Working With Car Rental Suppliers

BY MICHAEL B. BAKER

Travel managers putting together a car rental program might have a tougher time this year keeping costs down at the negotiating table. Car rental companies are feeling increasing pressure from rising fleet costs, and many are pushing for corporate rate increases—to the tune of 8 percent—so that they can keep a healthy profit margin. At the same time, car rental companies also are tightening up terms and conditions in their rental policies. Customers are getting less leeway in such areas as grace periods for late returns and liability for damage to rented vehicles through acts of nature. Corporate agreements can override these terms and conditions, but buyers should be aware of recent and upcoming policy changes.

A growing portion of car rental cost is not subject to negotiations as car rentals increasingly are the target of local and state taxes to fund such projects as sports stadiums.

Some corporate travel managers have found ways around these taxes by turning to off-airport locations, finding the difference in cost more than enough to cover the cost of a cab or a shuttle to get to the location. In fact, off-airport rentals have recently supplanted on-airport rentals as the top segment in the industry overall.

The unstable price of gas is another factor for corporate travel managers to watch. Unless a flat refueling fee is negotiated, refueling costs for travelers who do not fill up the gas tank before returning their vehicle are a moving target, sometimes as high as nearly $6 a gallon. Outside of a negotiated refueling fee, companies should hold employees responsible for refueling their vehicles.

Travel managers also should keep in mind that several of the major rental companies have undergone changes in ownership and structure, which could affect supplier negotiating positions and the competitive landscape in general. Ford Motor Co. has sold Hertz Corp. to a private investment consortium, for example, and Cendant Corp. is spinning off its Cendant Car Rental Group, parent of the Avis and Budget brands, into a separate entity this summer. Other brands, such as Dollar Rent A Car and Enterprise Rent-A-Car, also are going after corporate business more aggressively than before, so buyers should not overlook them.

Despite the pressures in pricing and terms, surveys have shown that customer satisfaction in the car rental industry is on the rise, however. The following is a step-by-step guide of what to consider when putting together a program to ensure that the corporate car renting experience is a part of that increasing satisfaction:

I. GATHERING DATA

Show potential vendors as much detailed information as you can gather on past car rental usage by your travelers.

A. Sources of data: Various types of usage statistics can be obtained from car rental firms with which you have done business as well as your travel management company and expense management systems. While corporate charge card data will show how much your company has spent with car vendors, it only shows the complete sum of the parts—not yet reaching the sophistication to detail such expenses as insurance costs, fuel surcharges and other miscellaneous state and local taxes and fees.

B. Types of data: Gather as much information as possible on your overall usage and, where possible, provide breakdowns for cities or areas with high volume.

1. Total volume, expressed in the number of rental transactions, number of rental days and expenditure level
2. Average number of miles driven per day and percentage of rentals and rental days where the car is driven beyond various thresholds (e.g., 75, 100 and 150 miles)
3. Breakdown by class of cars rented, i.e., compact, intermediate, full-size, two-door, four-door, etc.
4. Number of inter-city or one-way car rentals, including destinations

5. Number of multiple-day, weekly, monthly, weekend and one-day rentals

6. Breakdown of rentals by day of the week, week of month, month of year, etc.

7. Locations in which the bulk of rentals take place, including frequent travel destinations and company offices

8. Evidence of travelers' safe driving records while on company business if you plan to seek collision damage waiver or loss damage waiver coverage

9. All information available on international car rental usage

10. Percentage of car rentals booked through global distribution systems, travel management companies, third-party online self-booking systems and corporate intranet site

11. Compliance with existing preferred car rental deals

12. Rentals by employees under age 21. For rentals in New York, ask about renters under 25.

13. Special billing needs (e.g., billed regionally, coded certain ways for tax purposes, tracking unlimited mileage) and percentage of total that is master billed

14. Frequent flyer mileage points accrued for travelers' car rentals

15. Service requirements, such as automatic checkin, valet parking and non-rental service requirements, including off-airport parking, car washes, maintenance, GPS units and mobile phone rentals

16. Data on your company's accident and loss history, if providing it will be favorable to you in the negotiating process

17. Data that shows your company is established and stable with strong and enforced travel policies.

C. Arrange an onsite visit, ideally near your corporation's largest location, during a peak demand period to see how well the firm can handle your business. Some corporations run a pilot of the vendor's express service, assigning a number of travelers to test it during a four-to-five-month period.

II. SETTING STRATEGY

Corporate culture is a major factor in determining which car rental vendors you consider and which contractual elements you will emphasize during negotiations. Recognize cultural factors that impede your ability to get the best deal and try to circumvent them. Here are various types of car rental relationships to consider:

A. Exclusive nationwide contract with a single car rental vendor

B. Agreements with one primary supplier, plus one or two secondary suppliers in case the primary vendor is sold out or, for some reason, cannot provide convenient service or lacks locations in areas where your company does business

C. A nationwide agreement with one supplier, supplemented by agreements with local vendors, often providing lower rates in areas where you have high vol-

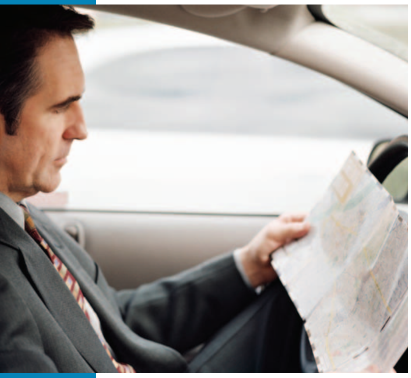
ume. The key here is to determine whether costs will be lower if you give all of your corporate volume to a national vendor or deal with local low-price operators in certain areas. Small corporations without large national volumes often can do well through the latter.

D. Agreements promising approximately equal volume to two or more vendors—attractive to corporations with cultures that lean toward giving employees a choice

E. Some combination of the above

F. One or more agreements for international service: This can be part of a worldwide agreement with your domestic vendor, a separate agreement with your domestic vendor or an agreement with a vendor you do not use domestically.

Generally, corporations that are seeking to negotiate global contracts already have consolidated with one travel management company internationally and have been making purchases to operate their core businesses on a worldwide, consolidated basis.



III. PREPARING REQUESTS FOR PROPOSALS

Based on the data you have gathered and the strategy you have established, create a request for proposals that provides basic information about your program and details your requirements. Keeping it simple will make your analysis more efficient, so ask only for information you intend to use in making the comparison.

Generally speaking, requests for proposals criteria can be summarized into five areas: rental eligibility, car classes, insurance, vendor programs and rates. Not all requests for proposals will contain the same elements, but here are elements to consider asking for:

A. All the data you can gather on your historical mileage levels: Ask vendors for an idea of how base rates will differ under agreements where mileage is unlimited versus those with a mileage cap and a per-mile fee above that cap.

B. A description of all the vendor's insurance and related products, including base rates if included:

1. Collision damage waiver or loss damage waiver: A daily fee relieving car renters from responsibility for accident damages and/or stolen vehicles and loss of use of the vehicle.
2. Liability insurance for accident damages to other people and property
3. Personal accident insurance covering injuries to the renter
4. Personal effects insurance covering loss of the renter's personal property in a lost or stolen rental car
5. Supplemental liability: An umbrella policy that covers companies beyond the state's minimum requirements
6. Note that some large companies self-insure or use insurance provided by their corporate charge card programs. If you have your own insurance, be sure it covers car rentals overseas. Consider shifting responsibility to employees, assuming they are covered for rentals under personal auto insurance policies.

C. Details of emergency road service: Is it provided through a national 24-hour service or local operators?

D. Ask vendors to offer examples of standard and customized management reports that they have provided to other corporate clients. Be sure you know what information you and your management team require to compare your needs with a vendor's capabilities.

E. What are the vendor's capabilities for gathering and reporting data on your account spend? To what degree can you drill down on transactions by name, location, date, etc.?

F. References from customers whose volume and location are comparable to yours, as well as from accounts no longer using the company as its preferred vendor

G. A list of the vendor's outlets near your major locations and in destinations that together represent at least 50 percent of your total rental volume. In some cases, consider off-airport locations as prices tend to be lower and there are fewer surcharges. Also, obtain a list of franchised versus corporate-owned locations, and outlets that do not participate in corporate negotiated rates. Specify that changes to this list must be made in writing.

H. Get a list of airport locations and have the car rental vendor mark those that are off-airport. Also, list airport locations by mode of conveyance from terminal to rental counter and then to vehicle. This will have an impact on speed and service.

I. A list of all surcharges for high-cost cities or for one-day midweek rentals

J. A list of supplemental charges by location, including city and state taxes, other local surcharges, off-airport access fees or on-airport concession fees. Buyers should get a breakdown of those charges that are government imposed. Also, try to preclude additional charges during the life of the contract.

K. Specific charges for the different refueling options

L. Many car rental suppliers offer special rental services, enhanced programs and clubs for VIP travelers and frequent renters. Ask suppliers to describe any such programs. Factors to consider:

1. How many VIPs can you enroll?
2. What benefits do such programs offer?
3. Do such programs drive compliance among travelers?
4. Does the supplier charge an extra fee for miles earned on rentals?
5. What other costs are associated with such services?
6. Does the supplier have affiliations or partnerships with airlines, hotels or other corporate travel suppliers for frequent flyer or other loyalty programs? With which suppliers does each vendor partner?

M. A recap of the vendor's internal quality programs

N. A description of safety enhancement programs and vehicle safety systems

O. Information on the average age of the fleet and the average time after which cars are returned to manufacturers or resold. Standard auto maintenance procedures

P. Information on the financial health of the vendor and its ability to provide the incremental fleet and services that you will require

Q. If availability has been a recurring problem, ask the car rental company for a "guaranteed availability" clause ensuring employees will get a car, regardless of day and time of car rental and/or specific location.

R. Investigate the technological capability of vendors regarding access to inventory and reservations. Are direct links via the Internet or corporate intranet available? Does the vendor participate in third-party electronic reservation systems?

S. Special programs, such as onsite fleets, one-way car rental rates from the airport and one-way rates between certain citypairs.

T. Various technologies available to renters. Does the provider offer global positioning systems or mobile phones? What about satellite radio availability or cars installed with electronic toll payment devices? Can such amenities be worked into a negotiated rate? Does the car rental agency use such devices to monitor traveler whereabouts or enforce speeding violations?

IV. NEGOTIATING

You can negotiate for almost anything, although you must be prepared to give up something else. If you want sophisticated management reports, you might pay slightly higher daily rates. Each concession you win makes the vendor less willing to give in on other points.

Currently, the most popular concessions are unlimited mileage, premium club memberships and insurance concessions. To a lesser degree, concessions that corporate buyers also can negotiate for include: upgrades, waiver of dropoff charges for one-way rentals, elimination of add-on charges for one-way rentals, and free delivery of vehicles to corporate headquarters or other office locations.

The upgrade concession is one that is becoming more dispensable through a combination of the car rental companies' trimmed fleets and corporations' travel policies allowing for midsize and full-size rentals. With the general rule of economy and compact cars selling out first, an automatic upgrade is often what happens to corporate travelers who book compact.

In today's world, a car rental company may pass on an account, even a large one, if it anticipates losing money in the long term. Here are items open for discussion:

A. A flat per-day rate for each car class, versus a percentage discount off published rates: Deciding which is better ideally involves a careful analysis of geographical usage patterns, but most firms opt for a flat rate. Flat rates are appealing as they are easier to negotiate on a national basis, are easier to monitor and reconcile, are easier for travelers to remember and do not fluctuate.

One disadvantage of flat rates is that market rates often can be lower if shopped. Some corporations' agreements combine the two concepts. Note, however, that not all vendors will offer percentage-off rates.

B. Unlimited mileage rates versus rates with a mileage cap: Most contracts with a mileage cap set a limit of 75 to 150 miles per day, with 100 being the standard. Per-mile charges starting at about 25 cents are assessed on top.

Make sure your company does not pay the higher unlimited mileage rate if your travelers drive an average of only 50 miles a day.

1. Relying only on averages can be deceiving, because rental cars driven only a few miles distort the averages. Identify the percentage of car rentals and rental days exceeding 100 miles, with geographical breakdowns.

2. The availability of "time and mileage" agreements, which involve having low daily rates but per-mile charges starting from the first mile

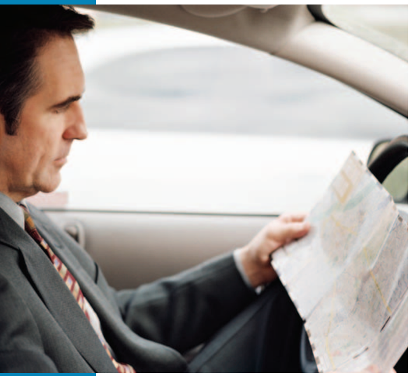
C. Special rates in cities where you have high volume and/or special rates for weekly, monthly, partial-day, hourly and one-way rentals ▶

D. One-day rental surcharges: On which days of the week do they apply, in which seasons, and in which locations? Midweek daily surcharges add up. Try to mitigate these surcharges and you'll find substantial savings.

E. City surcharges, assessed on top of the daily contract rates in key travel destinations where the costs are high

F. The term of the contract and specified limits on annual rate increases

G. The extent to which vendors will tack international car rental volume onto domestic volume for the purposes of establishing worldwide rates: The success that you can enjoy in leveraging the company's international car rental mix will depend on your vendor, your volume, the proportion of the volume that is international and the international locations that your travelers frequent.



H. Free rental days in exchange for specified numbers of paid rentals

I. Data that is to be provided in management reports and the preferred presentation format and frequency: Is detailed data on your spend provided electronically in real time?

J. Free or reduced-rate collision damage waiver or loss damage waiver coverage, if corporate travelers are not covered by other insurance, and the minimum amount of coverage you must have.

The standard amount for several years had been $100,000 maximum coverage per person up to a total of $300,000 per incident, in addition to $25,000 for personal property. However, several vendors have lowered coverage to minimum levels allowed under state statutes.

K. Rate concessions based on your company's commitment to building volume: Consider tightening your travel policy to mandate use of preferred vendors or bringing in international travelers, linking the car rental company to your corporate intranet and/or broadening your program to include fleet replacement or other services.

L. Discounts for safe-driving programs

M. Reduced rates for older vehicles

N. The policy for situations in which promotional rates that are lower than your contracted rates become available for certain markets, seasons, days of the week or times

O. A mileage radius within which your company's travelers can pick up a car at one location and drop it off at another location at no additional cost

P. Special shuttle rates if large numbers of travelers drive between two specific cities

Q. A grace period after the stated end of the rental period during which a car may be returned at no additional cost to the company. Some suppliers have shortened their grace period policy during the past year.

R. Free upgrades to higher car classes when available. Also, free delivery of rental car and/or dropoff of travelers

S. Provisions for employees who are under age 25, who normally are charged higher rental rates

T. Procedures for central billing of car rentals by non-employees, including job candidates and consultants

U. Whether the vendor provides the option to refuel at market prices. If not, discuss reduced refueling charges. Having your travelers fill the tank before returning their cars is the least costly option, but if your internal data shows your travelers regularly are paying the higher price for not doing so, consider negotiating a tank of gas into your base rate. Deal with this upfront.

V. Find out if your company has an above-average accident and loss history and, if so, let the vendor know. Vendors may request this information in any case.

W. If the supplier charges a fee for frequent flyer mileage, see if this can be rescinded. Also, ask for reduced rates on car phones and other equipment.

X. Require vendors to allow audits of completed rental transactions and to reimburse you for charges that do not conform to your contract. If the vendor tries to assess penalties for requested billing adjustments that turn out to be unwarranted, insist that this is unacceptable.

Y. Always get a black out or sold out list of dates and cities for the upcoming year. This will help calibrate service expectations and allow travel managers to notify their travelers in advance.

V. EVALUATING A BID

To assess a bid, evaluate which components are most important to your company and use a grid that gives more weight to those responses. The most common specific factors to consider (other than price) include: service quality, domestic geographic coverage, airport location, speed of rental and speed of return. Other factors include traveler preferences, international geographic coverage and report capabilities.

Researching the car rental vendor's financial stability may be one useful way to help determine its overall ability to deliver. If the company is in bankruptcy proceedings, assess its ability to provide continuing levels of service, reporting capabilities, rental car availability and other aspects of the rental transaction. ■

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