

www.easyRentacar.com

Research Associate Brian Rogers prepared this case under the supervision of Professor Nirmalya Kumar as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation.



On March 1, 2000, Stelios Haji-Iaonnou, chairman and owner of easyRentacar, signed a deal with DaimlerChrysler for 5,000 of their Mercedes A-Class vehicles in order to launch easyRentacar.com, his latest Internet-based business. Stelios planned to undercut competitors by offering rates as low as £9 per day.

When Stelios announced the launch of easyRentacar, Avis's stock price fell 14%. Stelios proclaimed, "We are going to shake up this industry--there are major economies of scale to be achieved." He explained, "What we have done is to lower costs through the use of information technology. Our business is based on innovation. Businesses must innovate or die."

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Company Background

In 1999, Stelios decided to enter the rental car business because he believed that the established rental car companies were too comfortable and did not create value for the customer. He stated, "The car rental industry is where the airline industry was five years ago--a cartel feeding off the corporate client. EasyRentacar will provide a choice for consumers who pay out of their own pockets and who do not want to be ripped off for traveling mid-week."

Stelios expected to have a fleet of 30,000 Mercedes by the end of 2001. Regarding his choice of the Mercedes brand, Stelios stated, "We do not compromise on the hardware, we just use innovation to substantially reduce costs."

The DaimlerChrysler deal with easyRentacar was estimated to account for up to 15% of DaimlerChrysler's total A-Class production once the rental car business was fully established. Furthermore, DaimlerChrysler offered to buy back and renew the vehicle fleet, cutting easyRentacar's exposure to any potential losses on residual values. Stelios remarked, "There will be a 100% manufacturer buyback. That means we don't have any residual risk."

The Launch of easyRentacar

In April 2000, the first three easyRentacar sites were set up with 500 vehicles each. In London, easyRentacar was located downtown next to London Bridge, and could be accessed from any of the five major London airports by rail or road. In Glasgow, the easyRentacar site was set up on an existing parking facility near the Glasgow International Airport. Prospective customers could take a three-minute bus ride or walk to the site within ten minutes. In Barcelona, easyRentacar was located at the Arc de Triomf, a major landmark in the center of Barcelona. The Arc de Triomf could be easily accessed by a short train journey or by taxi from the airport.

Plans were also underway for easyRentacar to offer service in Amsterdam, Madrid, Malaga, Nice and Palma by summer 2000. Stelios also considered launching operations in Geneva in time for the 2001 ski season in Switzerland.

The easyRentacar Value Proposition

Customers could only reserve a rental car by visiting the company's website at www.easyRentacar.com. A credit card or debit card was required to make a reservation, as easyRentacar did not accept cash or checks.

The cost of a car rental ranged from £9 to £39 per day.¹ Prices varied according to demand, and like the airline business, the earlier customers booked their reservations, the cheaper the price. In addition to the rental fee, customers were also required to pay a car preparation and cleaning fee of £5 per rental contract.

¹ £1 = US\$1.60

Figure 1: Rental rates at easyRentacar in London as of May 1*

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
	May 1	May 2	May 3	May 4	May 5	May 6
	sold out	sold out	sold out	sold out	sold out	sold out
May 7	May 8	May 9	May 10	May 11	May 12	May 13
sold out	£13	£12	£12	£12	sold out	sold out
May 14	May 15	May 16	May 17	May 18	May 19	May 20
£18	£15	£12	£12	£12	£16	£20
May 21	May 22	May 23	May 24	May 25	May 26	May 27
£20	£14	£12	£12	£14	£16	£21
May 28	May 29	May 30	May 31			
sold out	£21	£12	£12			

Source: www.easyRentacar.com

* As of May 1, the first date that the £9 rate was available was June 27.

The legally required comprehensive insurance was already included in the daily rate. However, in the case of theft or damage, customers were potentially liable for charges up to £500. To reduce their liability, customers--on a purely optional basis -- could pay an additional fee of £2.50 for Loss/Damage Waiver insurance, which reduced their liability from £500 to £100. This insurance did not provide coverage for personal injury or for the loss or damage of property in the car.

Customers could review all-inclusive prices and the terms and agreement of the car rental online. If they opted to reserve a vehicle, they were required to fill in the online rental agreement, which was also used to determine their eligibility to rent a vehicle.

Customers were allowed to change their reservation for £10, plus the difference in price between the previously selected date and the newly requested date. Refunds were not offered to customers who cancelled their reservations or failed to pick up vehicles. The rental rate allowed customers to travel 75 miles per day;² each additional mile above the 75 mile per day limit cost the customer 20 pence per mile. Customers were also prohibited from crossing national borders with the vehicle because easyRentacar's insurance did not provide international coverage.

If customers failed to return the car on time, without notifying the company, they were automatically assessed a late return charge of £100. An additional £100 was charged for each 24-hour interval thereafter, until the car was returned.

The easyRentacar fleet consisted of Mercedes A140, A160 and A170 diesel models. It was not possible to pre-order a specific model, although all cars were of similar design and specification. The easyRentacar logo appeared on the side doors and in the rear window of every vehicle.

² 75 miles = 120 kilometers