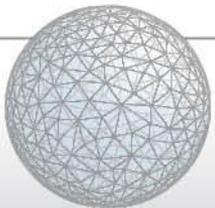
People - 2

- A recruiting plan. I've met operators who have zero plan. A basic plan is better than no plan, and a good plan is better than a basic plan.
- An "on-boarding" plan. Don't just hire them, point them at the counter and let them go. They'll feel ignored (rightly so...) and won't be effective. And the younger the employee, the more hand-holding they'll need. **We** caused their lack of self-reliance as we 'helicopter parented' them.
- A compensation plan that they understand. The simpler the better, but at least give them the chance of succeeding if they do well, and a path to get there.



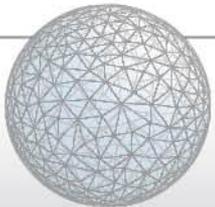
People - 3

- Some sort of progress review plan. Like any relationship, communication is good. Let them know if they're doing well, but if not doing well, let them know that too.
- Have a plan to let people go. Don't keep a bad or unhappy employee around. The adage of 'one bad apple...' spoiling the bunch is true. "Hire slow and fire fast".



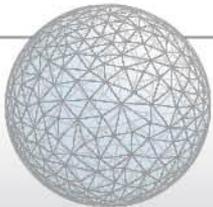
Culture

- “Culture” of a company is hard to define, but it sure stands out
- Culture shows up in common behaviors and visible symbols
- Culture either stems from the owner or top dog instilling it (either good or bad...) or if not instilled, it just sort of happens (either good or bad)
- Whether you instill it or not, it’s going to happen. You might as well be proactive about it.



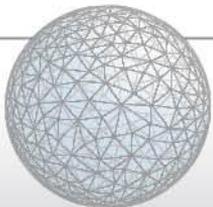
Culture - 2

- Examples – I've seen with my own eyes, in the last month...
 - Some rental car company employees don't return calls or emails...even really big ones! Bad
 - Some rental car companies' employees go out of their way to be helpful to their co-workers. Good
 - Some owners make virtually all the decisions in the company. This is good until it's not, then it turns bad
 - On and on....and if you are observant, you'll see examples of company cultures all around you, in EVERY business you contact; keep an eye out!



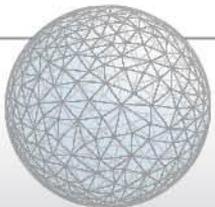
Culture - 3

- You can make an argument that just about every item that makes or breaks a company stems from its company culture
- If you “get it” you stand a better chance of succeeding...if you don’t you won’t get the chance to Walk Among the Giants for very long.
- People, especially younger folks, are getting pickier, and more vocal about what they like or don’t
- Some call it whining, but use of Yelp, etc. is here and you can’t fight it...only good people with a decent culture can please, **or at least offset** the demands of younger consumers. Get used to it.



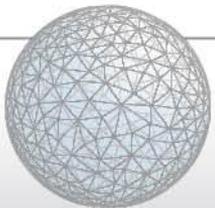
Fleet Plan

- Even after 15 years of dealing with rental operators, I'm surprised how little relative time is spent on fleet planning
- It's your biggest expense – anywhere from 22% of revenues for a healthy company to 35% or more in a company that is on the way out of business
- You need to do this almost every day...spend brainpower on it!



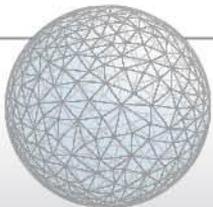
Fleet Plan - 2

- Know your numbers and projections
- Know your depreciation!!
 - Depreciation 'after the fact' should not be like a surprise gift...you know it only after unwrapping
- Know your timing of ins and outs
- Plan at least 3 cycles out (1st cycle fall, 2nd cycle next spring, 3rd cycle next fall)
- Plan for at least a 30% reduction in fleet, if you had to, without having to write a check to a lender
- Plan your % of fleet repurchase, or lease, or risk, or new, or used – but don't be a one trick pony – that's not healthy



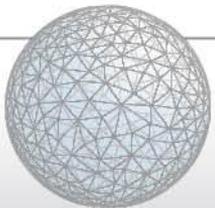
Fleet Plan - 3

- Relations with fleet vendors tucks into Fleet Planning
- Add options to vehicles the your competitors don't.
 - Sunroof, leather, certain colors, spoiler, etc.
- Don't buy new cars because of golf outings and ride 'n drive meetings
- **BUY USED CARS. These traditionally provide the lowest holding cost.**
 - **Now a word from our sponsor, VRCG, Inc.!!!!**
- Car condition tucks into Fleet Planning
 - Crappy cars = bad reputation = bad residuals
- Loss control tucks into Fleet Planning
 - Poor repairs = crappy cars
 - Unrepaired cars = embarrassed employees and unhappy customers
 - **Your “selling reputation” is everything when getting every penny for your fleet.**



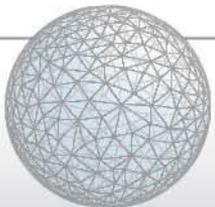
Performance Metrics

- You, your employees, your bankers and others need to have a quick set of key performance metrics or indicators so you can ‘take temperature’ every minute/day/week
- Some can be accounting based, some just general indicators
- You can have ‘closed book’ or ‘open book’ accounting and still have good performance metrics; I’m a fan of open book but closed is OK too



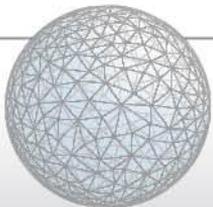
Performance Metrics - 2

- Fleet size
- Utilization/units on rent (and yes, we do have a 7 day week...)
- Daily dollar average
- Dollar utilization like in the equipment rental business
- Counter sales amounts
- Success by agent
- Success by location
- Customer reviews
- There are fifty of them....but....



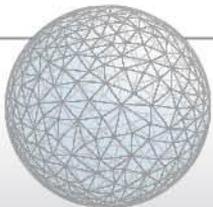
Performance Metrics – 3

- You can get quite involved in doing this...but there's a caution
 - What you measure will be what your employees strive for
 - If the measures tilt too far one way, that's what you'll get
 - If they are “bad” measures, you'll get an inappropriate focus on items/actions ('hammering' CDW sales, etc.)
 - If managed correctly, it will be very powerful.
 - **Strive for balance!!**
 - **Remember my caution about Culture!! You can either steer it or it just happens.**



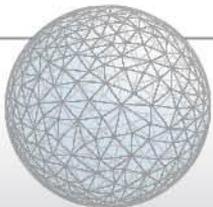
Almost Over...

- Ok...you've gotten better at money and banking, insurance, people, culture, fleet, and performance metrics...
- I'm better on my basics...
- What do I do next?
- Let me leave you with this to think about...



Differentiation

- Everybody in the industry, Giants included, have cars, people, money, etc.
- How are you different and better than the others in the rental car row you occupy?
- Here at this meeting you'll maybe meet the guys from GO Rentals, or Bandago, or SilverCar, Midway, or others...they've managed to set themselves apart from The Giants.
- Something to think about....can you do it too?



Thanks!

- Mike Kane
- VRCG, Inc. – Detroit area of Michigan
- www.vrcg.com
- mkane@vrcg.com
- Office is 248-298-0509
- Cell is 248-568-8150
- Questions?

