

HOW TO UTILIZ — AND STILL SATISFY

With proper fleet planning techniques, having 25 cars on the lot and 100 expected reservations that day is a very manageable situation.

BY JIM TENNANT

In looking at a vehicle rental operation with the goal of improving profitability, improving utilization is almost always near the top of the list of things to focus on.

However, improving utilization is usually easier said than done.

We choose and train customer service agents who like people and like to make customers happy. A rental agent with good customer service instincts will want to have the correct vehicle cleaned and ready for each reservation and, if possible, other vehicles available in case the customer wants to upgrade or decides that the vehicle reserved is not exactly what is needed.

However, the rate structure in the always competitive vehicle rental industry requires most vehicle rental operations to run high utilization to be profitable. This is why a

successful rental operator must foster a culture of high utilization. Employees must be trained to think that running out of cars is good, not bad.

High utilization is impossible without a good fleet plan, which provides the right number and right mix of vehicles throughout the year. Fleet planning is one of the most important aspects of a successful car rental business, and could be the subject of a series of articles or even a book. We will talk about fleet planning techniques that help decide the correct number of vehicles. Fleet mix, manufacturers, risk versus program, and other aspects of a good fleet plan will not be discussed here.

Calculate Your Optimal Fleet Size

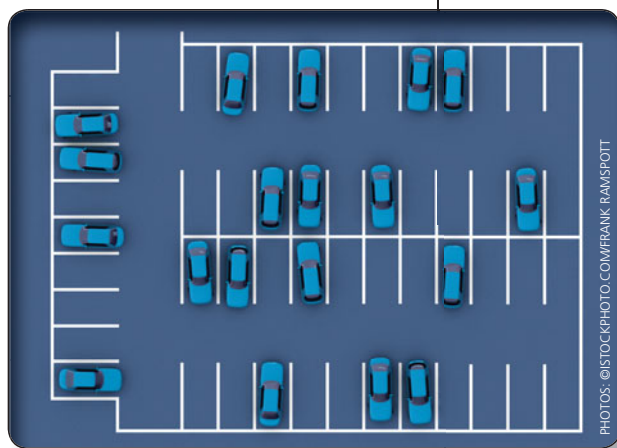
Predicting the future is never easy, and as we have seen recently, sometimes impossible. The best place to start looking into the future is to look at the past or, in this case, your history of renting vehicles. You should have a record of the number of vehicles on rent, ideally by day, but at least have monthly averages. If this history goes back two years or more you can look at year-over-year changes

and seasonal factors, though even one year's history is useful.

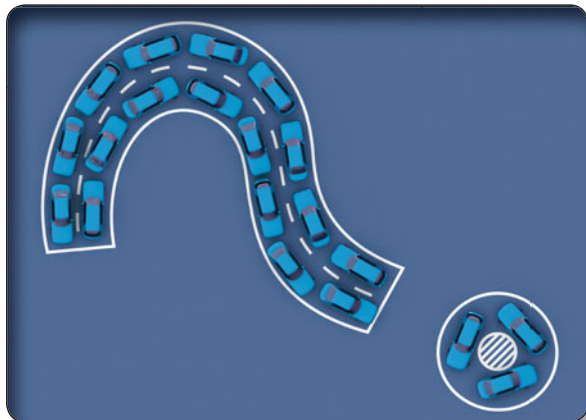
Though this is changing with the new economy, the industry historically tended to be over-fleeted. This is partly because we often measure ourselves by fleet size and partly because the manufacturers used to make it very tempting and easy to add fleet. Those days are probably gone, but it is still a very useful exercise to look at what size fleet we should have had in the recent past.

If you only have monthly average on-rent data available, divide each month's average on rent by 0.85. This gives you a simplistic view of the fleet size you would have needed to achieve 85 percent utilization. If you have daily numbers, write down the highest number of vehicles on rent each month. Add 2 percent for vehicles in service. This gives you the number of vehicles you would have needed to never lose a rental by being out of vehicles. However, this is not the correct size fleet, because no operation can afford to never be out of cars. Calculate the average on rent for each month and you will see that the fleet size we just arrived at does not yield good utilization.

Hopefully this exercise has opened your eyes and put you in the mood to plan your fleet conservatively. Take a look at your history of on rents. Think about what you expect to do in the next 12 to 15 months. Will current trends continue? Will your busi-



IMPROVE UTILIZATION THE CUSTOMER



ness be up or down, and by what percentage? Arrive at your best forecast of your on rents for the next 12 months. To decide what fleet you need, divide these numbers by 0.85 or 0.90 for a conservative estimate and 0.80 for a very aggressive estimate. The 0.80 calculation will give you extra vehicles, which allows you enough fleet to grow faster than your on rent forecast, but it will yield lower utilization and profits. (See on Rent History and Forecast Chart pg. 14)

Foster a High Utilization Culture

Once you have the right size fleet, the focus of all employees, starting with senior management, has to be on utilization. “How many cars do we have available to rent today?” should be the first question asked in any conversation with an employee.

I was part of a team that took over a previously corporate-owned location that was completely focused on never running out of cars. The staff would not accept same-day reservations or walkups unless there were enough vehicles actually on the ground to

handle reservations that they already had. They did not know how to factor in no shows or predict returns. The result was utilization that rarely exceeded 70 percent and very large losses.

When we took over, we right sized our fleet by turning back 20 percent immediately. We also opened the reservation tap. By Wednesday of the second week, we had enough reservations to keep the fleet busy. That morning the supervisor came running into our office and said “You guys are in trouble! We only have 25 cars and we have more than 100 reservations!” After pointing out that “you guys” included her, we told her that there would be at least 25 no-shows and 70 returns, allowing us to rent another 20 cars or so. She was horrified, but did as we said. The operation had more than 85 percent utilization that day for the first time in over a year. We had more vehicles on rent in our first month than had been on rent the previous month, even though the fleet was down 20 percent.

Predicting Returns and No Shows

A high utilization culture has to be a team effort. Management has to constantly focus on the key numbers. Even more importantly, management has to back up the front-line staff. Being out of cars can be stressful, and the burden should not always fall on the shoulders of the rental agents.

All staff should be taught how to calculate availability by predicting returns and no-shows. The pattern is surprisingly consistent for both, but occasionally the predic-

tions will be wrong. This is where the staff has to be trained and conditioned to understand that running out of cars is acceptable and, in fact, necessary to be profitable. They must be confident that management will back them up if they are wrong occasionally.

Many rental operations run specialty vehicles very profitably. Utilization is usually much lower for specialties, but rates are high enough to offset. The danger is that staff can be conditioned to expect lower utilization company-wide. Tracking utilization separately for specialties and standard rental vehicles is one good solution.

Dealing with Vehicularly Challenged Days

Staff should be commended and rewarded when utilization is high. We prepared a somewhat lighthearted training document, “Procedures for Vehicularly Challenged Days,” and used it to help develop a high utilization culture. Some of the main points covered were:

- Be prepared. Dealing with an anticipated shortage of cars should start long before you run out. Find another company that will take your reservations, preferably honoring your rates. Go through your reservations and choose which ones to refer — short rentals, not repeat or corporate customers, etc. Start referring before you run out.

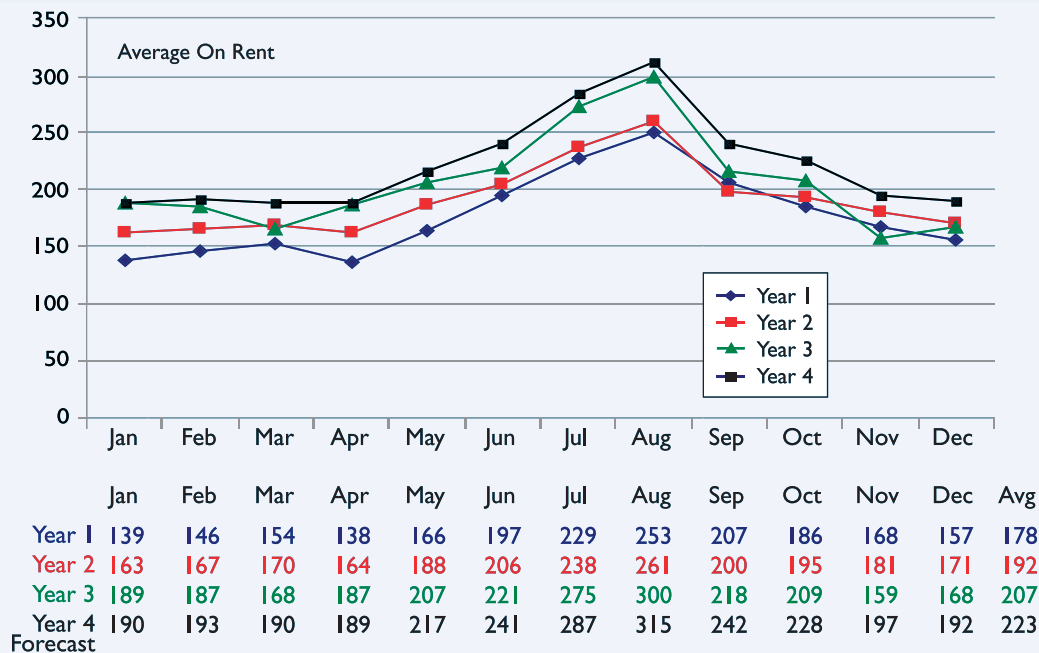
Look at specialty vehicles and plan substitutions where possible. Larger vans can be used for minivan reservations. SUVs can be used for luxury reservations. Again, start early when you have lots of options. It is much more difficult if the only vehicle on

EXAMPLE OF AVERAGE ON RENT HISTORY AND FORECAST

The car rental industry tends to be quite seasonal, with the peak month as much as double the demand of the lowest month. The industry has traditionally geared fleet plans to having enough vehicles to satisfy demand in the peak two or three months of the year. This usually means having a couple of very good months of profitability, a couple of bad months of losses and mediocre months the rest of the year. Consider the option of not fleet

ing for the very best month or two, but planning on raising rates and running very tight in those months.

In this example, should we fleet up to rent 287 and 315 in July and August (requiring a fleet of 319 and 350)? The alternative is to go up to about a 285-vehicle fleet, which would eliminate the need to down fleet drastically when everyone is doing the same thing. This may not be the optimum strategy for everyone, but it is an option.



your lot is a compact and you have a mini-van reservation.

- Make sure you can rent every possible vehicle. Get cars out of the shop. Call overdues. Reconcile the “Cars Not on Rent” list.

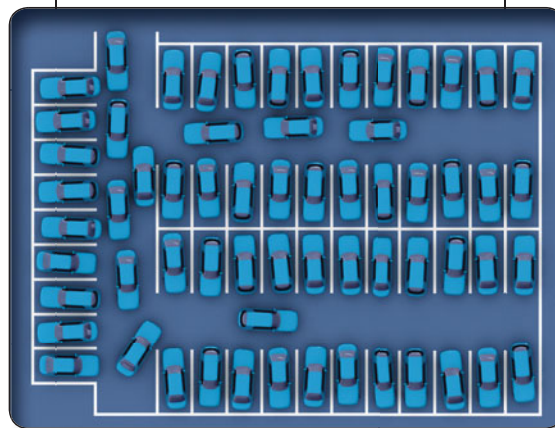
Assign staff to greet customers as they arrive or to even ride the bus with them. It is very bad customer service to have customers wait in line, and when it is their turn, to be told to get back on the bus to go to another company.

Reward Good Performance

We also instituted a bonus plan that rewarded high utilization. Everyone working received a \$5 bonus per shift if company-wide utilization exceeded 85 percent, and everyone working received a \$10 bonus if company-wide utilization exceeded 90 percent. (Only one

bonus per employee per shift, but the utilization bonuses could add up nicely in a good month.) The bonus plan was generous, but when company-wide utilization was above 90 percent, we could certainly afford it.

It took a few months and some staff re-



placement, but we got to the point that utilization was almost always above 80 percent and often above 85 or 90 percent.

If your utilization is consistently high, you will probably find that you have a higher daily dollar average because you are not forced to discount as often. Also, your labor costs will be lower because it is easier when you have fewer cars on the ground and your overhead will be lower because you need less space. Isn't that worth the extra effort? 🚗

Jim Tennant has more than 30 years experience in the vehicle rental industry as both a franchisor and franchise operator, and presently as an industry consultant and expert witness.